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 June 30, 2013

or

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

For the transition period from _______________ to _______________

Commission File Number: 001-31458

Newcastle Investment Corp.

(Exact name of registrant as specified in its charter)

Maryland	81-0559116
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1345 Avenue of the Americas, New York, NY	10105
(Address of principal executive offices)	(Zip Code)

(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 ☒ 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).
☒ Yes No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company)
Smaller reporting company ☐

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

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

Common stock, $0.01 par value per share: 293,326,085 shares outstanding as of August 1, 2013.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

- reductions in cash flows received from our investments;
- our ability to deploy capital accretively;
- the risks that default and recovery rates on our real estate securities and loan portfolios deteriorate compared to our underwriting estimates;
- changes in prepayment rates on the loans underlying certain of our assets;
- the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested;
- the relative spreads between the yield on the assets we invest in and the cost of financing;
- changes in economic conditions generally and the real estate and debt securities markets specifically;
- adverse changes in the financing markets we access affecting our ability to finance our investments, or in a manner that maintains our historic net spreads;
- changing risk assessments by lenders that potentially lead to increased margin calls, not extending our repurchase agreements or other financings in accordance with their current terms or entering into new financings with us;
- changes in interest rates and/or credit spreads, as well as the success of any hedging strategy we may undertake in relation to such changes;
- the quality and size of the investment pipeline and the rate at which we can invest our cash at attractive risk-adjusted returns, including cash inside our collateralized debt obligations ("CDOs");
- impairments in the value of the collateral underlying our investments and the relation of any such impairments to our judgments as to whether changes in the market value of our securities, loans or real estate are temporary or not and whether circumstances bearing on the value of such assets warrant changes in carrying values;
- legislative/regulatory changes, including but not limited to, any modification of the terms of loans;
- the availability and cost of capital for future investments;
- competition within the finance and real estate industries;
- our ability to take advantage of opportunities in additional asset classes or types of assets, including, without limitation, senior living facilities, at attractive risk-adjusted prices or at all;
- risks related to investments in senior housing including, but not limited to, the risk that we are dependent on the performance of our operators, the risk that a downturn in the housing market or an overall economic downturn could cause our occupancy rates, revenues and results of operations to decline and the risk that increases in labor costs at our senior housing facilities may have a material adverse effect on us; 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 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)

		June 30, 2013 (Unaudited)		December 31, 2012
Assets				
Real estate securities, available-for-sale	$	777,102	$	1,691,575
Real estate related and other loans, held-for-sale, net		837,427		843,132
Residential mortgage loans, held-for-investment, net		273,332		292,461
Residential mortgage loans, held-for-sale, net		2,266		2,471
Subprime mortgage loans subject to call option		406,217		405,814
Investments in real estate, net of accumulated depreciation		167,878		169,473
Intangibles, net of accumulated amortization		13,349		19,086
Other investments		24,907		24,907
Cash and cash equivalents		271,052		231,898
Restricted cash		7,173		2,064
Derivative assets		43,470		165
Due from affiliates		1,254		—
Receivables and other assets		19,907		17,197
Assets of discontinued operations		—		245,069
Total Assets	$	2,845,334	$	3,945,312
Liabilities and Stockholders' Equity				
Liabilities				
CDO bonds payable	$	844,484	$	1,091,354
Other bonds and notes payable		163,718		183,390
Repurchase agreements		311,276		929,435
Mortgage notes payable		120,525		120,525
Financing of subprime mortgage loans subject to call option		406,217		405,814
Junior subordinated notes payable		51,240		51,243
Derivative liabilities		20,197		31,576
Dividends Payable		43,951		38,884
Due to affiliates		3,216		3,620
Accrued expenses and other liabilities		16,884		15,931
Liabilites of discontinued operations		—		480
Total Liabilities	$	1,981,708	$	2,872,252
Commitments and contingencies				
Stockholders' Equity				
Preferred stock, $0.01 par value, 100,000,000 shares authorized,1,347,321 shares of 9.75% Series B Cumulative Redeemable Preferred Stock, 496,000 shares of 8.05% Series C Cumulative Redeemable Preferred Stock, and 620,000 shares of 8.375% Series D Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, issued and outstanding as of June 30, 2013 and December 31, 2012	$	61,583	$	61,583
Common stock, $0.01 par value, 1,000,000,000 and 500,000,000 shares authorized, 293,326,085and 172,525,645 shares issued and outstanding, at June 30, 2013 and December 31, 2012, respectively		2,933		1,725
Additional paid-in capital		2,670,444		1,710,083
Accumulated deficit		(1,940,305)		(771,095)
Accumulated other comprehensive income		68,971		70,764
Total Stockholders' Equity	$	863,626	$	1,073,060
Total Liabilities and Stockholders' Equity	$	2,845,334	$	3,945,312

Statement continues on the next page.

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

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

	June 30, 2013 (Unaudited)	December 31, 2012
Assets of consolidated VIEs that can only be usedto settle obligations of consolidated VIEs		
Real estate securities, available-for-sale	$ 427,818	$ 567,685
Real estate related and other loans, held-for-sale, net	660,065	813,301
Residential mortgage loans, held-for-investment, net	237,348	292,461
Subprime mortgage loans subject to call option	406,217	405,814
Investments in real estate, net of accumulated depreciation	6,686	6,672
Other investments	18,883	18,883
Restricted cash	7,173	2,064
Receivables and other assets	4,911	7,535
Total assets of consolidated VIEs that can only be usedto settle obligations of consolidated VIEs	$ 1,769,101	$ 2,114,415

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

	June 30, 2013 (Unaudited)	December 31, 2012
Liabilities of consolidated VIEs for which creditors or beneficial interestholders do not have recourse to the general credit of Newcastle		
CDO bonds payable	$ 844,484	$ 1,091,354
Other bonds and notes payable	163,718	183,390
Repurchase agreements	—	4,244
Financing of subprime mortgage loans subject to call option	406,217	405,814
Derivative liabilities	20,197	31,576
Accrued expenses and other liabilities	7,093	8,365
Total liabilities of consolidated VIEs for which creditors or beneficialinterest holders do not have recourse to the general credit of Newcastle	$ 1,441,709	$ 1,724,743

See notes to consolidated financial statements

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(dollars in thousands, except share data)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest income	$ 62,824	$ 77,956	$ 124,156	$ 150,818
Interest expense	21,998	29,462	44,708	59,627
Net interest income	40,826	48,494	79,448	91,191
Impairment/(Reversal)				
Valuation allowance (reversal) on loans	(709)	(3,223)	1,525	(12,254)
Other-than-temporary impairment on securities	3,430	10,859	4,405	16,742
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)	480	863	44	(3,069)
Total impairment	3,201	8,499	5,974	1,419
Net interest income after impairment/reversal	37,625	39,995	73,474	89,772
Other Revenues				
Rental income	11,721	515	23,195	1,024
Care and ancillary income	2,292	—	4,318	—
Total other revenues	14,013	515	27,513	1,024
Other Income (Loss)				
Gain (loss) on settlement of investments, net	5,066	(1,177)	5,063	3,646
Gain on extinguishment of debt	—	39	1,206	20,782
Other income (loss), net	3,024	(3,744)	7,591	(774)
Total other income (loss)	8,090	(4,882)	13,860	23,654
Expenses				
Loan and security servicing expense	1,021	1,104	2,055	2,202
Property operating expenses	8,409	231	16,772	457
General and administrative expense	9,938	4,841	14,151	7,003
Management fee to affiliate	8,148	5,631	17,713	10,607
Depreciation and amortization	4,070	2	8,149	4
Total expenses	31,586	11,809	58,840	20,273
Income from continuing operations	28,142	23,819	56,007	94,177
Income (loss) from discontinued operations	25,581	6,620	35,729	9,733
Net Income	53,723	30,439	91,736	103,910
Preferred dividends	(1,395)	(1,395)	(2,790)	(2,790)
Income Available for Common Stockholders	$ 52,328	$ 29,044	$ 88,946	$ 101,120
Income Per Share of Common Stock				
Basic	$ 0.20	$ 0.21	$ 0.36	$ 0.84
Diluted	$ 0.20	$ 0.21	$ 0.35	$ 0.84
Income from continuing operations per share of common stock, after preferred dividends				
Basic	$ 0.10	$ 0.17	$ 0.22	$ 0.76
Diluted	$ 0.10	$ 0.17	$ 0.21	$ 0.76
Income (loss) from discontinued operations per share of common stock				
Basic	$ 0.10	$ 0.04	$ 0.14	$ 0.08
Diluted	$ 0.10	$ 0.04	$ 0.14	$ 0.08
Weighted Average Number of Shares of Common Stock Outstanding				
Basic	259,228,343	134,115,335	247,249,101	119,648,172
Diluted	265,396,219	135,172,953	252,807,613	120,421,528
Dividends Declared per Share of Common Stock	$ 0.17	$ 0.20	$ 0.39	$ 0.40

See notes to consolidated financial statements

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(dollars in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$ 53,723	$ 30,439	$ 91,736	$ 103,910
Other comprehensive income (loss):				
Net unrealized gain (loss) on securities	9,823	(10,128)	39,277	66,289
Reclassification of net realized (gain) loss on securities into earnings	(707)	12,900	(168)	8,413
Net unrealized gain on derivatives designated as cash flow hedges	1,771	4,058	3,612	12,232
Reclassification of net realized (gain) loss on derivatives designated as cash flow hedges into earnings	(1)	5,836	(1)	5,625
Other comprehensive income	10,886	12,666	42,720	92,559
Total comprehensive income	$ 64,609	$ 43,105	$ 134,456	$ 196,469

See notes to consolidated financial statements

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2013
(dollars in thousands, except share data)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accum. Other Comp. Income (Loss)	Total Stock-holders' Equity
	Shares	Amount	Shares	Amount				
Stockholders' equity - December 31, 2012	2,463,321	$ 61,583	172,525,645	$ 1,725	$ 1,710,083	$ (771,095)	$ 70,764	$ 1,073,060
Dividends declared	—	—	—	—	—	(101,476)	—	(101,476)
Issuance of common stock	—	—	120,800,440	1,208	960,361	—	—	961,569
Spin-off of New Residential	—	—	—	—	—	(1,159,470)	(44,513)	(1,203,983)
Net income	—	—	—	—	—	91,736	—	91,736
Other comprehensive income	—	—	—	—	—	—	42,720	42,720
Stockholders' equity - June 30, 2013	2,463,321	$ 61,583	293,326,085	$ 2,933	$ 2,670,444	$ (1,940,305)	$ 68,971	$ 863,626

See notes to consolidated financial statements

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands, except share data)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash Flows From Operating Activities		
Net income	$ 91,736	$ 103,910
Adjustments to reconcile net income to net cash provided by (used in)operating activities (inclusive of amounts related to discontinued operations):		
Depreciation and amortization	8,149	174
Accretion of discount and other amortization	(22,426)	(25,860)
Interest income in CDOs redirected for reinvestment or CDO bond paydown	(817)	(2,445)
Interest income on investments accrued to principal balance	(12,673)	(10,914)
Interest expense on debt accrued to principal balance	219	218
Non-cash directors' compensation	275	220
Valuation allowance (reversal) on loans	1,525	(12,254)
Other-than-temporary impairment on securities	4,449	13,673
Change in fair value of investments in excess mortgage servicing rights	(3,894)	(4,739)
Change in investments in equity method investees	(19,170)	—
Distributions of earnings from equity method investees	1,069	—
(Gain)/loss on settlement of investments (net)	(5,063)	(3,646)
Unrealized (gain)/loss on non-hedge derivatives and hedge ineffectiveness	(5,409)	2,476
Gain on extinguishment of debt	(1,206)	(20,782)
Change in:		
Restricted cash	3,036	364
Receivables and other assets	580	(4,371)
Due to affiliates	(404)	334
Accrued expenses and other liabilities	771	2,977
Payment of deferred interest	(648)	—
Deferred interest received	5,125	—
Net cash provided by (used in) operating activities	45,224	39,335
Cash Flows From Investing Activities		
Principal repayments from repurchased CDO debt	75,903	12,567
Principal repayments from CDO securities	1,781	527
Principal repayments from non-Agency RMBS	25,178	4,173
Return of investments in excess mortgage servicing rights	15,803	4,820
Principal repayments from loans and non-CDO securities(excluding non-Agency RMBS)	146,401	38,115
Purchase of real estate securities	(1,034,234)	(227,670)
Purchase of securites accounted for as linked transactions	(103,140)	—
Purchase of real estate related and other loans	(174,234)	—
Proceeds from sale of investments	37,905	—
Acquisition of investments in excess mortgage servicing rights	—	(190,510)
Additions to investments in real estate	(834)	—
Contributions to equity method investees	(386,502)	—
Distributions of capital from equity method investees	12,134	—
Deposits paid on investments	(5,520)	(16,801)
Net cash provided by (used in) investing activities	(1,389,359)	(374,779)

Continued on next page

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands, except share data)

	Six Months Ended June 30,	
	2013	2012
Cash Flows From Financing Activities		
Repurchases of CDO bonds payable	(9,722)	(9,177)
Repayments of other bonds and notes payable	(20,157)	(21,684)
Borrowings under repurchase agreements	2,004,020	102,194
Borrowings under repurchase agreements accounted for as linked transactions	59,968	—
Repayments of repurchase agreements	(1,301,819)	(18,424)
Margin deposits under repurchase agreements	(152,725)	(17,457)
Return of margin deposits under repurchase agreements	120,225	17,457
Issuance of common stock	962,827	268,050
Costs related to issuance of common stock	(1,302)	(621)
Contribution of cash to New Residential upon spin-off	(181,582)	—
Common stock dividends paid	(93,619)	(36,813)
Preferred stock dividends paid	(2,790)	(2,790)
Payment of deferred financing costs	(35)	—
Net cash provided by (used in) financing activities	1,383,289	280,735
Net Increase (Decrease) in Cash and Cash Equivalents	39,154	(54,709)
Cash and Cash Equivalents of Continuing Operations, Beginning of Period	231,898	157,347
Cash and Cash Equivalents of Discontinued Operations, Beginning of Period	—	9
Cash and Cash Equivalents, End of Period	$ 271,052	$ 102,647
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest expense	$ 25,592	$ 40,390
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Preferred stock dividends declared but not paid	$ 930	$ 930
Common stock dividends declared but not paid	$ 43,021	$ 29,436
Securities purchased not yet settled	$ —	$ 68,296
Purchase price payable on investments in excess mortgage servicing rights	$ —	$ 31,382
Deposit on senior living assets due to affiliates	$ —	$ 5,930
Reduction of Assets and Liabilities relating to the spin-off of New Residential		
Real estate securities, available for sale	$ 1,647,289	$ —
Residential mortgage loans, held-for-investment, net	$ 35,865	$ —
Investments in excess mortgage servicing rights at fair value	$ 229,936	$ —
Investments in equity method investees	$ 392,469	$ —
Receivables and other assets	$ 37,844	$ —
Repurchase agreements	$ 1,320,360	$ —
Accrued expenses and other liabilities	$ 642	$ —

See notes to consolidated financial statements

1. GENERAL

Newcastle Investment Corp. (and its subsidiaries, "Newcastle") is a Maryland corporation that was formed in 2002. Newcastle is organized and conducts its operations to qualify as a real estate investment trust ("REIT") for U.S. federal income tax purposes. As such, Newcastle will generally not be subject to U.S. federal corporate income tax on that portion of its net income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements.

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

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

Newcastle now conducts its business through the following segments: (i) investments in senior living assets financed with non-recourse debt ("non-recourse senior living"), (ii) investments financed with non-recourse collateralized debt obligations ("non-recourse CDOs"), (iii) unlevered investments in deconsolidated Newcastle CDO debt ("unlevered CDOs"), (iv) investments financed with other non-recourse debt ("non-recourse other"), (v) investments and debt repurchases financed with recourse debt ("recourse"), (vi) other unlevered investments ("unlevered other") and (vii) corporate. With respect to the non-recourse CDOs and non-recourse other segments, subject to the passing of certain periodic coverage tests, Newcastle is generally entitled to receive the net cash flows from these structures on a periodic basis.

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

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

Approximately 6.1 million shares of Newcastle's common stock were held by Fortress, through its affiliates, and its principals at June 30, 2013. In addition, Fortress, through its affiliates, held options to purchase approximately 21.8 million shares of Newcastle's common stock at June 30, 2013.

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 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, 2012 and notes thereto included in Newcastle's Annual Report on Form 10-K filed with the Securities and Exchange Commission. Capitalized terms used herein, and not otherwise defined, are defined in Newcastle's consolidated financial statements for the year ended December 31, 2012.

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

(dollars in tables in thousands, except share data)

Recent Accounting Pronouncements

In February 2013, the FASB issued new guidance regarding the reporting of reclassifications out of accumulated other comprehensive income. The new guidance does not change current requirements for reporting net income or other comprehensive income in financial statements. However, it requires companies to present the effects on the line items of net income of significant amounts reclassified out of accumulated OCI if the item reclassified is required to be reclassified to net income in its entirety during the same reporting period. Presentation should occur either on the face of the income statement where net income is presented, or in the notes to the financial statements. Newcastle has adopted this accounting standard and presents this information in Note 13 to the financial statements.

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

2. SPIN-OFF OF NEW RESIDENTIAL

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

On April 1, 2013, Newcastle completed a co-investment in a portfolio of consumer loans with a UPB of approximately $4.2 billion as of December 31, 2012. The portfolio included over 400,000 personal unsecured loans and personal homeowner loans originated through subsidiaries of HSBC Finance Corporation. The investment was completed through newly formed limited liability companies (collectively, the "Consumer Loan Companies"), which acquired the portfolio from HSBC Finance Corporation and its affiliates. Newcastle invested approximately $250 million for 30% membership interests in each of the Consumer Loan Companies. Of the remaining 70% of the membership interests, Springleaf Finance Inc. ("Springleaf"), which is majority-owned by Fortress funds managed by the Manager, acquired 47%, and an affiliate of Blackstone Tactical Opportunities Advisors L.L.C., acquired 23%. Springleaf acts as the managing member of the Consumer Loan Companies. The Consumer Loan Companies financed $2.2 billion of the approximately $3.0 billion purchase price with asset-backed notes.

The investment in the portfolio of consumer loans was made in contemplation of, and was included in the May 15, 2013 spin-off. Newcastle has no continuing involvement in the consumer loans business post spin-off. Accordingly, the operating results are presented in discontinued operations.

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

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

For pro-forma information relating to the May 15, 2013 spin-off, see Note 16.

(dollars in tables in thousands, except share data)

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

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

Assets		
Investments in excess mortgage servicing rights at fair value	$	245,036
Receivables and other assets		33
Total assets of discontinued operations	$	245,069
Liabilities		
Purchase price payable on investments in excess mortgage servicing rights	$	59
Accrued expenses and other liabilities		421
Total liabilities of discontinued operations	$	480

Results from discontinued operations were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Interest Income	$ 5,060	$ 4,482	$ 15,095	$ 6,519
Net interest income	5,060	4,482	15,095	6,519
Other income (loss)	(2)	2	(2)	1
Change in fair value of investments in excess mortgage servicing rights	2,036	3,523	3,894	4,739
Change in fair value of investments in equity method investees	(84)	—	885	—
Earnings from investments in equity method investees	18,286	—	18,286	—
Total other income	20,236	3,525	23,063	4,740
Property operating costs	5	6	12	13
General and administrative expenses	(290)	1,381	2,417	1,513
Total expenses	(285)	1,387	2,429	1,526
Income from discontinued operations	$ 25,581	$ 6,620	$ 35,729	$ 9,733

The spin-off also resulted in a $1.2 billion reduction in the basis upon which Newcastle's management fees are computed (and an equivalent reduction in the basis upon which the incentive compensation threshold is computed), as well as a reduction in the strike price of Newcastle's then outstanding options (see Note 10).

3. SEGMENT REPORTING AND VARIABLE INTEREST ENTITIES

As previously stated in Note 1, Newcastle conducts its business through the following segments: (i) investments in senior living assets financed with non-recourse debt (“non-recourse senior living”), (ii) investments financed with non-recourse collateralized debt obligations (“non-recourse CDOs”), (iii) unlevered investments in deconsolidated Newcastle CDO debt (“unlevered CDOs”), (iv) investments financed with other non-recourse debt (“non-recourse other”), (v) investments and debt repurchases financed with recourse debt (“recourse”), (vi) other unlevered investments (“unlevered other”), (vii) corporate and (viii) prior to the spin-off, investments in excess mortgage servicing rights and consumer loans (“Excess MSRs and consumer loans”). With respect to the non-recourse CDOs and non-recourse other segments, subject to the passing of certain periodic coverage tests, Newcastle is generally entitled to receive the net cash flows from these structures on a periodic basis.

The corporate segment 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.

(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:

	Non-Recourse Senior Living	Non-Recourse CDOs (A)	Unlevered CDOs (B)	Non-Recourse Other (A) (C)	Recourse (D)	Unlevered Other (E)	Corporate	Excess MSRs and Consumer Loans	Inter-segment Elimination (F)	Total
Six Months Ended June 30, 2013										
Interest income	$ —	$ 68,227	$ 326	$ 32,774	$ 13,565	$ 11,093	$ 102	$ —	$ (1,931)	$ 124,156
Interest expense	2,478	13,950	—	24,858	3,447	—	1,906	—	(1,931)	44,708
Net interest income (expense)	(2,478)	54,277	326	7,916	10,118	11,093	(1,804)	—	—	79,448
Impairment (reversal)	—	11,986	—	(573)	3,028	(9,177)	—	—	—	5,974
Other revenues	26,510	—	—	1,003	—	—	—	—	—	27,513
Other income (loss)	120	11,675	145	—	25	1,895	—	—	—	13,860
Property operating expenses	16,285	—	—	487	—	—	—	—	—	16,772
Depreciation and amortization	8,039	—	—	110	—	—	—	—	—	8,149
Other operating expenses	5,074	384	—	1,410	47	238	26,766	—	—	33,919
Income (loss) from continuing operations	(5,246)	53,582	471	7,485	6,358	21,927	(28,570)	—	—	56,007
Income (loss) from discontinued operations	—	—	—	—	—	(29)	—	35,758	—	35,729
Net income (loss)	(5,246)	53,582	471	7,485	6,358	21,898	(28,570)	35,758	—	91,736
Preferred dividends	—	—	—	—	—	—	(2,790)	—	—	(2,790)
Income (loss) applicable to common stockholders	$ (5,246)	$ 53,582	$ 471	$ 7,485	$ 6,358	$ 21,898	$ (31,360)	$ 35,758	$ —	$ 88,946
Three Months Ended June 30, 2013										
Interest income	$ —	$ 36,638	$ 87	$ 16,467	$ 6,280	$ 4,387	$ 30	$ —	$ (1,065)	$ 62,824
Interest expense	1,246	6,819	—	12,475	1,569	—	954	—	(1,065)	21,998
Net interest income (expense)	(1,246)	29,819	87	3,992	4,711	4,387	(924)	—	—	40,826
Impairment (reversal)	—	8,803	—	(1,421)	3,738	(7,919)	—	—	—	3,201
Other revenues	13,513	—	—	500	—	—	—	—	—	14,013
Other income (loss)	112	7,178	71	—	25	704	—	—	—	8,090
Property operating expenses	8,169	—	—	240	—	—	—	—	—	8,409
Depreciation and amortization	4,017	—	—	53	—	—	—	—	—	4,070
Other operating expenses	2,686	190	—	691	5	143	15,392	—	—	19,107
Income (loss) from continuing operations	(2,493)	28,004	158	4,929	993	12,867	(16,316)	—	—	28,142
Income (loss) from discontinued operations	—	—	—	—	—	(13)	—	25,594	—	25,581
Net income (loss)	(2,493)	28,004	158	4,929	993	12,854	(16,316)	25,594	—	53,723
Preferred dividends	—	—	—	—	—	—	(1,395)	—	—	$ (1,395)
Income (loss) applicable to common stockholders	$ (2,493)	$ 28,004	$ 158	$ 4,929	$ 993	$ 12,854	$ (17,711)	$ 25,594	$ —	$ 52,328
June 30, 2013										
Investments	$ 174,541	$ 1,118,367	$ 5,440	$ 699,660	$ 335,815	$ 229,665	$ —	$ —	$ (61,010)	$ 2,502,478
Cash and restricted cash	11,302	7,173	—	—	—	—	259,750	—	—	278,225
Derivative assets	298	—	—	—	43,172	—	—	—	—	43,470
Other assets	9,020	4,794	5	117	2,408	2,375	2,596	—	(154)	21,161
Total assets	195,161	1,130,334	5,445	699,777	381,395	232,040	262,346	—	(61,164)	2,845,334
Debt	(120,525)	(844,484)	—	(630,945)	(311,276)	—	(51,240)	—	61,010	(1,897,460)
Derivative liabilities	—	(20,197)	—	—	—	—	—	—	—	(20,197)
Other liabilities	(5,983)	(5,715)	—	(1,378)	(34)	(776)	(50,319)	—	154	(64,051)
Total liabilities	(126,508)	(870,396)	—	(632,323)	(311,310)	(776)	(101,559)	—	61,164	(1,981,708)
Preferred stock	—	—	—	—	—	—	(61,583)	—	—	(61,583)
GAAP book value	$ 68,653	$ 259,938	$ 5,445	$ 67,454	$ 70,085	$ 231,264	$ 99,204	$ —	$ —	$ 802,043
Additions to investments in real estate	$ 705	$ —	$ —	$ 129	$ —	$ —	$ —	$ —	$ —	$ 834

(dollars in tables in thousands, except share data)

	Non-Recourse Senior Living	Non-Recourse CDOs (A)	Unlevered CDOs (B)	Non-Recourse Other (A)	Recourse	Unlevered Other	Corporate	Excess MSRs and Consumer Loans	Inter-segment Elimination (F)	Total
Six Months Ended June 30, 2012										
Interest income	$ —	$ 110,440	$ 230	$ 36,463	$ 1,768	$ 4,851	$ 103	$ —	$ (3,037)	$ 150,818
Interest expense	—	34,640	—	25,334	561	—	1,903	—	(2,811)	59,627
Net interest income (expense)	—	75,800	230	11,129	1,207	4,851	(1,800)	—	(226)	91,191
Impairment (reversal)	—	(789)	—	2,703	—	(495)	—	—	—	1,419
Other revenues	—	—	—	1,024	—	—	—	—	—	1,024
Other income (loss)	—	24,533	176	—	—	(1,055)	—	—	—	23,654
Property operating expenses	—	—	—	457	—	—	—	—	—	457
Depreciation and amortization	—	—	—	4	—	—	—	—	—	4
Other operating expenses	—	483	1	1,926	—	25	17,603	—	(226)	19,812
Income (loss) from continuing operations	—	100,639	405	7,063	1,207	4,266	(19,403)	—	—	94,177
Income (loss) from discontinued operations	—	—	—	—	—	(31)	—	9,764	—	9,733
Net income (loss)	—	100,639	405	7,063	1,207	4,235	(19,403)	9,764	—	103,910
Preferred dividends	—	—	—	—	—	—	(2,790)	—	—	(2,790)
Income (loss) applicable to common stockholders	$ —	$ 100,639	$ 405	$ 7,063	$ 1,207	$ 4,235	$ (22,193)	$ 9,764	—	$ 101,120
Three Months Ended June 30, 2012										
Interest income	—	56,038	$ 115	18,037	$ 954	$ 4,328	$ 52	$ —	(1,568)	$ 77,956
Interest expense	—	17,004	—	12,671	293	—	949	—	(1,455)	29,462
Net interest income (expense)	—	39,034	115	5,366	661	4,328	(897)	—	(113)	48,494
Impairment (reversal)	—	7,742	—	1,055	—	(298)	—	—	—	8,499
Other revenues	—	—	—	515	—		—	—	—	515
Other income (loss)	—	(5,380)	84	—	—	414	—	—	—	(4,882)
Property operating expenses	—	—	—	231	—		—	—	—	231
Depreciation and amortization	—	—	—	2	—		—	—	—	2
Other operating expenses	—	242	—	970	—	12	10,465	—	(113)	11,576
Income (loss) from continuing operations	—	25,670	199	3,623	661	5,028	(11,362)	—	—	23,819
Income (loss) from discontinued operations	—	—	—	—	—	(14)	—	6,634	—	6,620
Net income (loss)	—	25,670	199	3,623	661	5,014	(11,362)	6,634	—	30,439
Preferred dividends	—	—	—	—	—	—	(1,395)	—	—	(1,395)
Income (loss) applicable to common stockholders	$ —	$ 25,670	$ 199	$ 3,623	$ 661	$ 5,014	$ (12,757)	$ 6,634	$ —	$ 29,044

(dollars in tables in thousands, except share data)

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

(B) Represents unlevered investments in CDO securities issued by Newcastle. This CDO has been deconsolidated as Newcastle does not have the power to direct the relevant activities of the CDO.

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

	June 30, 2013			
	Investments		Debt	
	Outstanding Face Amount	Carrying Value	Outstanding Face Amount*	Carrying Value*
Manufactured housing loan portfolio I	$ 110,589	$ 94,909	$ 82,177	$ 73,989
Manufactured housing loan portfolio II	140,828	138,895	106,124	105,619
Subprime mortgage loans subject to call option	406,217	406,217	406,217	406,217
Real estate securities	61,217	52,953	42,989	39,120
Other commercial real estate	N/A	6,686	6,000	6,000
	$ 718,851	$ 699,660	$ 643,507	$ 630,945

* An aggregate face amount of $69.5 million (carrying value of $61.0 million) of debt represents financing provided by the CDO segment (and included as investments in the CDO segment), which is eliminated upon consolidation.

(D) The $311.3 million of recourse debt represents repurchase agreements secured by $335.8 million carrying value of FNMA/FHLMC securities.

(E) The following table summarizes the investments in the unlevered other segment:

	June 30, 2013		
	Outstanding Face Amount	Carrying Value	Number of Investments
Real estate securities	$ 137,805	$ 8,029	21
Real estate related and other loans	459,850	177,362	2
Residential mortgage loans	51,456	38,250	303
Other investments	N/A	6,024	1
	$ 649,111	$ 229,665	327

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

Variable Interest Entities ("VIEs")

The VIEs in which Newcastle has a significant interest include (i) Newcastle's CDOs, in which Newcastle has been determined to be the primary beneficiary and therefore consolidates them (with the exception of CDO V), since it has the power to direct the activities that most significantly impact the CDOs' economic performance and would absorb a significant portion of their expected losses and receive a significant portion of their expected residual returns, and (ii) the manufactured housing loan financing structures, which are similar to the CDOs in analysis. Newcastle's CDOs and manufactured housing loan financings are held in special purpose entities whose debt is treated as non-recourse secured borrowings of Newcastle.

Newcastle's subprime securitizations are also considered VIEs, but Newcastle does not control their activities and no longer receives a significant portion of their returns and therefore does not consolidate them.

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

As of June 30, 2013, Newcastle has not consolidated these potential VIEs. This determination is based, in part, on the assessment that Newcastle does not have the power to direct the activities that most significantly impact the economic performance of these entities, such as if Newcastle owned a majority of the currently controlling class. In addition, Newcastle is not obligated to provide, and has not provided, any financial support to these entities.

(dollars in tables in thousands, except share data)

Newcastle had variable interests in the following unconsolidated VIE at June 30, 2013, in addition to the subprime securitizations which are described in Note 5:

Entity	Gross Assets (A)	Debt (A) (B)	Carrying Value of Newcastle's Investment (C)
Newcastle CDO V	$ 223,280	$ 239,362	$ 5,440
CDO VIII Repack (D)	$ 292,015	$ 292,015	$ 103,140

(A) Face amount.
(B) Newcastle CDO V includes $42.6 million face amount of debt owned by Newcastle with a carrying value of $5.4 million at June 30, 2013. CDO VIII Repack includes $116.8 million face amount of debt owned by Newcastle with a carrying value of $103.1 million at June 30, 2013.
(C) This amount represents Newcastle’s maximum exposure to loss from this entity.
(D) See Notes 8 and 9 for information about the securitization that is collateralized by certain Newcastle CDO VIII Class I notes.

(dollars in tables in thousands, except share data)

4. REAL ESTATE SECURITIES

The following is a summary of Newcastle's real estate securities at June 30, 2013, all of which are classified as available-for-sale and are, therefore, reported at fair value with changes in fair value recorded in other comprehensive income, except for securities that are other-than-temporarily impaired.

		Amortized Cost Basis			Gross Unrealized				Weighted Average				
Asset Type	Outstanding Face Amount	Before Impairment	Other-Than- Temporary Impairment	After Impairment	Gains	Losses	Carrying Value (A)	Number of Securities	Rating (B)	Coupon	Yield	Maturity (Years) (C)	Principal Subordination (D)
CMBS-Conduit	$ 255,555	$ 226,609	$ (82,947)	$ 143,662	$ 53,142	$ (3,342)	$ 193,462	35	B+	5.52%	13.90%	3.9	9.2%
CMBS- Single Borrower	92,008	90,959	(12,364)	78,595	4,297	—	82,892	15	BB	5.68%	7.16%	3.1	6.3%
CMBS-Large Loan	5,114	5,024	—	5,024	90	—	5,114	1	BBB-	6.07%	12.20%	0.4	5.7%
REIT Debt	29,200	28,549	—	28,549	2,510	—	31,059	5	BB+	5.89%	6.85%	2.1	N/A
Non-Agency RMBS (E)	107,869	105,091	(62,860)	42,231	16,892	(1)	59,122	34	CCC	1.09%	12.76%	4.8	24.8%
ABS-Franchise	8,464	7,647	(7,647)	—	199	—	199	1	C	6.69%	0.00%	4.4	0.0%
FNMA/FHLMC (H)	311,659	335,164	—	335,164	1,821	(1,171)	335,814	39	AAA	2.82%	1.28%	3.7	N/A
CDO (F)	201,336	81,354	(14,861)	66,493	2,947	—	69,440	13	CCC+	2.89%	8.01%	1.3	21.3%
Total / Average (G)	$ 1,011,205	$ 880,397	$ (180,679)	$ 699,718	$ 81,898	$ (4,514)	$ 777,102	143	BB+	3.73%	6.22%	3.3	

(A) See Note 9 regarding the estimation of fair value, which is equal to carrying value for all securities.
(B) Represents the weighted average of the ratings of all securities in each asset type, expressed as an S&P equivalent rating. For each security rated by multiple rating agencies, the lowest rating is used. Newcastle used an implied AAA rating for the FNMA/FHLMC securities. Ratings provided were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current.
(C) The weighted average maturity is based on the timing of expected principal reduction on the assets.
(D) Percentage of the outstanding face amount of securities and residual interests that is subordinate to Newcastle's investments.
(E) Includes the retained bond with a face amount of $4.0 million and a carrying value of $2.2 million from Securitization Trust 2006 (Note 5).
(F) Includes two CDO bonds issued by a third party with a carrying value of $60.0 million, four CDO bonds issued by CDO V (which has been deconsolidated) and held as investments by Newcastle with a carrying value of $5.4 million and seven CDO bonds issued by C-BASS with a carrying value of $4.0 million.
(G) The total outstanding face amount was $0.4 billion for fixed rate securities and $0.6 billion for floating rate securities.
(H) Amortized cost basis and carrying value include principal receivable of $6.5 million.

(dollars in tables in thousands, except share data)

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

Unrealized losses that are considered other-than-temporary are recognized currently in earnings. During the six months ended June 30, 2013, Newcastle recorded other-than-temporary impairment charges ("OTTI") of $4.4 million with respect to real estate securities, of which $3.8 million was recorded on certain real estate securities included in the spin-off of New Residential as Newcastle determined it did not have the intent to hold the securities past May 15, 2013. For the other $0.6 million, 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 its belief that the carrying values of such securities were fully recoverable over their expected holding period. The following table summarizes Newcastle's securities in an unrealized loss position as of June 30, 2013.

		Amortized Cost Basis			Gross Unrealized				Weighted Average			
Securities in an Unrealized Loss Position	Outstanding Face Amount	Before Impairment	Other-than-Temporary Impairment	After Impairment	Gains	Losses	Carrying Value	Number of Securities	Rating	Coupon	Yield	Maturity (Years)
Less Than Twelve Months	$ 178,771	$ 188,976	$ (1)	$ 188,975	$ —	$ (1,214)	$ 187,761	16	AAA	3.00%	1.30%	3.2
Twelve or More Months	12,000	11,785	—	11,785	—	(3,300)	8,485	2	B-	5.37%	5.72%	3.3
Total	$ 190,771	$ 200,761	$ (1)	$ 200,760	$ —	$ (4,514)	$ 196,246	18	AA+	3.15%	1.56%	3.2

Newcastle performed an assessment of all of its debt securities that are in an unrealized loss position (unrealized loss position exists when a security's amortized cost basis, excluding the effect of OTTI, exceeds its fair value) and determined the following:

	June 30, 2013			
		Amortized Cost Basis	Unrealized Losses	
	Fair Value	After Impairment	Credit (B)	Non-Credit (C)
Securities Newcastle intends to sell	$ —	$ —	$ —	N/A
Securities Newcastle is more likely than not to be required to sell (A)	—	—	—	N/A
Securities Newcastle has no intent to sell and is not more likely than not to be required to sell:				
Credit impaired securities	23	24	(1)	(1)
Non credit impaired securities	196,223	200,736	—	(4,513)
Total debt securities in an unrealized loss position	$ 196,246	$ 200,760	$ (1)	$ (4,514)

(A) Newcastle may, at times, be more likely than not to be required to sell certain securities for liquidity purposes. While the amount of the securities to be sold may be an estimate, and the securities to be sold have not yet been identified, Newcastle must make its best estimate, which is subject to significant judgment regarding future events, and may differ materially from actual future sales.

(B) This amount is required to be recorded as other-than-temporary impairment through earnings. In measuring the portion of credit losses, Newcastle's management estimates the expected cash flow for each of the securities. This evaluation includes a review of the credit status and the performance of the collateral supporting those securities, including the credit of the issuer, key terms of the securities and the effect of local, industry and broader economic trends. Significant inputs in estimating the cash flows include management's expectations of prepayment speeds, default rates and loss severities. Credit losses are measured as the decline in the present value of the expected future cash flows discounted at the investment's effective interest rate.

(C) This amount represents unrealized losses on securities that are due to non-credit factors and is required to be recorded through other comprehensive income.

(dollars in tables in thousands, except share data)

The following table summarizes the activity related to credit losses on debt securities for the six months ended June 30, 2013:

Beginning balance of credit losses on debt securities for which a portion of an OTTI was recognized in othercomprehensive income	$	(4,770)
Additions for credit losses on securities for which an OTTI was not previously recognized		(3,757)
Increases to credit losses on securities for which an OTTI was previously recognized and a portion of anOTTI was recognized in other comprehensive income		(89)
Additions for credit losses on securities for which an OTTI was previously recognized without any portionof OTTI recognized in other comprehensive income		—
Reduction for credit losses on securities for which no OTTI was recognized in other comprehensive incomeat the current measurement date		120
Reduction for securities sold during the period		4,739
Reduction for securities transferred to New Residential		3,756
Reduction for securities deconsolidated during the period		—
Reduction for increases in cash flows expected to be collected that are recognized over the remaining lifeof the security		—
Ending balance of credit losses on debt securities for which a portion of an OTTI was recognized in othercomprehensive income	$	(1)

The table below summarizes the geographic distribution of the collateral securing Newcastle's CMBS and ABS at June 30, 2013:

	CMBS		ABS	
Geographic Location	Outstanding Face Amount	Percentage	Outstanding Face Amount	Percentage
Western U.S.	$ 76,197	21.6%	$ 35,327	30.4%
Northeastern U.S.	66,704	18.9%	24,374	21.0%
Southeastern U.S.	69,233	19.6%	23,275	20.0%
Midwestern U.S.	56,056	15.9%	15,543	13.3%
Southwestern U.S.	66,881	19.0%	11,598	10.0%
Other	12,716	3.6%	6,216	5.3%
Foreign	4,890	1.4%	—	0.0%
	$ 352,677	100.0%	$ 116,333	100.0%

Geographic concentrations of investments expose Newcastle to the risk of economic downturns within the relevant regions, particularly given the current unfavorable market conditions. These market conditions may make regions more vulnerable to downturns in certain market factors. Any such downturn in a region where Newcastle holds significant investments could have a material, negative impact on Newcastle.

(dollars in tables in thousands, except share data)

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

The following is a summary of real estate related and other loans, residential mortgage loans and subprime mortgage loans at June 30, 2013. The loans contain various terms, including fixed and floating rates, self-amortizing and interest only. They are generally subject to prepayment.

Loan Type	Outstanding Face Amount	Carrying Value (A)	Loan Count	Weighted Average Yield	Weighted Average Coupon	Weighted Average Maturity (Years) (B)	Floating Rate Loans as a % of Face Amount	Delinquent Face Amount (C)
Mezzanine Loans	$ 430,584	$ 350,127	15	9.07%	8.74%	1.0	75.7%	$ 12,000
Corporate Bank Loans	783,448	363,337	7	14.03%	5.72%	1.5	72.3%	—
B-Notes	110,944	94,040	4	10.65%	5.30%	1.1	79.3%	—
Whole Loans	29,923	29,923	2	4.81%	3.78%	0.7	97.3%	—
Total Real Estate Related and other Loans Held-for-Sale, Net	$ 1,354,899	$ 837,427	28	11.25%	6.60%	1.3	74.5%	$ 12,000
Non-Securitized Manufactured Housing Loan Portfolio I	$ 565	$ 146	15	68.47%	7.77%	0.9	0.0%	$ 56
Non-Securitized Manufactured Housing Loan Portfolio II	2,780	2,120	105	15.46%	10.04%	5.3	9.5%	35
Total Residential Mortgage Loans Held-for-Sale, Net (D)	$ 3,345	$ 2,266	120	18.89%	9.66%	4.5	7.9%	$ 91
Securitized Manufactured Housing Loan Portfolio I (D)(E)	$ 110,589	$ 94,909	2,984	9.45%	8.62%	6.3	0.7%	$ 1,059
Securitized Manufactured Housing Loan Portfolio II (D)(E)	140,828	138,895	5,027	7.70%	9.64%	5.5	16.5%	2,285
Residential Loans (D)(E)	51,886	39,528	185	7.66%	2.43%	5.9	100.0%	7,455
Total Residential Mortgage Loans Held-for-Investment, Net	$ 303,303	$ 273,332	8,196	8.30%	8.04%	5.8	25.0%	$ 10,799
Subprime Mortgage Loans Subject to Call Option	$ 406,217	$ 406,217						

(A) Carrying value includes interest receivable of $0.1million for the residential housing loans and principal and interest receivable of $4.8million for the manufactured housing loans.
(B) The weighted average maturity is based on the timing of expected principal reduction on the assets.
(C) Includes loans that are 60 or more days past due (including loans that are in foreclosure, or borrower's in bankruptcy) or considered real estate owned ("REO"). As of June 30, 2013, $140.7 million face amount of real estate related and other loans was on non-accrual status.
(D) Loans acquired at a discount for credit quality.
(E) The following is an aging analysis of past due residential loans held-for-investment as of June 30, 2013:

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	REO	Total Past Due	Current	Total Outstanding Face Amount
Securitized Manufactured Housing Loan Portfolio I	$ 337	$ 170	$ 452	$ 437	$ 1,396	$ 109,193	$ 110,589
Securitized Manufactured Housing Loan Portfolio II	$ 1,184	$ 371	$ 1,383	$ 531	$ 3,469	$ 137,359	$ 140,828
Residential Loans	$ 875	$ 405	$ 6,561	$ 489	$ 8,330	$ 43,556	$ 51,886

Newcastle's management monitors the credit qualities of the Manufactured Housing Loan Portfolios I and II primarily by using aging analyses, current trends in delinquencies and actual loss incurrence rates.

(dollars in tables in thousands, except share data)

The following is a summary of real estate related and other loans by maturities at June 30, 2013:

Year of Maturity (1)	Outstanding Face Amount	Carrying Value	Number of Loans
Delinquent (2)	$ 12,000	$ —	1
Period from July 1, 2013 to December 31, 2013	87,151	29,272	2
2014	814,634	414,636	11
2015	58,302	55,794	5
2016	101,134	99,511	3
2017	95,104	82,786	4
2018	—	—	—
Thereafter	186,574	155,428	2
Total	$ 1,354,899	$ 837,427	28

(1) Based on the final extended maturity date of each loan investment as of June 30, 2013.
(2) 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		Held-for-Investment	
	Real Estate Related and Other Loans	Residential Mortgage Loans	Residential Mortgage Loans	Reverse Mortgage Loans
Balance at December 31, 2012	$ 843,132	$ 2,471	$ 292,461	$ —
Purchases / additional fundings	139,096	—	—	35,138
Interest accrued to principal balance	12,673	—	—	—
Principal paydowns	(153,263)	(180)	(22,125)	—
Sales	(9,318)			
Spin-off of New Residential	—	—	—	(35,865)
Valuation (allowance) reversal on loans	(2,262)	(12)	749	—
Loss on repayment of loans held-for-sale	—			
Accretion of loan discount and other amortization	6,689	—	2,201	727
Other	680	(13)	46	—
Balance at June 30, 2013	$ 837,427	2,266	$ 273,332	$ —

The following is a rollforward of the related loss allowance.

	Held-For-Sale		Held-For-Investment
	Real Estate Related and Other Loans	Residential Mortgage Loans	Residential Mortgage Loans (A)
Balance at December 31, 2012	$ (182,062)	$ (1,072)	$ (22,478)
Charge-offs	60	121	2,641
Valuation (allowance) reversal on loans	(2,262)	(12)	749
Balance at June 30, 2013	$ (184,264)	$ (963)	$ (19,088)

(A) The allowance for credit losses was determined based on the guidance for loans acquired with deteriorated credit quality.

The table below summarizes the geographic distribution of real estate related and other loans and residential mortgage loans at June 30, 2013:

	Real Estate Related and Other Loans		Residential Mortgage Loans	
Geographic Location	Outstanding Face Amount	Percentage	Outstanding Face Amount	Percentage
Western U.S.	$ 146,173	25.1%	$ 184,106	60.0%
Northeastern U.S.	103,867	17.8%	9,746	3.2%
Southeastern U.S.	86,867	14.9%	67,706	22.1%
Midwestern U.S.	62,707	10.8%	11,677	3.8%
Southwestern U.S.	77,187	13.3%	33,363	10.9%
Foreign	105,227	18.1%	50	0.0%
	$ 582,028	100.0%	$ 306,648	100.0%
Other	772,871	(A)		
	$ 1,354,899			

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

(dollars in tables in thousands, except share data)

During the first six months of 2013, Newcastle increased its investment in the outstanding debt of a portfolio company of a private equity fund managed by an affiliate of Newcastle's manager, which is in the media industry. Newcastle purchased from third parties an aggregate face amount of $381.1 million for an aggregate purchase price of $139.3 million during this period. As of June 30, 2013, Newcastle held $540.7 million face amount (or 44.9% of the total outstanding) of this debt with a carrying value of $209.1 million and was committed to purchase additional $84.9 million face amount of debt for approximately $32.9 million, but had not yet settled these purchases as of June 30, 2013.

Securitization of Subprime Mortgage Loans

The following table presents information on the retained interests in Newcastle's securitizations of subprime mortgage loans at June 30, 2013:

	Subprime Portfolio					
	I		II		Total	
Total securitized loans (unpaid principal balance) (A)	$	401,031	$	536,893	$	937,924
Loans subject to call option (carrying value)	$	299,176	$	107,041	$	406,217
Retained interests (fair value) (B)	$	2,152	$	—	$	2,152

(A) Average loan seasoning of 95 months and 77 months for Subprime Portfolios I and II, respectively, at June 30, 2013.

(B) The retained interests include retained bonds of the securitizations. The fair value of which is estimated based on pricing models. Newcastle's residual interests were written off in 2010. The weighted average yield of the retained bonds was 24.34% as of June 30, 2013.

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.

The following table summarizes certain characteristics of the underlying subprime mortgage loans, and related financing, in the securitizations as of June 30, 2013:

	Subprime Portfolio			
	I		II	
Loan unpaid principal balance (UPB)	$	401,031	$	536,893
Weighted average coupon rate of loans		5.80%		4.93%
Delinquencies of 60 or more days (UPB) (A)	$	111,458	$	212,516
Net credit losses for the six months ended June 30, 2013	$	12,669	$	18,678
Cumulative net credit losses	$	233,086	$	275,397
Cumulative net credit losses as a % of original UPB		15.5%		25.3%
Percentage of ARM loans (B)		50.8%		64.3%
Percentage of loans with original loan-to-value ratio >90%		10.5%		17.1%
Percentage of interest-only loans		27.4%		3.7%
Face amount of debt (C)	$	397,031	$	536,893
Weighted average funding cost of debt (D)		0.56%		0.51%

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

(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 at June 30, 2013.

(D) Includes the effect of applicable hedges.

Newcastle received negligible cash inflows from the retained interests of Subprime Portfolios I and II during the six months ended June 30, 2013 and 2012.

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.

(dollars in tables in thousands, except share data)

6. 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 pursuant to a bankruptcy proceeding for $2.2 million. 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 six months ended June 30, 2013 and 2012, respectively, Newcastle recorded $0.2 million and $0.2 million of servicing rights amortization and no servicing rights impairment. As of June 30, 2013, Newcastle's servicing asset had a carrying value of $1.6 million recorded in Receivables and Other Assets.

7. INVESTMENTS IN REAL ESTATE AND INTANGIBLES

Newcastle recorded investments in real estate and related intangibles at their estimated fair value at acquisition. Expenditures for ordinary maintenance and repairs are expensed as incurred. Renovations and improvements which improve and/or extend the life of the assets are capitalized and depreciated over their estimated useful lives. Newcastle will periodically assess the carrying value of the assets to determine if facts and circumstances exist that would suggest that assets might be impaired or that the useful lives should be modified. In the event that an impairment in value occurs and Newcastle believes that the carrying amount of the assets will not be recovered, a provision will be recorded to reduce the carrying basis of the assets to their estimated fair value. The following table summarizes Newcastle's investments in real estate:

	June 30, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value
Senior Living						
Land	$ 15,993	$ —	$ 15,993	$ 15,993	$ —	$ 15,993
Buildings	144,676	(3,150)	141,526	144,676	(1,349)	143,327
Building improvements	2,841	(324)	2,517	2,433	(124)	2,309
Furniture, fixtures and equipment	1,537	(381)	1,156	1,257	(85)	1,172
Senior Living Total	$ 165,047	$ (3,855)	$ 161,192	$ 164,359	$ (1,558)	$ 162,801
Other Commercial Real Estate						
Land	$ 1,106	$ —	$ 1,106	$ 1,106	$ —	$ 1,106
Buildings	6,588	(1,269)	5,319	6,588	(1,181)	5,407
Building improvements	951	(690)	261	826	(667)	159
Furniture, fixtures and equipment	—	—	—	—	—	—
Other Commercial Real Estate Total	$ 8,645	$ (1,959)	$ 6,686	$ 8,520	$ (1,848)	$ 6,672
Total Investments in Real Estate	$ 173,692	$ (5,814)	$ 167,878	$ 172,879	$ (3,406)	$ 169,473

(dollars in tables in thousands, except share data)

Intangibles

The following table summarizes Newcastle's intangible assets related to its senior living real estate:

	June 30, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
In-place resident lease intangibles	$ 22,711	$ (9,882)	$ 12,829	$ 22,711	$ (4,205)	$ 18,506
Non-compete intangibles	600	(80)	520	600	(20)	580
Total intangibles	$ 23,311	$ (9,962)	$ 13,349	$ 23,311	$ (4,225)	$ 19,086

(dollars in tables in thousands, except share data)

8. DEBT OBLIGATIONS

The following table presents certain information regarding Newcastle's debt obligations and related hedges at June 30, 2013:

									Collateral					
Debt Obligation/Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Unhedged Weighted Average Funding Cost (A)	Weighted Average Funding Cost (B)	Weighted Average Maturity (Years)	Face Amount of Floating Rate Debt	Outstanding Face Amount (C)	Amortized Cost Basis (C)	Carrying Value (C)	Weighted Average Maturity (Years)	Floating Rate Face Amount (C)	Aggregate Notional Amount of Current Hedges (D)
CDO Bonds Payable														
CDO VI (E)	Apr 2005	91,797	91,797	Apr 2040	0.86%	5.35%	4.4	88,612	173,682	90,276	121,198	2.7	45,282	88,612
CDO VIII	Nov 2006	412,649	411,951	Nov 2052	0.83%	2.07%	2.0	405,049	615,697	441,282	472,096	2.2	329,038	105,749
CDO IX	May 2007	339,210	340,736	May 2052	0.58%	0.58%	1.7	339,210	586,272	455,114	464,062	2.4	298,092	—
		843,656	844,484			1.83%	2.1	832,871	1,375,651	986,672	1,057,356	2.3	672,412	194,361
Other Bonds and Notes Payable														
MH Loans Portfolio I (F)	Apr 2010	61,682	58,099	Jul 2035	6.39%	6.39%	4.1	—	110,589	94,909	94,909	6.3	746	—
MH Loans Portfolio II	May 2011	106,124	105,619	Dec 2033	4.53%	4.53%	3.8	—	140,828	138,895	138,895	5.5	23,186	—
		167,806	163,718			5.19%	3.9	—	251,417	233,804	233,804	5.8	23,932	—
Repurchase Agreements (G)														
FNMA/FHLMC securities (H)	Jun 2013	311,276	311,276	Jul 2013	0.39%	0.39%	0.1	311,276	311,659	335,165	335,814	3.7	311,659	—
		311,276	311,276			0.39%	0.1	311,276	311,659	335,165	335,814	3.7	311,659	—
Mortgage Notes Payable														
BPM Senior Living Facilities	Jul 2012	88,400	88,400	Aug 2019	3.44%	3.44%	5.7	23,400	N/A	132,547	132,547	N/A	—	23,400
Utah Senior Living Facilities	Nov 2012	16,000	16,000	Oct 2017	LIBOR+3.75% (I)	4.75%	4.3	16,000	N/A	21,387	21,387	N/A	—	—
Courtyards Senior living facilities	Dec 2012	16,125	16,125	Oct 2017	LIBOR+3.75% (I)	4.75%	4.3	16,125	N/A	20,607	20,607	N/A	—	—
		120,525	120,525			3.79%	5.3	55,525	N/A	174,541	174,541	N/A	—	23,400
Corporate														
Junior subordinated notes payable	Mar 2006	51,004	51,240	Apr 2035	7.574% (J)	7.40%	21.8	—	—	—	—	—	—	—
		51,004	51,240			7.40%	21.8	—	—	—	—	—	—	—
Subtotal debt obligations		1,494,267	1,491,243			2.25%	2.8	$ 1,199,672	$ 1,938,727	$ 1,730,182	$ 1,801,515	3.0	$ 1,008,003	$ 217,761
Financing on subprime mortgage loans subject to call option (K)		406,217	406,217											
Total debt obligations		$ 1,900,484	$ 1,897,460											

(A) Weighted average, including floating and fixed rate classes and including the amortization of deferred financing costs.
(B) Including the effect of applicable hedges.
(C) Excluding (i) restricted cash held in CDOs to be used for principal and interest payments of CDO debt, and (ii) operating cash in senior living entities.
(D) Including a $23.4 million notional amount of interest rate cap agreement for the mortgage notes payable and an $88.6million notional amount of interest rate swap agreement in CDO VI, which was an economic hedge not designated as a hedge for accounting purposes.
(E) This CDO was not in compliance with its applicable over collateralization tests as of June 30, 2013. Newcastle is not receiving cash flows from this CDO (other than senior management fees and cash flows on senior classes of bonds that were repurchased), since net interest is being used to repay debt, and expects this CDO to remain out of compliance for the foreseeable future.
(F) Excluding $20.5 million face amount of other bonds payable relating to MH loans Portfolio I sold to certain Newcastle CDOs, which were eliminated in consolidation.
(G) These repurchase agreements had $0.01 million of associated accrued interest payable at June 30, 2013. $311.3 million face amount of these repurchase agreements were renewed subsequent to June 30, 2013.
(H) The counterparties on these repurchase agreements are Bank of America ($264.9 million), Citi ($17.9 million), and Nomura ($28.5 million). Interest rates on these repurchase agreements are fixed, but will be reset on a short-term basis.
(I) These financings have a LIBOR floor of 1%.
(J) LIBOR + 2.25% after April 2016.
(K) Issued in April 2006 and July 2007. See Note 5 regarding the securitizations of Subprime Portfolios I and II.

Each CDO financing is subject to tests that measure the amount of over collateralization and excess interest in the transaction. Failure to satisfy these tests would cause the principal and/or interest cashflow that would otherwise be distributed to more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, Newcastle's cash flow and liquidity are negatively impacted upon such a failure. As of June 30, 2013, CDO VI was not in compliance with its over collateralization tests.

In the first six months of 2013, Newcastle repurchased $10.9 million face amount of CDO bonds payable for $9.7 million. As a result, Newcastle extinguished $10.9 million face amount of CDO bonds payable and recorded a gain on extinguishment of debt of $1.2 million.

Newcastle's non-CDO financings contain various customary loan covenants. Newcastle was in compliance with all of the covenants in its non-CDO financings as of June 30, 2013.

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

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

(dollars in tables in thousands, except share data)

9. FAIR VALUE

Fair Value Summary Table

The carrying values and fair values of Newcastle's assets and liabilities at June 30, 2013 were as follows:

	Principal Balance or Notional Amount	Carrying Value	Estimated Fair Value	Fair Value Method (A)	Weighted Average Yield/Funding Cost	Weighted Average Maturity (Years)
Assets						
Financial instruments:						
Real estate securities, available-for-sale*	$ 1,011,205	$ 777,102	$ 777,102	Broker quotations, counterparty quotations, pricing services, pricing models	6.22%	3.3
Real estate related and other loans, held-for-sale, net	1,354,899	837,427	849,562	Broker quotations, counterparty quotations, pricing services, pricing models	11.25%	1.3
Residential mortgage loans, held-for-investment, net	303,303	273,332	270,596	Pricing models	8.30%	5.8
Residential mortgage loans, held-for-sale, net	3,345	2,266	2,266	Pricing models	18.89%	4.6
Subprime mortgage loans subject to call option (B)	406,217	406,217		(B)	9.09%	(B)
Restricted cash*	7,173	7,173	7,173			
Cash and cash equivalents*	271,052	271,052	271,052			
Non-hedge derivative assets (C)(D)*	140,206	43,470	43,470	Counterparty quotations	N/A	(C)
Other investments		24,907	13,165	Pricing models	N/A	N/A
Investments in real estate and intangibles, net		181,227				
Due from affiliates		1,254				
Receivables and other assets		19,907				
		$ 2,845,334				
Liabilities						
Financial instruments:						
CDO bonds payable (F)	$ 843,656	$ 844,484	$ 641,506	Pricing models	1.83%	2.1
Other bonds and notes payable (F)	167,806	163,718	166,090	Broker quotations, pricing models	5.19%	3.9
Repurchase agreements	311,276	311,276	311,276	Market comparables	0.39%	0.1
Mortgage notes payable	120,525	120,525	120,525	Pricing models	3.79%	5.3
Financing of subprime mortgage loans subject to call option (B)	406,217	406,217		(B)	9.09%	(B)
Junior subordinated notes payable	51,004	51,240	34,267	Pricing models	7.40%	21.8
Interest rate swaps, treated as hedges (D)(E)*	105,749	8,523	8,523	Counterparty quotations	N/A	(E)
Non-hedge derivatives (C)(D)*	186,140	11,674	11,674	Counterparty quotations	N/A	(C)
Due to affiliates		3,216				
Dividends payable, accrued expenses and other liabilities		60,835				
		$ 1,981,708				

*Measured at fair value on a recurring basis.

(dollars in tables in thousands, except share data)

(A) Methods are listed in order of priority. In the case of real estate securities and real estate related and other loans, broker quotations are obtained if available and practicable, otherwise counterparty quotations or pricing service valuations are obtained or, finally, internal pricing models are used. Internal pricing models are only used for (i) securities and loans that are not traded in an active market, and, therefore, have little or no price transparency, and for which significant unobservable inputs must be used in estimating fair value, or (ii) loans or debt obligations which are private and untraded.

(B) These two items result from an option, not an obligation, to repurchase loans from Newcastle's subprime mortgage loan securitizations (Note 5), are noneconomic until such option is exercised, and are equal and offsetting.

(C) This represents one interest rate swap agreement with a total notional balance of $186.1 million, maturing in March 2015, an interest rate cap agreement with a notional balance of $23.4 million, maturing in August 2019 and linked transactions entered into in June 2013 with $116.8 face amount of underlying financed securities. Newcastle entered into the interest rate swap and cap agreement to reduce its exposure to interest rate changes on the floating rate financings of CDO VI and the senior living assets. These derivative agreements were not designated as hedges for accounting purposes as of June 30, 2013.

(D) Newcastle's derivatives fall into two categories. As of June 30, 2013, all derivative liabilities, which represent two interest rate swaps, were held within Newcastle's nonrecourse structures. An aggregate notional balance of $291.9 million is only subject to the credit risks of the respective CDO structures. As they are senior to all the debt obligations of the respective CDOs and the fair value of each of the CDOs' total investments exceeded the fair value of each of the CDOs' derivative liabilities, no credit valuation adjustments were recorded. Derivatives with an aggregate notional balance of $140.2 million, which were assets at period end, represent an interest rate cap with a notional of $23.4 million and linked transactions with $116.8 face amount of underlying financed securities. No adjustments have been made to the fair value quotation received on the interest rate cap that relate to credit risk as a result of the counterparty's "AA" credit rating. Newcastle's interest rate swap and cap counterparties include Bank of America, Credit Suisse and Wells Fargo.

(E) Represents derivative agreements:

Year of Maturity	Weighted Average Month of Maturity	Aggregate Notional Amount	Weighted Average Fixed Pay Rate / Cap Rate	Aggregate Fair Value Asset / (Liability)
Interest rate swap agreements which receive 1-Month LIBOR:				
2016	Apr	$ 105,749	5.04%	$ (8,523)

(F) Newcastle notes that the unrealized gain on the liabilities within CDOs and other non-recourse financing structures cannot be fully realized. Assets held within CDOs and other non-recourse structures are not available to satisfy obligations outside of such financings, except to the extent Newcastle receives net cash flow distributions from such structures. Furthermore, creditors or beneficial interest holders of these structures have no recourse to the general credit of Newcastle. Therefore, Newcastle's exposure to the economic losses from such structures is limited to its invested equity in them and economically their book value cannot be less than zero. As a result, the fair value of Newcastle's net investments in these nonrecourse financing structures is equal to the present value of their expected future net cash flows.

Valuation Hierarchy

The methodologies used for valuing such instruments have been categorized into three broad levels, which form a hierarchy.

Level 1 - Quoted prices in active markets for identical instruments.
Level 2 - Valuations based principally on other observable market parameters, including
- Quoted prices in active markets for similar instruments,
- Quoted prices in less active or inactive markets for identical or similar instruments,
- Other observable inputs (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates), and
- Market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3 - Valuations based significantly on unobservable inputs.
- Level 3A - Valuations based on third party indications (broker quotes, counterparty quotes or pricing services) which were, in turn, based significantly on unobservable inputs or were otherwise not supportable as Level 2 valuations.
- Level 3B - Valuations based on internal models with significant unobservable inputs.

Newcastle follows this hierarchy for its financial instruments measured at fair value on a recurring basis. The classifications are based on the lowest level of input that is significant to the fair value measurement.

(dollars in tables in thousands, except share data)

Newcastle has various processes and controls in place to ensure that fair value is reasonably estimated. With respect to the broker and pricing service quotations, to ensure these quotes represent a reasonable estimate of fair value, Newcastle's quarterly procedures include a comparison to the outputs generated from its internal pricing models and transactions Newcastle has completed with respect to these or similar securities, as well as on its knowledge and experience of these markets. With respect to fair value estimates generated based on Newcastle's internal pricing models, Newcastle's management validates the inputs and outputs of the internal pricing models by comparing them to available independent third party market parameters, where available, and models for reasonableness. Newcastle believes its valuation methods and the assumptions used are appropriate and consistent with other market participants. The Board of Directors has reviewed Newcastle's process for determining the valuations of its investments raised on information provided by the Manager and has concluded such process is resonable and appropriate.

Fair value measurements categorized within Level 3 are sensitive to changes in the assumptions or methodology used to determine fair value and such changes could result in a significant increase or decrease in the fair value. For Newcastle's investments in real estate securities, real estate related and other loans and residential mortgage loans categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs include the discount rates, assumptions relating to prepayments, default rates and loss severities. Significant increases (decreases) in any of the discount rates, default rates or loss severities in isolation would result in a significantly lower (higher) fair value measurement. The impact of changes in prepayment speeds would have differing impacts on fair value, depending on the seniority of the investment. Generally, a change in the default assumption is generally accompanied by directionally similar changes in the assumptions used for the loss severity and the prepayment speed.

The following table summarizes such financial assets and liabilities measured at fair value on a recurring basis at June 30, 2013:

			Fair Value			
	Principal Balance or Notional Amount	Carrying Value	Level 2	Level 3A	Level 3B	Total
Assets						
Real estate securities, available-for-sale:						
CMBS	$ 352,677	$ 281,468	$ —	$ 255,407	$ 26,061	$ 281,468
REIT debt	29,200	31,059	31,059	—	—	31,059
Non-Agency RMBS	107,869	59,122	—	48,274	10,848	59,122
ABS - other real estate	8,464	199	—	—	199	199
FNMA / FHLMC	311,659	335,814	335,814	—	—	335,814
CDO	201,336	69,440	—	64,000	5,440	69,440
Real estate securities total	$ 1,011,205	$ 777,102	$ 366,873	$ 367,681	$ 42,548	$ 777,102
Derivative assets:						
Interest rate caps, not treated as hedges	23,400	298	298	—	—	298
Linked transactions at fair value	116,806	43,172	—	43,172	—	43,172
Derivative assets total	$ 140,206	$ 43,470	$ 298	$ 43,172	$ —	$ 43,470
Liabilities						
Derivative Liabilities:						
Interest rate swaps, treated as hedges	$ 105,749	$ 8,523	$ 8,523	$ —	$ —	$ 8,523
Interest rate swaps, not treated as hedges	186,140	11,674	11,674	—	—	11,674
Derivative liabilities total	$ 291,889	$ 20,197	$ 20,197	$ —	$ —	$ 20,197

(dollars in tables in thousands, except share data)

Newcastle's investments in instruments measured at fair value on a recurring basis using Level 3 inputs changed during the six months ended June 30, 2013 as follows:

	Level 3A						
	CMBS		ABS				
	Conduit	Other	Non-Agency RMBS	Other	Equity/Other Securities	Linked Transactions	Total
Balance at December 31, 2012	$ 225,575	$ 104,451	$ 330,021	$ 798	$ 65,027	$ —	$ 725,872
Transfers (A)							
Transfers from Level 3B	—	—	11,107	—	—	—	11,107
Transfers into Level 3B	(3,291)	(8,257)	—	—	—	—	(11,548)
Spin-off of New Residential	—	—	(560,783)	—	—	—	(560,783)
Total gains (losses) (B)							
Included in net income (C)	279	(165)	(683)	(87)	—	—	(656)
Included in other comprehensive income (loss)	8,585	1,522	26,938	296	(771)	—	36,570
Amortization included in interest income	4,091	304	9,801	—	2,337	—	16,533
Purchases, sales and repayments							
Purchases	—	—	267,160	—	—	43,172	310,332
Proceeds from sales	(51,708)	(16,902)	(6,127)	(934)	—	—	(75,671)
Proceeds from repayments	(4,326)	(4,751)	(29,160)	(73)	(2,593)	—	(40,903)
Balance at June 30, 2013	$ 179,205	$ 76,202	$ 48,274	$ —	$ 64,000	$ 43,172	$ 410,853

	Level 3B						
	CMBS		ABS				
	Conduit	Other	Non-Agency RMBS	Other	Equity/Other Securities	Linked Transactions	Total
Balance at December 31, 2012	$ 29,194	$ 17,171	$ 25,954	$ 677	$ 5,998	$ —	$ 78,994
Transfers (A)							
Transfers from Level 3A	3,291	8,257	—	—	—	—	11,548
Transfers into Level 3A	—	—	(11,107)	—	—	—	(11,107)
Total gains (losses) (B)							
Included in net income (C)	69	(159)	3,055	5	—	—	2,970
Included in other comprehensive income (loss)	3,521	1,135	(2,198)	(24)	231	—	2,665
Amortization included in interest income	1,474	240	3,322	283	314	—	5,633
Purchases, sales and repayments							
Purchases	—	—	—	—	—	—	—
Proceeds from sales	(21,868)	(14,841)	(5,054)	(425)	—	—	(42,188)
Proceeds from repayments	(1,423)	—	(3,124)	(317)	(1,103)	—	(5,967)
Balance at June 30, 2013	$ 14,258	$ 11,803	$ 10,848	$ 199	$ 5,440	$ —	$ 42,548

(A) Transfers are assumed to occur at the beginning of the quarter.
(B) 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 date.
(C) These gains (losses) are recorded in the following line items in the consolidated statements of income:

	Six Months Ended June 30, 2013	
	Level 3A	Level 3B
Gain (loss) on settlement of investments, net	$ 150	$ 3,586
Other income (loss), net	—	—
OTTI	(806)	(616)
Total	$ (656)	$ 2,970
Gain (loss) on settlement of investments, net, from investments transferred into Level 3 during the period	$ —	$ —

(dollars in tables in thousands, except share data)

Securities Valuation

As of June 30, 2013, Newcastle's securities valuation methodology and results are further detailed as follows:

			Fair Value			
Asset Type	Outstanding Face Amount (A)	Amortized Cost Basis (B)	Multiple Quotes (C)	Single Quote (D)	Internal Pricing Models (E)	Total
CMBS	$ 352,677	$ 227,281	$ 184,461	$ 70,946	$ 26,061	$ 281,468
REIT debt	29,200	28,549	17,199	13,860	—	31,059
Non-Agency RMBS	107,869	42,231	34,842	13,432	10,848	59,122
ABS - other real estate	8,464	—	—	—	199	199
FNMA / FHLMC	311,659	335,164	335,814	—	—	335,814
CDO	201,336	66,493	—	64,000	5,440	69,440
Total	$ 1,011,205	$ 699,718	$ 572,316	$ 162,238	$ 42,548	$ 777,102

(A) Net of incurred losses

(B) Net of discounts (or gross of premiums) and after OTTI, including impairment taken during the period ended June 30, 2013.

(C) Management generally obtained pricing service quotations or broker quotations from two sources, one of which was generally the seller (the party that sold us the security). Management selected one of the quotes received as being most representative of fair value and did not use an average of the quotes. Even if Newcastle receives two or more quotes on a particular security that come from non-selling brokers or pricing services, it does not use an average because management believes using an actual quote more closely represents a transactable price for the security than an average level. Furthermore, in some cases there is a wide disparity between the quotes Newcastle receives. Management believes using an average of the quotes in these cases would generally not represent the fair value of the asset. Based on Newcastle's own fair value analysis using internal models, management selects one of the quotes which are believed to more accurately reflect fair value. Newcastle never adjusts quotes received. These quotations are generally received via email and contain disclaimers which state that they are "indicative" and not "actionable" – meaning that the party giving the quotation is not bound to actually purchase the security at the quoted price.

(D) Management was unable to obtain quotations from more than one source on these securities. The one source was generally the seller (the party that sold us the security) or a pricing service.

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

					Weighted Average Significant Input			
	Amortized Cost Basis (B)	Fair Value	Impairment Recorded In Current Period	Unrealized Gains (Losses) in Accumulated OCI	Discount Rate	Prepayment Speed (F)	Cumulative Default Rate	Loss Severity
CMBS - Conduit	$ 2,705	$ 14,258	$ 76	$ 11,553	8.0%	N/A	23.3%	42.7%
CMBS - Large loan / single borrower	11,489	11,803	—	314	2.2%	N/A	50.7%	50.7%
Non-Agency RMBS	3,074	10,848	1	7,774	8.0%	2.4%	19.0%	45.4%
ABS - other RE	—	199	—	199	8.0%	0.0%	45.8%	100.0%
CDO	3,190	5,440	—	2,250	20.3%	4.7%	9.9%	73.1%
Total	20,458	42,548	77	22,090				

All of the assumptions listed have some degree of market observability, based on Newcastle's knowledge of the market, relationships with market participants, and use of common market data sources. Collateral prepayment, default and loss severity projections are in the form of "curves" or "vectors" that vary for each monthly collateral cash flow projection. Methods used to develop these projections vary by asset class (e.g., CMBS projections are developed differently than home equity ABS projections) but conform to industry conventions. Newcastle uses assumptions that generate its best estimate of future cash flows of each respective security.

The prepayment vector specifies the percentage of the collateral balance that is expected to voluntarily pay off at each point in the future. The prepayment vector is based on projections from a widely published investment bank model which considers factors such as collateral FICO score, loan-to-value ratio, debt-to-income ratio, and vintage on a loan level basis. This vector is scaled up or down to match recent collateral-specific prepayment experience, as obtained from remittance reports and market data services.

Loss severities are based on recent collateral-specific experience with additional consideration given to collateral characteristics. Collateral age is taken into consideration because severities tend to initially increase with collateral age before eventually stabilizing. Newcastle typically uses projected severities that are higher than the historic experience for collateral that is relatively new to account for this effect. Collateral characteristics such as loan size, lien position, and location (state) also effect loss severity. Newcastle considers whether a collateral pool has experienced a significant change in its composition with respect to these factors when assigning severity projections.

Default rates are determined from the current "pipeline" of loans that are more than 90 days delinquent, in foreclosure, or are real estate owned (REO). These significantly delinquent loans determine the first 24 months of the default vector. Beyond month 24, the default vector transitions to a steady-state value that is generally equal to or greater than that given by the widely published investment bank model.

The discount rates Newcastle uses are derived from a range of observable pricing on securities backed by similar collateral and offered in a live market. As the markets in which Newcastle transacts have become less liquid, Newcastle has had to rely on fewer data points in this analysis.

(F) Projected annualized average prepayment rate.

(dollars in tables in thousands, except share data)

Loan Valuation

Loans which Newcastle does not have the ability or intent to hold into the foreseeable future are classified as held-for-sale. As a result, these held-for-sale loans are carried at the lower of amortized cost or fair value and are therefore recorded at fair value on a non-recurring basis. These loans were written down to fair value at the time of the impairment, based on broker quotations, pricing service quotations or internal pricing models. All the loans were within Level 3 of the fair value hierarchy. For real estate related and other loans, the most significant inputs used in the valuations are the amount and timing of expected future cash flows, market yields and the estimated collateral value of such loan investments. For residential mortgage loans, significant inputs include management's expectations of prepayment speeds, default rates, loss severities and discount rates that market participants would use in determining the fair values of similar pools of residential mortgage loans.

The following tables summarize certain information for real estate related and other loans and residential mortgage loans held-for-sale as of June 30, 2013:

					Significant Input			
					Range		Weighted Average	
Loan Type	Outstanding Face Amount	Carrying Value	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Discount Rate	Loss Severity	Discount Rate	Loss Severity
Mezzanine	$ 430,584	$ 350,127	$ 357,410	$ (1,112)	5.0% - 25.0%	0.0% - 100.0%	9.1%	17.5%
Bank Loan	783,448	363,337	366,466	(3,963)	5.8% - 27.5%	0.0% - 100.0%	14.0%	47.8%
B-Note	110,944	94,040	95,601	7,337	6.0% - 16.2%	0.0% - 47.0%	10.6%	9.7%
Whole Loan	29,923	29,923	30,085	—	4.7% - 6.9%	0.0% - 15.0%	4.8%	14.6%
Total Real Estate Related and other Loans Held-for-Sale, Net	$ 1,354,899	$ 837,427	$ 849,562	$ 2,262				

					Significant Input (Weighted Average)			
Loan Type	Outstanding Face Amount	Carrying Value	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Discount Rate	Prepayment Speed	Constant Default Rate	Loss Severity
Non-securitized Manufactured Housing Loans Portfolio I	$ 565	$ 146	$ 146	$ (6)	68.5%	5.0%	11.6%	70.0%
Non-securitized Manufactured Housing Loans Portfolio II	2,780	2,120	2,120	18	15.5%	5.0%	3.5%	75.0%
Total Residential Mortgage Loans Held-for-Sale, Net	$ 3,345	$ 2,266	$ 2,266	$ 12				

Loans which Newcastle has the intent and ability to hold into the foreseeable future are classified as held-for-investment. Loans held-for-investment are carried at the aggregate unpaid principal balance adjusted for any unamortized premium or discount, deferred fees or expenses, an allowance for loan losses, charge-offs and write-downs for impaired loans.

The following table summarizes certain information for residential mortgage loans held-for-investment as of June 30, 2013:

					Significant Input (Weighted Average)			
Loan Type	Outstanding Face Amount	Carrying Value	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Discount Rate	Prepayment Speed	Constant Default Rate	Loss Severity
Securitized Manufactured Housing Loans Portfolio I	$ 110,589	$ 94,909	$ 91,676	$ (1,592)	9.5%	5.0%	4.0%	70.0%
Securitized Manufactured Housing Loans Portfolio II	140,828	138,895	133,604	1,019	7.7%	5.0%	3.5%	75.0%
Residential Loans	51,886	39,528	45,316	(176)	7.7%	4.6%	2.8%	46.4%
Total Residential Mortgage Loans, Held-for-Investment, Net	$ 303,303	$ 273,332	$ 270,596	$ (749)				

(dollars in tables in thousands, except share data)

Derivatives

Newcastle's derivative instruments are comprised of interest rate caps, interest rate swaps and linked transactions. Newcastle's interest rate caps and swaps are valued using counterparty quotations. These quotations are generally based on valuation models with model inputs that can generally be verified and which do not involve significant judgment. The significant observable inputs used in determining the fair value of Newcastle's Level 2 interest rate cap and swap derivative contracts are contractual cash flows and market based interest rate curves. The linked transactions, which are categorized into Level 3, are evaluated on a net basis considering their underlying components, the security acquired and the related repurchase financing agreement. The securities are valued using a similar methodology to the one described in "Securities Valuation" above and this value is netted against the carrying value of the repurchase agreement (which approximates fair value as described in "Liabilities for Which Fair Value is Only Disclosed" below), adjusted for net accrued interest receivable/payable on the securities and repurchase agreement of the linked transactions (see Note 8 for a discussion of Newcastle's outstanding linked transactions).

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

		Fair Value	
	Balance sheet location	June 30, 2013	December 31, 2012
Derivative Assets			
Linked transactions at fair value	Derivative Assets	$ 43,172	$ —
Interest rate caps, not designated as hedges	Derivative Assets	298	165
		$ 43,470	$ 165
Derivative Liabilities			
Interest rate swaps, designated as hedges	Derivative Liabilities	$ 8,523	$ 12,175
Interest rate swaps, not designated as hedges	Derivative Liabilities	11,674	19,401
		$ 20,197	$ 31,576

The following table summarizes information related to derivatives:

	June 30, 2013	December 31, 2012
Cash flow hedges		
Notional amount of interest rate swap agreements	$ 105,749	$ 154,450
Amount of (loss) recognized in OCI on effective portion	(8,437)	(12,050)
Deferred hedge gain (loss) related to anticipated financings,which have subsequently occurred, net of amortization	204	237
Deferred hedge gain (loss) related to dedesignation,net of amortization	(179)	(210)
Expected reclassification of deferred hedges from AOCI intoearnings over the next 12 months	6	4
Expected reclassification of current hedges from AOCI intoearnings over the next 12 months	(4,537)	(6,259)
Non-hedge Derivatives		
Notional amount of interest rate swap agreements	186,140	294,203
Notional amount of interest rate cap agreements	23,400	23,400
Notional amount of linked transactions (A)	116,806	—

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

(dollars in tables in thousands, except share data)

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

	Income statement location	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flow hedges					
Gain (loss) on the ineffective portion	Other income (loss)	$ —	$ 453	$ —	$ 483
Gain (loss) immediately recognized at dedesignation	Gain (loss) on sale of investments; Other income (loss)	—	(6,760)	—	(7,036)
Amount of gain (loss) reclassified from AOCI into income, related to effective portion	Interest expense	(1,703)	(10,290)	(3,568)	(20,936)
Deferred hedge gain reclassified from AOCI into income, related to anticipated financings	Interest expense	17	15	33	30
Deferred hedge gain (loss) reclassified from AOCI into income, related to effective portion of dedesignated hedges	Interest expense	(16)	456	(32)	898
Non-hedge derivatives gain (loss)					
Interest rate swaps	Other income (loss)	2,282	2,021	5,408	4,077
Linked transactions	Interest expense	(8)	—	(8)	—

The following table presents both gross information and net information about linked transactions as of June 30, 2013:

Real estate securities-available for sale (A)	$ 103,140
Repurchase agreements (B)	(59,968)
Net assets recognized as linked transactions	$ 43,172

(A) Represents the fair value of the securities accounted for as part of linked transactions at June 30, 2013.
(B) Represents the carrying value, which approximates fair value, of the repurchase agreements accounted for as part of linked transactions at June 30, 2013.

(dollars in tables in thousands, except share data)

Liabilities for Which Fair Value is Only Disclosed

The following table summarizes the level of the fair value hierarchy, valuation techniques and inputs used for estimating each class of liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed:

Type of Liabilities Not Measured At Fair Value for Which Fair Value Is Disclosed	Fair Value Hierarchy	Valuation Techniques and Significant Inputs
CDO bonds payable	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: • Underlying security and loan prepayment, default and cumulative loss expectations • Amount and timing of expected future cash flows • Market yields and credit spreads implied by comparisons to transactions of similar tranches of CDO debt by the varying levels of subordination
Other bonds and notes payable	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: • Amount and timing of expected future cash flows • Interest rates • Broker quotations • Market yields and credit spreads implied by comparisons to transactions of similar tranches of securitized debt by the varying levels of subordination
Repurchase agreements	Level 2	Valuation technique is based on market comparables. Significant variables include: • Amount and timing of expected future cash flows • Interest rates • Collateral funding spreads
Mortgage notes payable	Level 3	Valuation technique is based on discounted cash flows. Significant inputs include: • Amount and timing of expected future cash flows • Interest rates • Collateral funding spreads
Junior subordinated notes payable	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: • Amount and timing of expected future cash flows • Interest rates • Market yields and the credit spread of Newcastle

10. EQUITY AND EARNINGS PER SHARE

A. Stockholder's Equity

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

In January 2013, Newcastle issued 57,500,000 shares of its common stock in a public offering at a price to the public of $9.35 per share for net proceeds of approximately $526.2 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 213,900 shares at a price of $9.35 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 5,750,000 shares of Newcastle's common stock at a price of $9.35, which had a fair value of approximately $18.0 million as of the grant date. The assumptions used in valuing the options were: a 2.0% risk-free rate, an 8.8% dividend yield, 56.2% volatility and a 10 year term.

(dollars in tables in thousands, except share data)

In February 2013, Newcastle issued 23,000,000 shares of its common stock in a public offering at a price to the underwriters of $10.34 per share for net proceeds of approximately $237.4 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 191,000 shares at a price of $10.48 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 2,300,000 shares of Newcastle's common stock at a price of $10.48, which had a fair value of approximately $8.4 million as of the grant date. The assumptions used in valuing the options were: a 2.1% risk-free rate, a 7.8% dividend yield, 55.5% volatility and a 10 year term.

In June 2013, Newcastle issued 40,250,000 shares of its common stock in a public offering at a price to the underwriters of $4.92 per share for net proceeds of approximately $197.6 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 750,000 shares at a price of $4.97 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 4,025,000 shares of Newcastle's common stock at a price of $4.97, which had a fair value of approximately $3.8 million as of the grant date. The assumptions used in valuing the options were: a 2.5% risk-free rate, an 8.8% dividend yield, 36.9% volatility and a 10 year term.

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

Newcastle's outstanding options at May 15, 2013 following the spin-off consisted of the following:

	Number of Options	Strike Price	Maturity Date
	6,000	$ 7.75	5/30/2013
	116,380	9.05	7/16/2013
	304,604	10.18	12/1/2013
	328,350	11.74	1/9/2014
	343,275	11.49	5/25/2014
	162,500	14.05	11/22/2014
	330,000	13.24	1/12/2015
	2,000	13.83	8/1/2015
	170,000	13.16	11/1/2016
	242,000	14.01	1/23/2017
	456,000	12.40	4/11/2017
	1,676,833	2.72	3/29/2021
	2,539,833	2.07	9/27/2021
	2,000	2.28	12/20/2021
	1,897,500	2.82	4/3/2022
	2,300,000	3.05	5/21/2022
	2,530,000	3.04	7/31/2022
	5,750,000	4.24	1/11/2023
	2,300,000	4.75	2/15/2023
Total W/A	21,457,275	$ 4.43	

As of June 30, 2013, Newcastle's outstanding options were summarized as follows:

Held by the Manager	21,760,338
Issued to the Manager and subsequently transferred tocertain of the Manager's employees	3,711,937
Issued to the independent directors	4,000
Total	25,476,275

(dollars in tables in thousands, except share data)

Pursuant to Newcastle's Stock Incentive Plan and the additional terms established by resolution of the Board of Directors, each of the Company's non-employee director receives an annual award of Newcastle's Common Stock effective on the first business day after Newcastle's annual meeting of stockholders, which for 2013 are valued at $50,000 based on the per share closing price of Newcastle's Common Stock on the New York Stock Exchange on the date of such grant. Accordingly, in June 2013 each such director received 9,025 shares of Common Stock.

B. Earnings Per Share

Newcastle is required to present both basic and diluted earnings per share ("EPS"). Basic EPS is calculated by dividing net income available for common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted EPS is calculated by dividing net income available for 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 six months ended June 30, 2013 and 2012, based on the treasury stock method, Newcastle had 5,558,512 and 773,356 dilutive common stock equivalents, respectively, resulting from its outstanding options. During the three months ended June 30, 2013 and 2012, based on the treasury stock method, Newcastle had 6,167,876 and 1,057,618 dilutive common stock equivalents, respectively, resulting from its outstanding options. Net income available for common stockholders is equal to net income less preferred dividends.

11. COMMITMENTS AND CONTINGENCIES

Litigation — Newcastle is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions, individually and in the aggregate, that existed at June 30, 2013, if any, will not materially affect Newcastle's consolidated results of operations or financial position.

Capital Commitments — As of June 30, 2013, Newcastle had committed to purchase from third parties approximately $84.9 million face amount of debt issued by a portfolio company of a private equity fund managed by an affiliate of Newcastle's manager, which is in the media industry, for approximately $32.9 million, but had not yet settled these purchases as of June 30, 2013 (see Note 5).

See Note 15 for additional senior living and other acquisition related commitments.

12. GAIN (LOSSES) ON SETTLEMENT OF INVESTMENTS, NET AND OTHER INCOME (LOSS), NET

These items are comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Gain (loss) on settlement of investments, net				
Gain on settlement of real estate securities	$ 8,209	$ 2,913	$ 8,209	$ 9,685
Loss on settlement of real estate securities	(3,592)	(4,090)	(3,592)	(4,425)
Loss on repayment/disposition of loans held-for-sale	(354)	—	(354)	—
Gain on termination of derivative	813	—	813	—
Loss on disposal of long-lived assets	(10)	—	(13)	(1,614)
	$ 5,066	$ (1,177)	$ 5,063	$ 3,646
Other income (loss), net				
Gain (loss) on non-hedge derivative instruments	$ 2,282	$ 2,021	$ 5,408	$ 4,077
Unrealized (loss) recognized at de-designation of hedges	—	(6,760)	—	(7,036)
Hedge ineffectiveness	—	453	—	483
Collateral management fee income, net	336	463	688	976
Other income (loss)	406	79	1,495	726
	$ 3,024	$ (3,744)	$ 7,591	$ (774)

(dollars in tables in thousands, except share data)

13. 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 June 30, 2013	Six Months Ended June 30, 2013
Net realized gain (loss) on securities			
Impairment	Other-than-temporary impairment on securities, net of portion of other-than-temporary impairment on securities recognized in other comppprehensive income	$ (3,910)	$ (4,449)
Gain on settlement of real estate securities	Gain (loss) on settlement of investments, net	8,209	8,209
Loss on settlement of real estate securities	Gain (loss) on settlement of investments, net	(3,592)	(3,592)
		$ 707	$ 168
Net realized gain (loss) on derivatives designated as cash flow hedges			
Gain (loss) recognized upon de-designation	Other income (loss)	$ —	$ —
Hedge ineffectiveness	Other income (loss)	—	—
Amortization of deferred gain (loss)	Interest expense	1	1
Gain (loss) reclassified from AOCI into income, related to effective portion	Interest expense	(1,703)	(3,568)
Gain (loss) of termination of derivative instruments	Gain (loss) on settlement of investments, net	—	—
		$ (1,702)	$ (3,567)
Total reclassifications		$ (995)	$ (3,399)

14. 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:

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Restricted cash generated from sale of securities	$ 135,900	$ 13,965
Restricted cash generated from sale of loans	$ 9,318	$ —
Restricted cash generated from paydowns on securities and loans	$ 179,583	$ 107,340
Restricted cash used for purchases of real estate securities	$ —	$ 37,598
Restricted cash used for purchases of real estate related and other loans	$ —	$ 91,481
Restricted cash used for repayments of CDO bonds payable	$ 235,883	$ 22,415
Restricted cash used for purchases of derivative instruments	$ —	$ 168
Restricted cash used for settlement of derivative instruments	$ 1,563	$ —
Restricted cash used to return margin collateral	$ —	$ 1,267

15. RECENT ACTIVITIES

On June 28, 2013, Newcastle entered into an agreement to acquire all of the stock of a media company, which has a business similar to a company in which Newcastle has an existing loan investment, for a purchase price of approximately $82.0 million plus acquisition-related costs. The acquisition is expected to close in the third quarter of 2013.

(dollars in tables in thousands, except share data)

In July 2013 and August 2013, Newcastle completed the acquisitions of senior living assets located in New York, Florida, North Carolina and Pennsylvania. Each of these acquisitions was accounted for as a business combination, under which all assets acquired and liabilities assumed are recognized at their acquisition-date fair value with acquisition-related costs being expensed as incurred. For certain properties, Newcastle has retained a portfolio company of a private equity fund managed by an affiliate of the Manager to manage the properties. Pursuant to the management agreements, Newcastle pays management fees equal to (i) 5% of the property's effective gross income (as defined in the agreements) or (ii) management fees equal to 6% of the property's effective gross income (as defined in the agreements) for the first two years and 7% thereafter. For the other property acquired, Newcastle has retained an affiliate of the Manager to manage the properties. Pursuant to the management agreement, Newcastle pays management fees equal to 6% of the property's effective gross income (as defined in the agreement) for the first two years and 7% thereafter. In addition, Newcastle will reimburse the property manager for certain expenses, primarily the compensation expense associated with the on-site employees. The following table provides additional information relating to these acquisitions:

Portfolio	Acquisition Date	Location	Number of Communities	Number of Beds	Purchase Price	Outstanding Debt (A)	Final Stated Maturity	Funding Cost	
Woodside (B)	July 25, 2013	New York	1	100+	$ 18,900	$ 14,100	August 2016	LIBOR + 3.75%	(D)
Florida (B)	August 1, 2013	Florida/North Carolina	15	2,000+	$ 200,050	$ 93,364	July 2018	LIBOR + 3.75%	(D)
						$ 52,875	April 2020	5.50% to 6.76%	(E)
Glen Riddle (C)	August 1, 2013	Pennsylvania	1	100+	$ 21,150	$ 16,875	October 2017	LIBOR + 3.75%	(D)

(A) Investments are financed with non-recourse debt.
(B) Managed by a portfolio company of a private equity fund managed by an affiliate of the Manager.
(C) Managed by an affiliate of the Manager.
(D) These financings have a LIBOR floor of 1%.
(E) Fixed rate loans that Newcastle assumed from the seller upon acquisition. In this transaction, Newcastle bought down the interest rate for each assumed loan to 4% for the first two years

In June 2013, Newcastle entered into purchase and sale agreements to acquire two senior living assets for purchase prices of approximately $16.5 million and $18.5 million, respectively, plus acquisition-related costs. The assets comprise more than 300 beds in senior living facilities located in Florida and Pennsylvania.

16. PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information was derived from the application of pro forma adjustments to the consolidated financial statements of Newcastle. This unaudited pro forma condensed consolidated statement of operations should be read in conjunction with the other information contained in these financial statements and related notes and with Newcastle's historical consolidated financial statements.

The unaudited pro forma information set forth below reflects the historical information of Newcastle, as adjusted to give effect to the New Residential spin-off transaction.

The unaudited pro forma condensed consolidated statement of operations gives effect to the spin-off of New Residential as if the spin-off had occurred on January 1, 2012 based on New Residential's historical consolidated statement of operations.

In the opinion of management, all adjustments necessary to reflect the effects of the transaction described above have been included and are based upon available information and assumptions that Newcastle believes are reasonable.

Further, the historical financial information presented herein has been adjusted to give pro forma effect to events that Newcastle believes are factually supportable and which are expected to have a continuing impact on Newcastle's results. However, such adjustments are estimates and may not prove to be accurate. Information regarding these adjustments is subject to risks and uncertainties that could cause actual results to differ materially from those anticipated.

These unaudited pro forma condensed consolidated financial statements are provided for information purposes only. The unaudited pro forma condensed consolidated statement of operations does not purport to represent what Newcastle's results of operations would have been had such transactions been consummated on the date indicated, nor does it represent the results of operations of either Newcastle or New Residential for any future date or period.

(dollars in tables in thousands, except share data)

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Three Months Ended June 30, 2013

	Newcastle Consolidated Historical (A)	Pro Forma Adjustments New Residential (B)	Newcastle Consolidated Pro Forma
Interest income	$ 62,824	$ (5,863)	$ 56,961
Interest expense	21,998	(1,253)	20,745
Net interest income	40,826	(4,610)	36,216
Impairment/(Reversal)			
Valuation allowance (reversal) on loans	(709)	—	(709)
Other-than-temporary impairment on securities	3,430	(3,756)	(326)
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)	480	—	480
	3,201	(3,756)	(555)
Net interest income after impairment/reversal	37,625	(854)	36,771
Other Revenues			
Rental income	11,721	—	11,721
Care and ancillary income	2,292	—	2,292
Total other revenues	14,013	—	14,013
Other Income (Loss)			
Gain (loss) on settlement of investments, net	5,066	(58)	5,008
Gain on extinguishment of debt	—	—	-
Other income (loss), net	3,024	—	3,024
	8,090	(58)	8,032
Expenses			
Loan and security servicing expense	1,021	(115)	906
Property operating expenses	8,409	—	8,409
General and administrative expense	9,938	(26)	9,912
Management fee to affiliate	8,148	(1,809)	6,339
Depreciation and amortization	4,070	—	4,070
	31,586	(1,950)	29,636
Income from continuing operations	28,142	1,038	29,180
Preferred dividends	(1,395)	—	(1,395)
Income from continuing operations after preferred dividends	$ 26,747	$ 1,038	$ 27,785
Income from continuing operations per share of common stock, after preferred dividends			
Basic	$ 0.10		$ 0.11
Diluted	$ 0.10		$ 0.10
Weighted Average Number of Shares of Common Stock Outstanding			
Basic	259,228,343		259,228,343
Diluted	265,396,219		265,396,219

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Six Months Ended June 30, 2013

	Newcastle Consolidated Historical (A)	Pro Forma Adjustments New Residential (B)	Newcastle Consolidated Pro Forma
Interest income	$ 124,156	$ (12,019)	$ 112,137
Interest expense	44,708	(2,152)	42,556
Net interest income	79,448	(9,867)	69,581
Impairment/(Reversal)			
Valuation allowance (reversal) on loans	1,525	—	1,525
Other-than-temporary impairment on securities	4,405	(3,756)	649
Portion of other-than-temporary impairment on securities recognized in other comprehensive income (loss), net of the reversal of other comprehensive loss into net income (loss)	44	—	44
	5,974	(3,756)	2,218
Net interest income after impairment/reversal	73,474	(6,111)	67,363
Other Revenues			
Rental income	23,195	—	23,195
Care and ancillary income	4,318	—	4,318
Total other revenues	27,513	—	27,513
Other Income (Loss)			
Gain (loss) on settlement of investments, net	5,063	(58)	5,005
Gain on extinguishment of debt	1,206	—	1,206
Other income (loss), net	7,591	—	7,591
	13,860	(58)	13,802
Expenses			
Loan and security servicing expense	2,055	(108)	1,947
Property operating expenses	16,772	—	16,772
General and administrative expense	14,151	(38)	14,113
Management fee to affiliate	17,713	(4,134)	13,579
Depreciation and amortization	8,149	—	8,149
	58,840	(4,280)	54,560
Income from continuing operations	56,007	(1,889)	54,118
Preferred dividends	(2,790)	—	(2,790)
Income from continuing operations after preferred dividends	$ 53,217	$ (1,889)	$ 51,328
Income from continuing operations per share of common stock, after preferred dividends			
Basic	$ 0.22		$ 0.21
Diluted	$ 0.21		$ 0.20
Weighted Average Number of Shares of Common Stock Outstanding			
Basic	247,249,101		247,249,101
Diluted	252,807,613		252,807,613

(A) Represents Newcastle's historical consolidated statement of operations for the three and six months ended June 30, 2013.

(B) Represents the portion of New Residential's historical consolidated statement of operations for the period from April 1, 2013 to May 15, 2013 and from January 1, 2013 to May 15, 2013 that is not included in Newcastle's income (loss) from discontinued operations.

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. 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 that focuses on opportunistically investing in, and actively managing, a variety of real estate related and other investments. We actively manage a portfolio of real estate related securities, real estate related and other loans, senior living facilities and other assets. Our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets. Our objective is to maximize the difference between the yield on our investments and the cost of financing these investments. We often seek to hedge our interest rate risk. We emphasize portfolio management, asset quality, liquidity, diversification, match funded financing and credit risk management.

We are externally managed and advised by our manager, FIG LLC, an affiliate of Fortress Investment Group LLC ("Fortress"). Fortress is a leading global investment manager with approximately $54.6 billion in assets under management as of June 30, 2013. Through our manager, we have a team of senior investment professionals experienced in real estate capital markets, structured finance and asset management. We believe that these critical skills position us well not only to make prudent investment decisions but also to monitor and manage the credit profile of our investments.

On May 15, 2013, we spun off certain of our investments to New Residential Investment Corp. ("New Residential"), a new publicly traded REIT primarily focused on investing in residential mortgage related assets. We contributed to New Residential all of our investments in excess mortgage servicing rights ("Excess MSRs"), the non-Agency RMBS we had acquired since the second quarter of 2012, certain Agency ARM RMBS, the residential mortgage loans we had acquired since the beginning of 2013, our interest in a portfolio of consumer loans, and a cash and cash equivalents balance of $181.6 million. The spin-off was effected as a taxable pro rata distribution by Newcastle of all of the outstanding shares of common stock of New Residential to our common stockholders of record at the close of business on May 6, 2013. The distribution ratio was one share of New Residential common stock for each share of Newcastle common stock.

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

For the Six Months Ended June 30,	Non-recourse Senior Living	Non-Recourse CDOs	Unlevered CDOs	Non-Recourse Other	Recourse	Unlevered Other	Corporate	Inter-segment Elimination	Total
2013	$ 26,510	$ 68,227	$ 326	$ 33,777	$ 9,783	$ 14,875	$ 102	$ (1,931)	$ 151,669 (1)
2012	$ —	$ 110,440	$ 230	$ 37,487	$ 1,768	$ 4,851	$ 103	$ (3,037)	$ 151,842 (1)

(1) Excludes $15.1 million and $6.5 million of revenue for the six months ended June 30, 2013 and 2012, respectively, from Excess MSRs which, as previously stated, were spun-off.

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 spin-off of New Residential.

Market Considerations

Our ability to generate income is dependent on, among various 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. In the first half of 2013, we successfully accessed the capital markets, issuing 120,750,000 shares for a total net proceeds of $961.3 million. However, rising interest rates or stock market volatility could impair our ability to raise equity capital on attractive terms.

Interest rates have risen significantly in recent months and may continue to increase, although the timing of 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 floating rate assets would not be significantly affected by a changes 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.

Our senior living acquisitions have been financed with a combination of fixed and floating rate debt. Rising interest rates would increase the cost of our floating rate financing and negatively impact the returns on our senior living investments. In our view, the senior living sector continues to present an attractive investment opportunity. We believe projected demand for senior living facilities based on changing demographics and limited new supply creates favorable supply-demand fundamentals. In addition, we avoid pricing competition with other active REIT buyers of large portfolios by targeting smaller high-quality but under-performing portfolios with competitive pricing fundamentals. We expect to capitalize on our manager's experience in the sector to generate growth in property-level net operating income through the implementation of operational and structural efficiencies.

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

APPLICATION OF CRITICAL ACCOUNTING POLICIES

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

Variable Interest Entities

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

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

Our subprime securitizations are also considered VIEs, but we do not control their activities and no longer receive a significant portion of their returns, and therefore do not consolidate them.

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

Valuation of Securities

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

See Note 9 to our consolidated financial statements in Part I, Item 1, "Financial Statements" for information regarding the fair value of our investments, and its estimation methodology, as of June 30, 2013.

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

We generally classify the broker and pricing service quotations we receive as level 3A inputs, except for certain liquid securities. They are quoted prices in generally inactive and illiquid markets for identical or similar securities. These quotations are generally received via email and contain disclaimers which state that they are "indicative" and not "actionable" – meaning that the party giving the quotation is not bound to actually purchase the security at the quoted price. These quotations are generally based on models prepared by the brokers, and we have little visibility into the inputs they use. Based on quarterly procedures we have performed with respect to quotations received from these brokers, including comparison to the outputs generated from our internal pricing models and transactions we have completed with respect to these securities, as well as on our knowledge and experience of these markets, we have generally determined that these quotes represent a reasonable estimate of fair value. For the $728.1 million carrying value of securities valued using quotations as of June 30, 2013, a 100 basis point change in credit spreads would impact estimated fair value by approximately $14.4 million.

Our estimation of the fair value of level 3B assets (as described below) involves significant judgment. We validated the inputs and outputs of our models by comparing them to available independent third party market parameters, where available, and models for reasonableness. We believe the assumptions we used are within the range that a market participant would use and factor in the liquidity conditions currently in the markets. In the period ended June 30, 2013, the inputs to our models, including discount rates, prepayment speeds, default rates and severity assumptions, have generally remained consistent with the assumptions used at December 31, 2012, other than certain modifications we have made to the assumptions to reflect conditions relevant to specific assets.

For CMBS and ABS valued with internal models, which have an aggregate fair value of $37.1 million as of June 30, 2013, a 10% unfavorable change in our assumptions would result in the following decreases in such aggregate fair value (in thousands):

	CMBS	ABS
Outstanding face amount	$ 94,506	$ 61,740
Fair value	$ 26,061	$ 11,047
Effect on fair value with 10% unfavorable change in:		
Discount rate	$ (423)	$ (459)
Prepayment rate	N/A	$ (138)
Default rate	$ (5,072)	$ (84)
Loss severity	$ (1,325)	$ (396)

Impairment of Securities

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

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

As of June 30, 2013, we had 7 securities with a carrying amount of $13.0 million that had been downgraded during the period ended June 30, 2013. We did not record a net other-than-temporary impairment charge on these securities in the period ended June 30, 2013. However, we do not depend on credit ratings in underwriting our securities, either at acquisition or on an ongoing basis. As mentioned above, a credit rating downgrade is one factor that we monitor and consider in our analysis regarding other-than-temporary impairment, but it is not determinative. Our securities generally benefit from the support of one or more subordinate classes of securities or equity or other forms of credit support. Therefore, credit rating downgrades, even to the extent they relate to an expectation that a securitization we have invested in, on an overall basis, has credit issues, may not ultimately impact cash flow estimates for the class of securities in which we are invested.

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

Revenue Recognition on Securities

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

Valuation of Derivatives

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

Loans

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

Impairment of Loans

To the extent that they are classified as held for investment, we must periodically evaluate each of these loans or loan pools for possible impairment. Impairment is indicated when it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the loan, or, for loans acquired at a discount for credit losses, when it is deemed probable that we will be unable to collect as anticipated. Upon determination of impairment, we would establish a specific valuation allowance with a corresponding charge to earnings. We continually evaluate our loans receivable for impairment.

Our residential mortgage loans, including manufactured housing loans, are aggregated into pools for evaluation based on like characteristics, such as loan type and acquisition date. Individual loans are evaluated based on an analysis of the borrower's performance, the credit rating of the borrower, debt service coverage and loan to value ratios, the estimated value of the underlying collateral, the key terms of the loan, and the effect of local, industry and broader economic trends and factors. Pools of loans are also evaluated based on similar criteria, including historical and anticipated trends in defaults and loss severities for the type and seasoning of loans being evaluated. This information is used to estimate specific impairment charges on individual loans as well as provisions for estimated unidentified incurred losses on pools of loans.

Significant judgment is required both in determining impairment and in estimating the resulting loss allowance. Furthermore, we must assess our intent and ability to hold our loan investments on a periodic basis. If we do not have the intent to hold a loan for the foreseeable future or until its expected payoff, the loan must be classified as "held for sale" and recorded at the lower of cost or estimated value.

Revenue Recognition on Loans Held for Investment

Income on these loans is recognized similarly to that on our securities and is subject to similar uncertainties and contingencies, which are also analyzed on at least a quarterly basis. For loans acquired at a discount for credit losses, the net income recognized is based on a "loss adjusted yield" whereby a gross interest yield is recorded to Interest Income, offset by a provision for probable, incurred credit losses which is accrued on a periodic basis to Valuation Allowance. The provision is determined based on an evaluation of the loans as described under "– Impairment of Loans" above.

Revenue Recognition on Loans Held for Sale

Real estate related, commercial mortgage and residential mortgage loans that are considered held for sale are carried at the lower of amortized cost or market value determined on either an individual method basis, or in the aggregate for pools of similar loans. Interest income is recognized based on the loan's coupon rate to the extent management believes it is collectable. Purchase discounts are not amortized as interest income during the period the loan is held for sale. A change in the market value of the loan, to the extent that the value is not above the average cost basis, is recorded in Valuation Allowance.

Purchase Accounting

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

Impairment of Investments in Real Estate and Residential Lease Intangibles

We own senior living assets held for investment. Intangibles and long-lived assets are tested for potential impairment annually or when changes in circumstances indicate the carrying value may not be recoverable. Indicators of impairment include material adverse changes in the projected revenues and expenses, significant underperformance relative to historical or projected future operating results, and significant negative industry or economic trends. An impairment is determined to have occurred if the future net undiscounted cash flows expected to be generated is less than the carrying value of an asset.

The impairment is measured as the difference between the carrying value and the fair value. Significant judgment is required both in determining impairment and in estimating the fair value. We may use assumptions and estimates derived from a review of our operating results, business projections, expected growth rates, discount rates, and tax rates. We also make certain assumptions about future economic conditions, interest rates, and other market data. Many of the factors used in these assumptions and estimates are outside the control of management, and can change in future periods.

Rental Income, Care and Ancillary Income

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

Recent Accounting Pronouncements

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

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

RESULTS OF OPERATIONS

The following table summarizes the changes in our results of operations for the three and six months ended June 30, 2013 compared to the three and six months ended June 30, 2012 (dollars in thousands):

	Three Months Ended June 30,		Increase (Decrease)	
	2013	2012	Amount	%
Interest income	$ 62,824	$ 77,956	(15,132)	(19.4%)
Interest expense	21,998	29,462	(7,464)	(25.3%)
Net interest income	40,826	48,494	(7,668)	(15.8%)
Impairment (Reversal)				
Valuation allowance (reversal) on loans	(709)	(3,223)	2,514	78.0%
Other-than-temporary impairment on securities, net	3,910	11,722	(7,812)	(66.6%)
	3,201	8,499	(5,298)	(62.3%)
Net interest income (loss) after impairment/reversal	37,625	39,995	(2,370)	(5.9%)
Other Revenues	14,013	515	13,498	N.M.
Other Income (Loss)				
Gain (loss) on settlement of investments, net	5,066	(1,177)	6,243	530.4%
Gain on extinguishment of debt	—	39	(39)	(100.0%)
Other income (loss), net	3,024	(3,744)	6,768	180.8%
	8,090	(4,882)	12,972	265.7%
Expenses				
Loan and security servicing expense	1,021	1,104	(83)	(7.5%)
Property operating expenses	8,409	231	8,178	N.M.
General and administrative expense	9,938	4,841	5,097	105.3%
Management fee to affiliate	8,148	5,631	2,517	44.7%
Depreciation and amortization	4,070	2	4,068	N.M.
	31,586	11,809	19,777	167.5%
Income (loss) from continuing operations	$ 28,142	$ 23,819	$ 4,323	18.1%

	Six Months Ended June 30,		Increase (Decrease)	
	2013	2012	Amount	%
Interest income	$ 124,156	$ 150,818	(26,662)	(17.7%)
Interest expense	44,708	59,627	(14,919)	(25.0%)
Net interest income	79,448	91,191	(11,743)	(12.9%)
Impairment (Reversal)				
Valuation allowance (reversal) on loans	1,525	(12,254)	13,779	112.4%
Other-than-temporary impairment on securities, net	4,449	13,673	(9,224)	(67.5%)
	5,974	1,419	4,555	321.0%
Net interest income (loss) after impairment/reversal	73,474	89,772	(16,298)	(18.2%)
Other Revenues	27,513	1,024	26,489	N.M.
Other Income (Loss)				
Gain (loss) on settlement of investments, net	5,063	3,646	1,417	38.9%
Gain on extinguishment of debt	1,206	20,782	(19,576)	(94.2%)
Other income (loss), net	7,591	(774)	8,365	1080.7%
	13,860	23,654	(9,794)	(41.4%)
Expenses				
Loan and security servicing expense	2,055	2,202	(147)	(6.7%)
Property operating expenses	16,772	457	16,315	N.M.
General and administrative expense	14,151	7,003	7,148	102.1%
Management fee to affiliate	17,713	10,607	7,106	67.0%
Depreciation and amortization	8,149	4	8,145	N.M.
	58,840	20,273	38,567	190.2%
Income (loss) from continuing operations	$ 56,007	$ 94,177	$ (38,170)	(40.5%)

N.M. – Not meaningful.

Interest Income

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

Interest income decreased by $15.1 million during the six months ended June 30, 2013 as compared to the six months ended June 30, 2012 primarily due to (i) a $23.0 million net decrease in interest income as a result of the deconsolidation of CDO X in September 2012, (ii) a $1.4 million decrease in interest income as a result of the sale of the assets in CDO IV in May 2013 and (iii) a $0.7 million decrease in interest income from loan paydowns, partially offset by (i) a $4.6 million net increase in interest income as a result of new investments including investments that were spun-off on May 15, 2013 and (ii) a $5.4 million net increase due to the recognition of interest income related to the discount on a loan that was paid off during the three months ended June 30, 2013.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

Interest income decreased by $26.7 million during the six months ended June 30, 2013 as compared to the six months ended June 30, 2012 primarily due to (i) a $46.4 million net decrease in interest income as a result of the deconsolidation of CDO X in September 2012, (ii) a $1.4 million decrease in interest income as a result of the sale of the assets in CDO IV in May 2013 and (iii) a $2.1 million decrease in interest income from loan paydowns, partially offset by (i) a $17.8 million net increase in interest income as a result of new investments including investments that were spun-off on May 15, 2013 and (ii) a $5.4 million net increase due to the recognition of interest income related to the discount on a loan that was paid off during the six months ended June 30, 2013.

Interest Expense

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

Interest expense decreased by $7.5 million primarily due to (i) a $1.9 million decrease in interest expense on debt as a result of the paydowns and repurchases of our CDO debt obligations and the deconsolidation of CDO X in September 2012 and (ii) an $8.8 million decrease in interest expense on derivatives as a result of the termination of interest rate swaps, decreases in swap notional amounts, and changes in interest rates. The decreases described above were partially offset by a $1.3 million increase in mortgage interest expense as a result of the acquisition of senior living assets in 2012 and a $1.9 million net increase in interest expense primarily due to a higher outstanding balance of repurchase agreement financing on our FNMA/FHLMC securities and non-agency RMBS.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

Interest expense decreased by $14.9 million primarily due to (i) a $4.1 million decrease in interest expense on debt as a result of the paydowns and repurchases of our CDO debt obligations and the deconsolidation of CDO X in September 2012 and (ii) a $17.2 million decrease in interest expense on derivatives as a result of the termination of interest rate swaps, decreases in swap notional amounts, and changes in interest rates. The decreases described above were partially offset by a $2.5 million increase in mortgage interest expense as a result of the acquisition of senior living assets in 2012 and a $3.9 million net increase in interest expense primarily due to a higher outstanding balance of repurchase agreement financing on our FNMA/FHLMC securities and non-agency RMBS.

Valuation Allowance (Reversal) on Loans

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

The valuation allowance (reversal) on loans changed by $2.5 million primarily due to a $4.7 million change related to our real estate and other loans during the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. This change was a result of write-downs recorded in the 2013 period as compared to a reversal of the valuation allowance recorded during the 2012 period as a result of the general improvement in market conditions during the 2012 period. This change was partially offset by a $2.2 million lower net valuation allowance on our manufactured housing loans and residential mortgage loans in the 2013 period than in the 2012 period as a result of market conditions improving more in the 2013 period than in the 2012 period.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

The valuation allowance (reversal) on loans changed by $13.8 million primarily due to a $16.7 million change related to our real estate and other loans during the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. This change was a result of write-downs recorded in the 2013 period as compared to a reversal of the valuation allowance recorded during the 2012 period as a result of the general improvement in market conditions during the 2012 period. This change was partially offset by a $2.9 million lower net valuation allowance on our manufactured housing loans and residential mortgage loans in the 2013 period than in the 2012 period as a result of market conditions improving more in the 2013 period than in the 2012 period.

Other-than-temporary Impairment on Securities, Net

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

The other-than-temporary impairment on securities decreased $7.8 million primarily due to market conditions improving in the quarter ended June 2013. We recorded an impairment charge of $0.1 million on 3 securities which were not part of the spin-off during the quarter ended June 30, 2013, compared to an impairment charge of $11.7 million on 8 securities during the quarter ended June 30, 2012. This was partially offset by $3.8 million of impairment recognized during the three months ended June 30, 2013 on FNMA/FHLMC securities and non-Agency RMBS in connection with the spin-off of New Residential.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

The other-than-temporary impairment on securities decreased $9.2 million primarily due to market conditions improving in 2013. We recorded an impairment charge of $0.7 million on 4 securities which were not part of the spin-off during the six months ended June 30, 2013, compared to an impairment charge of $13.7 million on 10 securities during the six months ended June 30, 2012. This was partially offset by $3.8 million of impairment recognized during the six months ended June 30, 2013 on FNMA/FHLMC securities and non-Agency RMBS in connection with the spin-off of New Residential.

Other Revenues

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

The other revenues increased by $13.5 million primarily due to the acquisitions of the senior living assets since July 2012.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

The other revenues increased by $26.5 million primarily due to the acquisitions of the senior living assets since July 2012.

Gain (Loss) on Settlement of Investments, Net

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

The net gain on settlement of investments increased $6.2 million. During the three months ended June 30, 2013, as part of the sale of the assets in CDO IV in May 2013, Newcastle recorded a gain of $4.2 million on the sale of the assets and a $0.8 million gain on the CDO IV hedge termination. During the three months ended June 30, 2012, we recorded a net loss of $1.2 million on 10 securities that were sold during the quarter.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

The net gain on settlement of investments increased $1.4 million. During the six months ended June 30, 2013, as part of the sale of the assets in CDO IV in May 2013, Newcastle recorded a gain of $4.2 million on the sale of the assets and a $0.8 million gain on the CDO IV hedge termination. During the six months ended June 30, 2012, we recorded a net gain of $3.6 million on 20 securities that were sold during the period.

Gain (Loss) on Extinguishment of Debt

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

There were no significant gains recorded on the extinguishment of debt in either period.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

The gain on extinguishment of debt decreased by $19.6 million due to a lower face amount and a higher average price of debt repurchased in the six months ended June 30, 2013 compared to the six months ended June 30, 2012. We repurchased $10.9 million face amount of our own CDO debt at an average price of 88.8% of par during the six months ended June 30, 2013 compared to $30.1 million face amount of CDO bonds and other bonds payable repurchased at an average price of 30.5% of par during the six months ended June 30, 2012.

Other Income (Loss), Net

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

Other income increased by $6.8 million primarily due to unrealized losses recognized on certain interest rate swap agreements that were de-designated as accounting hedges during the quarter ended June 30, 2012.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

Other income increased by $8.4 million primarily due to (i) $7.0 million of unrealized losses recognized on certain interest rate swap agreements that were de-designated as accounting hedges during the six months ended June 30, 2012 and (ii) a $1.4 million greater increase in the fair value of certain non-hedge interest rate swap agreements as a result of changes in interest rates in the six months ended June 30, 2013 compared to the six months ended June 30, 2012.

Loan and Security Servicing Expense

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

Loan and security servicing expense remained relatively stable during the quarter ended June 30, 2013 compared to the quarter ended June 30, 2012.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

Loan and security servicing expense remained relatively stable during the six months ended June 30, 2013 compared to the six months ended June 30, 2012.

Property Operating Expenses

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

The property operating expenses increased $8.2 million due to the acquisitions of the senior living assets since July 2012.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

The property operating expenses increased $16.3 million due to the acquisitions of the senior living assets since July 2012.

General and Administrative Expense

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

General and administrative expense increased by $5.1 million primarily due to an increase in professional fees related to the New Residential spin-off, the investments in senior living assets and other investments.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

General and administrative expense increased by $7.1 million primarily due to an increase in professional fees related to the New Residential spin-off, the investments in senior living assets and other investments.

Management Fee to Affiliate

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

Management fees increased by $2.5 million primarily due to (i) an increase in gross equity as a result of our public offerings of common stock in 2012 and 2013, and (ii) an increase in property management fees in connection with the acquisitions of senior living assets since July 2012, partially offset by the decrease in gross equity of $1.2 billion due to the New Residential spin-off.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

Management fees increased by $7.1 million primarily due to (i) an increase in gross equity as a result of our public offerings of common stock in 2012 and 2013, and (ii) an increase in property management fees in connection with the acquisitions of senior living assets since July 2012, partially offset by the decrease in gross equity of $1.2 billion due to the New Residential spin-off.

Depreciation and Amortization

Three months ended June 30, 2013 compared to the three months ended June 30, 2012

The depreciation and amortization expense increased $4.1 million due to the acquisitions of the senior living assets since July 2012.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

The depreciation and amortization expense increased $8.1 million due to the acquisitions of the senior living assets since July 2012.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

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

Sources of Liquidity and Uses of Capital

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

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

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

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

Update on Liquidity, Capital Resources and Capital Obligations

Certain details regarding our liquidity, current financings and capital obligations as of August 5, 2013 are set forth below:

- *Unrestricted Cash Available to Invest after Commitments* – We are currently fully invested after commitments;
- *Margin Exposure and Recourse Financings* – We have margin exposure on a $60.0 million repurchase agreement related to the financing of our purchase from a third party financial institution of certain repackaged Newcastle CDO VIII debt (treated as linked transactions) and a $352.4 million repurchase agreement related to the financing of FNMA/FHLMC securities.

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

Recourse Financings	August __,2013	June 30, 2013	December 31, 2012
CDO Securities	$ —	$ —	$ 1,415
Non-agency RMBS	—	—	150,922
Linked transactions	59,968	59,968	—
Non-FNMA/FHLMC recourse financings	59,968	59,968	152,337
FNMA/FHLMC securities (1)	352,361	311,276	772,855
Total recourse financings	$ 412,329	$ 371,244	$ 925,192

(1) The FNMA/FHLMC recourse financing will mature in August 2013.

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

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

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

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

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

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

Investment Portfolio

The following summarizes our consolidated investment portfolio at June 30, 2013 (dollars in millions).

Investment	Outstanding Face Amount	Amortized Cost Basis (1)	Percentage of Total Amortized Cost Basis	Carrying Value	Number of Investments	Credit (2)	Weighted Average Life (years) (3)
Commercial Real Estate Debt & Other Assets							
Commercial Assets							
CMBS	$ 353	$ 227	11.1%	$ 281	51	BB-	3.6
Mezzanine Loans	431	350	17.1%	350	15	80%	1.0
B-Notes	111	94	4.6%	94	4	77%	1.1
Whole Loans	30	30	1.5%	30	2	48%	0.7
CDO Securities (4)	93	66	3.2%	69	5	BB	2.9
Other Investments (5)	68	68	3.3%	68	3	—	—
Total Commercial Assets	1,086	835	40.8%	892			2.1
Residential Assets							
MH and Residential Loans	307	271	13.2%	271	8,316	705	5.8
Non-Agency RMBS	108	42	2.1%	59	34	CCC	4.8
Real Estate ABS	8	—	0.0%	—	1	C	4.4
	423	313	13.3%	330			5.5
FNMA/FHLMC securities	312	329	16.1%	329	39	AAA	3.7
Total Residential Assets	735	642	31.4%	659			4.7
Corporate Assets							
REIT Debt	29	29	1.4%	31	5	BB+	2.1
Corporate Bank Loans	783	363	17.8%	363	7	CC	1.5
Total Corporate Assets	812	392	19.2%	394			1.5
Total Real Estate Debt & Other Assets	2,633	1,869	91.4%	1,945			2.7
Senior Living Properties Investments(6)	188	175	8.6%	175	12	—	--
Total Portfolio/Weighted Average	$ 2,821	$ 2,044	100.0%	$ 2,120			2.7
Reconciliation to GAAP total assets:							
Other Assets							
Subprime mortgage loans subject to call option(7)				406			
Other commercial real estate				7			
Cash and restricted cash				278			
Other				34			
GAAP total assets				$ 2,845			

WA – Weighted average, in all tables.

(1) Net of impairment.

(2) Credit represents the weighted average of minimum rating for rated assets, the loan-to-value ratio (based on the appraised value at the time of purchase or refinancing) for non-rated commercial assets, or the FICO score for non-rated residential assets and an implied AAA rating for FNMA/FHLMC securities. Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current.

(3) Weighted average life is based on the timing of expected principal reduction on the asset.

(4) Represents non-consolidated CDO securities, excluding eight securities with a zero value, which had an aggregate face amount of $108.6 million.

(5) Represents $25 million of equity investment in a real estate owned property and $43 million relating to a linked transaction.

(6) Face amount of senior living property investments represents the gross carrying amount, including intangibles, which excludes accumulated depreciation and amortization.

(7) Our subprime mortgage loans subject to call option are excluded from the statistics because they result from an option, not an obligation, to repurchase such loans, are noneconomic until such option is exercised, and are offset by an equal liability on the consolidated balance sheet.

The following table reflects the spread between the yield and the cost of financing our portfolio of financial instruments at June 30, 2013:

Weighted average asset yield	8.76%
Weighted average funding cost	1.91%
Net interest spread	6.85%

On June 28, 2013, Newcastle entered into an agreement to acquire all of the stock of a media company, which has a business similar to a company in which Newcastle has an existing loan investment. Newcastle expects to invest $47.0 million in equity and obtain $35.0 million in financing to fund the purchase price of approximately $82.0 million. The acquisition is expected to close in the third quarter of 2013.

CMBS

Deal Vintage (A)	Average Minimum Rating (B)	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Delinquency 60+/FC/REO (C)	Principal Subordination (D)	Weighted Average Life (years) (E)
Pre 2004	CCC+	6	$ 14,615	$ 12,813	5.6%	$ 12,433	12.4%	29.8%	1.0
2004	BB+	9	33,703	26,311	11.6%	29,995	2.9%	2.3%	1.9
2005	BB-	9	80,133	31,185	13.7%	59,218	4.3%	6.7%	2.2
2006	B+	16	123,774	72,657	32.0%	86,378	5.9%	7.7%	3.9
2007	CCC+	3	13,237	2,559	1.1%	3,305	5.6%	7.2%	0.9
2010	BB	3	35,000	33,085	14.6%	36,784	0.0%	2.0%	7.3
2011	BB+	5	52,215	48,671	21.4%	53,355	0.0%	3.6%	5.0
Total / WA	BB-	51	$ 352,677	$ 227,281	100.0%	$ 281,468	4.0%	6.7%	3.6

(A) The year in which the securities were issued.
(B) Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. We had no CMBS assets that were on negative watch for possible downgrade by at least one rating agency as of June 30, 2013.
(C) The percentage of underlying loans that are 60+ days delinquent, in foreclosure or considered real estate owned (REO).
(D) The percentage of the outstanding face amount of securities that is subordinate to our investments.
(E) Weighted average life is based on the timing of expected principal reduction on the asset.

Mezzanine Loans, B-Notes and Whole Loans

Asset Type	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Weighted Average First Dollar Loan to Value (A)	Weighted Average Last Dollar to Loan Value (A)	Delinquency (B)
Mezzanine Loans	15	$ 430,584	$ 350,127	73.9%	$ 350,127	69.0%	79.6%	2.8%
B-Notes	4	110,944	94,040	19.8%	94,040	65.4%	76.7%	0.0%
Whole Loans	2	29,923	29,923	6.3%	29,923	0.0%	48.4%	0.0%
Total/WA	21	$ 571,451	$ 474,090	100.0%	$ 474,090	64.7%	77.4%	2.1%

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

CDO Securities (A)

Collateral Manager	Primary Collateral Type	Number	Average Minimum Rating (B)	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Principal Subordination (C)
Third Party	CMBS	1	CC	$ 5,500	$ 3,325	5.0%	$ 3,988	56.7%
Newcastle	CMBS	3	CCC-	17,810	3,190	4.8%	5,440	16.1%
Newcastle	ABS	1	BBB	69,379	59,978	90.2%	60,012	53.2%
TOTAL/WA		5	BB	$ 92,689	$ 66,493	100.0%	$ 69,440	46.3%

(A) Represents non-consolidated CDO securities, excluding eight securities with a zero value, which had an aggregate face amount of $108.6 million.
(B) Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. We had no CDO assets that were on negative watch for possible downgrade by at least one rating agency as of June 30, 2013.
(C) The percentage of the outstanding face amount of securities that is subordinate to our investments.

Manufactured Housing and Residential Loans

Deal	Average FICO Score (A)	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Average Loan Age (years)	Original Balance	Delinquency 90+/FC/REO (B)	Cumulative Loss to Date
Manufactured Housing Loans Portfolio I	702	$ 111,154	$ 93,236	34.4%	$ 93,236	11.6	$ 327,855	0.9%	9.2%
Manufactured Housing Loans Portfolio II	702	143,608	138,022	51.0%	138,022	14.1	434,739	1.4%	7.6%
Residential Loans Portfolio I	719	48,111	35,889	13.3%	35,889	9.8	646,357	11.2%	0.5%
Residential Loans Portfolio II	737	3,775	3,538	1.3%	3,538	8.5	83,950	0.0%	0.0%
Total / WA	705	$ 306,648	$ 270,685	100.0%	$ 270,685	12.5	$ 1,492,901	2.7%	7.0%

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

Non-Agency RMBS (A)

Vintage (B)	Average Minimum Rating (C)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Principal Subordination (D)	Excess Spread (E)
	Security Characteristics							
Pre 2004	D	3	$ 1,247	$ 177	0.4%	$ 627	4.0%	4.5%
2004	CCC	5	8,330	1,367	3.2%	2,768	4.0%	2.4%
2005	CC	17	49,584	7,937	18.8%	14,235	16.5%	3.8%
2006	B+	5	36,558	24,551	58.2%	31,033	41.6%	4.1%
2007	CCC-	4	12,150	8,199	19.4%	10,459	24.6%	4.2%
Total / WA	CCC	34	$ 107,869	$ 42,231	100.0%	$ 59,122	24.8%	3.8%

Vintage (B)	Average Loan Age (years)	Collateral Factor (F)	3 Month CPR (G)	Delinquency (H)	Cumulative Losses to Date
	Collateral Characteristics				
Pre 2004	10.2	0.06	14.5%	16.6%	2.5%
2004	8.9	0.13	13.4%	14.2%	3.3%
2005	8.2	0.20	13.3%	26.9%	11.6%
2006	7.3	0.25	9.5%	21.7%	22.3%
2007	6.5	0.38	11.4%	26.4%	27.0%
Total / WA	7.8	0.23	11.8%	24.0%	16.2%

(A) This includes subprime retained securities in the securitization of Subprime Portfolio I. For further information on this securitization, see Note 5 to our consolidated financial statements included herein.
(B) The year in which the securities were issued.
(C) Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. We had $14.4 million of ABS assets that were on negative watch for possible downgrade by at least one rating agency as of June 30, 2013.
(D) The percentage of the outstanding face amount of securities and residual interests that is subordinate to our investments.
(E) The annualized amount of interest received on the underlying loans in excess of the interest paid on the securities, as a percentage of the outstanding collateral balance.
(F) The ratio of original unpaid principal balance of loans still outstanding.
(G) Three month average constant prepayment rate.
(H) The percentage of underlying loans that are 90+ days delinquent, or in foreclosure or considered real estate owned (REO).

Agency ARM RMBS (FNMA/FHLMC Securities)

						Weighted Average					
								Periodic Cap			
Months to Reset (A)	Number of Securities	Outstanding Face Amount	Amortized Cost Basis (G)	Percentage of Total Amortized Cost Basis	Carrying Value (G)	Coupon	Margin	1st Coupon Adj (B)	Subsequent Coupon Adj (C)	Lifetime Cap (D)	Months to Reset (F)
1-12	26	$ 175,988	$ 185,379	56.4%	$ 187,095	2.54%	1.93%	N/A(E)	2.00%	10.01%	7
13-24	4	53,137	56,430	17.1%	56,119	3.42%	1.82%	5.00%	2.00%	8.43%	22
25-36	8	66,408	70,108	21.3%	69,474	3.16%	1.82%	4.76%	2.00%	8.16%	30
Over 36	1	16,126	16,752	5.2%	16,633	2.51%	1.88%	5.00%	2.00%	7.51%	39
	39	$ 311,659	$ 328,669	100.0%	$ 329,321	2.82%	1.88%	4.88%	2.00%	9.22%	16

(A) Of these investments, 74.4% reset based on 12 month LIBOR index, 22.8% reset based on the 1 year Treasury Constant Maturity Rate and 2.8% reset based on the 12 month Treasury Average. After the initial fixed rate period, 97.2% of these securities reset annually and 2.8% reset monthly.
(B) Represents the maximum change in the coupon at the end of the fixed rate period.
(C) Represents the maximum change in the coupon at each reset date subsequent to the first coupon adjustment.
(D) Represents the maximum coupon on the underlying security over its life.
(E) Not applicable as 25 of the securities (99% of the current face of this category) are past the first coupon adjustment period. The remaining security (1% of the current face of this category) has a maximum change in the coupon of 5.0% at the end of the fixed rate period.
(F) Represents the current weighted average months to the next interest rate reset.
(G) Amortized cost basis and carrying value excludes $6.5 million of principal receivables as of June 30, 2013.

REIT Debt

Industry	Average Minimum Rating (A)	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value
Retail	A-	1	$ 4,500	$ 4,058	14.2%	$ 4,959
Diversified	B-	1	12,000	11,992	42.0%	12,240
Multifamily	BBB	1	5,000	4,971	17.4%	5,276
Healthcare	BBB+	2	7,700	7,528	26.4%	8,584
Total / WA	BB+	5	$ 29,200	$ 28,549	100.0%	$ 31,059

Corporate Bank Loans

Industry	Average Minimum Rating (A)	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value
Media	CCC-	2	$ 540,692	$ 209,092	57.5%	$ 209,092
Resorts	NR	3	217,351	141,664	39.0%	141,664
Restaurant	B	2	25,405	12,581	3.5%	12,581
Total / WA	CC	7	$ 783,448	$ 363,337	100.0%	$ 363,337

(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 June 30, 2013.

Senior Living Portfolio

Investment characteristics:

Portfolio	Acquisition Date	Number of Communities	Number of Beds	Purchase Price (A)	Costs Capitalized Subsequent to Acquisition	Gross Carrying Amount	Accumulated Depreciation/ Amortization and Closing Adjustments	Net Carrying value (B)	Outstanding Debt
As of June 30, 2013:									
BPM	July 2012	8	836	$ 143,300	$ 540	$ 143,840	$ (11,294)	$ 132,546	$ (88,400)
Utah	November 2012	3	359	22,578	402	22,980	(1,593)	21,387	(16,000)
Courtyards	December 2012	1	230	21,500	37	21,537	(932)	20,605	(16,125)
		12	1,425	187,378	979	188,357	(13,819)	174,538	(120,525)
Subsequent Acquisitions:									
Woodside	July 2013	1	111	18,900	—	18,900	—	18,900	(14,100)
Florida	August 2013	15	2,116	200,050	—	200,050	—	200,050	(146,239)
Glen Riddle	August 2013	1	128	21,150	—	21,150	—	21,150	(16,875)
		17	2,355	240,100	—	240,100	—	240,100	(177,214)
Total		29	3,780	$ 427,478	$ 979	$ 428,457	$ (13,819)	$ 414,638	$ (297,739)

Performance Information:

Portfolio	Average Occupancy			Average Revenue Per Occupied Bed (C)		
	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	At Acquisition	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	At Acquisition
BPM	91.8%	90.8%	87.7%	$ 4,389	$ 4,313	$ 4,208
Utah	76.7%	78.4%	82.0%	2,430	2,412	2,428
Courtyards	89.2%	89.9%	88.8%	2,435	2,435	2,385

(A) Includes intangible assets.
(B) Combined GAAP carrying value of long-lived assets and resident lease intangibles, net of accumulated depreciation and amortization.
(C) Total monthly revenue divided by the average number of occupied beds.

Debt Obligations

Our debt obligations, as summarized in Note 8 to our consolidated financial statements included herein, existing at June 30, 2013 (gross of $3.0 million of discounts) had contractual maturities as follows (in thousands):

	Nonrecourse	Recourse	Total
Period from July 1, 2013 through December 31, 2013	$ 543	$ 311,276	$ 311,819
2014	1,713	—	1,713
2015	2,274	—	2,274
2016	2,305	—	2,305
2017	32,763	—	32,763
2018	1,855	—	1,855
Thereafter	1,547,755	—	1,547,755
Total	$ 1,589,208	$ 311,276	$ 1,900,484

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

The financing of our senior living facilities as well as our other non-CDO debt obligations contain various customary loan covenants. We were in compliance with all of the covenants in our non-CDO financings as of June 30, 2013. In addition, as of June 30, 2013, we had complied with the general investment guidelines adopted by our board of directors that limit total leverage.

The following table provides additional information regarding short-term borrowings. The outstanding short-term borrowings were used to finance certain of our investments in FNMA/FHLMC securities and our investments in certain senior notes issued by Newcastle CDO VIII. The FNMA/FHLMC repurchase agreements have full recourse to Newcastle.

		Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Outstanding Balance at June 30, 2013	Average Daily Amount Outstanding	Maximum Amount Outstanding	Weighted Average Interest Rate	Average Daily Amount Outstanding	Maximum Amount Outstanding	Weighted Average Interest Rate
FNMA/FHLMC	$ 311,276*	$ 801,520	$ 1,351,728	0.41%	$ 848,530	$ 1,351,728	0.43%
Non-Agency RMBS	—	133,178	302,033	2.15%	143,804	302,033	2.18%
Linked transactions	59,968	59,968	59,968	1.69%	59,968	59,968	1.69%

*All of which was recourse to us.

The short-term financing related to the CDO VI repurchase agreement was repaid in full in January 2013The non-Agency RMBS repurchase agreements were transferred to New Residential as part of the distribution on May 15, 2013. The weighted average differences between the fair value of the assets and the face amount of financing for the FNMA/FHLMC securities and linked transaction repurchase agreements were 5% and 42%, respectively, during the six months ended June 30, 2013.

In the first six months of 2013, we purchased $715.9 million principal balance of FNMA/FHLMC securities (primarily one-year ARMs) for approximately $756.3 million, using $37.8 million of unrestricted cash and financed with $718.5 million of repurchase agreements. On May 15, 2013, $611.1 million principal balance of these FNMA/FHLMC securities were spun out to New Residential along with $613.7 million of related repurchase agreements. The remaining $104.8 million of repurchase agreements bear interest at 0.38%, mature in August 2013, and are subject to customary margin call provisions.

In the first six months of 2013, we repurchased $10.9 million face amount of CDO bonds for $9.7 million. As a result, we extinguished $10.9 million face amount of CDO debt and recorded a gain on extinguishment of debt of $1.2 million.

In June 2013, Newcastle completed the sale of 100% of the assets in CDO IV. Newcastle sold $153.4 million face amount of collateral at an average price of 95% of par, or $145.2 million. Subsequently, Newcastle paid off $71.9 million of outstanding third party debt and terminated the CDO. This transaction resulted in approximately $73.3 million of proceeds to Newcastle of which approximately $5.3 million was received in Newcastle CDO VIII. Newcastle recovered par on $59.5 million of CDO debt which had been repurchased in the past at an average price of 52% of par and $8.0 million of proceeds on its subordinated interests. In connection with this transaction, we recorded a net gain on sale of assets of $4.2 million and a $0.8 million gain on hedge termination during the three months ended June 30, 2013.

Each of our CDO financings contains tests that measure the amount of over collateralization and excess interest in the transaction. At issuance, each of our CDOs passed all of these tests. Failure to satisfy these tests would generally cause (or has caused) the cash flow that would otherwise be distributed to the more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, our cash flow and liquidity are negatively impacted upon such a failure, and the impact could be (and has been) material. The table set forth below presents data, including the most recent quarterly cash flows received by Newcastle, for each of our consolidated CDOs, and sets forth which of the CDOs have satisfied these tests in the most recent quarter. The amounts set forth are as of June 30, 2013 unless otherwise noted (dollars in thousands). For those CDOs that have failed their applicable over collateralization tests, the impact of failing is already reflected in the cash flow set forth in the table. For those CDOs that have satisfied their applicable over collateralization tests, we could potentially lose substantially all of the cash flows from those CDOs in future quarters if we fail to satisfy the tests in the future. The amounts in the table reflect data at the CDO level and thus are different from the GAAP balance sheet due to intercompany amounts eliminated in Newcastle's consolidated balance sheet.

	CDO VI			CDO VIII			CDO IX		
Balance Sheet:									
Assets Face Amount		$ 173,682			$ 757,465			$ 676,950	
Assets Fair Value		121,198			573,935			517,848	
Issued Debt Face Amount (1)		91,797			484,149			389,210	
Derivative Net Liabilities Fair Value		11,506			8,437			—	
Cash Receipts:									
Quarterly net cash receipts (2)		$ 112			$ 7,115			$ 7,516	
Collateral Composition (3):	Face	Fair Value		Face	Fair Value		Face	Fair Value	
CMBS	$ 103,176	$ 78,325	BB-	$ 144,636	$ 120,113	BB-	$ 80,701	$ 82,080	BB
REIT Debt	29,200	31,059	BB+	—	—	—	—	—	—
ABS	41,306	11,814	CC	68,292	59,668	B	2,967	2,967	BBB+
Bank Loans	—	—	—	225,952	144,974	C	188,097	124,542	C
Mezzanine Loans / B-Notes / Whole Loans	—	—	—	257,085	224,986	CCC	314,366	258,110	CCC
CDO	—	—	—	61,500	24,194	D	68,162	36,569	CCC+
Residential Loans	—	—	—	—	—	—	3,774	3,599	NR
Other Investments	—	—	—	—	—	—	18,883	9,981	—
Cash for Reinvestment	—	—	—	—	—	—	—	—	—
Total	$ 173,682	$ 121,198	B+	$ 757,465	$ 573,935	CCC	$ 676,950	$ 517,848	CCC
Collateral on Negative Watch (4)	$ 1,489			$ —			$ 12,939		
CDO Cash Flow Triggers (5):									
Over Collateralization (6):									
As of Jun-2013 remittance									
Cushion (Deficit) ($)		$ (177,471)			$ 85,944			$ 146,341	
As of Jul-2013 remittance									
Cushion (Deficit) ($)		$ (177,409)			$ 92,487			$ 152,890	
Interest Coverage (6):									
As of Jun-2013 remittance									
Cushion (Deficit) (%)		(212.7%)			521.1%			660.6%	
As of Jul-2013 remittance									
Cushion (Deficit) (%)		(231.0%)			316.1%			461.9%	
CDO Overview:									
Effective		Aug-05			Mar-07			Jul-07	
Reinvestment Period End (7)		Passed			Passed			Passed	
Optional Call (8)		Passed			Passed			Passed	
Auction Call (9)		Apr-15			Nov-16			May-17	
WA Debt Spread (bps) (10)		50			55			70	

See notes on next page.

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

(2) Represents net cash received from each CDO based on all of our interests in such CDO (including senior management fees but excluding principal received from senior CDO bonds owned by Newcastle) for the six months ended June 30, 2013. Cash receipts for this period include $0.7 million of senior collateral management fees, and may not be indicative of cash receipts for subsequent periods. Excluded from the quarterly net cash receipts was $5.3 million of unrestricted cash received from principal repayments on senior CDO bonds owned by Newcastle. This cash represents a return of principal and the realization of the difference between par and the discounted purchase price of these bonds. See "Cautionary Note Regarding Forward Looking Statements" for risks and uncertainties that could cause our receipts for subsequent periods to differ materially from these amounts.

(3) Collateral composition is calculated as a percentage of the face amount of collateral and includes CDO bonds of $121.4 million and other bonds and notes payable of $20.5 million issued by Newcastle, and bank loans of $90.5 million, collateralized by Newcastle CDO VI bonds, real estate properties and a third party CDO security, which are eliminated in consolidation. The fair value of these CDO bonds, other bonds and notes payable, and bank loans was $53.7 million, $18.2 million and $83.6 million at June 30, 2013, respectively. Also reflected are weighted average credit ratings, which were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current.

(4) Represents the face amount of collateral on negative watch for possible downgrade by at least one rating agency (Moody's, S&P or Fitch) as of the determination date in June 2013 for all CDOs. The amount does not include any bonds issued by Newcastle, which are eliminated in consolidation and not reflected in the investment portfolio disclosures.

(5) Each of our CDO financings contains tests that measure the amount of over collateralization and excess interest in the transaction. Failure to satisfy these tests would cause the principal and/or interest cashflow that would otherwise be distributed to more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, our cash flow and liquidity are negatively impacted upon such a failure, and the impact could be material. Each CDO contains tests at various over collateralization and interest coverage percentage levels. The trigger percentages used above represent the first threshold at which cashflows would be redirected as described in this footnote. The data presented is as of the most recent remittance date on or before June 30, 2013 and may change or have changed subsequent to that date. In addition, our CDOs may also contain specific over collateralization tests that, if failed, can result in the occurrence of an event of default or our being removed as collateral manager of the CDO. Failure of the over collateralization tests can also cause a "phantom income" issue if cash that constitutes income is diverted to pay down debt instead of being distributed to us. As of the June 2013 remittance date, we were not receiving cash flows from CDO VI (other than senior management fees and cash flows on senior classes of bonds we own). Based upon our current calculations, we expect CDO VI to remain out of compliance for the foreseeable future. Moreover, given current market conditions, it is possible that all of our CDOs could be out of compliance with their over collateralization tests as of one or more measurement dates within the next twelve months. Our ability to rebalance will depend upon the availability of suitable securities, market prices, and other factors that are beyond our control. Such rebalancing efforts may be extremely difficult given current market conditions and we cannot assure you that we will be successful in our rebalancing efforts. If the liabilities of our CDOs are downgraded by Moody's to certain predetermined levels, our discretion to rebalance the applicable CDO portfolios may be negatively impacted. Moreover, if we bring these coverage tests into compliance, we cannot assure you that they will not fall out of compliance in the future or that we will be able to correct any noncompliance. For a more detailed discussion of the impact of CDO financings on our cash flows, see Part II, Item 1A, "Risk Factors – Risks Relating to our Business – The coverage tests applicable to our CDO financings may have a negative impact on our operating results and cash flows."

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

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

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

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

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

The following table sets forth further information with respect to the bonds of our consolidated CDO financings as of June 30, 2013 (dollars in thousands):

		Current Face Amount (1)					
		Held By					
Class	Original Face Amount	Third Parties	Newcastle CDOs (2)	Newcastle Outside of its CDOs (3)	Total	Stated Interest Rate	
CDO VI							
Class I-MM	$ 323,000	$ —	$ —	$ 111,432*	$ 111,432	LIBOR +	0.25%
Class I-B	59,000	59,000	—	—	59,000	LIBOR +	0.40%
Class II	33,000	23,720	—	10,314	34,034	LIBOR +	0.50%
Class III-FL	15,000	5,238	—	10,476	15,714	LIBOR +	0.80%
Class III-FX	5,000	—	—	6,389	6,389		5.67%
Class IV-FL	9,600	654	—	9,808	10,462	LIBOR +	1.70%
Class IV-FX	2,400	3,185	—	—	3,185		6.55%
Class V	21,000	—	—	29,427	29,427		7.81%
Preferred	32,000	—	—	32,000	32,000		N/A
	$ 500,000	$ 91,797	$ —	$ 209,846	$ 301,643		

* Of the $111.4 million of CDO VI Class I-MM bonds, $70.6 million served as collateral for a $41.5 million bank loan owned jointly bytwo of Newcastle's CDOs.

CDO VIII							
Class I-A	$ 462,500	$ 299,383	$ —	$ 20,151	$ 319,534	LIBOR +	0.28%
Class I-AR	60,000	41,453	—	—	41,453	LIBOR +	0.34%
Class I-B	38,000	—	—	38,000	38,000	LIBOR +	0.36%
Class II	42,750	—	29,000	13,750	42,750	LIBOR +	0.42%
Class III	42,750	—	22,750	20,000	42,750	LIBOR +	0.50%
Class IV	28,500	—	—	—	—	LIBOR +	0.60%
Class V	28,500	28,500	—	—	28,500	LIBOR +	0.75%
Class VI	27,312	—	—	—	—	LIBOR +	0.80%
Class VII	21,375	—	—	—	—	LIBOR +	0.90%
Class VIII	22,563	11,063	8,250	3,250	22,563	LIBOR +	1.45%
Class IX-FL	6,000	6,000	—	—	6,000	LIBOR +	1.80%
Class IX-FX	7,600	7,600	—	—	7,600		6.80%
Class X	19,650	18,650	—	—	18,650	LIBOR +	2.25%
Class XI	26,125	—	—	24,125	24,125	LIBOR +	2.50%
Class XII	28,500	—	11,500	17,000	28,500		7.50%
Preferred	87,875	—	—	87,875	87,875		N/A
	$ 950,000	$ 412,649	$ 71,500	$ 224,151	$ 708,300		

Continued on next page.

Class	Original Face Amount	Current Face Amount (1) Held By Third Parties	Newcastle CDOs (2)	Newcastle Outside of its CDOs (3)	Total	Stated Interest Rate	
CDO IX							
Class A-1	$ 379,500	$ 238,585	$ —	$ —	$ 238,585	LIBOR +	0.26%
Class A-2	115,500	65,500	—	50,000	115,500	LIBOR +	0.47%
Class B	37,125	35,125	—	2,000	37,125	LIBOR +	0.65%
Class C	33,000	—	—	—	—	LIBOR +	0.93%
Class D	20,625	—	—	—	—	LIBOR +	1.00%
Class E	24,750	—	—	24,750	24,750	LIBOR +	1.10%
Class F	18,562	—	—	18,562	18,562	LIBOR +	1.30%
Class G	18,562	—	—	11,262	11,262	LIBOR +	1.50%
Class H	21,656	—	8,751	9,305	18,056	LIBOR +	2.50%
Class J	21,656	—	21,656	—	21,656	LIBOR +	3.00%
Class K	19,593	—	19,593	—	19,593	LIBOR +	3.50%
Class L	23,718	—	—	23,718	23,718		7.50%
Class M	39,187	—	—	39,187	39,187		8.00%
Preferred	51,566	—	—	51,566	51,566		N/A
	$ 825,000	$ 339,210	$ 50,000	$ 230,350	$ 619,560		

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

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

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

Stockholders' Equity

Common Stock

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

The following table presents information on shares of our common stock issued during the six months ended June 30, 2013:

Shares Issued	Range of Issue Prices (1) (2)	Net Proceeds (millions)	Options Granted to Manager
57,500,000	$ 9.35	$ 526.2	5,750,000
23,000,000	$ 10.48	$ 237.4	2,300,000
40,250,000	$ 4.97	$ 197.6	4,025,000

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

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

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

In June 2013, Newcastle issued 40,250,000 shares of its common stock in a public offering at a price to the underwriters of $4.92 per share for net proceeds of approximately $197.6 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 750,000 shares at a price of $4.97 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 4,025,000 shares of Newcastle's common stock at a price of $4.97, which had a fair value of approximately $3.8 million as of the grant date. The assumptions used in valuing the options were: a 2.5% risk-free rate, a 8.8% dividend yield, 36.9% volatility and a 10 year term.

At June 30, 2013, we had 293,326,085 shares of common stock outstanding.

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

Newcastle's outstanding options at May 15, 2013 following the spin-off consisted of the following:

	Number of Options	Strike Price	Maturity Date
	6,000	$ 7.75	5/30/2013
	116,380	9.05	7/16/2013
	304,604	10.18	12/1/2013
	328,350	11.74	1/9/2014
	343,275	11.49	5/25/2014
	162,500	14.05	11/22/2014
	330,000	13.24	1/12/2015
	2,000	13.83	8/1/2015
	170,000	13.16	11/1/2016
	242,000	14.01	1/23/2017
	456,000	12.40	4/11/2017
	1,676,833	2.72	3/29/2021
	2,539,833	2.07	9/27/2021
	2,000	2.28	12/20/2021
	1,897,500	2.82	4/3/2022
	2,300,000	3.05	5/21/2022
	2,530,000	3.04	7/31/2022
	5,750,000	4.24	1/11/2023
	2,300,000	4.75	2/15/2023
Total W/A	21,457,275	$ 4.43	

As of June 30, 2013, our outstanding options issued prior to 2011 had a weighted average strike price of $12.18and our outstanding options issued in 2011 and thereafter had a weighted average strike price of $3.70. Our outstanding options at June 30, 2013 were summarized as follows:

	Issued Prior to 2011	Issued in 2011 and thereafter	Total
Held by the manager	1,751,172	20,009,166	21,760,338
Issued to the manager and subsequently transferred to certain of the manager's employees	701,937	3,010,000	3,711,937
Issued to the independent directors	2,000	2,000	4,000
Total	2,455,109	23,021,166	25,476,275

Common Stock Dividends Paid

Declared for the Period Ended	Paid	Amount Per Share
March 31, 2013	April 2013	$ 0.22
June 30, 2013	July 2013	$ 0.17

Preferred Stock Dividends Paid

Declared for the Period Ended	Paid	Amount Per Share Series B	Series C	Series D
April 30, 2013	April 2013	$ 0.609	$ 0.503	$ 0.523
July 31, 2013	July 2013	$ 0.609	$ 0.503	$ 0.523

Accumulated Other Comprehensive Income (Loss)

During the six months ended June 30, 2013, our accumulated other comprehensive income (loss) changed due to the following factors (in thousands):

	Gains (Losses) on Cash Flow Hedges	Gains (Losses) on Securities	Total Accumulated Other Comprehensive Income (Loss)
Accumulated other comprehensive income (loss), December, 31, 2012	$ (12,024)	$ 82,788	$ 70,764
Net unrealized gain (loss) on securities	—	39,277	39,277
Reclassification of net realized (gain) loss on securities into earnings	—	(168)	(168)
Spin-off of New Residential	—	(44,513)	(44,513)
Net unrealized gain (loss) on derivatives designated as cash flow hedges	3,612	—	3,612
Reclassification of net realized (gain) loss on derivatives designated as cash flow hedges into earnings	(1)	—	(1)
Accumulated other comprehensive income (loss), June 30, 2013	$ (8,413)	$ 77,384	$ 68,971

Our GAAP equity changes as our real estate securities portfolio and derivatives are marked to market each quarter, among other factors. The primary causes of mark to market changes are changes in interest rates and credit spreads. Net unrealized gains on our real estate securities decreased for the six months ended June 30, 2013 in accumulative other comprehensive income primarily as a result of the spin-off of New Residential, which was partially offset by an increase in unrealized gains caused by a net tightening of credit spreads. Net unrealized losses on derivatives designated as cash flow hedges decreased for the six months ended June 30, 2013, primarily as a result of swap interest payments.

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

Cash Flow

Operating Activities

Net cash flow provided by operating activities increased to $45.2 million for the six months ended June 30, 2013 from $39.3 million for the six months ended June 30, 2012. This change resulted primarily from the factors described below:

- Net cash receipts from our CDOs decreased approximately $6.2 million for the six months ended June 30, 2013 compared to the six months ended June 30, 2012, primarily due to the deconsolidation of CDO X in September 2012, partially offset by the receipts of interest proceeds in our retained CDO IV bonds.
- Net cash receipts from our manufactured housing loan portfolios decreased approximately $1.1 million for the six months ended June 30, 2013 compared to the six months ended June 30, 2012, primarily due to paydowns.
- Cash receipts from excess mortgage servicing income increased approximately $15.4 million for the six months ended June 30, 2013 compared to the six months ended June 30, 2012, primarily due to the additional Excess MSR investments made since March 2012.

- Received net operating cash receipts of approximately $5.3 million from the senior living investments we have made since July 2012.

- Net cash receipts from our investments in real estate related and other assets held outside of our CDOs increased approximately $10.0 million for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 primarily due (i) higher investments in FNMA/FHLMC securities, (ii) higher investments in real estate related and other loans and (iii) delinquent interest received on certain securities.

- Management fees paid increased approximately $8.4 million for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 due to an increase in gross equity as a result of our public offerings of common stock in 2012 and 2013.

- General and administrative expenses paid increased approximately $9.1 million for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 due to fees paid in connection with the acquisitions of Excess MSRs, senior living assets and other corporate activities.

Investing Activities

Investing activities used ($1.4) billion and ($374.8) million during the six months ended June 30, 2013 and 2012, respectively. Investing activities consisted primarily of investments made in real estate securities, loans, senior living assets, equity method investees and, in 2012, investments in Excess MSR net of proceeds from the repayment or settlement of investments and distributions of capital from equity method investees.

Financing Activities

Financing activities provided $1.4 billion and $280.7 million during the six months ended June 30, 2013 and 2012, respectively. The public offerings of common stock and borrowings under repurchase agreements served as the primary sources of cash flow from financing activities. Uses of cash flow from financing activities included the repurchases of CDO bonds payable, the repayment of debt, the payment of common and preferred dividends, and cash contributed as part of the spin-off of New Residential.

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 June 30, 2013, we had the following material off-balance sheet arrangements.

- In April 2006, we securitized our 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.

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 first six months of 2013, we had all of the material contractual obligations referred to in our annual report on Form 10-K for the year ended December 31, 2012, excluding the debt which was repaid, spun-off or repurchased, as described in "– Liquidity and Capital Resources," as well as the following:

Contract Category Change

Repurchase Agreements	We entered into new repurchase agreements to finance newly acquired FNMA/FHLMC securities. In addition, we entered into a new repurchase agreement related to the financing of our purchase from a third party financial institution of repackaged Newcastle CDO VIII debt.
Capital Commitments	As of June 30, 2013, we had committed to purchase from third parties approximately $84.9 million face amount of debt issued by a portfolio company of a private equity fund managed by an affiliate of our manager, which is in the media industry, for approximately $32.9 million.
Mortgage Notes Payable	We obtained mortgages to finance newly acquired senior living facilities.
Management Agreements	We entered into a new property management agreement with a portfolio company of a private equity fund managed by an affiliate of Newcastle's manager to manage newly acquired senior living properties.

See Note 15 to the consolidated financial statements included herein for additional senior living and other acquisition-related commitments.

INFLATION

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

CORE EARNINGS

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Income available for common stockholders	$ 52,328	$ 29,044	$ 88,946	$ 101,120
Add (Deduct):				
Impairment (reversal)	3,201	8,499	5,974	1,419
Other (income) loss	(8,090)	4,882	(13,860)	(23,654)
Impairment (reversal), other (income) loss and other adjustments from discontinued operations	(8,534)	(3,525)	(8,815)	(4,740)
Depreciation and amortization	4,070	2	8,149	4
Core earnings	$ 42,975	$ 38,902	$ 80,394	$ 74,149

Pro forma Core Earnings	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Pro forma income (loss) from continuing operations after preferred dividends (Note 16)	$ 27,785	$ 51,328
Add (Deduct):		
Impairment (reversal)	(555)	2,218
Other (income) loss	(8,032)	(13,802)
Depreciation and amortization	4,070	8,149
Pro forma core earnings	$ 23,268	$ 47,893

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 results of operations, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations − Application of Critical Accounting Policies."

Interest Rate Exposure

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

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

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

However, increases in interest rates can nonetheless reduce our net interest income to the extent that we are not completely match funded.

Furthermore, a period of rising interest rates can negatively impact our return on certain floating rate investments. Although these investments may be financed with floating rate debt, the interest rate on the debt may reset prior to, and in some cases more frequently than, the interest rate on the assets, causing a decrease in return on equity during a period of rising interest rates. See further disclosure regarding Agency ARM RMBS under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Investment Portfolio – Agency ARM RMBS" for information about the reset terms and "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 June 30, 2013, a 100 basis point increase in short term interest rates would increase our earnings by approximately $6.8 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, to the extent the related assets are expected to be held, as their fair value is not relevant to their underlying cash flows. Our assets are largely financed to maturity through long term CDO financings that are not redeemable as a result of book value changes. As long as these fixed rate assets continue to perform as expected, our cash flows from these assets would not be affected by increasing interest rates. Changes in unrealized gains or losses would impact our ability to realize gains on existing investments if they were sold. Furthermore, with respect to changes in unrealized gains or losses on investments which are carried at fair value, changes in unrealized gains or losses would impact our net book value and, in the cases of impaired assets and non-hedge derivatives, our net income.

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

As of June 30, 2013, a 100 basis point change in short term interest rates would impact our net book value by approximately $8.5 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 up-front payment to the counterparty for which the counterparty agrees to make future payments to us should the reference rate (typically LIBOR) rise above (cap agreements) or fall below (floor agreements) the "strike" rate specified in the contract. Payments on an annualized basis will equal the contractual notional face amount multiplied by the difference between the actual reference rate and the contracted strike rate.

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

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

Credit Spread Exposure

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

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

As of June 30, 2013, a 25 basis point movement in credit spreads would impact our net book value by approximately $6.0 million, assuming a static portfolio of current investments and financings, but would not directly affect our earnings or cash flow.

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

In an environment where spreads are tightening, if spreads tighten on the assets we purchase to a greater degree than they tighten 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 they predominantly benefit from underlying collateral value in excess of their carrying amounts. Corporate bank loans are also subject to the risk of a bankruptcy filing of the related entity.

We seek to reduce credit risk by actively monitoring our asset portfolio and the underlying credit quality of our holdings and, where appropriate and achievable, repositioning our investments to upgrade their credit quality. In the event of a significant rising interest rate environment and/or economic downturn, loan and collateral defaults may increase and result in credit losses that would adversely affect our liquidity and operating results. As described in "Management's Discussion and Analysis of Financial Condition and 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 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 9 to our consolidated financial statements included herein. 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, 2012. 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 – Critical Accounting Policies."

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

Trends

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Considerations" above 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 on a timely basis. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

(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

From time to time, we are or may be involved in various disputes and litigation matters that arise in the ordinary course of business. The Company is not party to any material legal proceedings as of the date on which this report is filed.

Item 1A. Risk Factors

You should carefully read and consider the following risk factors and all other information in this report in evaluating us and our common stock. If any of the following risks, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, occur, our business, financial condition or results of operations could be materially and adversely affected. For ease of reference, the risk factors below are categorized as risks relating to the financial markets, our manager, our business and other matters, our REIT status, and our common stock. However, these categories do overlap and should not be considered exclusive.

Risks Related to the Financial Markets

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

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

The Act imposes mandatory clearing and will impose exchange-trading and margin requirements on many derivatives transactions (including formerly unregulated over-the-counter derivatives) in which we may engage. The Act also creates new categories of regulated market participants, such as "swap-dealers," "security-based swap dealers," "major swap participants" and "major security-based swap participants," who will be subject to significant new capital, registration, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements that will give rise to new administrative costs.

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

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

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

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

The U.S. government has enacted legislation that enables government agencies to modify the terms of a significant number of residential and other loans to provide relief to borrowers without the applicable investor's consent. These modifications allow for outstanding principal to be deferred, interest rates to be reduced, the term of the loan to be extended or other terms to be changed in ways that can permanently eliminate the cash flow (principal and interest) associated with a portion of the loan. These modifications are currently reducing, or in the future may reduce, the value of a number of our current or future investments, including investments in mortgage-backed securities. As a result, such loan modifications are negatively affecting our business, results of operations and financial condition. In addition, certain market participants propose reducing the amount of paperwork required by a borrower to modify a loan, which could increase the likelihood of fraudulent modifications and materially harm the U.S. mortgage market and investors that have exposure to this market. Additional legislation intended to provide relief to borrowers may be enacted and could further harm our business, results of operations and financial condition.

Risks Relating to Our Manager

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

None of our officers or other senior employees who perform services for us is an employee of Newcastle. Instead, these individuals are employees of our manager. In addition, in our senior living business and for the media company we have agreed to acquire (as described in Note 15 to the consolidated financial statements included herein), we expect to rely on services provided by individuals who are employees of affiliates of our manager or companies owned by private equity funds managed by affiliates of our manager. Accordingly, we are completely reliant on our manager, which has significant discretion as to the implementation of our operating policies and strategies, to conduct our business. Furthermore, we are dependent on the services of certain key employees of our manager whose compensation is partially or entirely dependent upon the amount of incentive or management compensation earned by our manager and whose continued service is not guaranteed, and the loss of such services could adversely affect our operations. We are subject to the risk that our manager will terminate the management agreement and that we will not be able to find a suitable replacement for our manager in a timely manner, at a reasonable cost or at all. We may also be adversely affected by operational risks, including cyber security attacks, that could disrupt our manager's financial, accounting and other data processing systems.

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

There are conflicts of interest inherent in our relationship with our manager, as described below. It is possible that actual, potential or perceived conflicts could give rise to investor dissatisfaction, litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult, and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential, actual or perceived conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation, which could materially adversely affect our business in a number of ways, including causing an inability to raise additional funds, a reluctance of counterparties to do business with us, a decrease in the prices of our common and preferred securities and a resulting increased risk of litigation and regulatory enforcement actions.

Our management agreement with our manager was not negotiated at arm's-length, and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party. Our management agreement, as amended, does not limit or restrict our manager or its affiliates from engaging in any business or managing other pooled investment vehicles that make investments that meet our investment objectives. Entities managed by our manager or its affiliates — including investment funds, private investment funds, or businesses managed by our manager — have investment objectives that overlap with our investment objectives. Certain investments appropriate for us may also be appropriate for one or more of these other investment vehicles. These entities may invest in assets that meet our investment objectives, including real estate securities, real estate related and other loans, senior living facilities and other operating real estate, and other assets. Our manager or its affiliates may have investments in and/or earn fees from such other investment vehicles that are higher than their economic interests in us and which may therefore create an incentive to allocate investments to such other investment vehicles. Our manager or its affiliates may determine, in their discretion, to make a particular investment through an investment vehicle other than us and have no obligation to offer to us the opportunity to participate in any particular investment opportunity.

Certain members of our board of directors, including our chairman, are officers of our manager. Certain employees of our manager who perform services for us also perform services for companies and funds that compete with us. These employees may serve as officers and/or directors of these other entities. The ability of our manager and its officers and

employees to engage in other business activities may reduce the amount of time our manager, its officers or other employees spend managing us.
In addition, we have engaged or may engage (subject to our investment guidelines) in material transactions with our manager or an entity managed by our manager or one of its affiliates, including, but not limited to, certain financing arrangements, purchases of debt, co-investments, acquisitions of senior living facilities and other assets, that present an actual, potential or perceived conflict of interest. We may also invest in portfolio companies of private equity funds managed by our manager (or an affiliate thereof), and we currently have a significant debt investment in one such company, as described in Note 5 to the consolidated financial statements included herein.

The management compensation structure that we have agreed to with our manager, as well as compensation arrangements that we may enter into with our manager in the future (in connection with new lines of business or other activities), may incentivize our manager to invest in high risk investments or to pursue separation transactions, such as the spin-off of New Residential. In addition to its management fee, our manager is entitled to receive incentive compensation based in part upon our achievement of targeted levels of funds from operations (as defined in the management agreement). In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on funds from operations or, in the case of any future incentive compensation arrangement, other financial measures on which incentive compensation may be based, may lead our manager to place undue emphasis on the maximization of such measures at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation, particularly in light of the fact that our manager has not received any incentive compensation since 2008. Investments with higher yield potential are generally riskier or more speculative than lower-yielding investments.

Our manager is eligible to receive compensation in the form of options in connection with the completion of our common equity offerings. Therefore, our manager may be incentivized to cause us to issue additional common stock, which could be dilutive to existing stockholders. In addition to the shares available for issuance under the 2012 Newcastle Nonqualified Stock Option and Incentive Plan (the "Plan"), our Board may also determine to grant options to our manager that are not issued pursuant to the Plan, provided that the number of shares underlying any options granted to the Manager in connection with any capital raising efforts will not exceed 10% of the shares sold in such offering and would be subject to New York Stock Exchange rules. See also "Our agreements with New Residential may not reflect terms that would have resulted from arm's-length negotiations among unaffiliated third parties, and we have agreed to indemnify New Residential for certain liabilities."

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

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

Our directors have approved very broad investment guidelines for our manager, and we are not required to obtain stockholder consent to change our investment strategy or asset portfolio.

Our manager is authorized to follow very broad investment guidelines, and our directors do not approve each investment decision made by our manager. Our investment guidelines are purposefully broad to enable our manager to make investments in a wide array of assets, including, but not limited to, any type of assets that can be held by a REIT. Our manager's investment decisions are based on a variety of factors, such as changing market conditions. Investment opportunities that present unattractive risk-return profiles relative to other available investment opportunities under particular market conditions may become relatively attractive under changed market conditions, and changes in market conditions may therefore result in changes in the investments we target. We do not have policies requiring the allocation of equity to different investment categories, although our investment guidelines do restrict investments of more than 20% of our total equity (as determined on the date of such investment) in any single asset. Consequently, our manager has great latitude in determining which investments are appropriate for us, including the latitude to build concentrations in certain positions and to invest in asset classes that may differ significantly from those in our existing portfolio.

Our directors periodically review our investment guidelines and our investment portfolio. However, our directors rely primarily on information provided to them by our manager, and they do not review or pre-approve each proposed investment or the related financing arrangements. A transaction entered into by our manager that contravenes the terms of our management agreement may be difficult or impossible to unwind by the time it is reviewed by our directors. In addition, we are not required to obtain stockholder consent in order to change our investment strategy and asset portfolio, which may result in making investments that are different, riskier or less profitable than our current investments.

Our investment strategy recently underwent a meaningful change as a result of the spin-off of New Residential on May 15, 2013, which did not require stockholder consent. In connection with the spin-off, we contributed to New Residential all of our investments in Excess MSRs, certain Agency ARM RMBS and non-Agency RMBS, certain residential mortgage loans, and our interest in consumer loans. We do not currently intend to make additional investments in assets such as Excess MSRs, although we are not prohibited from doing so. There can be no assurance that our investments following this spin-off will be as profitable as our portfolio prior to the spin-off. Our investment strategy and asset portfolio will continue to evolve in light of existing market conditions and investment opportunities. See "—We are actively exploring new business opportunities and asset categories, which may have a variety of negative consequences."

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

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

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

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

Risks Relating to Our Business

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

Consistent with our broad investment guidelines and our investment objectives, we have acquired and/or are pursuing a variety of assets that differ from the assets in our legacy portfolio, such as senior living facilities, Excess MSRs (which we spun-off in May 2013) and opportunistic investments in media or other operating companies. See "—The loans we invest in and the loans underlying the securities we invest in 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." Although we currently believe that we will have significant investment opportunities in the future, these opportunities may not materialize. In addition, our ability to act on new investment opportunities may be constrained by the requirements of the Investment Company Act of 1940, as amended (the "1940 Act"), and federal tax law.

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

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

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

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

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

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

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

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

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

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

We have retained, and may in the future retain or repurchase, subordinate classes of bonds issued by certain of our subsidiaries in our CDO financings. Each of our CDO financings contains tests that measure the amount of over collateralization and excess interest in the transaction. Failure to satisfy these tests would generally result in principal and/or interest cash flow that would otherwise be distributed to more junior classes of securities (including those held by us) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, failure to satisfy the coverage tests could adversely affect our operating results and cash flows by temporarily or permanently directing funds that would otherwise come to us to holders of the senior classes of bonds. In addition, the redirected funds would be used to pay down financing, which currently bears an attractive rate, thereby reducing our future earnings from the affected CDO. The ratings assigned to the assets in each CDO affect the results of the tests governing whether a CDO can distribute cash to the various classes of securities in the CDO. As a result, ratings downgrades of the assets in a CDO can result in a CDO failing its tests and thereby cause us not to receive cash flows from the affected CDO.

We had approximately $14.4 million of assets in our consolidated CDOs as of June 30, 2013 under negative watch for possible downgrade by at least one of the rating agencies. One or more of the rating agencies could downgrade some or all of these assets at any time, and any such downgrade could negatively affect – and possibly materially affect – our future cash flows. As of the July 2013 remittance date for CDO VI, this CDO was not in compliance with its applicable over collateralization tests and consequently, we are not receiving residual cash flows from this CDO, other than senior management fees and cash flow distributions from senior classes of bonds we own. Based upon our current calculations, we expect CDO VI to remain out of compliance for the foreseeable future. Moreover, given current market conditions, it is possible that all of our CDOs could be out of compliance with their over collateralization tests as of one or more measurement dates within the next twelve months.

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

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

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

The documentation governing our CDOs specifies certain events of default, which, if they occur, would negatively affect us. Events of default include, among other things, failure to pay interest on senior classes of securities within the CDO, breaches of covenants, representations or warranties, bankruptcy, and failure to satisfy specific over collateralization 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 June 30, 2013, we have not been removed as collateral manager. Based upon our current calculations, we estimate that if we are removed as the collateral manager of CDO V, the loss of senior management fees would not have a material negative impact on our cash flows, business, results of operations or financial condition. Given current market conditions, it is possible that events of default constituting manager termination events, or other manager termination events, may occur in other CDOs, and we could be removed as the collateral manager of those CDOs if such events of default occur. Moreover, our cash flows, business, results of operations and/or financial condition could be materially and negatively impacted if such events of default occur.

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

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

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

Our investments may be subject to significant impairment charges, which would adversely affect our results of operations.

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

As has been widely publicized, the recent market conditions have resulted in a number of financial institutions recording an unprecedented amount of impairment charges, and we were also affected by these conditions. These challenging conditions have reduced the market trading activity for many real estate securities, resulting in less liquid markets for those securities. These lower valuations have affected us by, among other things, decreasing our net book value and contributing to our decision to record impairment charges. In addition, our debt investments may become impaired if we are unable to execute long-term strategies involving corporate reorganizations of the applicable issuer.

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

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

Our counterparties are not required to roll our repurchase agreements upon the expiration of their stated terms, which subjects us to a number of risks. As we have experienced recently and may experience in the future, counterparties electing to roll our repurchase agreements may charge higher spreads and impose more onerous terms upon us, including the requirement that we post additional margin as collateral. More significantly, if a repurchase agreement counterparty elects not to extend our financing, we would be required to pay the counterparty the full repurchase price on the maturity date and find an alternate source of financing. Alternate sources of financing may be more expensive, contain more onerous terms or simply may not be available. If we were unable to pay the repurchase price for any security financed with a repurchase agreement, the counterparty has the right to sell the underlying security being held as collateral and require us to compensate for any shortfall between the value of our obligation to the counterparty and the amount for which the collateral was sold (which may be a significantly discounted price). As of June 30, 2013, we had $371.2 million outstanding under repurchase agreement financings, including linked transactions. These repurchase agreement obligations are with four counterparties. If any of our counterparties elected not to roll these repurchase agreements, we may not be able to find a replacement counterparty in a timely manner.

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

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

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

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

We are subject to counterparty default and concentration risks.

In the ordinary course of our business, we enter into various types of financing arrangements with counterparties. Currently, the majority of our financing arrangements take the form of repurchase agreements, securitization vehicles, loans, hedge contracts, swaps and other derivative and non-derivative contracts. The terms of these contracts are often customized and complex, and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight. We are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such 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 consistent with the conditions we are currently experiencing, which are precisely the times when defaults may be most likely to occur. In addition, our risk-management processes may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not take sufficient action to reduce our risks effectively. Although we monitor our credit exposures, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

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

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

The counterparty risks that we face have increased in complexity and magnitude as a result of the insolvency of a number of major financial institutions (such as Lehman Brothers). For example, the consolidation and elimination of counterparties has increased our 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. We are currently party to repurchase agreements with eight 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 investments on attractive terms or at all.

When we acquire securities and loans that we finance on a short-term basis with a view to securitization or other long-term financing, we bear the risk of being unable to securitize the assets or otherwise finance them on a long-term basis at attractive prices or in a timely matter, or at all. If it is not possible or economical for us to securitize or otherwise finance such assets on a long-term basis, we may be unable to pay down our short-term credit facilities, or be required to liquidate the assets at a loss in order to do so. For example, our ability to finance investments with securitizations or other long-term non-recourse financing not subject to margin requirements has been impaired since 2007 as a result of market conditions. These conditions make it highly likely that we will have to use less efficient forms of financing for any new investments, which will likely require a larger portion of our cash flows to be put toward making the initial investment and thereby reduce the amount of cash available for distribution to our stockholders and funds available for operations and investments, and which will also likely require us to assume higher levels of risk when financing our investments.

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

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

The loans we invest in, and the loans underlying the securities we invest in, are subject to delinquency, foreclosure and loss, 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 default under a loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the outstanding principal and accrued but unpaid interest of the loan, which could adversely affect our financial condition, earnings and cash flow from operations. Foreclosure of a loan, particularly a commercial loan, or any other restructuring activities related to an investment, can be an expensive and lengthy process, which would negatively affect our anticipated return on the foreclosed loan or such other investment. In addition, as part of any foreclosure or other restructuring, we may acquire control of a property securing a defaulted loan, which would expose us to additional risks specific to the property, including, but not limited to, the risks related to any

business conducted on such property. As part of a restructuring we may also exchange our debt for, or otherwise acquire, equity of an entity, which may involve contested negotiations and expose us to risks associated with owning the entity.
Mortgage and asset backed securities are bonds or notes backed by loans and/or other financial assets and include commercial mortgage backed securities (CMBS), FNMA/FHLMC securities, and real estate related asset backed securities (ABS). The ability of a borrower to repay these loans or other financial assets is dependent upon the income or assets of these borrowers. If a borrower has insufficient income or assets to repay these loans, it will default on its loan. While we intend to focus on real estate related asset backed securities, there can be no assurance that we will not invest in other types of asset backed securities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Our primary interest rate exposures relate to our real estate securities, loans, floating rate debt obligations and interest rate swaps. Changes in interest rates, including changes in expected interest rates or "yield curves," affect our business in a number of ways. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities and hedges. Changes in the level of interest rates also can affect, among other things, our ability to acquire real estate securities and loans at attractive prices, the value of our real estate securities, loans and derivatives and our ability to realize gains from the sale of such assets. In the past, we have utilized hedging transactions to protect our positions from interest rate fluctuations, but as a result of current market conditions we face significant obstacles to entering into new

hedging transactions. As a result, we may not be able to protect new investments from interest rate fluctuations to the same degree as in the past, which could adversely affect our financial condition and results of operations.
In the event of a significant rising interest rate environment and/or economic downturn, loan and collateral defaults may increase and result in credit losses that would adversely affect our liquidity and operating results. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control.

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

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

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

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

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

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

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

As a result of alleged deficiencies in foreclosure practices, a number of servicers temporarily suspended foreclosure proceedings beginning in the second half of 2010 while they evaluated their foreclosure practices. In late 2010, a group of state attorneys general and state bank and mortgage regulators representing nearly all 50 states and the District of Columbia, along with the U.S. Department of Justice and the Department of Housing and Urban Development, began an investigation into foreclosure practices of banks and servicers. The investigations and lawsuits by several state attorneys general led to a settlement agreement in early February 2012 with five of the nation’s largest banks, pursuant to which the banks agreed to pay more than $25 billion to settle claims relating to improper foreclosure practices. The settlement does not prohibit the states, the federal government, individuals or investors in RMBS from pursuing additional actions against the banks and servicers in the future.

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

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

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

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

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

In addition, private, federal and state payment programs as well as the effect of laws and regulations may also have a significant impact on the profitability of such facilities. The failure of a manager to comply with any of these laws could result in the loss of accreditation, denial of reimbursement, imposition of fines, suspension or decertification from federal and state healthcare programs, loss of license or closure of the facility. These events, among others, could result in the loss of part or all of any investment we make in a senior living facility.

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

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

We are not permitted to operate our properties and we are dependent on the property managers of our properties and may be dependent on tenants in the future.

Because federal income tax laws generally restrict REITs and their pass-through subsidiaries from operating healthcare properties, we do not manage our senior living facilities. Instead, we lease our facilities to our subsidiaries that qualify as taxable REIT subsidiaries ("TRS") under applicable REIT tax laws and may in the future lease our facilities to operating companies. We have retained property managers, some of which are affiliates of our manager, to manage communities that are leased to our TRSs. Our income from our properties may be adversely affected if our property managers or any future tenants fail to provide quality services and amenities to residents or if they fail to maintain quality service. While we monitor our property managers' performance and will monitor our future tenants' performance, we have limited recourse under our management agreements, and expect to have limited recourse under our leases, if we believe that the property managers or future tenants are not performing adequately. Failure by our property managers or future tenants to fully perform the duties agreed to in our property management agreements or future leases could adversely affect our results of operations. In addition, our property managers and future tenants may manage, own or invest in, properties that compete with our properties, which may result in conflicts of interest. As a result, our property managers and future tenants may make decisions regarding competing properties that are not or would not be in our best interests.

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

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

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

Wages and employee benefits represent a significant part of our senior living operating expenses, incurred by facilities leased to our TRSs. Our property managers compete with other operators of senior living facilities to attract and retain qualified personnel responsible for the day to day operations of each of these facilities. The market for qualified nurses and healthcare professionals is highly competitive. Periodic and geographic area shortages of nurses or other trained personnel may require our property managers to increase the wages and benefits offered to its employees in order to attract and retain these personnel or to hire more expensive temporary personnel. Also, our property managers may have to compete with numerous other employers for lesser skilled workers. As we acquire additional facilities, our property managers may be required to pay increased compensation or offer other incentives to retain key personnel and other employees. Employee benefits costs, including employee health insurance and workers' compensation insurance costs, have materially increased in recent years. Increasing employee health and workers' compensation insurance costs may materially and negatively affect our earnings at our senior living facilities. We cannot assure that labor costs at our senior living facilities will not increase or that any increase will be matched by corresponding increases in rates charged to residents. Any significant failure by our property managers to control labor costs or to pass on any such increased labor costs to residents through rate increases could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

Our properties and their operations are subject to extensive regulations.

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

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

Our acquisitions of senior living facilities may not be successful.

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

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

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

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

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

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

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

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

The REIT provisions of the Internal Revenue Code of 1986, as amended, or the Code, limit our ability to hedge. In managing our hedge instruments, we consider the effect of the expected hedging income on the REIT qualification tests that limit the amount of gross income that a REIT may receive from hedging. We need to carefully monitor, and may have to limit, our hedging strategy to assure that we do not realize hedging income, or hold hedges having a value, in excess of the amounts that would cause us to fail the REIT gross income and asset tests. In addition, our ability to hedge is limited by certain undertakings that we made to the U.S. Commodity Futures Trading Commission in order to avail ourselves of no-action relief from the requirement to register as a commodity pool operator.

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

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

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

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

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

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

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

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. Our management identified a material weakness in our internal controls with respect to our financial statements for the year ended December 31, 2011. Although this was remediated, we cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we believe that internal controls were effective. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline in our share price and impairing our ability to raise capital.

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

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

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

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

We may invest in operating businesses in distressed industries, and such investments are subject to operational and other business risks.

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

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

The distribution of New Residential common stock will not qualify for tax-free treatment. The distribution of New Residential common stock, as well as each cash distribution made by us is taxable to taxable shareholders to the extent of our earnings and profits. If the aggregate value of the distributions we make in a given year exceeds our earnings and profits, then such excess is treated as a return of capital to the extent of a shareholder's basis and then to capital gain. The distribution of New Residential stock will contribute to Newcastle's earnings and profits to the extent that the value of the shares distributed exceeds Newcastle's tax basis in the New Residential assets.

In addition, we or other applicable withholding agents may be required or permitted to withhold at the applicable rate on all or a portion of the distribution payable to non-U.S. stockholders, and any such withholding would be satisfied by us or such agent withholding and selling a portion of the New Residential stock otherwise distributable to non-U.S. stockholders. Such non-U.S. stockholders may bear brokerage fees or other costs from this withholding procedure. Your tax basis in our shares held at the time of the distribution will be reduced (but not below zero) to the extent the fair market value of the New Residential shares distributed by us to you in the distribution exceeds your ratable share of our current and accumulated earnings and profits. Your holding period for such our shares will not be affected by the distribution. We will not be able to advise you of the amount of its earnings and profits until after the end of the 2013 calendar year.

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

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

We completed a spin-off of New Residential in May 2013. The terms of the agreements related to the spin-off of New Residential, including a Separation and Distribution Agreement dated April 26, 2013 (the "Separation and Distribution Agreement") between us and New Residential and a management agreement between our manager and New Residential, were not negotiated among unaffiliated third parties. Such terms were proposed by our officers and other employees of our manager and approved by our board of directors. As a result, these terms may be less favorable to us than the terms that would have resulted from arm's-length negotiations among unaffiliated third parties.

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

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

We conduct our operations in reliance on an exemption from the 1940 Act, which we refer to as Section 3(c)(5)(C), , which is available for entities "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate."

Reliance on this exemption limits our ability to make certain investments. Section 3(c)(5)(C) generally requires that at least 55% of our assets be comprised of qualifying real estate assets and at least 80% of our assets be comprised of a combination of qualifying real estate assets and real estate related assets. In satisfying the 55% requirement, based on guidance from the SEC and its staff, we treat Agency ARM RMBS issued with respect to an underlying pool of mortgage loans in which we hold all of the certificates issued by the pool as qualifying real estate assets. The SEC and its staff have not issued guidance with respect to whole pool non-Agency RMBS for purposes of Section 3(c)(5)(C). Accordingly, based on our own judgment and analysis of the guidance with respect to Agency whole pool certificates, we treat non-Agency ARM RMBS issued with respect to an underlying pool of mortgage loans in which we hold all of the certificates issued by the pool as qualifying real estate assets. We also treat whole mortgage loans that we acquire directly as qualifying real estate assets provided that 100% of the loan is secured by real estate when we acquire the loan and we have the unilateral right to foreclose on the mortgage. In addition, we treat investments in Agency partial pool RMBS and non-Agency partial pool RMBS as real estate related assets. Section 3(c)(5)(C) generally limits the amount of our investments in non-real estate assets, including consumer loans, to no more than 20% of our total assets. To the extent that we acquire significant non-real estate assets in the future, in order to maintain our exemption under the 1940 Act, we may need to offset those acquisitions with additional qualifying real estate and real estate related assets, which may not generate risk-adjusted returns as attractive as those generated by non-real estate related assets.

In August 2011, the SEC solicited public comment on a wide range of issues relating to Section 3(c)(5)(C), including the nature of the assets that qualify for purposes of the exemption and whether mortgage REITs like us should be regulated in a manner similar to investment companies. The request for public comment has not yet resulted in SEC rulemaking or interpretive guidance, and there can be no assurance that the laws and regulations governing the 1940 Act status of REITs, or SEC guidance regarding Section 3(c)(5)(C), will not change in a manner that adversely affects our operations. If the SEC takes action that could result in our failure to maintain an exception or exemption from the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to maintain our exemption from registration as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company (which, among other things, would require us to comply with the leverage constraints applicable to investment companies), any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions to our stockholders, which could, in turn, materially and adversely affect us and the market price of our stock.

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

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

Risks Relating to Our REIT Status

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In January 2013, we experienced an "ownership change" for purposes of Section 382 of the Code, which limits our ability to utilize our net operating loss and net capital loss carryforwards and certain built-in losses to reduce our future taxable income, potentially increases our related REIT distribution requirement, and potentially adversely affects our liquidity.

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

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

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

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

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

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

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

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

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

We may experience issues regarding the characterization of income for tax purposes. For example, we may recognize significant ordinary income, which we would not be able to offset with capital losses, which would, in turn, increase the amount of income we would be required to distribute to stockholders in order to maintain our REIT status. We expect that this disconnect will occur in the case of one or more of our non-recourse financing structures, including off balance sheet structures such as our subprime securitizations and non-consolidated CDOs, where we incur capital losses on the related assets, and ordinary income from the cancellation of the related non-recourse financing if the ultimate proceeds from the assets are insufficient to repay such debt. Through June 30, 2013, no such cancellation of CDO debt had been effected as a result of losses incurred. However, we expect that such cancellation of indebtedness within our CDOs, consolidated or non-consolidated, may occur in the future. In the case of our subprime securitizations, $75.3 million of such cancellations had been effected through June 30, 2013, and we expect such cancellations will continue as losses are realized. This disconnect could also occur, and has occurred, as a result of the repurchase of our outstanding debt at a discount as the gain recorded upon the cancellation of indebtedness is characterized as ordinary income for tax purposes. We have repurchased our debt at a discount in the past, and we intend to attempt to do so in the future. During 2009 and 2010, we repurchased $787.8 million face amount of our outstanding CDO debt and junior subordinated notes at a discount, and recorded $521.1 million of gain. In compliance with tax laws, we had the ability to defer the ordinary income recorded as a result of this cancellation of indebtedness to future years and have deferred or intend to defer all or a portion of such gain for 2009 and 2010. While such deferral may postpone the effect of the disconnect on the ability to offset taxable income and losses, it does not eliminate it. Furthermore, cancellation of indebtedness income recognized on or after January 1, 2011 cannot be deferred and must generally be recognized as ordinary income in the year of such cancellation. During the years ended December 31, 2011 and December 31, 2012, we repurchased $188.9 million and $34.1 million face amount of our outstanding CDO debt and notes payable at a discount and recorded $81.1 million and $23.2 million of gain for tax purposes, respectively, (of which only $66.1 million and $24.1 million gain relating to $171.8 million and $39.3 million face amount of debt repurchased, respectively, was recognized for GAAP purposes). During the six months ended June 30, 2013, we repurchased $10.9 million face amount of our outstanding CDO debt and notes payable at a discount and recorded $1.2 million of gain for tax and GAAP purposes. The elimination of the ability to defer the recognition of cancellation of indebtedness income introduces additional tax implications that may significantly reduce the economic benefit of repurchasing our outstanding CDO debt.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 ("REMIC"), a portion of the distributions paid to a tax-exempt stockholder that is allocable to excess inclusion income may be treated as unrelated business taxable income.

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

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

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

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

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

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

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

Risks Related to Our Common Stock

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

The trading price of our common stock has fluctuated significantly over the last three years. The trading price of our common stock could fluctuate significantly in the future and could be negatively affected in response to various factors, including:

- market conditions in the broader stock market in general, or in the REIT or real estate industry in particular;
- our ability to make investments with attractive risk-adjusted returns;
- market perception of our current and projected financial condition, potential growth, future earnings and future cash dividends;
- announcements we make regarding dividends;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- market perception or media coverage of our manager or its affiliates;
- actions by rating agencies;

- short sales of our common stock;
- any decision to pursue a distribution or disposition of a meaningful portion of our assets;
- issuance of new or changed securities analysts' reports or recommendations;
- media coverage of us, other REITs or the outlook of the real estate industry;
- major reductions in trading volumes on the exchanges on which we operate;
- credit deterioration within our portfolio;
- legislative or regulatory developments, including changes in the status of our regulatory approvals or licenses; and
- litigation and governmental investigations.

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

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

We may 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. 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 currently 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 293,326,085 shares of our common stock outstanding as of June 30, 2013. We cannot predict the size of future issuances of our common stock or other securities or the effect, if any, that future sales and issuances would have on the market price of our common stock.

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

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

ERISA may restrict investments by plans in our common stock.

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

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

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

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

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

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

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

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

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

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

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

2.1	Separation and Distribution Agreement dated April 25, 2013, between New Residential Investment Corp. and the Registrant (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 2.1, filed on May 3, 2013).
3.1	Articles of Amendment and Restatement (incorporated by reference to the Registrant's Registration Statement on Form S-11 (File No. 333-90578), Exhibit 3.1).
3.2	Articles Supplementary Relating to the Series B Preferred Stock (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2003, Exhibit 3.3).
3.3	Articles Supplementary Relating to the Series C Preferred Stock (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 3.3, filed on October 25, 2005).
3.4	Articles Supplementary Relating to the Series D Preferred Stock (incorporated by reference to the Registrant's Report on Form 8-A, Exhibit 3.1, filed on March 14, 2007).
3.5	Articles of Amendment (incorporated by reference to the Registrant's report on Form 8-K, Exhibit 3.1, filed on June 10, 2013).
3.6	Amended and Restated By-laws (incorporated by reference to the Registrant's Registration Statement on Form 8-K, Exhibit 3.1, filed on May 5, 2006).
4.1	Junior Subordinated Indenture between Newcastle Investment Corp. and The Bank of New York Mellon Trust Company, National Association, dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 4.1, filed on May 4, 2009).
4.2	Pledge and Security Agreement between Newcastle Investment Corp. and The Bank of New York Mellon Trust Company, National Association, as trustee, dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 4.2, filed on May 4, 2009).
4.3	Pledge, Security Agreement and Account Control Agreement among Newcastle Investment Corp., NIC TP LLC, as pledgor, and The Bank of New York Mellon Trust Company, National Association, as bank and trustee, dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 4.3, filed on May 4, 2009).
10.1	Amended and Restated Management and Advisory Agreement by and among the Registrant and FIG LLC, dated April 25, 2013 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 10.1, filed on May 3, 2013).
10.2	2012 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan, adopted as of May 7, 2012 (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.3).
10.3	Exchange Agreement between Newcastle Investment Corp. and Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd. And Taberna Preferred Funding VII, Ltd., dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on May 4, 2009).
10.4	Exchange Agreement, dated as of January 29, 2010, by and among Newcastle Investment Corp., Taberna Capital Management, LLC, Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd. And Taberna Preferred Funding VII, Ltd. (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on February 2, 2010).
10.5	Excess Servicing Spread Sale and Assignment Agreement between NIC MSR I LLC, a wholly owned subsidiary of Newcastle Investment Corp., and Nationstar Mortgage LLC, dated December 8, 2011. (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).
10.6	Excess Spread Refinanced Loan Replacement Agreement between NIC MSR I LLC, a wholly owned subsidiary of Newcastle Investment Corp., and Nationstar Mortgage LLC, dated December 8, 2011. (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).
10.7	Future Spread Agreement for FNMA Mortgage Loans, dated as of May 13, 2012, between Nationstar Mortgage LLC and NIC MSR V LLC (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).
10.8	Future Spread Agreement for FHLMC Mortgage Loans, dated as of May 13, 2012, between Nationstar Mortgage LLC and NIC MSR IV LLC (incorporated by reference to the Registrant's Report on Form 10-K, Exhibit 10.6, filed on March 15, 2012).
10.9	Future Spread Agreement for Non-Agency Mortgage Loans, dated as of May 13, 2012, between Nationstar Mortgage LLC and NIC MSR VI LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.6, filed on May 15, 2012).

10.10	Future Spread Agreement for GNMA Mortgage Loans, dated as of May 13, 2012, between Nationstar Mortgage LLC and NIC MSR VII LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.8, filed on May 15, 2012).
10.11	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, dated as of June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on June 7, 2012).
10.12	Amended and Restated Future Spread Agreement for FNMA Mortgage Loans, dated June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.2, filed on June 7, 2012).
10.13	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, dated as of June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.3, filed on June 7, 2012).
10.14	Amended and Restated Future Spread Agreement for FHLMC Mortgage Loans, dated June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.4, filed on June 7, 2012).
10.15	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, dated as of June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.5, filed on June 7, 2012).
10.16	Amended and Restated Future Spread Agreement for Non-Agency Mortgage Loans, dated June 7, 2012, between Nationstar Mortgage LLC and NIC MSR II LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.6, filed on June 7, 2012).
10.17	Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, dated as of May 31, 2012, between Nationstar Mortgage LLC and NIC MSR III LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on June 6, 2012).
10.18	Future Spread Agreement for FHLMC Mortgage Loans , dated May 31, 2012, between Nationstar Mortgage LLC and NIC MSR III LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.2, filed on June 6, 2012).
10.19	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, dated as of June 28, 2012, between Nationstar Mortgage LLC and NIC MSR V LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on July 5, 2012).
10.20	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, dated as of June 28, 2012, between Nationstar Mortgage LLC and NIC MSR IV LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.2, filed on July 5, 2012).
10.21	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, dated as of June 28, 2012, between Nationstar Mortgage LLC and NIC MSR VI LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.3, filed on July 5, 2012).
10.22	Amended and Restated Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, dated as of June 28, 2012, between Nationstar Mortgage LLC and NIC MSR VII LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.4, filed on July 5, 2012).
10.23	Master Designation Agreement, dated as of July 17, 2012, among B Healthcare Properties LLC and the designees listed on the signature pages attached thereto (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on July 23, 2012).
10.24	Amended and Restated Purchase Agreement, dated as of February 27, 2012, by and among the Purchasers named therein, the Sellers named therein, the Former Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.2, filed on July 23, 2012).

10.25	Amendment No. 1 to the Amended and Restated Purchase Agreement, dated as of March 30, 2012, among the Purchasers named therein, the Sellers named therein, BDC/West Covina II, LLC and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.3, filed on July 23, 2012).
10.26	Amendment No. 2 to the Amended and Restated Purchase Agreement, dated as of April 11, 2012, among the Purchasers named therein, the Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.4, filed on July 23, 2012).
10.27	Amendment No. 3 to the Amended and Restated Purchase Agreement, dated as of April 27, 2012, among the Purchasers named therein, the Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.5, filed on July 23, 2012).
10.28	Amendment No 4 to the Amended and Restated Purchase Agreement, dated as of June 14, 2012, among the Purchasers named therein, the Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.6, filed on July 23, 2012).
10.29	Amendment No. 5 to the Amended and Restated Purchase Agreement, dated as of July 16, 2012, among the Purchasers named therein, the Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.7, filed on July 23, 2012).
10.30	Master Credit Facility Agreement, dated as of July 18, 2012, by and among the Borrowers named therein, Propco LLC, TRS LLC and Oak Grove Commercial Mortgage, LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.8, filed on July 23, 2012).
10.31	Assignment of Master Credit Facility Agreement and Other Loan Documents, dated as of July 18, 2012, from Oak Grove Commercial Mortgage, LLC to Fannie Mae (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.9, filed on July 23, 2012).
10.32	Management Agreement, dated as of July 5, 2012, between Willow Park Management LLC and Willow Park Leasing LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.10, filed on July 23, 2012).
10.33	Sale and Cooperation Agreement, dated September 7, 2012, among Newcastle Investment Corp., Barclays Bank PLC and ED LIMITED (incorporated by reference to the Registrant's Report on Form 10-Q, Exhibit 10.33, filed on October 26, 2012).
10.34	Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, dated as of December 31, 2012, between Nationstar Mortgage LLC and MSR VIII LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.35).
10.35	Future Spread Agreement for GNMA Mortgage Loans, dated as of December 31, 2012, between Nationstar Mortgage LLC and MSR VIII LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.36).
10.36	Current Excess Servicing Spread Acquisition Agreement for FHLMC Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR IX LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.37).
10.37	Future Spread Agreement for FHLMC Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR IX LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.38).
10.38	Current Excess Servicing Spread Acquisition Agreement for FNMA Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR X LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.39).
10.39	Future Spread Agreement for FNMA Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR X LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.40).

10.40	Current Excess Servicing Spread Acquisition Agreement for GNMA Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR XI LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.41).
10.41	Future Spread Agreement for GNMA Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR XI LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.42).
10.42	Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR XII LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.43).
10.43	Future Spread Agreement for Non-Agency Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR XII LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.44).
10.44	Current Excess Servicing Spread Acquisition Agreement for Non-Agency Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR XIII LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.45).
10.45	Future Spread Agreement for Non-Agency Mortgage Loans, dated as of January 6, 2013, between Nationstar Mortgage LLC and MSR XIII LLC (incorporated by reference to the Registrant's Report on Form 10-K for the year ended December 31, 2012, Exhibit 10.46).
10.46	Purchase Agreement, among the Sellers listed therein, HSBC Finance Corporation and SpringCastle Acquisition LLC, dated March 5, 2013 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 99.1, filed on March 11, 2013.
10.47	Form of Interim Servicing Agreement, among the Interim Servicers listed therein, HSBC Bank USA, National Association and SpringCastle Acquisition LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 99.1, filed on March 11, 2013).
21.1	Subsidiaries of the Registrant (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012, Exhibit 21.1)
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.

*XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Sections 11and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

The following management agreements are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K, as discussed in Item 1.01 on Form 8-K filed on July 23, 2012:

Management Agreement, dated as of July 5, 2012, between Sun Oak Management LLC and Sun Oak Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Orchard Park Management LLC and Orchard Park Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Desert Flower Management LLC and Desert Flower Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Canyon Creek Property Management LLC and Canyon Creek Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Regent Court Management LLC and Regent Court Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Sunshine Villa Management LLC and Sunshine Villa Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Sheldon Park Management LLC and Sheldon Park Leasing LLC.

SIGNATURES

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

NEWCASTLE INVESTMENT CORP.

By: /s/ Kenneth M. Riis
Kenneth M. Riis
Chief Executive Officer and President

August 7, 2013

By: /s/ Jonathan R. Brown
Jonathan R. Brown
Interim Chief Financial Officer
and Principal Accounting Officer
August 7, 2013

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kenneth M. Riis, 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

August 7, 2013

/s/ Kenneth M. Riis
Kenneth M. Riis
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Jonathan R. Brown, certify that:

1. I have reviewed this 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

August 7, 2013

/s/ Jonathan R. Brown

Jonathan R. Brown
Interim Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CEO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Newcastle Investment Corp. (the “Company”) for the quarterly period ended June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Kenneth M. Riis, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kenneth M. Riis

Kenneth M. Riis
Chief Executive Officer
August 7, 2013

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Newcastle Investment Corp. (the “Company”) for the quarterly period ended June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Jonathan R. Brown, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jonathan R. Brown

Jonathan R. Brown
Interim Chief Financial Officer
August 7, 2013

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.