

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from _____ to _____

Commission File Number: 001-31458

Newcastle Investment Corp.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation
or organization)

81-0559116
(I.R.S. Employer Identification No.)

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

10105
(Zip Code)

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

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

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

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

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

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

Yes No

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

- changes in global, national and local economic conditions, including, but not limited to, a prolonged economic slowdown and a downturn in the real estate market;
- reductions in cash flows received from our investments;
- the availability and cost of capital for future investments, particularly in a rising interest rate environment, and our ability to deploy capital accretively;
- our ability to profit from opportunistic investments, such as our investment in golf, and to mitigate the risks associated with managing operating businesses and asset classes with which we have limited experience;
- the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested;
- changes in our asset portfolio and investment strategy as a result of a spin-off of our senior housing business or other factors;
- adverse changes in the financing markets we access affecting our ability to finance our investments;
- changing risk assessments by lenders that potentially lead to increased margin calls, not extending our repurchase agreements or other financings in accordance with their current terms or entering into new financings with us;
- changes in interest rates and/or credit spreads, as well as the success of any hedging strategy we may undertake in relation to such changes;
- the risks that default and recovery rates on our real estate securities and loan portfolios deteriorate compared to our underwriting estimates;
- impairments in the value of the collateral underlying our investments and the relation of any such impairments to our judgments as to whether changes in the market value of our securities, loans or real estate are temporary or not and whether circumstances bearing on the value of such assets warrant changes in carrying values;
- our dependence on our property managers and tenants in our senior housing business;
- the ability of our property managers and tenants to comply with laws, rules and regulations in the operation of our properties, to deliver high quality services, to attract and retain qualified personnel and to attract residents;
- increases in costs at our senior housing properties (including, but not limited to, the costs of labor, supplies, insurance and property taxes);
- geographical concentrations with respect to the mortgage loans underlying and collateral securing certain of our debt investments, our senior housing properties and our golf courses;
- legislative/regulatory changes, including but not limited to, any modification of the terms of loans or changes in the healthcare industry;
- competition within the finance, real estate, senior housing industries, as well as other industries, such as the golf industry, in which we have and/or may pursue additional investments;
- the impact of litigation or any financial, accounting, legal or regulatory issues that may affect us or our property managers and tenants;
- our ability and willingness to maintain our qualification as a REIT; and
- other risks detailed from time to time below, particularly under the heading “Risk Factors,” and in our other reports filed with or furnished to the Securities and Exchange Commission (the “SEC”).

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

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

SPECIAL NOTE REGARDING EXHIBITS

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

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

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

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

NEWCASTLE INVESTMENT CORP.
FORM 10-K

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PART I

Item 1. Business.

Overview

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

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

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

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

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

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

(A) The collateralized debt obligations (“CDOs”) segment represents debt investments financed with CDOs. Assets held within non-recourse structures, including all of the assets in the senior housing and CDO segments, are not available to satisfy obligations outside of such financings, except to the extent net cash flow distributions are received from such structures. Creditors or beneficial interest holders of these structures generally have no recourse to the general credit of Newcastle. Therefore, our exposure to the economic losses from such structures generally is limited to our invested equity in them, and economically their book value cannot be less than zero. Therefore, impairment recorded in excess of our investment, which results in negative GAAP book value for a given non-recourse financing structure, cannot economically be incurred and will eventually be reversed through amortization, sales at gains, or as gains at the deconsolidation or termination of such non-recourse financing structure.

(B) The Other Debt segment represents debt investments other than our CDO investments. The following table summarizes the investments in this segment:

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

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

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

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

Further details regarding the revenues, net income (loss) and total assets of each of our segments for each of the last three fiscal years are presented in Note 5 to Part II, Item 8, "Financial Statements and Supplementary Data."

Developments in 2013

Spin-off of Residential Assets

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

Senior Housing Acquisitions

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

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

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

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

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

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

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

Restructuring and Spin-Off of Media Investments

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

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

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

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

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

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

Restructuring of Golf Investment

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

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

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

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

Investment Portfolio

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

	Outstanding Face Amount	Amortized Cost Basis ⁽¹⁾	Percentage of Total Amortized Cost Basis	Carrying Value	Number of Investments	Credit ⁽²⁾	Weighted Average Life (years) ⁽³⁾
Debt Investments							
Commercial Assets							
CMBS	\$ 333	\$ 228	5.7%	\$ 284	50	BB-	2.6
Mezzanine Loans	172	140	3.5%	140	9	85%	1.3
B-Notes	109	101	2.6%	101	4	75%	1.5
Whole Loans	30	30	0.7%	30	2	49%	0.0
CDO Securities ⁽⁴⁾	74	57	1.4%	60	2	BB+	3.1
Other Investments ⁽⁵⁾	69	69	1.7%	69	2	—	—
Total Commercial Assets	787	625	15.5%	684			2.1
Residential Assets							
MH and Residential Loans	281	253	6.3%	253	7,756	706	5.5
Non-Agency RMBS	97	41	1.0%	58	34	CCC+	4.4
Real Estate ABS	8	—	0.0%	—	1	C	—
	386	294	7.3%	311			5.1
FNMA/FHLMC securities	515	543	13.5%	546	64	AAA	3.6
Total Residential Assets	901	837	20.8%	857			4.2
Corporate Assets							
REIT Debt	29	29	0.7%	31	5	BB+	1.8
Corporate Bank Loans	257	167	4.2%	167	5	C	0.9
Total Corporate Assets	286	196	4.9%	198			1.0
Total Debt Investments	1,974	1,658	41.2%	1,739			3.0
Other Investments							
Senior Housing Investments ⁽⁶⁾	1,496	1,464	36.4%	1,464			
Media Investments ⁽⁶⁾	546	542	13.5%	542			
Golf Investment ⁽⁶⁾	358	358	8.9%	358			
Total Portfolio / WA	\$ 4,374	\$ 4,022	100.0%	\$ 4,103			
Reconciliation to GAAP total assets:							
Subprime mortgage loans subject to call option ⁽⁷⁾				406			
Other commercial real estate				7			
Cash and restricted cash				118			
Other				219			
GAAP total assets				\$ 4,853			

WA – Weighted average, in all tables.

- (1) Net of impairment.
- (2) Credit represents the weighted average of minimum ratings for rated assets, the loan-to-value ratio (based on the appraised value at the time of purchase or refinancing) for non-rated commercial assets, or the FICO score for non-rated residential assets and an implied AAA rating for FNMA/FHLMC securities. Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current.
- (3) Weighted average life is based on the timing of expected principal reduction on the asset.
- (4) Represents non-consolidated CDO securities, excluding nine securities with a zero value, which had an aggregate face amount of \$114.5 million.
- (5) Represents \$25.0 million of equity investment in a real estate owned property and \$44.0 million in a linked transaction.
- (6) Face amount of senior housing, media and golf investments represents the gross carrying amount, including intangibles and, for media, goodwill, and excludes accumulated depreciation and amortization.
- (7) Our subprime mortgage loans subject to call option are excluded from the statistics because they result from an option, not an obligation, to repurchase such loans, are noneconomic until such option is exercised, and are offset by an equal liability on the consolidated balance sheet.

Debt Investments

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

Weighted average asset yield	8.13%
Weighted average funding cost	1.71%
Net interest spread	6.42%

CMBS

Deal Vintage (A)	Average Minimum Rating (B)	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Delinquency 60+/FC/REO (C)	Principal Subordination (D)	Weighted Average Life (years) (E)
Pre 2004	CCC	6	\$ 12,442	\$ 10,673	4.7%	\$ 11,652	27.3%	44.0%	1.6
2004	BB+	9	33,435	26,285	11.5%	31,809	3.0%	7.8%	1.4
2005	B+	9	80,133	33,672	14.8%	60,814	4.0%	6.8%	1.7
2006	BB-	15	108,544	74,451	32.7%	87,805	2.7%	12.0%	1.8
2007	CCC+	3	13,237	2,599	1.1%	3,274	5.5%	7.2%	0.8
2010	BB	3	35,000	33,184	14.6%	36,608	0.0%	2.0%	6.7
2011	BB+	5	50,330	47,014	20.6%	52,507	0.0%	4.2%	4.4
Total / WA	BB-	50	\$ 333,121	\$ 227,878	100.0%	\$ 284,469	3.4%	9.1%	2.6

- (A) The year in which the securities were issued.
 (B) Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. We had no CMBS assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2013.
 (C) The percentage of underlying loans that are 60+ days delinquent, in foreclosure or considered real estate owned ("REO").
 (D) The percentage of the outstanding face amount of securities that is subordinate to our investments.
 (E) Weighted average life is based on the timing of expected principal reduction on the asset.

Mezzanine Loans, B-Notes and Whole Loans

Asset Type	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Weighted Average First Dollar Loan to Value (A)	Weighted Average Last Dollar to Loan Value (A)	Delinquency (B)
Mezzanine Loans	9	\$ 172,197	\$ 139,720	51.6%	\$ 139,720	70.9%	85.0%	7.0%
B-Notes	4	109,323	101,383	37.4%	101,383	63.8%	75.1%	0.0%
Whole Loans	2	29,715	29,715	11.0%	29,715	0.0%	48.6%	0.0%
Total/WA	15	\$ 311,235	\$ 270,818	100.0%	\$ 270,818	61.7%	78.0%	3.9%

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

CDO Securities (A)

Collateral Manager	Primary Collateral Type	Number	Average Minimum Rating (B)	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Principal Subordination (C)
Newcastle	CMBS	1	CCC	\$ 9,898	\$ —	—	\$ 2,002	11.4%
Sorin	CMBS	1	BBB	63,995	56,996	100.0%	57,755	55.2%
TOTAL/WA		2	BB+	\$ 73,893	\$ 56,996	100.0%	\$ 59,757	49.3%

- (A) Represents non-consolidated CDO securities, excluding nine securities with a zero carrying value, which had an aggregate face amount of \$114.5 million.
 (B) Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. We had no CDO assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2013.
 (C) The percentage of the outstanding face amount of securities that is subordinate to our investments.

Manufactured Housing and Residential Loans

Deal	Average FICO Score (A)	Outstanding Face Amount	Amortized Cost Basis	Percentage of Total Amortized Cost Basis	Carrying Value	Average Loan Age (years)	Original Balance	Delinquency 90+/FC/REO (B)	Cumulative Loss to Date
Manufactured Housing									
Loans Portfolio I	703	\$ 103,182	\$ 90,378	35.7%	\$ 90,378	12.1	\$ 327,855	0.9%	9.5%
Manufactured Housing									
Loans Portfolio II	706	131,603	127,569	50.4%	127,569	14.5	434,739	1.4%	7.8%
Residential Loans Portfolio I	710	42,194	31,726	12.5%	31,726	10.7	646,357	11.4%	0.5%
Residential Loans Portfolio II	737	3,774	3,582	1.4%	3,582	9.1	83,950	0.0%	0.0%
Total / WA	706	\$ 280,753	\$ 253,255	100.0%	\$ 253,255	13.0	\$ 1,492,901	2.7%	7.2%

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

Non-Agency RMBS (A)

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

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

- (A) This includes subprime retained securities in the securitizations of Subprime Portfolios I. For further information on this securitization, see Note 7 to our consolidated financial statements included in this report.
- (B) The year in which the securities were issued.
- (C) Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current. We had no ABS assets that were on negative watch for possible downgrade by at least one rating agency as of December 31, 2013.
- (D) The percentage of the outstanding face amount of securities and residual interests that is subordinate to our investments.
- (E) The annualized amount of interest received on the underlying loans in excess of the interest paid on the securities, as a percentage of the outstanding collateral balance.
- (F) The ratio of original unpaid principal balance of loans still outstanding.
- (G) Three month average constant prepayment rate.
- (H) The percentage of underlying loans that are 90+ days delinquent, or in foreclosure or considered REO.

Agency ARM RMBS (FNMA/FHLMC Securities)

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

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

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

REIT Debt

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

Corporate Bank Loans

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

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

Credit Risk Management – Debt Investments

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

Further, while the expected yield on our real estate securities, which comprise a meaningful portion of our assets, is sensitive to the performance of the underlying loans, the first risk of default and loss - referred to as a “first loss” position-is borne by the more subordinated securities or other features of the securitization transaction, in the case of commercial mortgage and asset backed securities, and the issuer’s underlying equity and subordinated debt, in the case of senior unsecured REIT debt securities.

We also invest in loans and securities which represent “first loss” positions; in other words, they do not benefit from credit support although we believe at acquisition they predominantly benefit from underlying collateral value in excess of their carrying amounts.

Other Investments

Senior Housing Investments

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

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

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

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

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

Managed Properties:

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

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

Triple Net Lease Properties:

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

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

Managed Properties

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

Triple Net Lease Properties

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

Media Investments

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

Golf Investment

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

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

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

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

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

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

Our Financing and Hedging Activities

We employ leverage as part of our investment strategy. We do not have a predetermined target debt to equity ratio as we believe the appropriate leverage for the particular assets we are financing depends on the credit quality of those assets. As of December 31, 2013 and as of the date of this Annual Report, we have complied with the general investment guidelines adopted by our board of directors that limit total leverage. We utilize leverage for the sole purpose of financing our portfolio and not for the purpose of speculating on changes in interest rates.

We strive to maintain access to a broad array of capital resources in an effort to insulate our business from potential fluctuations in the availability of capital. We utilize multiple forms of financing, including common and preferred stock offerings, collateralized debt obligations (“CDOs”), other securitizations, term loans, and trust preferred securities, as well as short term financing in the form of loans and repurchase agreements. Additionally, the Manager may elect for us to bear a level of refinancing risk on a short term or longer term basis, such as is the case with investments financed with repurchase agreements, when, based on all of the relevant factors, the Manager determines that bearing such risk is advisable or unavoidable. Further details regarding the forms of financing that are currently utilized are presented in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under “– Liquidity and Capital Resources.”

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

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

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

Debt Obligations

The following table presents certain summary information regarding our debt obligations and related hedges as of December 31, 2013 (dollars in thousands):

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

(1) Including the effect of applicable hedges.

(2) Excluding (i) restricted cash held in CDOs to be used for principal and interest payments of CDO debt, and (ii) operating cash related to the senior housing business.

(3) These facilities are collateralized by all of the assets of the respective businesses.

(4) Including a \$88.7 million notional amount of interest rate swap agreements in CDO VI which were economic hedges not designated as hedges for accounting purposes.

Further details regarding our debt obligations are presented in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” as well as Note 14 to Part II, Item 8, “Financial Statements and Supplementary Data.”

Formation

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

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

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

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

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

Our Investment Guidelines

Our investment guidelines are purposefully broad to enable us to make investments in a wide array of assets, including, but not limited to, any assets that can be held by REITs. Our investment guidelines state:

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

These investment guidelines may be changed by our board of directors without the approval of our stockholders. We do not have specific policies as to the allocation among type of real estate related assets or investment categories since our investment decisions depend on changing market conditions. Instead, we focus on relative value and in-depth risk/reward analysis. Our focus on relative value means that assets which may be unattractive under particular market conditions may, if priced appropriately to compensate for risks such as projected defaults and prepayments, become attractive relative to other available investments. We generally utilize a match funded financing strategy, when appropriate and available, and active management as part of our investment strategy.

The Management Agreement

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

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

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

To provide an incentive for our Manager to enhance the value of our common stock, our Manager is entitled to receive an incentive return (the “Incentive Compensation”) on a cumulative, but not compounding, basis in an amount equal to the product of (A) 25% of the dollar amount by which (1) (a) our funds from operations (defined as the net income available for common stockholders before the Incentive Compensation, excluding extraordinary items, plus depreciation of operating real estate, and after adjusting for unconsolidated subsidiaries, if any) per share of common stock (based on the weighted average number of shares of common stock outstanding) plus (b) gains (or losses) from debt restructuring and from sales of property and other assets per share of common stock (based on the weighted average number of shares of common stock outstanding), exceed (2) an amount equal to (a) the weighted average of the price per share of common stock in our initial public offering and the value attributed to the net assets transferred to us by Newcastle Investment Holdings, and in any of our subsequent offerings (adjusted for prior capital dividends or capital distributions) multiplied by (b) a simple interest rate of 10% per annum (divided by four to adjust for quarterly calculations) multiplied by (B) the weighted average number of shares of common stock outstanding. Our Manager earned no incentive compensation during 2013, 2012, or 2011.

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

Policies with Respect to Certain Other Activities

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

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

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

We may engage in the purchase and sale of investments.

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

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

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

Competition

We are subject to significant competition in seeking investments. We compete with other companies, including other REITs, insurance companies and other investors including funds and companies affiliated with our Manager. Some of our competitors have greater resources than we possess, or have greater access to capital or various types of financing than are available to us, and we may not be able to compete successfully for investments or provide attractive investments returns relative to our competitors.

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

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

Government Regulation of Our Senior Housing Business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Government Regulation of Our Golf Business

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

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

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

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

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

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

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

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

Taxation

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

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

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

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

Employees

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

Media

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

Golf

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

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

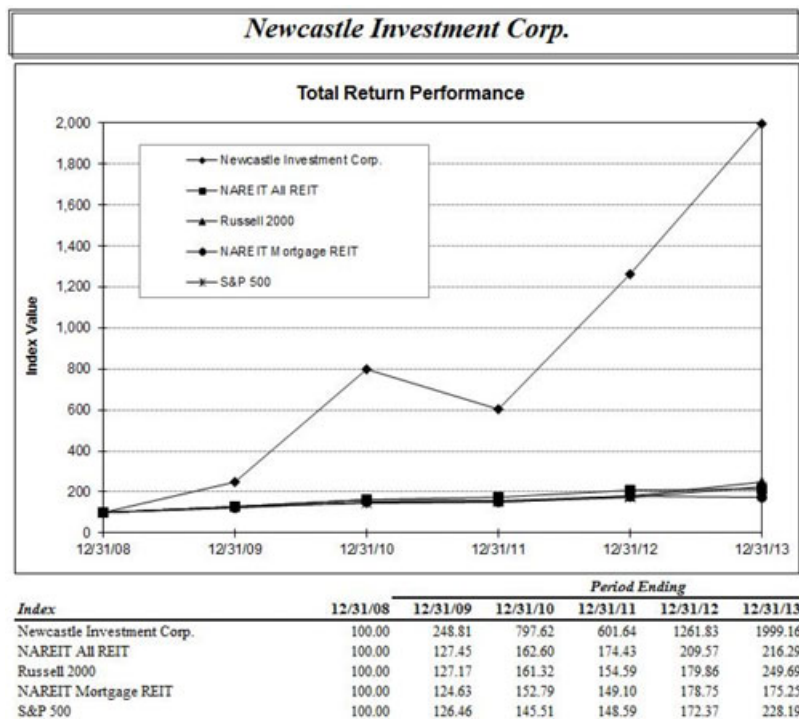
We emphasize the importance of professional business conduct and ethics through our corporate governance initiatives. Our board of directors consists of a majority of independent directors; the Audit, Nominating and Corporate Governance, and Compensation committees of our board of directors are composed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

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

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

Performance Graph

The following graph compares the cumulative total return for Newcastle's common stock (stock price change plus reinvested dividends) with the comparable return of four indices: NAREIT All REIT, Russell 2000, NAREIT Mortgage REIT and S&P 500. The graph assumes an investment of \$100 in the Newcastle's common stock and in each of the indices on December 31, 2008, and that all dividends were reinvested. The past performance of Newcastle's common stock is not an indication of future performance. Newcastle's historical stock price has been adjusted to take into consideration the impact of the spin-off of New Residential in May 2013.



Item 1A. Risk Factors

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

Risks Related to the Financial Markets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The U.S. government has enacted legislation that enables government agencies to modify the terms of a significant number of residential and other loans to provide relief to borrowers without the applicable investor’s consent. These modifications allow for outstanding principal to be deferred, interest rates to be reduced, the term of the loan to be extended or other terms to be changed in ways that can permanently eliminate the cash flow (principal and interest) associated with a portion of the loan. These modifications are currently reducing, or in the future may reduce, the value of a number of our current or future investments, including investments in mortgage-backed securities. As a result, such loan modifications could negatively affect our business, results of operations and financial condition. Additional legislation intended to provide relief to borrowers may be enacted and could further harm our business, results of operations and financial condition.

Risks Related to Our Manager

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

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

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

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

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

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

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

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

The management compensation structure that we have agreed to with our manager, as well as compensation arrangements that we may enter into with our manager in the future (in connection with new lines of business or other activities), may incentivize our manager to invest in high risk investments or to pursue separation transactions, such as the spin-off of New Residential and the spin-off of New Media. In addition to its management fee, our manager is entitled to receive incentive compensation based in part upon our achievement of targeted levels of funds from operations (as defined in the management agreement). In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on funds from operations or, in the case of any future incentive compensation arrangement, other financial measures on which incentive compensation may be based, may lead our manager to place undue emphasis on the maximization of such measures at the expense of other criteria, such as preservation of capital, in order to achieve higher

incentive compensation, particularly in light of the fact that our manager has not received any incentive compensation since 2008. Investments with higher yield potential are generally riskier or more speculative than lower-yielding investments. Our manager is eligible to receive compensation in the form of options in connection with the completion of our common equity offerings. Therefore, our manager may be incentivized to cause us to issue additional common stock, which could be dilutive to existing stockholders. In addition to the shares available for issuance under the 2012 Newcastle Nonqualified Stock Option and Incentive Plan (the "Option Plan"), our board of directors may also determine to grant options to our manager that are not issued pursuant to the Option Plan, provided that the number of shares underlying any options granted to our manager in connection with any capital raising efforts will not exceed 10% of the shares sold in such offering and would be subject to NYSE rules. See also "—Risks Related to Our Business—Our agreements with New Residential may not reflect terms that would have resulted from arm's-length negotiations among unaffiliated third parties, and we have agreed to indemnify New Residential for certain liabilities."

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

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

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

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

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

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

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

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

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

Risks Related to Our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We had no assets in our consolidated CDOs as of December 31, 2013 under negative watch for possible downgrade by at least one of the rating agencies. One or more of the rating agencies could downgrade some or all of these assets at any time, and any such downgrade could negatively affect—and possibly materially affect—our future cash flows. As of the February 2014 remittance date for CDO VI, this CDO was not in compliance with its applicable over collateralization tests and consequently, we are not receiving residual cash flows from this CDO, other than senior management fees and cash flow distributions from senior classes of bonds we own. Based upon our current calculations, we expect CDO VI to remain out of compliance for the foreseeable future. Moreover, given current market conditions, it is possible that all of our CDOs could be out of compliance with their over collateralization tests as of one or more measurement dates within the next twelve months.

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

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

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

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

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

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

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

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

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

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

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

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

We have historically financed a meaningful portion of our investments not held in CDOs with repurchase agreements, which are short-term financing arrangements, and we may enter into additional repurchase agreements in the future. Under the terms of these agreements, we sell a security to a counterparty for a specified price and concurrently agree to repurchase the same security from our counterparty at a later date for a higher specified price. During the term of the repurchase agreement—generally 30 days—the counterparty makes funds available to us and holds the security as collateral. Our counterparties can also require us to post additional margin as collateral at any time during the term of the agreement. When the term of a repurchase agreement ends, we are required to repurchase the security for the specified repurchase price, with

the difference between the sale and repurchase prices serving as the equivalent of paying interest to the counterparty in return for extending financing to us. If we want to continue to finance the security with a repurchase agreement, we ask the counterparty to extend—or “roll”—the repurchase agreement for another term.

Our counterparties are not required to roll our repurchase agreements upon the expiration of their stated terms, which subjects us to a number of risks. As we have experienced in the past and may experience in the future, counterparties electing to roll our repurchase agreements may charge higher spreads and impose more onerous terms upon us, including the requirement that we post additional margin as collateral. More significantly, if a repurchase agreement counterparty elects not to extend our financing, we would be required to pay the counterparty the full repurchase price on the maturity date and find an alternate source of financing. Alternate sources of financing may be more expensive, contain more onerous terms or simply may not be available. If we were unable to pay the repurchase price for any security financed with a repurchase agreement, the counterparty has the right to sell the underlying security being held as collateral and require us to compensate for any shortfall between the value of our obligation to the counterparty and the amount for which the collateral was sold (which may be a significantly discounted price). As of December 31, 2013, we had \$617.0 million outstanding under repurchase agreement financings, including linked transactions. These repurchase agreement obligations are with six counterparties. If any of our counterparties elected not to roll these repurchase agreements, we may not be able to find a replacement counterparty in a timely manner.

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

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

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

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

We are subject to counterparty default and concentration risks.

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

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

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

In the event of a counterparty default, particularly a default by a major investment bank, we could incur material losses rapidly, and the resulting market impact of a major counterparty default could seriously harm our business, results of operations and financial condition. In the event that one of our counterparties becomes insolvent or files for bankruptcy, our

ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding.

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

The consolidation and elimination of counterparties has increased our counterparty concentration risk. We are not restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with a few counterparties. As of the date of this report, we had obligations to repurchase assets pursuant to repurchase agreements with six different counterparties. If any of our counterparties elected not to roll these repurchase agreements, we may not be able to find a replacement counterparty. In addition, counterparties have generally tightened their underwriting standards and increased

their margin requirements for financing, which has negatively impacted us in several ways, including, decreasing the number of counterparties willing to provide financing to us, decreasing the overall amount of leverage available to us, and increasing the costs of borrowing.

Any loss suffered by us as a result of a counterparty defaulting, refusing to conduct business with us or imposing more onerous terms on us would also negatively affect our business, results of operations and financial condition.

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

One component of our investment strategy is to use match funded financing structures for certain of our investments, which match assets and liabilities with respect to maturities and interest rates. When available, this strategy mitigates the risk of not being able to refinance an investment on favorable terms or at all. However, our manager may elect for us to bear a level of refinancing risk on a short-term or longer-term basis, as in the case of investments financed with repurchase agreements, when, based on its analysis, our manager determines that bearing such risk is advisable or unavoidable (which is generally the case with respect to the residential mortgage loans and FNMA/FHLMC securities in which we invest). In addition, we may be unable, as a result of conditions in the credit markets, to match fund our investments. For example, since the 2008 recession, non-recourse term financing not subject to margin requirements has been more difficult to obtain, which impairs our ability to match fund our investments. Moreover, we may not be able to enter into interest rate swaps. Lastly, lenders may be unwilling to finance certain types of assets because of the challenges with perfecting security interests in the underlying collateral. A decision not to, or the inability to, match fund certain investments, exposes us to additional risks.

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

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

We may not be able to finance our securities and loan investments on attractive terms or at all.

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

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

We may use securitization and other non-recourse long-term financing for our investments to the extent available. In such structures, our lenders typically would have only a claim against the assets included in the securitizations rather than a general claim against us as an entity. Prior to any such financing, we would seek to finance our investments with relatively

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

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

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

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

In the event of a default under a loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the outstanding principal and accrued but unpaid interest of the loan, which could adversely affect our financial condition, earnings and cash flow from operations. Foreclosure of a loan, particularly a commercial loan, or any other restructuring activities related to an investment, can be an expensive and lengthy process, which would negatively affect our anticipated return on the foreclosed loan or such other investment. In addition, as part of any foreclosure or other restructuring, we may acquire control of a property securing a defaulted loan, which would expose us to additional risks specific to the property, including, but not limited to, the risks related to any business conducted on such property. As part of a restructuring, we may also exchange our debt for, or otherwise acquire, equity of an entity, which may involve contested negotiations and expose us to risks associated with owning the entity.

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

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

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

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

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

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

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

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

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

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

Some of our competitors have greater resources than we possess or have greater access to capital or various types of financing structures than are available to us, and we may not be able to compete successfully for investments or provide attractive investment returns relative to our competitors. These competitors may be willing to accept lower returns on their investments or to compromise underwriting standards and, as a result, our origination volume and profit margins could be adversely affected. Furthermore, competition for investments that are suitable for us may lead to the returns available from such investments decreasing, which may further limit our ability to generate our desired returns. We cannot assure you that other companies will not be formed that compete with us for investments or otherwise pursue investment strategies similar to ours or that we will be able to complete successfully against any such companies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Our primary interest rate exposures relate to our real estate securities, loans, floating rate debt obligations and interest rate swaps. Changes in interest rates, including changes in expected interest rates or "yield curves," affect our business in a number of ways. Changes in the general level of interest rates can affect our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities and hedges. Changes in the level of interest rates also can affect, among other things, our ability to acquire real estate securities and loans at attractive prices, the value of our real estate securities, loans and derivatives and our ability to realize gains from the sale of such assets. In the past, we have utilized hedging transactions to protect our positions from interest rate fluctuations, but as a result of current market conditions we face significant obstacles to entering into new hedging transactions. As a result, we may not be able to protect new investments from interest rate fluctuations to the same degree as in the past, which could adversely affect our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

The integrity of the servicing and foreclosure processes are critical to the value of the mortgage loan portfolios underlying our RMBS, and our financial results could be adversely affected by deficiencies in the conduct of those processes. For example, delays in the foreclosure process that have resulted from investigations into improper servicing practices may adversely affect the values of, and our losses on, our non-Agency RMBS. Foreclosure delays may also increase the administrative expenses of the securitization trusts for the non-Agency RMBS, thereby reducing the amount of funds

available for distribution to investors. In addition, the subordinate classes of securities issued by the securitization trusts may continue to receive interest payments while the defaulted loans remain in the trusts, rather than absorbing the default losses. This may reduce the amount of credit support available for the senior classes we own, thus possibly adversely affecting these securities. Additionally, a substantial portion of the \$25 billion settlement is intended to be a “credit” to the banks and servicers for principal write-downs or reductions they may make to certain mortgages underlying RMBS. There remains considerable uncertainty as to how these principal reductions will work and what effect they will have on the value of related RMBS; as a result, there can be no assurance that any such principal reductions will not adversely affect the value of certain of our RMBS.

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

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

Subject to maintaining our qualification as a REIT, we intend to continue to purchase senior housing properties and engage third parties (including affiliates of our Manager) to manage the operations or lease the properties. The income we recognize from any senior housing properties that we engage third parties to manage would be dependent on the ability of the property manager(s) of such facilities to successfully manage these properties. The property manager(s) would compete with other companies on a number of different levels, including: the quality of care provided, reputation, the physical appearance of a facility, price and range of services offered, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, the size and demographics of the population in surrounding areas, and the financial condition of tenants and managers. A property manager’s inability to successfully compete with other companies on one or more of the foregoing levels could adversely affect the senior housing property and materially reduce the income we would receive from an investment in such facility.

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

As a result of any new investment in senior housing properties, we may be required to consolidate additional entities, and, therefore, to document and test effective internal controls over the financial reporting of these entities in accordance with Section 404, which we may not be able to do. Even if we are able to do so, there could be significant costs and delays, particularly if these entities were not subject to Section 404 prior to being acquired by us. Under certain circumstances, the SEC permits newly acquired businesses to be excluded for a limited period of time from management’s annual assessment of the effectiveness of internal controls. We temporarily excluded the senior housing properties acquired in 2013 from management’s annual assessment of the effectiveness of internal control in 2013 pursuant to a one-year deferral permissible under PCAOB and SEC guidelines and may avail ourselves of this flexibility with respect to any newly acquired business. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm would not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates, which could subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements, which could lead to a decline in our share price, impair our ability to raise capital and other adverse consequences.

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

Furthermore, the ability to successfully manage a senior housing property depends on occupancy levels. A material decline in occupancy levels and revenues may make it more difficult for the manager of any senior housing property in which we invest to successfully generate income for us. Alternatively, to avoid a decline in occupancy, a manager may reduce the rates charged, which would also reduce our revenues and therefore negatively impact the ability to generate income.

Our ability to acquire senior housing properties will be subject to the applicable REIT qualification tests, and we may have to hold certain interests through taxable REIT subsidiaries ("TRS"), which may negatively impact our returns from these assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our properties and their operations are subject to extensive regulations.

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

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

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

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

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

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

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

Our acquisitions of senior housing properties may not be successful.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There are limits to the ability of any hedging strategy to protect us completely against interest rate risks. When rates change, we expect the gain or loss on derivatives to be offset by a related but inverse change in the value of the items, generally our liabilities, that we hedge. We cannot assure you, however, that our use of derivatives will offset the risks

related to changes in interest rates. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses. In addition, our hedging strategy may limit our flexibility by causing us to refrain from taking certain actions that would be potentially profitable but would cause adverse consequences under the terms of our hedging arrangements.

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

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

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

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

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

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

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

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

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. In connection with new investments, we may be required to consolidate additional entities, and, therefore, to document and test effective internal controls over the financial reporting of these entities in accordance with Section 404, which we may not be able to do. Even if we are able to do so, there could be significant costs and delays, particularly if these entities were not subject to Section 404 prior to being acquired by us. Under certain circumstances, the SEC permits newly acquired businesses to be excluded for a limited period of time from management's annual assessment of the effectiveness of internal control. We have excluded certain assets from management's annual assessment of the effectiveness of internal control in 2013 pursuant to a one-year deferral permissible under PCAOB and SEC guidelines, and we may avail ourselves of this flexibility in the future with respect to other newly acquired businesses. Our management identified a material weakness in our internal controls with respect to our financial statements for the year ended December 31, 2011. Although this was remediated, we cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we believe that internal controls were effective. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting

firm may not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline in our share price and impairing our ability to raise capital.

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our REIT Status and Other Matters

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

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

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

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

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

If we were delisted as a result of losing our REIT status and desired to relist our stock on the NYSE, we would have to reapply to the NYSE to be listed as a domestic corporation. As the NYSE’s listing standards for REITs are less onerous than its standards for domestic corporations, it would be more difficult for us to become a listed company under these

heightened standards. We might not be able to satisfy the NYSE's listing standards for a domestic corporation. As a result, if we were delisted from the NYSE, we might not be able to relist as a domestic corporation, in which case our common and preferred stock could not trade on the NYSE.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Certain properties are leased to our TRSs pursuant to special provisions of the Code.

We currently lease certain "qualified healthcare properties" to our TRSs (or a limited liability company of which a TRS is a member). These TRSs in turn contract with an affiliate of our manager to manage the healthcare operations at these properties. The rents paid by the TRSs in this structure will be treated as qualifying rents from real property for purposes of the REIT requirements if (i) they are paid pursuant to an arm's-length lease of a qualified healthcare property and (ii) the operator qualifies as an "eligible independent contractor" with respect to the property. An operator will qualify as an

eligible independent contractor if it meets certain ownership tests with respect to us, and if, at the time the operator enters into the management agreement, the operator is actively engaged in the trade or business of operating qualified healthcare properties for any person who is not a related person to us or the lessee. If any of the above conditions were not satisfied, then the rents would not be considered income from a qualifying source for purposes of the REIT rules, which could cause us to incur penalty taxes or to fail to qualify as a REIT.

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

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

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

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

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

We may experience issues regarding the characterization of income for tax purposes. For example, we may recognize significant ordinary income, which we would not be able to offset with capital losses, which would, in turn, increase the amount of income we would be required to distribute to stockholders in order to maintain our REIT status. We expect that this disconnect will occur in the case of one or more of our non-recourse financing structures, including off balance sheet structures such as our subprime securitizations and non-consolidated CDOs, where we incur capital losses on the related assets, and ordinary income from the cancellation of the related non-recourse financing if the ultimate proceeds from the assets are insufficient to repay such debt. Through December 31, 2013, no such cancellation of CDO debt had been effected as a result of losses incurred. However, we expect that such cancellation of indebtedness within our CDOs, consolidated or non-consolidated, may occur in the future. In the case of our subprime securitizations, \$101.9 million of such cancellations had been effected through December 31, 2013, and we expect such cancellations will continue as losses are realized. This disconnect could also occur, and has occurred, as a result of the repurchase of our outstanding debt at a discount as the gain recorded upon the cancellation of indebtedness is characterized as ordinary income for tax purposes. We have repurchased our debt at a discount in the past, and we intend to attempt to do so in the future. During 2009 and 2010, we repurchased \$787.8 million face amount of our outstanding CDO debt and junior subordinated notes at a discount, and recorded \$521.1 million of gain. In compliance with tax laws, we had the ability to defer the ordinary income recorded as a result of this cancellation of indebtedness to future years and have deferred or intend to defer all or a portion of such gain for 2009 and 2010. While such deferral may postpone the effect of the disconnect on the ability to offset taxable income and losses, it does not eliminate it. Furthermore, cancellation of indebtedness income recognized on or after January 1, 2011 cannot be deferred and must generally be recognized as ordinary income in the year of such cancellation. During the years ended December 31, 2013, 2012 and 2011, we repurchased \$35.9 million, \$34.1 million and \$188.9 million face amount of our outstanding CDO debt and notes payable at a discount and recorded \$4.6 million, \$23.2 million and \$81.1 million of gain for tax purposes, respectively (of which only \$4.6 million, \$24.1 million and \$66.1 million of gain relating to \$35.9 million, \$39.3 million and \$171.8 million face amount of debt repurchased, respectively, was recognized for GAAP purposes). The elimination of the ability to defer the recognition of cancellation of indebtedness income introduces additional tax implications that may significantly reduce the economic benefit of repurchasing our outstanding CDO debt.

When we experience any of these disconnects, and to the extent that a distribution through stock dividends is not viable, we may not have sufficient cash flow to make the distributions necessary to satisfy our REIT distribution requirements, which would cause us to lose our REIT status and thereby materially negatively impact our business, financial condition and potentially impair our ability to continue operating in the future. Under current market conditions, this type of disconnect

between taxable income and cash proceeds would be likely to occur at some point in the future if the current regulations that create the disconnect are not revised, but we cannot predict at this time when such a disconnect might occur.

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

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

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

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

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

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

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

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

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

The existing REIT provisions of the Code may substantially limit our ability to hedge our operations because a significant amount of the income from those hedging transactions is likely to be treated as non-qualifying income for purposes of both REIT gross income tests. In addition, we must limit our aggregate income from non-qualified hedging transactions, from our provision of services and from other non-qualifying sources, to less than 5% of our annual gross income (determined

without regard to gross income from qualified hedging transactions). As a result, we may have to limit our use of certain hedging techniques or implement those hedges through total return swaps. This could result in greater risks associated with changes in interest rates than we would otherwise want to incur or could increase the cost of our hedging activities. If we fail to comply with these limitations, we could lose our REIT qualification for federal income tax purposes, unless our failure was due to reasonable cause, and not due to willful neglect, and we meet certain other technical requirements. Even if our failure were due to reasonable cause, we might incur a penalty tax.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Common Stock

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

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

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

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

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

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

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

We may choose to pay dividends in our own stock, or make a distribution of a subsidiary's common stock, in which case you could be required to pay income taxes in excess of the cash dividends you receive.

We may in the future distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. We may also determine to distribute a taxable dividend in the stock of a subsidiary in connection with a spin-off or other transaction, as in the case of our spin-off of New Residential in May 2013 and our spin-off of New Media in February 2014. We are currently considering a spin-off of our senior housing business, which could result in the distribution of a taxable dividend, although there can be no assurance as to the timing, terms, structure or completion of any such transaction. Taxable stockholders receiving such distributions will be required to include the full amount of the distribution as ordinary income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sale proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

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

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

Sales of our common stock or other securities in the public or private market, or the perception that these sales may occur, could cause the market price of our common stock to decline. This could also impair our ability to raise additional capital through the sale of our equity securities. Under our certificate of incorporation, we are authorized to issue up to 1,000,000,000 shares of common stock and we are authorized to reclassify a portion of our authorized preferred stock into common stock, and there were 351,453,495 shares of our common stock outstanding as of February 21, 2014. We cannot predict the size of future issuances of our common stock or other securities or the effect, if any, that future sales and issuances would have on the market price of our common stock.

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

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

ERISA may restrict investments by plans in our common stock.

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

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

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

Item 2. Properties.

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

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

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

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

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures

None.

PART II

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

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

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

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

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

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

On February 21, 2014, the closing sale price for our common stock, as reported on the NYSE, was \$4.80. As of February 21, 2014, there were approximately 62 record holders of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

Equity Compensation Plan Information

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

In May 2012, with the approval of the shareholders, Newcastle's board of directors adopted the 2012 Newcastle Nonqualified Stock Option and Incentive Plan, or the 2012 Plan. The 2012 Plan is the successor to the Newcastle Option Plan for officers, directors, consultants and advisors, including the Manager and its employees, and is intended to facilitate the continued use of long-term equity-based awards and incentives for the benefit of the service providers to Newcastle and its Manager. All outstanding options granted under the Newcastle Option Plan will continue to be subject to the terms and conditions set forth in the agreements evidencing such options and the terms of the Newcastle Option Plan. The maximum number of shares available for issuance in the aggregate over the ten-year term of the 2012 Plan is 20,000,000 shares. Newcastle's board of directors may also determine to issue options to the Manager that are not subject to the 2012 Plan, provided that the number of shares underlying any options granted to the Manager in connection with capital raising efforts would not exceed 10% of the shares sold in such offering and would be subject to New York Stock Exchange rules. Upon exercise, all options will be settled in an amount of cash equal to the excess of the fair market value of a share of common stock on the date of exercise over the strike price per share, unless advance approval is made to settle the option in shares of common stock.

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

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

Equity Compensation Plans Not approved by Security Holders:

None

- (1) Includes options relating to (i) 24,318,843 shares held by an affiliate of our Manager; (ii) 2,956,470 shares granted to our Manager and assigned to certain of Fortress's employees; and (iii) an aggregate of 4,000 shares granted to our directors, other than Mr. Edens, but does not include options relating to 2,934,890 shares granted to an affiliate of our Manager with a strike price of \$5.25 per share that were not issued pursuant to an equity compensation plan.
- (2) The maximum available for issuance is 20,000,000 shares in the aggregate over the term of the 2012 Plan and no award shall be granted on or after May 7, 2022 (but awards granted may extend beyond this date). The number of securities remaining available for future issuance is net of (i) an aggregate of 79,870 shares of our common stock awards to our directors, other than Mr. Edens and Mr. Riis, representing the aggregate annual automatic stock awards to each such director for the periods subsequent to the adoption of the 2012 Plan and (ii) an aggregate of 65,833 options which have been previously exercised.

Item 6. Selected Financial Data.

The selected historical consolidated financial information set forth below as of and for each of the five years ended December 31, 2013 has been derived from our audited historical consolidated financial statements.

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

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

	Year Ended December 31,				
	2013 (1)	2012	2011	2010	2009
Operating Data					
Interest income	\$ 213,715	\$ 282,951	\$ 291,036	\$ 300,272	\$ 361,866
Interest expense	90,973	109,924	138,035	172,219	218,410
Net interest income	<u>122,742</u>	<u>173,027</u>	<u>153,001</u>	<u>128,053</u>	<u>143,456</u>
Impairment (reversal)	(19,769)	(5,664)	1,110	(240,858)	548,540
Net interest income (loss) after impairment/reversal	<u>142,511</u>	<u>178,691</u>	<u>151,891</u>	<u>368,911</u>	<u>(405,084)</u>
Other revenues	148,960	20,075	1,899	1,708	1,547
Other income	37,144	262,294	180,495	282,287	227,399
Expenses	207,506	66,118	30,327	30,901	33,099
Income (loss) from continuing operations before income tax	121,109	394,942	303,958	622,005	(209,237)
Income tax expense	2,100	—	—	—	—
Income (loss) from continuing operations	119,009	394,942	303,958	622,005	(209,237)
Income (loss) from discontinued operations	33,332	39,168	561	(343)	(667)
Net income (loss)	152,341	434,110	304,519	621,662	(209,904)
Preferred dividends	(5,580)	(5,580)	(5,580)	(7,453)	(13,501)
Excess of carrying amount of exchanged preferred stock over fair value of consideration paid	—	—	—	43,043	—
Net income attributable to noncontrolling interests	(928)	—	—	—	—
Income (loss) applicable to common stockholders	<u>\$ 145,833</u>	<u>\$ 428,530</u>	<u>\$ 298,939</u>	<u>\$ 657,252</u>	<u>\$ (223,405)</u>
Income (loss) per share of common stock, diluted	<u>\$ 0.51</u>	<u>\$ 2.94</u>	<u>\$ 3.65</u>	<u>\$ 10.96</u>	<u>\$ (4.23)</u>
Income (loss) from continuing operations per share of common stock, after preferred dividends, excess of carrying amount of exchanged preferred stock over fair value of consideration paid and net income attributable to noncontrolling interest diluted	<u>\$ 0.40</u>	<u>\$ 2.67</u>	<u>\$ 3.64</u>	<u>\$ 10.97</u>	<u>\$ (4.21)</u>
Income (loss) from discontinued operations per share of common stock diluted	<u>\$ 0.11</u>	<u>\$ 0.27</u>	<u>\$ 0.01</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average number of shares of common stock outstanding, diluted	<u>283,310</u>	<u>145,766</u>	<u>81,990</u>	<u>59,949</u>	<u>52,864</u>
Dividends declared per share of common stock	<u>\$ 0.59</u>	<u>\$ 0.84</u>	<u>\$ 0.40</u>	<u>\$ —</u>	<u>\$ —</u>

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

As Of December 31,

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

- (1) The 2013 balance sheet data includes the impact of the acquisitions of the Holiday Portfolio, other senior housing properties and the Media and Golf businesses. See additional information in Note 3 to our consolidated financial statements, which appear in Part II, Item 8, "Financial Statements and Supplementary Data."
- (2) Newcastle has the following primary variables that impact its operating performance: (i) the current yield earned on its investments that are not included in non-recourse financing structures (i.e., unlevered investments, including investments in equity method investees and investments subject to recourse debt), (ii) the net yield it earns from its non-recourse financing structures, (iii) the interest expense and dividends incurred under its recourse debt and preferred stock, (iv) the net operating income on its real estate, media and golf investments, (v) its operating expenses and (vi) its realized and unrealized gains or losses, including any impairment, on its investments, derivatives and debt obligations. "Core earnings" is a non-GAAP measure of the operating performance of Newcastle excluding the sixth variable listed above and adjusting the consumer loans portfolio accounting to a level yield methodology. It also excludes depreciation and amortization charges and acquisition and spin-off related expenses. "Core earnings" is used by management to gauge the current performance of Newcastle without taking into account gains and losses, which, although they represent a part of our recurring operations, are subject to significant variability and are only a potential indicator of future economic performance. It is the judgment of management that depreciation and amortization charges are not indicative of operating performance and that acquisition and spin-off related expenses are not part of our core operations. Management believes that the exclusion from "Core earnings" of the items specified above allows investors and analysts to readily identify the operating performance of the assets that form the core of our activity, assists in comparing the core operating results between periods, and enables investors to evaluate Newcastle's current performance using the same measure that management uses to operate the business, which is among the factors considered when determining the amount of distributions to our shareholders. Newcastle changed its definition of "Core Earnings" to exclude acquisition and spin-off related expenses in the third quarter of 2013. The calculation of "Core Earnings" has been retroactively adjusted for all periods presented.

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

Calculation of Core Earnings:

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

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

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

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

General

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

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

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

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

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

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

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

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

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

Market Considerations

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

Our ability to execute our business strategy, particularly the growth of our investment portfolio, depends to a significant degree on our ability to obtain additional capital. During 2013, we successfully accessed the capital markets, issuing 178,700,952 shares for total net proceeds of \$1.3 billion. However, rising interest rates or stock market volatility could impair our ability to raise equity capital on attractive terms.

Debt Investments

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

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

Senior Housing

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

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

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

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

Media Business

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

Golf Business

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

Application of Critical Accounting Policies

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

General

Variable Interest Entities

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

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

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

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

Debt Investments

Valuation of Securities

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

securities valued with pricing models, these inputs include the discount rate, assumptions relating to prepayments, default rates and loss severities, as well as other variables.

See Note 13 to our consolidated financial statements in Part II, Item 8, “Financial Statements and Supplementary Data” for information regarding the fair value of our investments, and its estimation methodology, as of December 31, 2013.

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

We generally classify the broker and pricing service quotations we receive as level 3 inputs, except for certain liquid securities. They are quoted prices in generally inactive and illiquid markets for identical or similar securities. These quotations are generally received via email and contain disclaimers which state that they are “indicative” and not “actionable” – meaning that the party giving the quotation is not bound to actually purchase the security at the quoted price. These quotations are generally based on models prepared by the brokers, and we have little visibility into the inputs they use. Based on quarterly procedures we have performed with respect to quotations received from these brokers, including comparison to the outputs generated from our internal pricing models and transactions we have completed with respect to these securities, as well as on our knowledge and experience of these markets, we have generally determined that these quotes represent a reasonable estimate of fair value. For the \$1.0 billion carrying value of securities valued using quotations as of December 31, 2013, a 100 basis point change in credit spreads would impact estimated fair value by approximately \$16.7 million.

Our estimation of the fair value of level 3 assets valued using internal models (as described below) involves significant judgment. We validated the inputs and outputs of our models by comparing them to available independent third party market parameters and models for reasonableness. We believe the assumptions we used are within the range that a market participant would use and factor in the liquidity conditions currently in the markets. In 2013, the inputs to our models, including discount rates, prepayment speeds, default rates and severity assumptions, have generally improved compared to assumptions used at December 31, 2012 and 2011. In 2013, Newcastle increased the prepayment assumptions based on actual prepayment speeds rising throughout the year as rates remained historically low and lenders were able to lend to a broader lender base due to less strict credit standards. Default assumptions decreased due to lower levels of delinquent underlying loans. Loss severity assumptions were decreased based on observed decreases in recent loss severities. Decreasing the projected delinquency, default, and severity rates were a result of rising property values throughout the year and an increased incentive for borrowers to remain current as they gained more equity in their investments. In 2012, the inputs to our models, including discount rates, prepayment speeds, default rates and severity assumptions, have generally remained consistent with the assumptions used at December 31, 2011, other than certain modifications we have made to the assumptions to reflect conditions relevant to specific assets. In 2011, in comparison to the prior year end, we generally used lower discount rates as inputs to our models for ABS and CMBS-large loan/single borrower securities in order to reflect current market conditions.

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

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

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

Impairment of Securities

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

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

As of December 31, 2013, we had 13 securities with a carrying amount of \$24.7 million that had been downgraded during 2013. We did not record a net other-than-temporary impairment charge on these securities for the year ended December 31, 2013. However, we do not depend on credit ratings in underwriting our securities, either at acquisition or on an ongoing basis. As mentioned above, a credit rating downgrade is one factor that we monitor and consider in our analysis regarding other-than-temporary impairment, but it is not determinative. Our securities generally benefit from the support of one or more subordinate classes of securities or equity or other forms of credit support. Therefore, credit rating downgrades, even to the extent they relate to an expectation that a securitization we have invested in, on an overall basis, has credit issues, may not ultimately impact cash flow estimates for the class of securities in which we are invested.

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

Revenue Recognition on Securities

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

Valuation of Derivatives

Similarly, our derivative instruments are carried at fair value. Fair value is based on counterparty quotations. Newcastle reports the fair value of derivative instruments gross of cash paid or received pursuant to credit support agreements and fair value is reflected on a net counterparty basis when Newcastle believes a legal right of offset exists under an enforceable

netting agreement. To the extent they qualify as cash flow hedges, net unrealized gains or losses are reported as a component of accumulated other comprehensive income; otherwise, the net unrealized gains and losses are reported currently in income. To the extent they qualify as fair value hedges, net unrealized gains or losses on both the derivative and the related portion of the hedged item are reported currently in income. Fair values of such derivatives are subject to significant variability based on many of the same factors as the securities discussed above, including counterparty credit risk. The results of such variability, the effectiveness of our hedging strategies and the extent to which a forecasted hedged transaction remains probable of occurring, could result in a significant increase or decrease in our GAAP equity and/or earnings.

Loans

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

Impairment of Loans

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

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

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

Revenue Recognition on Loans Held for Investment

Income on these loans is recognized similarly to that on our securities and is subject to similar uncertainties and contingencies, which are also analyzed on at least a quarterly basis. For loans acquired at a discount for credit losses, the net income recognized is based on a "loss adjusted yield" whereby a gross interest yield is recorded to Interest Income, offset by a provision for probable, incurred credit losses which is accrued on a periodic basis to Valuation Allowance. The provision is determined based on an evaluation of the loans as described under "– Impairment of Loans" above. A rollforward of the allowance is included in Note 7 to our consolidated financial statements in Part II, Item 8, "Financial Statements and Supplementary Data."

Revenue Recognition on Loans Held for Sale

Real estate related, commercial mortgage and residential mortgage loans that are considered held for sale are carried at the lower of amortized cost or market value determined on either an individual method basis, or in the aggregate for pools of similar loans. Interest income is recognized based on the loan's coupon rate to the extent management believes it is collectable. Purchase discounts are not amortized as interest income during the period the loan is held for sale. A change in the market value of the loan, to the extent that the value is not above the average cost basis, is recorded in Valuation Allowance. A rollforward of the allowance is included in Note 7 to our consolidated financial statements in Part II, Item 8, "Financial Statements and Supplementary Data."

Investments in Equity Method Investees

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

Senior Housing

Purchase Accounting

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

Impairment of Investments in Real Estate and Residential Lease Intangibles

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

Senior Housing Revenue Recognition

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

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

Other Businesses

Purchase Accounting

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

Impairment of Investments in Real Estate

Intangibles and long-lived assets are tested for potential impairment annually or when changes in circumstances indicate the carrying value may not be recoverable. Indicators of impairment include material adverse changes in the projected revenues and expenses, significant underperformance relative to historical or projected future operating results, and significant

negative industry or economic trends. An impairment is determined to have occurred if the future net undiscounted cash flows expected to be generated is less than the carrying value of an asset. The impairment is measured as the difference between the carrying value and the fair value. Significant judgment is required both in determining impairment and in estimating the fair value. We may use assumptions and estimates derived from a review of our operating results, business projections, expected growth rates, discount rates, and tax rates. We also make certain assumptions about future economic conditions, interest rates, and other market data. Many of the factors used in these assumptions and estimates are outside the control of management, and can change in future periods.

Goodwill and Intangible Assets

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

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

Pension and Postretirement Liabilities

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

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

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

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

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

Recent Accounting Pronouncements

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

Results of Operations

Consolidated Results

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

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

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

N.M. – Not meaningful

Interest Income

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

Interest Expense

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

Valuation (Reversal) Allowance on Loans

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

Other-than-temporary Impairment on Securities, Net

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

Other Revenues

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

Gain on Settlement of Investments, Net

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

Gain on Extinguishment of Debt

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

Other Income, Net

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

Loan and Security Servicing Expense

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

Property Operating Expense

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

Media Operating Expenses

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

General and Administrative Expense

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

Management Fee to Affiliate

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

Depreciation and Amortization

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

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

	Year Ended December 31,		Increase (Decrease)	
	2012	2011	Amount	%
Interest income	\$ 282,951	\$ 291,036	\$ (8,085)	(2.8%)
Interest expense	109,924	138,035	(28,111)	(20.4%)
Net interest income	173,027	153,001	20,026	13.1%
Impairment (Reversal)				
Valuation allowance (reversal) on loans	(24,587)	(15,163)	(9,424)	(62.2%)
Impairment of long-lived assets	—	433	(433)	(100.0%)
Other-than-temporary impairment on securities, net	18,923	15,840	3,083	19.5%
	(5,664)	1,110	(6,774)	(610.3%)
Net interest income after impairment (reversal)	178,691	151,891	26,800	17.6%
Other Revenues	20,075	1,899	18,176	N.M.
Other Income				
Gain on settlement of investments, net	232,897	78,181	154,716	197.9%
Gain on extinguishment of debt	24,085	66,110	(42,025)	(63.6%)
Other income, net	5,312	36,204	(30,892)	(85.3%)
	262,294	180,495	81,799	45.3%
Expenses				
Loan and security servicing expense	4,260	4,649	(389)	(8.4%)
Property operating expenses	12,943	1,110	11,833	N.M.
General and administrative expense	17,247	6,267	10,980	175.2%
Management fee to affiliate	24,693	18,289	6,404	35.0%
Depreciation and amortization	6,975	12	6,963	N.M.
	66,118	30,327	35,791	118.0%
Income from continuing operations before income tax	\$ 394,942	\$ 303,958	\$ 90,984	29.9%

N.M. – Not meaningful

Interest Income

Interest income decreased by \$8.1 million during the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily due to a \$31.3 million decrease in interest income as a result of the deconsolidation of CDO V in June 2011 and CDO X in September 2012 partially offset by a \$23.3 million net increase in interest income as a result of new investments in securities and loans, offset by paydowns and changes in interest rates.

Interest Expense

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

Valuation Allowance (Reversal) on Loans

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

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

Impairment of Long-lived Assets

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

Other-than-temporary Impairment on Securities, Net

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

Other Revenues

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

Gain (Loss) on Settlement of Investments, Net

The net gain on settlement of investments increased by \$154.7 million primarily due to a \$224.3 million gain on the sale of CDO X interests recorded in September 2012, partially offset by a \$69.6 million decrease in the net gain on sales and repayments of investments in the 2012 period compared to the 2011 period. We recorded a net gain of \$8.6 million on 27 securities and loans that were sold or paid off during the year ended December 31, 2012, compared to a net gain of \$78.2 million on 95 securities and loans that were sold or paid off during the year ended December 31, 2011.

Gain (Loss) on Extinguishment of Debt

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

Other Income (Loss), Net

Other income decreased by \$30.9 million primarily due to (i) a \$5.8 million greater increase in the fair value of certain non-hedge interest rate swap agreements as a result of changes in interest rates in the year ended December 31, 2012 compared to the year ended December 31, 2011, (ii) a \$6.9 million decrease in unrealized losses recognized on certain interest rate swap agreements in the year ended December 31, 2012 compared to the year ended December 31, 2011, primarily caused by the fact that the interest rate swap agreements that were de-designated as accounting hedges (since the hedged items were considered not probable of occurring) had higher notional amounts during the year ended December 31, 2011 and (iii) a \$1.5 million increase in other income related to hedge ineffectiveness and collateral management fee income. The increases in (i) to (iii) above were offset by a \$45.1 million decrease in gain on deconsolidation of CDO V recorded in the year ended December 31, 2011.

Loan and Security Servicing Expense

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

Property Operating Expense

The property operating expenses increased \$11.8 million due to the acquisitions of the senior housing properties since July 2012.

General and Administrative Expense

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

Management Fee to Affiliate

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

Depreciation and Amortization

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

Segment Results

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

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

N.M. - Not meaningful

Rental Income

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

Care and ancillary income

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

Property operating expenses

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

General and administrative expense

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

Depreciation and amortization

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

Interest expense, net

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

Management fee to affiliate

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

Golf Segment

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

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

Liquidity and Capital Resources

Overview

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, and other general business needs.

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

Sources of Liquidity and Uses of Capital

As of the date of this filing, we have sufficient liquid assets, which include unrestricted cash, to satisfy all of our short-term recourse liabilities. Our junior subordinated notes payable are long-term obligations. With respect to the next twelve months, we expect that our cash on hand combined with our cash flow provided by operations will be sufficient to satisfy our anticipated liquidity needs with respect to our current investment portfolio, including related financings, capital expenditures, hedging activity, potential margin calls and operating expenses. In addition, we anticipate cash requirements with respect to incremental investments, including (but not limited to) senior housing properties. We may elect to meet the cash requirements of these incremental investments through proceeds from the monetization of our assets or from additional borrowings or equity offerings. While it is inherently more difficult to forecast beyond the next twelve months, we currently expect to meet our long-term liquidity requirements, specifically the repayment of our recourse debt obligations, through our cash on hand and, if needed, additional borrowings, proceeds received from repurchase agreements and similar financings, proceeds from equity offerings and the liquidation or refinancing of our assets.

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

Cash flow provided by operations constitutes a critical component of our liquidity. Essentially, our cash flow provided by operations is equal to (i) revenues received from our senior housing properties, Media business (which we spun-off in February 2014) and Golf business debt, (ii) the net cash flow from our CDOs that have not failed their over collateralization or interest coverage tests, plus (iii) the net cash flow from our non-CDO debt investments that are not subject to mandatory debt repayment, including principal and sales proceeds, less (iv) operating expenses (primarily management fees, operating expenses, professional fees, insurance and taxes), less (v) interest on the junior subordinated notes payable and debt related to our senior housing, Media and Golf Segments, and less (vi) preferred dividends.

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

REIT Compliance Requirements

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

inclusive of net operating loss and capital loss, of approximately \$750.2 million. The net operating loss carryforward and capital loss carryforward can generally be used to offset future ordinary taxable income and capital gain, for up to twenty years and five years, respectively. In January 2013, we experienced an “ownership change” for purposes of Section 382 of the Code, which limits our ability to utilize our net operating loss and net capital loss carryforwards to reduce our future taxable income and potentially increases our related REIT distribution requirement. We do not believe that the limitation as a result of the January 2013 ownership change will prevent us from satisfying our REIT distribution requirement for the current year or future years. No assurance, however, can be given that we will be able to satisfy our distribution requirement following a current or future ownership change or otherwise. We note that a portion of this requirement may be able to be met in future years through stock dividends, rather than cash, subject to limitations based on the value of our stock.

Update on Liquidity, Capital Resources and Capital Obligations

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

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

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

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

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

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

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

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

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

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

- *Access to Financing from Counterparties*– Decisions by investors, counterparties and lenders to enter into transactions with us will depend upon a number of factors, such as our historical and projected financial

- performance, compliance with the terms of our current credit and derivative arrangements, industry and market trends, the availability of capital and our investors', counterparties' and lenders' policies and rates applicable thereto, and the relative attractiveness of alternative investment or lending opportunities. Our business strategy is dependent upon our ability to finance our investments at rates that provide a positive net spread.
- *Impact of Rating Downgrades on CDO Cash Flows*—Ratings downgrades of assets in our CDOs can negatively impact compliance with the CDOs' over collateralization tests. Generally, the over collateralization test measures the principal balance of the specified pool of assets in a CDO against the corresponding liabilities issued by the CDO. However, based on ratings downgrades, the principal balance of an asset or of a specified percentage of assets in a CDO may be deemed to be reduced below their current balance to levels set forth in the related CDO documents for purposes of calculating the over collateralization test. As a result, ratings downgrades can reduce the assumed principal balance of the assets used in the over collateralization test relative to the corresponding liabilities in the test, thereby reducing the over collateralization percentage. In addition, actual defaults of assets would also negatively impact compliance with the over collateralization tests. Failure to satisfy an over collateralization test could result in the redirection of cashflows, or, in certain cases, in the potential removal of Newcastle as collateral manager of the affected CDO. See “– Debt Obligations” below for a summary of assets on negative watch for possible downgrade in our CDOs.
- *Impact of Expected Repayment or Forecasted Sale on Cash Flows* –The timing of and proceeds from the repayment or sale of certain investments may be different than expected or may not occur as expected. Proceeds from sales of assets in the current illiquid market environment are unpredictable and may vary materially from their estimated fair value and their carrying value.

Investment Portfolio

Our investment portfolio as of December 31, 2013 is described in Part I, Item 1, “Business – Investment Portfolio.”

Debt Obligations

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

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

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

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

Repurchase Agreements

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

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

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

Subprime Securitization

In March 2006, we acquired a portfolio of subprime mortgage loans (“Subprime Portfolio I”) for \$1.50 billion. In April 2006, Newcastle Mortgage Securities Trust 2006-1 (“Securitization Trust 2006”) closed on a securitization of Subprime Portfolio I. We do not consolidate Securitization Trust 2006. We sold Subprime Portfolio I to Securitization Trust 2006, which issued \$1.45 billion of notes with a stated maturity of March 2036. We, as holder of the equity of Securitization Trust 2006, have the option to redeem the notes once the aggregate principal balance of Subprime Portfolio I is equal to or less than 20% of such balance at the date of the transfer. The transaction between us and Securitization Trust 2006 qualified as a sale for accounting purposes. However, 20% of the loans which are subject to a call option by us, were not treated as being sold. Following the securitization, we held the following interests in Subprime Portfolio I: (i) the equity of Securitization Trust 2006, (ii) the retained notes, and (iii) subprime mortgage loans subject to call option and related financing in the amount of 100% of such loans (we note that this interest is non-economic if we do not exercise the option, meaning that it has no impact on us). As of December 31, 2013, the equity was valued at zero and the retained notes had a carrying value of \$2.5 million.

In March 2007, we entered into an agreement to acquire a portfolio of subprime mortgage loans (“Subprime Portfolio II”) with up to \$1.7 billion of unpaid principal balance. In July 2007, Newcastle Mortgage Securities Trust 2007-1 (“Securitization Trust 2007”) closed on a securitization of Subprime Portfolio II. As a result of the repurchase of delinquent loans by the seller, as well as borrower repayments, the unpaid principal balance of the portfolio upon securitization was \$1.1 billion. We do not consolidate Securitization Trust 2007. We sold Subprime Portfolio II to Securitization Trust 2007, which issued \$1.0 billion of notes with a stated maturity of April 2037. We, as holder of the equity of Securitization Trust 2007, have the option to redeem the notes once the aggregate principal balance of Subprime Portfolio II is equal to or less than 10% of such balance at the date of the transfer. The transaction between us and Securitization Trust 2007 qualified as a sale for accounting purposes. However, 10% of the loans which are subject to a call option by us were not treated as being sold. Following the securitization, we held the following interests in Subprime Portfolio II: (i) the equity of Securitization Trust 2007, (ii) the retained notes, and (iii) subprime mortgage loans subject to call option and related financing in the amount of 100% of such loans (we note that this interest is non-economic, meaning that if we do not exercise the option it has no impact on us). As of December 31, 2013, the equity and retained notes had a zero carrying value.

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

Subordinated Notes Payable

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

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

Collateral General credit of Newcastle

(A) LIBOR + 2.25% after April 2016

Non-recourse Manufactured Housing Loan Financing

On April 15, 2010, Newcastle completed a securitization transaction to refinance its Manufactured Housing Loans Portfolio I. The securitization transaction is accounted for as a secured borrowing. Newcastle continues to recognize the portfolio of manufactured housing loans as pledged assets, which have been classified as loans held for investment at securitization, and records the notes issued to third parties as a secured borrowing.

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

Non-Recourse Senior Housing Financing

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

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

Media Business Credit Facilities

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

Golf Credit Facilities

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

Non-recourse CDO Financing

Each of our CDO financings contains tests that measure the amount of over collateralization and excess interest in the transaction. At issuance, each of our CDOs passed all of these tests. Failure to satisfy these tests would generally cause (or has caused) the cash flow that would otherwise be distributed to the more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, our cash flow and liquidity are negatively impacted upon such a failure, and the impact could be (and has been) material. The table below presents data, including the most recent quarterly cash flows received by Newcastle, for each of our consolidated CDOs, and sets forth which of the CDOs have satisfied these tests in the most recent quarter. The amounts are as of December 31, 2013 unless otherwise noted. For those CDOs that have failed their applicable over collateralization tests, the impact of failing is already reflected in the cash flow in the table. For those CDOs that have satisfied their applicable over collateralization tests, we could potentially lose substantially all of the cash flows from those CDOs if we fail to satisfy the tests in the future. The amounts in the table reflect data at the CDO level and thus are different from the GAAP balance sheet due to intercompany amounts eliminated in Newcastle's consolidated balance sheet (in thousands).

	CDO VI			CDO VIII			CDO IX		
Balance Sheet:									
Assets Face Amount	\$	166,452		\$	569,064		\$	540,819	
Assets Fair Value		123,478			444,823			430,375	
Issued Debt Face Amount ⁽¹⁾		188,147			336,233			236,735	
Derivative Net Liabilities Fair Value		7,423			6,117			—	
Cash Receipts:									
Quarterly net cash receipts ⁽²⁾	\$	78		\$	3,647		\$	6,493	
Collateral Composition⁽³⁾:									
	Face	Fair Value		Face	Fair Value		Face	Fair Value	
CMBS	\$ 100,498	\$ 80,089	BB-	\$ 127,751	\$ 120,542	BB	\$ 80,701	\$ 82,857	BB
REIT Debt	29,200	31,186	BB+	—	—	—	—	—	—
ABS	36,754	12,203	CC	65,452	58,503	B+	2,650	2,718	A
Bank Loans	—	—	—	160,860	117,349	C	141,400	107,609	D
Mezzanine Loans / B-Notes / Whole Loans	—	—	—	153,501	125,112	CCC	225,457	179,890	CC
CDO	—	—	—	61,500	23,317	D	67,529	43,797	CCC+
Residential Loans	—	—	—	—	—	—	3,774	3,524	NR
Other Investments	—	—	—	—	—	—	19,308	9,980	—
Cash for Reinvestment	—	—	—	—	—	—	—	—	—
Total	\$ 166,452	\$ 123,478	B+	\$ 569,064	\$ 444,823	CCC	\$ 540,819	\$ 430,375	CCC-
Collateral on Negative Watch ⁽⁴⁾	\$	—		\$	—		\$	—	
CDO Cash Flow Triggers⁽⁵⁾:									
Over Collateralization⁽⁶⁾:									
As of Dec-2013 remittance Cushion (Deficit) (\$)	\$	(175,312)		\$	78,385		\$	148,426	
As of Feb-2014 remittance Cushion (Deficit) (\$)		(174,256)			82,613			154,672	
Interest Coverage⁽⁶⁾:									
As of Dec-2013 remittance Cushion (Deficit) (%)		(189.2%)			112.5%			301.5%	
As of Feb-2014 remittance Cushion (Deficit) (%)		(287.0%)			141.9%			350.3%	
CDO Overview:									
Effective		Aug-05			Mar-07			Jul-07	
Reinvestment Period End ⁽⁷⁾		Passed			Passed			Passed	
Optional Call ⁽⁸⁾		Passed			Passed			Passed	
Auction Call ⁽⁹⁾		Apr-15			Nov-16			May-17	
WA Debt Spread (bps) ⁽¹⁰⁾		50			66			96	

See footnotes on next page.

- (1) Includes CDO bonds issued to third parties and held by Newcastle's consolidated CDOs.
- (2) Represents net cash received from each CDO based on all of our interests in such CDO (including senior management fees but excluding principal received from senior CDO bonds owned by Newcastle) for the three months ended December 31, 2013. Cash receipts for this period included \$0.7 million of senior collateral management fees, and may not be indicative of cash receipts for subsequent periods. Excluded from the quarterly net cash receipts was \$4.9 million of unrestricted cash received from principal repayments on senior CDO bonds owned by Newcastle. This cash represents a return of principal and the realization of the difference between par and the discounted purchase price of these bonds. See "Cautionary Note Regarding Forward Looking Statements" for risks and uncertainties that could cause our receipts for subsequent periods to differ materially from these amounts.
- (3) Collateral composition includes CDO bonds of \$ 121.5 million and other bonds and notes payable of \$20.5 million issued by Newcastle, bank loans of \$45.7 million, collateralized by Newcastle real estate properties and a third party CDO security, and \$67.7 million of mezzanine loans, which are eliminated in consolidation. The fair value of these CDO bonds, other bonds and notes payable, bank loans and mezzanine loans was \$60.3 million, \$19.2 million, \$44.0 million and \$29.4 million at December 31, 2013, respectively. Also reflected are weighted average credit ratings, which were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current.
- (4) Represents the face amount of collateral on negative watch for possible downgrade by at least one rating agency (Moody's, S&P, or Fitch) as of the determination date in December 2013 for all CDOs. The amount does not include any bonds issued by Newcastle, which are eliminated in consolidation and not reflected in our investment portfolio disclosure.
- (5) Each of our CDO financings contains tests that measure the amount of over collateralization and excess interest in the transaction. Failure to satisfy these tests would cause the principal and/or interest cashflow that would otherwise be distributed to more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, our cash flow and liquidity are negatively impacted upon such a failure, and the impact could be material. Each CDO contains tests at various over collateralization and interest coverage percentage levels. The trigger percentages used above represent the first threshold at which cashflows would be redirected as described in this footnote. The data presented is as of the most recent remittance date on or before December 31, 2013 or February 25, 2014, as applicable, and may change or have changed subsequent to that date. In addition, our CDOs may also contain specific over collateralization tests that, if failed, can result in the occurrence of an event of default or our being removed as collateral manager of the CDO. Failure of the over collateralization tests can also cause a "phantom income" issue if cash that constitutes income is diverted to pay down debt instead of being distributed to us. As of the December 2013 remittance date we were not receiving cash flows from CDO VI (other than senior management fees and cash flows on senior classes of bonds we own). Based upon our current calculations, we expect CDO VI to remain out of compliance for the foreseeable future. Moreover, given current market conditions, it is possible that all of our CDOs could be out of compliance with their over collateralization tests as of one or more measurement dates within the next twelve months. Our ability to rebalance will depend upon the availability of suitable securities, market prices and other factors that are beyond our control. Such rebalancing efforts may be extremely difficult and we cannot assure you that we will be successful in our rebalancing efforts. If the liabilities of our CDOs are downgraded by Moody's to certain predetermined levels, our discretion to rebalance the applicable CDO portfolios may be negatively impacted. Moreover, if we bring these coverage tests into compliance, we cannot assure you that they will not fall out of compliance in the future or that we will be able to correct any noncompliance. For a more detailed discussion of the impact of CDO financings on our cash flows, see Part I, Item 1A, "Risk Factors – Risks 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 amounts of the bids are sufficient to pay off the outstanding CDO bonds set forth in the CDO governing document, the assets will be sold and the CDO bonds will be redeemed. However, if the aggregate amount of the bids is insufficient to pay off the outstanding CDO bonds set forth in the CDO governing document, the assets will not be sold and the redemption of CDO bonds will not occur.
- (10) Debt spread represents the spread above the benchmark interest rate (LIBOR or U.S. Treasuries) that Newcastle pays on its debt.

The following table sets forth further information with respect to the bonds of our consolidated CDO financings as of December 31, 2013 (dollars in thousands):

Class	Original Face Amount	Current Face Amount (1)				Total	Stated Interest Rate
		Held By					
		Third Parties	Newcastle CDOs (2)	Newcastle Outside of its CDOs (3)			
CDO VI							
Class I-MM	\$ 323,000	\$ 96,129	\$ —	\$ 10,974	\$ 107,103	LIBOR +	0.25%
Class I-B	59,000	59,000	—	—	59,000	LIBOR +	0.40%
Class II	33,000	23,803	—	10,349	34,152	LIBOR +	0.50%
Class III-FL	15,000	5,264	—	10,528	15,792	LIBOR +	0.80%
Class III-FX	5,000	—	—	6,573	6,573		5.67%
Class IV-FL	9,600	660	—	9,902	10,562	LIBOR +	1.70%
Class IV-FX	2,400	3,291	—	—	3,291		6.55%
Class V	21,000	—	—	30,595	30,595		7.81%
Preferred	32,000	—	—	32,000	32,000		N/A
	<u>\$ 500,000</u>	<u>\$ 188,147</u>	<u>\$ —</u>	<u>\$ 110,921</u>	<u>\$ 299,068</u>		
CDO VIII							
Class I-A	\$ 462,500	\$ 169,457	\$ —	\$ 11,406	\$ 180,863	LIBOR +	0.28%
Class I-AR	60,000	23,463	—	—	23,463	LIBOR +	0.34%
Class I-B	38,000	—	—	38,000	38,000	LIBOR +	0.36%
Class II	42,750	—	29,000	13,750	42,750	LIBOR +	0.42%
Class III	42,750	—	22,750	20,000	42,750	LIBOR +	0.50%
Class IV	28,500	—	—	—	—	LIBOR +	0.60%
Class V	28,500	28,500	—	—	28,500	LIBOR +	0.75%
Class VI	27,312	—	—	—	—	LIBOR +	0.80%
Class VII	21,375	—	—	—	—	LIBOR +	0.90%
Class VIII	22,563	11,063	8,250	3,250	22,563	LIBOR +	1.45%
Class IX-FL	6,000	6,000	—	—	6,000	LIBOR +	1.80%
Class IX-FX	7,600	7,600	—	—	7,600		6.80%
Class X	19,650	18,650	—	—	18,650	LIBOR +	2.25%
Class XI	26,125	—	—	24,125	24,125	LIBOR +	2.50%
Class XII	28,500	—	11,500	17,000	28,500		7.50%
Preferred	87,875	—	—	87,875	87,875		N/A
	<u>\$ 950,000</u>	<u>\$ 264,733</u>	<u>\$ 71,500</u>	<u>\$ 215,406</u>	<u>\$ 551,639</u>		

Class	Original Face Amount	Current Face Amount (1)				Total	Stated Interest Rate
		Held By					
		Third Parties	Newcastle CDOs (2)	Newcastle Outside of its CDOs (3)			
CDO IX							
Class A-1	\$ 379,500	\$ 111,140	\$ —	\$ —	\$ 111,140	LIBOR + 0.26%	
Class A-2	115,500	40,500	—	75,000	115,500	LIBOR + 0.47%	
Class B	37,125	35,125	—	2,000	37,125	LIBOR + 0.65%	
Class C	33,000	—	—	—	—	LIBOR + 0.93%	
Class D	20,625	—	—	—	—	LIBOR + 1.00%	
Class E	24,750	—	—	24,750	24,750	LIBOR + 1.10%	
Class F	18,562	—	—	18,562	18,562	LIBOR + 1.30%	
Class G	18,562	—	—	11,262	11,262	LIBOR + 1.50%	
Class H	21,656	—	8,751	9,305	18,056	LIBOR + 2.50%	
Class J	21,656	—	21,656	—	21,656	LIBOR + 3.00%	
Class K	19,593	—	19,593	—	19,593	LIBOR + 3.50%	
Class L	23,718	—	—	23,718	23,718	7.50%	
Class M	39,187	—	—	39,187	39,187	8.00%	
Preferred	51,566	—	—	51,566	51,566	N/A	
	<u>\$ 825,000</u>	<u>\$ 186,765</u>	<u>\$ 50,000</u>	<u>\$ 255,350</u>	<u>\$ 492,115</u>		

- (1) The amounts presented in these columns exclude the face amount of any cancelled bonds within an applicable class.
- (2) Amounts in this column represent the amount of bonds of the applicable class held by Newcastle's consolidated CDOs. These bonds are eliminated in Newcastle's consolidated balance sheet.
- (3) Amounts in this column represent the amount of bonds of the applicable class held as investments by Newcastle outside of its non-recourse financing structures. These bonds are eliminated in Newcastle's consolidated balance sheet.

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

During 2013, we repurchased \$35.9 million face amount of CDO bonds and notes payable for \$31.3 million and recorded a gain of \$4.6 million. During 2012, we repurchased \$39.3 million face amount of CDO bonds and notes payable for \$15.1 million and recorded a gain of \$24.1 million. During 2011, we repurchased \$171.8 million face amount of CDO bonds and notes payable for \$105.2 million and recorded a gain of \$66.1 million.

Equity

Common Stock

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

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

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

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

Common Dividends Paid

Declared for the Period Ended	Paid	Amount Per Share (1)
June 30, 2011	July 2011	\$0.10
September 30, 2011	October 2011	\$0.15
December 31, 2011	January 2012	\$0.15
March 31, 2012	April 2012	\$0.20
June 30, 2012	July 2012	\$0.20
September 30, 2012	October 2012	\$0.22
December 31, 2012	January 2013	\$0.22
March 31, 2013	April 2013	\$0.22
June 30, 2013	July 2013	\$0.17
September 30, 2013	October 2013	\$0.10
December 31, 2013	January 2014	\$0.10

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

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

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

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

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

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

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

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

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

In May 2012, we issued 23,000,000 shares of our common stock in a public offering at a price to the public of \$6.71 per share for net proceeds of approximately \$152.0 million. For the purpose of compensating the Manager for its successful efforts in raising capital for us, in connection with this offering, we granted options to the Manager relating to 2,300,000 shares of our common stock at the public offering price, which had a fair value of approximately \$7.6 million as of the grant date.

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

In January 2013, we issued 57,500,000 shares of our common stock in a public offering at a price to the public of \$9.35 per share for net proceeds of approximately \$526.2 million. Certain principals of Fortress participated in this offering and purchased an aggregate of 213,900 shares at a price of \$9.35 per share. For the purpose of compensating the Manager for its successful efforts in raising capital for us, in connection with this offering, we granted options to the Manager relating to 5,750,000 shares of our common stock at a price of \$9.35, which had a fair value of approximately \$18.0 million as of the grant date.

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

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

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

As of December 31, 2013, approximately 6.4 million shares of our common stock were held by Fortress, through its affiliates, and its principals.

Preferred Stock

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

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

In March 2010, Newcastle settled its offer to exchange (the "Exchange Offer") shares of its common stock and cash for shares of its preferred stock. After settlement of the Exchange Offer, 1,347,321 shares of Series B Preferred, 496,000 shares of Series C Preferred and 620,000 shares of Series D Preferred remain outstanding for trading on the New York Stock Exchange.

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

Noncontrolling Interest

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

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

Accumulated Other Comprehensive Income (Loss)

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

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

Our GAAP equity changes as our real estate securities portfolio and derivatives are marked to market each quarter, among other factors. The primary causes of mark to market changes are changes in interest rates and credit spreads. Net unrealized gains on our real estate securities decreased for the year ended December 31, 2013 in accumulative other comprehensive income primarily as a result of the spin-off of New Residential, which was partially offset by an increase in unrealized gains caused by a net tightening of credit spreads. Net unrealized losses on derivatives designated as cash flow hedges decreased for the year ended December 31, 2013, primarily as a result of swap interest payments.

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

Cash Flow

Operating Activities

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

2013 compared to 2012

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

2012 compared to 2011

- Net cash receipts from our CDOs increased approximately \$18.5 million for the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily due to (i) increased interest receipts as a result of increased reinvestments in securities and loans using restricted cash held in CDOs VIII, IX and X, (ii) decreased interest payments on our CDO debt as a result of repurchases of CDO debt, (iii) decreased interest payments on our interest rate swap agreements which had declining notional balances and (iv) decreased redirection of interest receipts for reinvestment or CDO paydown (which in turn increased our net cash receipts from our CDOs) due to the reduction of defaulted assets

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

Investing Activities

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

Financing Activities

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

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

Interest Rate, Credit and Spread Risk

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

Off-Balance Sheet Arrangements

As of December 31, 2013, we had the following material off-balance sheet arrangements. We believe that these off-balance sheet structures presented the most efficient and least expensive form of financing for these assets at the time they were entered, and represented the most common market-accepted method for financing such assets.

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

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

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

Contractual Obligations

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

<u>Contract</u>	<u>Terms</u>
CDO Bonds Payable	Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 "Financial Statements and Supplementary Data."
Other Bonds and Notes Payable	Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 "Financial Statements and Supplementary Data."
Repurchase Agreements	Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 "Financial Statements and Supplementary Data."
Mortgage Notes Payable	Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 "Financial Statements and Supplementary Data."
Credit Facilities, Media and Golf	Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 "Financial Statements and Supplementary Data."
Junior Subordinated Notes Payable	Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 "Financial Statements and Supplementary Data."
Derivative Liabilities	Described under Note 14 to our consolidated financial statements which appears under Part II, Item 8 "Financial Statements and Supplementary Data."
Management Agreement	Our Manager is paid an annual management fee of 1.5% of our gross equity, as defined, an expense reimbursement, and incentive compensation equal to 25% of our adjusted net income available for common stockholders above a certain threshold. For more information on this agreement, as well as historical amounts earned, see Note 17 to Part II, Item 8, "Financial Statements and Supplementary Data." As a result of not meeting the incentive compensation threshold, the incentive compensation to the Manager has been discontinued for an indeterminate period of time.
Property Management Agreements	We entered into property management agreements with Holiday and with Blue Harbor to manage newly acquired senior housing properties. For more information on these management agreements see Note 17 to Part II, Item 8, "Financial Statements and Supplementary Data."
Loan Servicing Agreements	We are a party to servicing agreements with respect to our residential mortgage loans, including manufactured housing loans and subprime mortgage loans. We pay annual servicing fees generally equal to 0.375% of the outstanding face amount of the residential mortgage loans, and 1.00% of the outstanding face amount of each of the two portfolios of manufactured housing loans. We also pay an incentive fee for one of the portfolios of manufactured housing loans if the performance of the loans meets certain thresholds.
Trustee Agreements	We have entered into trustee agreements in connection with our securitized investments, primarily our CDOs. We pay annual fees of between 0.015% and 0.020% of the outstanding face amount of the CDO bonds under these agreements.

Contract	Fixed and Determinable Payments Due by Period					Total
	2014	2015-2016	2017-2018	Thereafter		
CDO bonds payable ⁽¹⁾	\$ 4,198	\$ 8,395	\$ 8,395	\$ 675,650	\$ 696,638	
Other bonds and notes payable ⁽¹⁾	7,891	15,782	15,782	373,594	413,049	
Repurchase agreements ⁽²⁾	556,347	—	—	—	556,347	
Mortgage notes payable ⁽¹⁾	57,537	147,945	297,229	904,145	1,406,856	
Credit facilities, media and golf ⁽¹⁾	26,464	58,619	298,284	53,890	437,257	
Financing of subprime mortgage loans subject to future repurchase ⁽³⁾	N/A	N/A	N/A	N/A	N/A	
Junior subordinated notes payable ⁽¹⁾	3,863	6,304	3,460	80,991	94,618	
Interest rate swaps, treated as hedges ⁽⁴⁾	—	6,203	—	—	6,203	
Non-hedge derivative obligations ⁽⁵⁾	7,592	—	—	—	7,592	
Management agreement ⁽⁶⁾	33,673	67,346	67,346	841,824	1,010,189	
Operating lease obligations ⁽⁷⁾	46,288	82,152	63,595	244,628	436,663	
Membership deposit liability ⁽⁸⁾	7,314	177	1,673	225,839	235,003	
Pension benefit payments ⁽⁹⁾	*	*	*	*	*	
Property management agreements	*	*	*	*	*	
Loan servicing agreements	*	*	*	*	*	
Trustee agreements	*	*	*	*	*	
Total	\$ 751,167	\$ 392,923	\$ 755,764	\$ 3,400,561	\$ 5,300,415	

* These contracts do not have fixed and determinable payments.

- (1) Includes interest based on rates existing at December 31, 2013 and assuming no prepayments. Obligations that are repayable prior to maturity at the option of Newcastle are reflected at their contractual maturity dates.
- (2) Repurchase agreements, which have not been term financed, and mature within one year of our financial statement date, are included in this table assuming no interest.
- (3) These obligations represent the related financing on the loans which are subject to future repurchase by Newcastle and are offset by the amount of such loans. See Note 7 to Part II, Item 8, "Financial Statements and Supplementary Data".
- (4) These agreements are held within our non-recourse financing structures. The amounts reflected assume that these agreements are terminated at their December 31, 2013 fair value and paid at the contractual maturity of the related interest rate swap agreements.
- (5) The amounts reflected assume that these agreements are terminated at their December 31, 2013 fair value on January 1, 2014.
- (6) Amounts reflect base management fees for the next 30 years assuming no change in gross equity, as defined, from December 31, 2013.
- (7) Includes office space and equipment leases for our media business and leases of golf courses and related facilities. Excludes escalation charges which per our lease agreements are not fixed and determinable payments.
- (8) This obligation represents refundable membership initiation deposits due generally 30 years after the date of acceptance of a member.
- (9) The periods in which these obligations will be settled in cash are not readily determinable and are subject to numerous future events or assumptions. We estimate cash requirements for these obligations in 2014 totaling approximately \$1.9 million.

Inflation

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

Core Earnings

Newcastle has the following primary variables that impact its operating performance: (i) the current yield earned on its investments that are not included in non-recourse financing structures (i.e., unlevered investments, including investments in equity method investees and investments subject to recourse debt), (ii) the net yield it earns from its non-recourse financing structures, (iii) the interest expense and dividends incurred under its recourse debt and preferred stock, (iv) the net operating income on its real estate, media and golf investments, (v) its operating expenses and (vi) its realized and unrealized gains or losses, including any impairment, on its investments, derivatives and debt obligations. Core earnings is a non-GAAP measure of the operating performance of Newcastle excluding the sixth variable listed above and adjusting the consumer loans portfolio accounting to a level yield methodology. It also excludes depreciation and amortization charges and acquisition and spin-off related expenses. Core earnings is used by management to gauge the current performance of Newcastle without taking into account gains and losses, which, although they represent a part of our recurring operations, are subject to significant variability and are only a potential indicator of future economic performance. It is the judgment of management that depreciation and amortization charges are not indicative of operating performance and that acquisition and spin-off related expenses are not part of our core operations. Management believes that the

exclusion from Core earnings of the items specified above allows investors and analysts to readily identify the operating performance of the assets that form the core of our activity, assists in comparing the core operating results between periods, and enables investors to evaluate Newcastle's current performance using the same measure that management uses to operate the business, which is among the factors considered when determining the amount of distributions to our shareholders. Newcastle changed its definition of Core earnings to exclude acquisition and spin-off related expenses in the third quarter of 2013. The calculation of Core earnings has been retroactively adjusted for all periods presented.

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

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

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

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

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

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

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

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

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

Interest Rate Exposure

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

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

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

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

Furthermore, a period of rising interest rates can negatively impact our return on certain floating rate investments. Although these investments may be financed with floating rate debt, the interest rate on the debt may reset prior to, and in some cases more frequently than, the interest rate on the assets, causing a decrease in return on equity during a period of rising interest rates. See further disclosure regarding Agency ARM RMBS under Part I, Item 1, "Business - Investment Portfolio – Debt Investments Agency ARM RMBS (FNMA/FHLMC Securities)" for information about the reset terms and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Update on Liquidity, Capital Resources and Capital Obligations" for information on related debt.

As of December 31, 2013, a 100 basis point increase in short term interest rates would decrease our earnings by approximately \$1.7 million per annum, based on the current net floating rate exposure from our investments, financings and interest rate derivatives.

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

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

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

As of December 31, 2013, a 100 basis point change in short term interest rates would impact our net book value by approximately \$10.6 million, based on the current net fixed rate exposure from our investments and interest rate derivatives.

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

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

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

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

Credit Spread Exposure

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

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

As of December 31, 2013, a 25 basis point movement in credit spreads would impact our net book value by approximately \$6.0 million, assuming a static portfolio of current investments and financings, but would not directly affect our earnings or cash flow.

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

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

Credit Risk

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

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

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

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

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

Margin

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

Interest Rate and Credit Spread Risk Sensitive Instruments and Fair Value

Our holdings of such financial instruments, and their fair values and the estimation methodology thereof, are detailed in Note 13 to Part II, Item 8, “Financial Statements and Supplementary Data.” For information regarding the impact of prepayment, reinvestment, and expected loss factors on the timing of realization of our investments, please refer to the consolidated financial statements included therein. For information regarding the impact of changes in these factors on the value of securities valued with internal models, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Application of Critical Accounting Policies.”

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

Trends

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

Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements:

Report of Independent Registered Public Accounting Firm

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

Consolidated Balance Sheets as of December 31, 2013 and December 31, 2012

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

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

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

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

Notes to Consolidated Financial Statements

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Newcastle Investment Corp. and Subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity (deficit) and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Newcastle Investment Corp. and Subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Newcastle Investment Corp. and Subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 3, 2014 expressed an unqualified opinion thereon.

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

Report of Independent Registered Public Accounting Firm

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

We have audited Newcastle Investment Corp. and Subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Newcastle Investment Corp. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of (1) the consolidated results of the twenty-one senior housing properties acquired during 2013, (2) the consolidated results of New Media Investment Group, Inc. from November 26, 2013 through December 31, 2013, and (3) the consolidated results of the golf business acquired on December 30, 2013 through December 31, 2013, which are included in the 2013 consolidated financial statements of Newcastle Investment Corp. and Subsidiaries and constituted approximately \$1,434,427,000 and \$542,217,000 of total and net assets, respectively, as of December 31, 2013 and approximately \$90,853,000 and \$7,000 of revenues and net loss, respectively, for the year then ended. Our audit of internal control over financial reporting of Newcastle Investment Corp. and Subsidiaries also did not include an evaluation of the internal control over financial reporting of (1) the consolidated results of the twenty-one senior housing properties acquired during 2013, (2) the consolidated results of New Media Investment Group, Inc. from November 26, 2013 through December 31, 2013, and (3) the consolidated results of the golf business acquired on December 30, 2013 through December 31, 2013.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Newcastle Investment Corp. and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity (deficit) and cash flows for each of the three years in the period ended December 31, 2013 of Newcastle Investment Corp. and Subsidiaries and our report dated March 3, 2014 expressed an unqualified opinion thereon.

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

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	December 31,	
	2013	2012
Assets		
Real estate securities, available-for-sale - Note 6	\$ 984,263	\$ 1,691,575
Real estate related and other loans, held-for-sale, net - Note 7	437,530	843,132
Residential mortgage loans, held-for-investment, net - Note 7	255,450	292,461
Residential mortgage loans, held-for-sale, net - Note 7	2,185	2,471
Subprime mortgage loans subject to call option - Note 7	406,217	405,814
Investments in senior housing real estate, net of accumulated depreciation - Note 9	1,362,900	162,801
Investments in other real estate, net of accumulated depreciation - Note 10	266,170	6,672
Property, plant and equipment, net of accumulated depreciation - Note 11	270,188	—
Intangibles, net of accumulated amortization - Note 12	345,125	19,086
Goodwill - Note 12	126,686	—
Other investments	25,468	24,907
Cash and cash equivalents	105,944	231,898
Restricted cash	12,366	2,064
Receivables and other assets	252,071	17,362
Assets of discontinued operations	—	245,069
Total Assets	\$ 4,852,563	\$ 3,945,312
Liabilities and Equity		
Liabilities		
CDO bonds payable - Note 14	\$ 544,525	\$ 1,091,354
Other bonds and notes payable - Note 14	230,279	183,390
Repurchase agreements - Note 14	556,347	929,435
Mortgage notes payable - Note 14	1,076,828	120,525
Credit facilities, media and golf - Note 14	334,514	—
Financing of subprime mortgage loans subject to call option - Note 7	406,217	405,814
Junior subordinated notes payable - Note 14	51,237	51,243
Dividends payable	36,075	38,884
Accounts payable, accrued expenses and other liabilities	390,417	51,127
Liabilities of discontinued operations	—	480
Total Liabilities	\$ 3,626,439	\$ 2,872,252
Commitments and contingencies - Notes 16, 17 and 18		
Equity		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized, 1,347,321 shares of 9.75% Series B Cumulative Redeemable Preferred Stock, 496,000 shares of 8.05% Series C Cumulative Redeemable Preferred Stock, and 620,000 shares of 8.375% Series D Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share, issued and outstanding as of December 31, 2013 and 2012	\$ 61,583	\$ 61,583
Common stock, \$0.01 par value, 1,000,000,000 and 500,000,000 shares authorized, 351,453,495 and 172,525,645 shares issued and outstanding at December 31, 2013 and 2012, respectively	3,515	1,725
Additional paid-in capital	2,970,786	1,710,083
Accumulated deficit	(1,947,913)	(771,095)
Accumulated other comprehensive income - Note 2	76,874	70,764
Total Newcastle Stockholders' Equity	1,164,845	1,073,060
Noncontrolling interests	61,279	—
Total Equity	\$ 1,226,124	\$ 1,073,060
Total Liabilities and Equity	\$ 4,852,563	\$ 3,945,312

Statement continues on the next page.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

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

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

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

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

See notes to consolidated financial statements.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

	Year Ended December 31,		
	2013	2012	2011
Interest income	\$ 213,715	\$ 282,951	\$ 291,036
Interest expense	90,973	109,924	138,035
Net interest income	<u>122,742</u>	<u>173,027</u>	<u>153,001</u>
Impairment (Reversal)			
Valuation allowance (reversal) on loans - Note 7	(25,035)	(24,587)	(15,163)
Other-than-temporary impairment on securities- Note 6	5,222	19,359	12,955
Impairment of long-lived assets	—	—	433
Portion of other-than-temporary impairment on securities recognized in other comprehensive income (loss), net of the reversal of other comprehensive (income) loss into net income	44	(436)	2,885
Total impairment (reversal)	<u>(19,769)</u>	<u>(5,664)</u>	<u>1,110</u>
Net interest income (loss) after impairment/reversal	142,511	178,691	151,891
Other Revenues			
Rental income	74,936	17,081	1,899
Care and ancillary income - senior housing	12,387	2,994	—
Advertising income - media	38,757	—	—
Circulation income - media	16,649	—	—
Commercial printing and other income - media	6,231	—	—
Total other revenues	<u>148,960</u>	<u>20,075</u>	<u>1,899</u>
Other Income			
Gain on settlement of investments, net - Note 2	17,369	232,897	78,181
Gain on extinguishment of debt - Note 14	4,565	24,085	66,110
Equity in earnings of Local Media Group	1,870	—	—
Other income, net - Note 2	13,340	5,312	36,204
Total other income	<u>37,144</u>	<u>262,294</u>	<u>180,495</u>
Expenses			
Loan and security servicing expense	3,857	4,260	4,649
Property operating expenses	53,718	12,943	1,110
Media operating expenses	49,092	—	—
General and administrative expense	36,775	17,247	6,267
Management fee to affiliate - Note 17	33,091	24,693	18,289
Depreciation and amortization	30,973	6,975	12
Total expenses	<u>207,506</u>	<u>66,118</u>	<u>30,327</u>
Income from continuing operations before income tax	121,109	394,942	303,958
Income tax expense - Note 19	2,100	—	—
Income from continuing operations	119,009	394,942	303,958
Income from discontinued operations - Note 4	33,332	39,168	561
Net Income	152,341	434,110	304,519
Preferred dividends	(5,580)	(5,580)	(5,580)
Net income attributable to noncontrolling interest	(928)	—	—
Income Applicable To Common Stockholders	<u>\$ 145,833</u>	<u>\$ 428,530</u>	<u>\$ 298,939</u>
Income Per Share of Common Stock			
Basic	\$ 0.53	\$ 2.97	\$ 3.65
Diluted	<u>\$ 0.51</u>	<u>\$ 2.94</u>	<u>\$ 3.65</u>
Income from continuing operations per share of common stock, after preferred dividends and noncontrolling interest			
Basic	0.41	2.70	3.64
Diluted	<u>0.40</u>	<u>2.67</u>	<u>3.64</u>
Income from discontinued operations per share of common stock			
Basic	\$ 0.12	\$ 0.27	\$ 0.01
Diluted	<u>\$ 0.11</u>	<u>\$ 0.27</u>	<u>\$ 0.01</u>
Weighted Average Number of Shares of Common Stock Outstanding			
Basic	276,881,294	144,146,370	81,983,973
Diluted	<u>283,309,645</u>	<u>145,766,413</u>	<u>81,990,297</u>

See notes to consolidated financial statements.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

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

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

	Newcastle Stockholders								Total Equity (Deficit)
	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comp. Income (Loss)	Noncontrolling Interests	
	Shares	Amount	Shares	Amount					
Equity (deficit) - December 31, 2010	2,463,321	\$ 61,583	62,027,184	\$ 620	\$ 1,065,377	\$ (1,328,987)	\$ (46,178)	\$ —	(247,585)
Dividends declared	—	—	—	—	—	(48,784)	—	—	(48,784)
Issuance of common stock	—	—	43,153,825	432	210,415	—	—	—	210,847
Deconsolidation of CDO V	—	—	—	—	—	—	—	—	—
Unrealized gain on securities	—	—	—	—	—	—	(8,026)	—	(8,026)
Unrealized loss on derivatives designated as cash flow hedges	—	—	—	—	—	—	18,353	—	18,353
Net income	—	—	—	—	—	304,519	—	—	304,519
Other comprehensive income (loss)	—	—	—	—	—	—	(37,235)	—	(37,235)
Equity (deficit) - December 31, 2011	2,463,321	\$ 61,583	105,181,009	\$ 1,052	\$ 1,275,792	\$ (1,073,252)	\$ (73,086)	\$ —	\$ 192,089
Dividends declared	—	—	—	—	—	(131,953)	—	—	(131,953)
Issuance of common stock	—	—	67,344,636	673	434,291	—	—	—	434,964
Deconsolidation of CDO X	—	—	—	—	—	—	—	—	—
Unrealized gain on securities	—	—	—	—	—	—	(59,881)	—	(59,881)
Unrealized loss on derivatives designated as cash flow hedges	—	—	—	—	—	—	34,367	—	34,367
Net income	—	—	—	—	—	434,110	—	—	434,110
Other comprehensive income	—	—	—	—	—	—	169,364	—	169,364
Equity (deficit) - December 31, 2012	2,463,321	\$ 61,583	172,525,645	\$ 1,725	\$ 1,710,083	\$ (771,095)	\$ 70,764	\$ —	\$ 1,073,060
Dividends declared	—	—	—	—	—	(168,761)	—	—	(168,761)
Issuance of common stock	—	—	178,927,850	1,790	1,260,703	—	—	—	1,262,493
Noncontrolling interest recorded upon restructuring of media business	—	—	—	—	—	—	—	60,351	60,351
Spin-off of New Residential	—	—	—	—	—	(1,159,470)	(44,513)	—	(1,203,983)
Net income	—	—	—	—	—	151,413	—	928	152,341
Other comprehensive income	—	—	—	—	—	—	50,623	—	50,623
Equity (deficit) - December 31, 2013	2,463,321	\$ 61,583	351,453,495	\$ 3,515	\$ 2,970,786	\$ (1,947,913)	\$ 76,874	\$ 61,279	\$ 1,226,124

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011
 (dollars in thousands)

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

Continued on next page.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011
(dollars in thousands)

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

See notes to consolidated financial statements.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013, 2012 and 2011

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

1. ORGANIZATION

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

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

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

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

As a result, Newcastle changed its financial reporting segments and now conducts its business through the following segments: (i) investments in senior housing properties ("senior housing"), (ii) debt investments financed with collateralized debt obligations ("CDOs"), (iii) other debt investments ("other debt"), (iv) investments in media ("Media"), (v) investments in golf courses and facilities ("Golf") and (vi) corporate. With respect to the CDOs and other debt investments, subject to the passing of certain periodic coverage tests, Newcastle is generally entitled to receive the net cash flows from these structures on a periodic basis.

Newcastle is party to a management agreement (the "Management Agreement") with FIG LLC (the "Manager"), a subsidiary of Fortress Investment Group LLC ("Fortress"), under which the Manager advises Newcastle on various aspects of its business and manages its day-to-day operations, subject to the supervision of Newcastle's board of directors. For its services, the Manager is entitled to an annual management fee and incentive compensation, both as defined in, and in accordance with the terms of, the Management Agreement. For a further discussion of the Management Agreement, see Note 17.

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

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

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

Basis of Accounting — The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of Newcastle and its consolidated subsidiaries. All significant intercompany transactions and balances have been eliminated. Newcastle consolidates those entities in which it has an investment of 50% or more and has control over significant operating, financial and investing decisions of the entity as well as those entities deemed to be variable interest entities ("VIEs") in which Newcastle is determined to be the primary beneficiary. VIEs are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated only by its primary beneficiary, which is defined as the party who has the power to direct the activities of a VIE that most significantly impact its economic performance and who has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. Newcastle's CDO subsidiaries and its manufactured housing loan financing structures (Note 14) are special purpose entities which are considered VIEs of which Newcastle is the primary beneficiary. Therefore, the debt issued by such entities is considered a non-recourse secured borrowing of Newcastle. The subprime securitizations and CDO VIII Repack (Note 5) are also considered VIEs, but Newcastle does not control the decisions that most significantly impact their economic performance and, for the subprime securitizations, no longer receive a significant portion of their returns, and therefore do not consolidate them.

For entities over which Newcastle exercises significant influence, but which do not meet the requirements for consolidation, Newcastle uses the equity method of accounting whereby it records its share of the underlying income of such entities. Newcastle's investments in equity method investees were not significant at December 31, 2013, 2012 or 2011. With respect to investments in entities over which Newcastle does not meet the requirements for consolidation and does not exercise significant influence, Newcastle records these investments at cost, subject to impairment.

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

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

Risks and Uncertainties — In the normal course of business, Newcastle encounters primarily two significant types of economic risk: credit and market. Credit risk is the risk of default on Newcastle's investments in securities, loans, derivatives and leases that results from a borrower's, derivative counterparty's or lessee's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of investments in securities, loans and derivatives or in real estate due to changes in interest rates, spreads or other market factors, including the value of the collateral underlying loans and securities and the valuation of real estate held by Newcastle. Management believes that the carrying values of its investments are reasonable taking into consideration these risks along with estimated prepayments, financings, collateral values, payment histories, and other borrower information.

Additionally, Newcastle is subject to significant tax risks. If Newcastle were to fail to qualify as a REIT in any taxable year, Newcastle would be subject to U.S. federal corporate income tax (including any applicable alternative minimum tax), which could be material. Unless entitled to relief under certain statutory provisions, Newcastle would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive Income — Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. For Newcastle's purposes, comprehensive income represents net income, as presented in the consolidated statements of income, adjusted for unrealized gains or losses on securities available for sale and derivatives designated as cash flow hedges and, upon the consolidation of GateHouse (see Note 3), net unrecognized gain and prior period service costs and credits relating to pension and other postretirement benefits.

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

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

REVENUE RECOGNITION

Real Estate Securities and Loans Receivable — Newcastle invests in securities, including commercial mortgage backed securities, senior unsecured debt issued by property REITs, real estate related asset backed securities and FNMA/FHLMC securities. Newcastle also invests in loans, including real estate related loans, commercial mortgage loans, residential mortgage loans, manufactured housing loans and subprime mortgage loans. Newcastle determines at acquisition whether loans will be aggregated into pools based on common risk characteristics (credit quality, loan type, and date of origination or acquisition); loans aggregated into pools are accounted for as if each pool were a single loan. Loans receivable are presented in the consolidated balance sheet net of any unamortized discount (or gross of any unamortized premium) and an allowance for loan losses. Discounts or premiums are accreted into interest income on an effective yield or "interest" method, based upon a comparison of actual and expected cash flows, through the expected maturity date of the security or loan. Depending on the nature of the investment, changes to expected cash flows may result in a prospective change to yield or a retrospective change which would include a catch up adjustment. For loans acquired at a discount for credit quality, the difference between contractual cash flows and expected cash flows at acquisition is not accreted (non-accretable difference). Newcastle discontinues the accretion of discounts and amortization of premium on loans if they are reclassified from held for investment to held for sale. Interest income with respect to non-discounted securities or loans is recognized on an accrual basis. Deferred fees and costs, if any, are recognized as a reduction to the interest income over the terms of the securities or loans using the interest method. Upon settlement of securities and loans, the excess (or deficiency) of net proceeds over the net carrying value of such security or loan is recognized as a gain (or loss) in the period of settlement. Interest income includes prepayment penalties received of \$0.2 million and \$2.7 million in 2013 and 2012, respectively. No prepayments penalties were received in 2011.

Impairment of Securities and Loans — Newcastle continually evaluates securities and loans for impairment. Securities and loans are considered to be other-than-temporarily impaired, for financial reporting purposes, generally when it is probable that Newcastle will be unable to collect all principal or interest when due according to the contractual terms of the original agreements, or, for securities or loans purchased at a discount for credit quality or that represent retained beneficial interests in securitizations, when Newcastle determines that it is probable that it will be unable to collect as anticipated. The evaluation of a security's estimated cash flows includes the following, as applicable: (i) review of the credit of the issuer or the borrower, (ii) review of the credit rating of the security, (iii) review of the key terms of the security or loan, (iv) review of the performance of the loan or underlying loans, including debt service coverage and loan to value ratios, (v) analysis of the value of the collateral for the loan or underlying loans, (vi) analysis of the effect of local, industry and broader economic factors, and (vii) analysis of historical and anticipated trends in defaults and loss severities for similar securities or loans. Furthermore, Newcastle must have the intent and ability to hold loans whose fair value is below carrying value until such fair value recovers, or until maturity, or else a write down to fair value must be recorded. Similarly for securities, Newcastle must record a write down if it has the intent to sell a given security in an unrealized loss position, or if it is more likely than not that it will be required to sell such a security. Upon determination of impairment, Newcastle establishes specific valuation allowances for loans or records a direct write down for securities based on the estimated fair value of the security or underlying collateral using a discounted cash flow analysis or based on an observable market value. Newcastle also establishes allowances for estimated unidentified incurred losses on pools of loans. The

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

allowance for each loan is maintained at a level believed adequate by management to absorb probable losses, based on periodic reviews of actual and expected losses. It is Newcastle's policy to establish an allowance for uncollectible interest on performing securities or loans that are past due more than 90 days or sooner when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. Upon such a determination, those loans are deemed to be non-performing and put on nonaccrual status. Actual losses may differ from Newcastle's estimates. Newcastle may resume accrual of income on a security or loan if, in management's opinion, full collection is probable. Subsequent to a determination of impairment, and a related write down, income is accrued on an effective yield method from the new carrying value to the related expected cash flows, with cash received treated as a reduction of basis. Newcastle charges off the corresponding loan allowance when it determines the loans to be uncollectable.

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

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

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

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

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

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

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

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

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

Reclassification From Accumulated Other Comprehensive Income Into Net Income— The following table summarizes the amounts reclassified out of accumulated other comprehensive income into net income:

Accumulated Other Comprehensive Income ("AOCI") Components	Income Statement Location	Year Ended December 31, 2013	Year Ended December 31, 2012
Net realized gain (loss) on securities			
Impairment	Other-than-temporary impairment on securities, net of portion of other-than-temporary impairment on securities recognized in other comprehensive income	\$ (5,266)	\$ (18,923)
Gain on settlement of real estate securities	Gain (loss) on settlement of investments, net	9,853	14,629
Loss on settlement of real estate securities	Gain (loss) on settlement of investments, net	(3,592)	(4,433)
		\$ 995	\$ (8,727)
Net realized gain (loss) on derivatives designated as cash flow hedges			
Gain (loss) recognized upon de-designation	Other income (loss)	\$ (110)	\$ (7,036)
Hedge ineffectiveness	Other income (loss)	—	483
Amortization of deferred gain (loss)	Interest expense	11	1,250
Gain (loss) reclassified from AOCI into income, related to effective portion	Interest expense	(6,128)	—
		\$ (6,227)	\$ (5,303)
Total reclassifications		\$ (5,232)	\$ (14,030)

EXPENSE RECOGNITION

Interest Expense — Newcastle finances its investments using both fixed and floating rate debt, including securitizations, loans, repurchase agreements, and other financing vehicles. Certain of this debt have been issued at discounts. Discounts are accreted into interest expense on the effective yield or "interest" method, based upon a comparison of actual and expected cash flows, through the expected maturity date of the financing.

Deferred Costs and Interest Rate Cap Premiums — Deferred costs consist primarily of costs incurred in obtaining financing which are amortized into interest expense over the term of such financing using either the straight line basis or the interest method. Interest rate cap premiums, if any, are included in receivables and other assets, and are amortized as described below.

Derivatives and Hedging Activities — All derivatives are recognized as either assets or liabilities on the balance sheet and measured at fair value. Newcastle reports the fair value of derivative instruments gross of cash paid or received pursuant to credit support agreements and fair value is reflected on a net counterparty basis when Newcastle believes a legal right of offset exists under an enforceable netting agreement. Fair value adjustments affect either equity or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. For those derivative instruments that are designated and qualify as hedging instruments, Newcastle designates the hedging instrument, based upon the exposure being hedged, as either a cash flow hedge, a fair value hedge or a hedge of a net investment in a foreign operation.

Derivative transactions are entered into by Newcastle solely for risk management purposes, except for total rate of return swaps. Such total rate of return swaps are essentially financings of certain reference assets which are treated as derivatives for accounting purposes. The decision of whether or not a given transaction/position (or portion thereof) is hedged is made on a case-by-case basis, based on the risks involved and other factors as determined by senior management, including restrictions imposed by the Code among others. In determining whether to hedge a risk, Newcastle may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken as hedges are entered into with a view towards minimizing the potential for economic losses that could be incurred by Newcastle. Generally, all derivatives entered into are intended to qualify as hedges under GAAP, unless specifically stated otherwise. To this end, terms of hedges are matched closely to the terms of hedged items.

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Description of the risks being hedged

- 1) Interest rate risk, existing debt obligations – Newcastle has hedged (and may continue to hedge, when feasible and appropriate) the risk of interest rate fluctuations with respect to its borrowings, regardless of the form of such borrowings, which require payments based on a variable interest rate index. Newcastle generally intends to hedge only the risk related to changes in the benchmark interest rate (LIBOR or a Treasury rate). In order to reduce such risks, Newcastle may enter into swap agreements whereby Newcastle would receive floating rate payments in exchange for fixed rate payments, effectively converting the borrowing to fixed rate. Newcastle may also enter into cap agreements whereby, in exchange for a premium, Newcastle would be reimbursed for interest paid in excess of a certain cap rate.
- 2) Interest rate risk, anticipated transactions – Newcastle may hedge the aggregate risk of interest rate fluctuations with respect to anticipated transactions, primarily anticipated borrowings. The primary risk involved in an anticipated borrowing is that interest rates may increase between the date the transaction becomes probable and the date of consummation. Newcastle generally intends to hedge only the risk related to changes in the benchmark interest rate (LIBOR or a Treasury rate). This is generally accomplished through the use of interest rate swaps.

Cash Flow Hedges

To qualify for cash flow hedge accounting, interest rate swaps and caps must meet certain criteria, including (1) the items to be hedged expose Newcastle to interest rate risk, (2) the interest rate swaps or caps are highly effective in reducing Newcastle's exposure to interest rate risk, and (3) with respect to an anticipated transaction, such transaction is probable. Correlation and effectiveness are periodically assessed based upon a comparison of the relative changes in the fair values or cash flows of the interest rate swaps and caps and the items being hedged or using regression analysis on an ongoing basis to assess retrospective and prospective hedge effectiveness.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss, and net payments received or made, on the derivative instrument are reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. The premiums paid for interest rate caps, treated as cash flow hedges, are amortized into interest expense based on the estimated value of such cap for each period covered by such cap.

With respect to interest rate swaps which have been designated as hedges of anticipated financings, periodic net payments are recognized currently as adjustments to interest expense; any gain or loss from fluctuations in the fair value of the interest rate swaps is recorded as a deferred hedge gain or loss in accumulated other comprehensive income and treated as a component of the anticipated transaction. In the event the anticipated refinancing failed to occur as expected, the deferred hedge credit or charge would be recognized immediately in earnings. Newcastle's hedges of such financings were terminated upon the consummation of such financings.

Newcastle has designated certain of its hedge derivatives, and in some cases re-designated all or a portion thereof as hedges. As a result of these designations, in the cases where the originally hedged items were still owned by Newcastle, the unrealized gain or loss was recorded in accumulated other comprehensive income as a deferred hedge gain or loss and is being amortized over the life of the hedged item.

Non-Hedge Derivatives

With respect to interest rate swaps and caps that have not been designated as hedges, any net payments under, or fluctuations in the fair value of, such swaps and caps have been recognized currently in Other Income (Loss). These derivatives may, to some extent, be economically effective as hedges.

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

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Newcastle's derivative financial instruments contain credit risk to the extent that its bank counterparties may be unable to meet the terms of the agreements. Newcastle reduces such risk by limiting its counterparties to major financial institutions. In addition, the potential risk of loss with any one party resulting from this type of credit risk is monitored. Management does not expect any material losses as a result of default by other parties. Newcastle does not require collateral for the derivative financial instruments within its CDO financing structures. Newcastle's major derivative counterparties are Bank of America and Bank of New York Mellon.

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

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

BALANCE SHEET MEASUREMENT

Investment in Real Estate Securities — Newcastle has classified its investments in securities as available for sale. Securities available for sale are carried at market value with the net unrealized gains or losses reported as a separate component of accumulated other comprehensive income, to the extent impairment losses are considered temporary. At disposition, the net realized gain or loss is determined on the basis of the cost of the specific investments and is included in earnings. Unrealized losses on securities are charged to earnings if they reflect a decline in value that is other-than-temporary, as described above.

Investment in Loans — Loans receivable are presented net of any unamortized discount (or gross of any unamortized premium), including any fees received, and an allowance for loan losses. Loans which Newcastle does not have the intent or the ability to hold into the foreseeable future are considered held-for-sale and are carried at the lower of average amortized cost or market value.

Purchase Accounting — In determining the allocation of a purchase price between net tangible and identified intangible assets acquired and liabilities assumed, management makes estimates of the fair value of the tangible and intangible assets and liabilities using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities, and independent appraisals. In the case of real property, the fair value of the tangible assets acquired is determined by valuing the property as if it were vacant. Management allocated the purchase price to net tangible and identified intangible assets acquired and liabilities assumed based on their fair values.

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

Long-lived assets to be disposed of by sale, which meet certain criteria, are reclassified to Real Estate Held for Sale and measured at the lower of their carrying amount or fair value less costs of sale. The results of operations for such an asset, assuming such asset qualifies as a "component of an entity" as defined, are retroactively reclassified to Income (Loss) from Discontinued Operations for all periods presented.

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

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

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Goodwill and Intangibles — Resident lease intangibles reflect the fair value of in-place resident leases at acquisition of senior housing properties. Newcastle estimates the fair value of in-place leases as (i) the present value of the estimated rents that would have been forgone, offset by variable costs that would have otherwise been incurred during a reasonable lease-up period, as if the acquired units were vacant, and (ii) the estimated absorption costs, such as additional marketing costs that would have been incurred during the lease-up period.

Non-compete intangibles reflect the fair value of non-compete agreements at acquisition relating to the senior housing business. Newcastle estimates the fair value of non-compete intangibles as the sum of (i) the present value of the consulting services during the non-compete period and (ii) the difference between (a) the present value of the net operating income with the non-compete agreements in place and (b) the present value of the net operating income, as if the non-compete agreements were not in place.

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents and Restricted Cash— Newcastle considers all highly liquid short term investments with maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts on deposit with major financial institutions exceed insured limits. Restricted cash consisted of:

	December 31,	
	2013	2012
CDO bond sinking funds	1,902	1,254
CDO trustee accounts	475	810
New Media letters of credit and other cash reserves	6,477	—
Collateral for Golf lease obligations	3,512	—
	<u>\$ 12,366</u>	<u>\$ 2,064</u>

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

	Year Ended December 31,		
	2013	2012	2011
Restricted cash generated from sale of securities	\$ 136,148	\$ 56,629	\$ 336,911
Restricted cash generated from sale of real estate related and other loans	\$ 104,837	\$ —	\$ 125,141
Restricted cash generated from paydowns on securities and loans	\$ 331,349	\$ 274,832	\$ 546,752
Restricted cash used for purchases of real estate securities	\$ —	\$ 143,184	\$ 427,826
Restricted cash used for purchases of real estate related and other loans	\$ —	\$ 91,481	\$ 384,850
Restricted cash used for repayments of CDO bonds payable	\$ 513,879	\$ 166,845	\$ 101,687
Restricted cash used for repurchases of CDO bonds payable and other bonds payable	\$ —	\$ —	\$ 3,213
Restricted cash used for purchases of derivative instruments	\$ —	\$ 408	\$ —
Restricted cash used for settlement of derivative instruments	\$ 1,563	\$ —	\$ —
Restricted cash generated from margin collateral received	\$ —	\$ —	\$ 6,550
Restricted cash used to return margin collateral	\$ —	\$ 6,550	\$ —
CDO deconsolidation:			
Real estate securities	\$ —	\$ 1,033,016	\$ 262,617
Restricted cash	\$ —	\$ 51,522	\$ 37,988
Derivative liabilities	\$ —	\$ 57,343	\$ 20,257
CDO bonds payable	\$ —	\$ 1,110,694	\$ 336,046

Receivables and Other Assets

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

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

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

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

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

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

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

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

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

Accounts payable, accrued expenses and other liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

Stock Options — The fair value of the options issued as compensation to the Manager for its successful efforts in raising capital for Newcastle was recorded as an increase in equity with an offsetting reduction of capital proceeds received. Options granted to Newcastle’s directors were accounted for using the fair value method.

Preferred Stock — Newcastle’s accounting policy for its preferred stock is described in Note 16.

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

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

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

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

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

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

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

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

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3. ACQUISITIONS IN 2013

A. Acquisitions of Senior Housing Properties

(i) Managed Properties

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

(ii) Holiday Portfolio

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

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

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

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

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

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

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

B. Restructuring and Spin-off of Media Investments

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

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

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

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

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

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

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

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

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

Significant assumptions were as follows.

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

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

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

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

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

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

C. Restructuring of Golf Investment

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

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

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

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

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

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

4. SPIN-OFF OF NEW RESIDENTIAL

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

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

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

Assets

Real estate securities, available-for-sale	\$	1,647,289
Residential mortgage loans, held-for-investment, net		35,865
Investments in excess mortgage servicing rights at fair value		229,936
Investments in equity method investees		392,469
Cash and cash equivalents		181,582
Receivables and other assets		37,844
Total assets	\$	2,524,985

Liabilities

Repurchase agreements	\$	1,320,360
Accrued expenses and other liabilities		642
Total liabilities	\$	1,321,002
Net Assets	\$	1,203,983

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

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

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

Assets

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

Liabilities

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

Results of operations from discontinued operations were as follows:

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

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

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5. SEGMENT REPORTING AND VARIABLE INTEREST ENTITIES

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

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

The corporate segment consists primarily of interest income on short term investments, general and administrative expenses, interest expense on the junior subordinated notes payable (Note 14) and management fees pursuant to the Management Agreement (Note 17).

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

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

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

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Year Ended December 31, 2011	Senior	Debt Investments (A)		Media (C)	Golf	Corporate	Excess MSRs and Consumer Loans	Inter-segment Elimination (D)	Total
	Housing (A)	CDOs	Other Debt (B)						
Interest income	\$ —	\$ 218,475	\$ 78,234	\$ —	\$ —	\$ 167	\$ —	\$ (5,840)	\$ 291,036
Interest expense	—	86,110	53,950	—	—	3,815	—	(5,840)	138,035
Net interest income (expense)	—	132,365	24,284	—	—	(3,648)	—	—	153,001
Impairment (reversal)	—	(3,876)	4,986	—	—	—	—	—	1,110
Other revenues	—	—	1,899	—	—	—	—	—	1,899
Other income (loss)	—	175,702	4,793	—	—	—	—	—	180,495
Property operating expenses	—	—	1,110	—	—	—	—	—	1,110
Depreciation and amortization	—	—	12	—	—	—	—	—	12
Other operating expenses	—	1,058	3,622	—	—	24,525	—	—	29,205
Income (loss) from continuing operations	—	310,885	21,246	—	—	(28,173)	—	—	303,958
Income (loss) from discontinued operations	—	—	(11)	—	—	—	572	—	561
Net income (loss)	—	310,885	21,235	—	—	(28,173)	572	—	304,519
Preferred dividends	—	—	—	—	—	(5,580)	—	—	(5,580)
Income (loss) applicable to common stockholders	\$ —	\$ 310,885	\$ 21,235	\$ —	\$ —	\$ (33,753)	\$ 572	\$ —	\$ 298,939

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

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

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

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

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

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Variable Interest Entities (“VIEs”)

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

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

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

As of December 31, 2013, Newcastle has not consolidated these potential VIEs. This determination is based, in part, on the assessment that Newcastle does not have the power to direct the activities that most significantly impact the economic performance of these entities, such as if Newcastle owned a majority of the currently controlling class. In addition, Newcastle is not obligated to provide, and has not provided, any financial support to these entities.

On June 17, 2011, Newcastle deconsolidated a non-recourse financing structure, CDO V. Newcastle determined that it does not currently have the power to direct the relevant activities of CDO V as an event of default had occurred and Newcastle may be removed as the collateral manager by a single party. The deconsolidation has reduced Newcastle’s gross assets by \$301.6 million, reduced liabilities by \$357.0 million, resulted in a gain on deconsolidation of \$45.1 million and decreased accumulated other comprehensive loss by \$10.3 million. The deconsolidation also reduced revenues and expenses from June 17, 2011 onwards, but its impact was not material to net income applicable to common stockholders.

On September 12, 2012, Newcastle deconsolidated CDO X subsequent to the completion of the sale of 100% of its interests in CDO X to the sole owner of the senior notes and another third party. The sale and resulting deconsolidation has reduced Newcastle’s gross assets by \$1.1 billion, reduced liabilities by \$1.2 billion, decreased other comprehensive income by \$25.5 million and resulted in a gain on sale of \$224.3 million. As of December 31, 2013, Newcastle had no continuing involvement with CDO X as it had been liquidated.

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

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

(A) Face amount.

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

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

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

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6. REAL ESTATE SECURITIES

The following is a summary of Newcastle's real estate securities at December 31, 2013 and 2012, all of which are classified as available for sale and are, therefore, reported at fair value with changes in fair value recorded in other comprehensive income, except for securities that are other-than-temporarily impaired.

Asset Type	Amortized Cost Basis				Gross Unrealized		Carrying Value (A)	Number of Securities	Weighted Average				Principal Subordination (D)
	Outstanding Face Amount	Before Impairment	Other-Than-Temporary-Impairment	After Impairment	Gains	Losses			Rating (B)	Coupon	Yield	Maturity (Years) (C)	
December 31, 2013													
CMBS-Conduit	\$ 238,400	\$ 215,341	\$ (69,099)	\$ 146,242	\$ 52,900	\$ (208)	\$ 198,934	34	BB-	5.47%	17.00%	2.6	10.2%
CMBS- Single Borrower	91,492	90,788	(12,364)	78,424	3,964	(82)	82,306	15	BB	5.71%	7.16%	2.4	7.8%
CMBS-Large Loan	3,229	3,212	—	3,212	17	—	3,229	1	BBB-	6.63%	8.87%	0.3	8.1%
REIT Debt	29,200	28,667	—	28,667	2,519	—	31,186	5	BB+	5.89%	6.86%	1.8	N/A
Non-Agency RMBS	96,762	103,535	(62,860)	40,675	16,907	(1)	57,581	34	CCC+	1.07%	12.20%	4.4	25.9%
ABS-Franchise	8,464	7,647	(7,647)	—	—	—	—	1	C	6.69%	0.00%	—	0.0%
FNMA/FHLMC (G)	514,994	548,456	(817)	547,639	3,631	—	551,270	64	AAA	2.90%	1.25%	3.6	N/A
CDO (E)	188,364	71,857	(14,861)	56,996	2,761	—	59,757	11	CCC-	3.21%	7.56%	1.2	19.1%
Total/Average (F)	\$ 1,170,905	\$ 1,069,503	\$ (167,648)	\$ 901,855	\$ 82,699	\$ (291)	\$ 984,263	165	BBB	3.65%	5.44%	2.9	
December 31, 2012													
CMBS-Conduit	\$ 340,978	\$ 315,554	\$ (98,481)	\$ 217,073	\$ 47,776	\$ (10,081)	\$ 254,768	53	BB-	5.55%	10.81%	3.3	9.8%
CMBS- Single Borrower	125,123	123,638	(12,364)	111,274	4,482	(3,002)	112,754	22	BB	4.89%	5.92%	2.9	9.2%
CMBS-Large Loan	8,891	8,619	—	8,619	250	—	8,869	1	BBB-	6.08%	12.41%	0.6	4.8%
REIT Debt	62,700	62,069	—	62,069	4,105	—	66,174	10	BBB-	5.72%	5.89%	1.8	N/A
Non-Agency RMBS	558,215	390,509	(68,708)	321,801	34,565	(391)	355,975	69	CC	0.76%	7.50%	6.4	13.3%
ABS-Franchise	10,098	9,386	(7,839)	1,547	237	(309)	1,475	3	CCC-	5.93%	3.40%	4.7	3.0%
FNMA/FHLMC (G)	768,619	818,866	—	818,866	3,860	(2,191)	820,535	58	AAA	3.05%	1.40%	3.5	N/A
CDO	203,477	82,399	(14,861)	67,538	3,487	—	71,025	13	BB	2.83%	7.07%	1.6	20.9%
Total/Average (F)	\$ 2,078,101	\$ 1,811,040	\$ (202,253)	\$ 1,608,787	\$ 98,762	\$ (15,974)	\$ 1,691,575	229	BBB-	3.04%	4.69%	4.0	

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

(B) Represents the weighted average of the ratings of all securities in each asset type, expressed as an S&P equivalent rating. For each security rated by multiple rating agencies, the lowest rating is used. Newcastle used an implied AAA rating for the FNMA/FHLMC securities. Ratings provided were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current.

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

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

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

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

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

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

Unrealized losses that are considered other-than-temporary are recognized currently in earnings. During the years ended December 31, 2013, 2012 and 2011, Newcastle recorded other-than-temporary impairment charges ("OTTI") of \$5.2 million, \$19.3 million and \$12.9 million, respectively, with respect to real estate securities of which \$3.8 million was recorded on certain real estate securities included in the spin-off of New Residential as Newcastle determined it did not have the intent to hold the securities past May 15, 2013 (gross of \$0.0 million, \$0.4 million and (\$2.9) million of other-than-temporary impairment recognized (reversed) in other comprehensive income in 2013, 2012 and 2011, respectively). Based on management's analysis of these securities, the performance of the underlying loans and changes in market factors, Newcastle noted adverse changes in the expected cash flows on certain of these securities and concluded that they were other-than-temporarily impaired. Any remaining unrealized losses as of each balance sheet date on Newcastle's securities were primarily the result of changes in market factors, rather than issuer-specific credit impairment. Newcastle performed analyses in relation to such securities, using management's best estimate of their cash flows, which support its belief that the carrying values of such securities were fully recoverable over their expected holding period. Such market factors include changes in market interest rates and credit spreads, or certain macroeconomic events, including market disruptions and supply changes, which did not directly impact the collectability of amounts contractually due. Management continually evaluates the credit status of each of Newcastle's securities and the collateral supporting those securities. This evaluation includes a review of the credit of the issuer of the security (if applicable), the credit rating of the security, the key terms of the security (including credit support), debt service coverage and loan to value ratios, the performance of the pool of underlying loans and the estimated value of the collateral supporting such loans, including the effect of local, industry and broader economic trends and factors. These factors include loan default expectations and loss severities, which are analyzed in connection with a particular security's credit support, as well as prepayment rates. The result of this evaluation is considered when determining management's estimate of cash flows and in relation to the amount of the unrealized loss and the period elapsed since it was incurred. Significant judgment is required in this analysis. The following table summarizes Newcastle's securities in an unrealized loss position as of December 31, 2013.

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

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

	December 31, 2013			
	Fair Value	Amortized Cost Basis After Impairment	Unrealized Losses	
			Credit (B)	Non-Credit (C)
Securities Newcastle intends to sell	\$ 179,225	\$ 179,225	\$ (817)	\$ —
Securities Newcastle is more likely than not to be required to sell ^(A)	—	—	—	—
Securities Newcastle has no intent to sell and is not more likely than not to be required to sell:				
Credit impaired securities	—	1	(2,873)	(1)
Non-credit impaired securities	24,822	25,112	—	(290)
Total debt securities in an unrealized loss position	\$ 204,047	\$ 204,338	\$ (3,690)	\$ (291)

- (A) Newcastle may, at times, be more likely than not to be required to sell certain securities for liquidity purposes. While the amount of the securities to be sold may be an estimate, and the securities to be sold have not yet been identified, Newcastle must make its best estimate, which is subject to significant judgment regarding future events, and may differ materially from actual future sales.
- (B) This amount is required to be recorded as other-than-temporary impairment through earnings. In measuring the portion of credit losses, Newcastle's management estimates the expected cash flow for each of the securities. This evaluation includes a review of the credit status and the performance of the collateral supporting those securities, including the credit of the issuer, key terms of the securities and the effect of local, industry and broader economic trends. Significant inputs in estimating the cash flows include management's expectations of prepayment speeds, default rates and loss severities. Credit losses are measured as the decline in the present value of the expected future cash flows discounted at the investment's effective interest rate.

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

The following table summarizes the activity related to credit losses on debt securities:

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

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

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

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

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

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

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

Loan Type	December 31, 2013							December 31, 2012		
	Outstanding Face Amount	Carrying Value (A)	Loan Count	Wtd. Avg. Yield	Weighted Average Coupon	Weighted Average Maturity (Years) (B)	Floating Rate Loans as a % of Face Amount	Delinquent Face Amount (C)	Carrying Value	Wtd. Avg. Yield
Mezzanine Loans	\$ 172,197	\$ 139,720	9	6.63%	7.00%	1.3	77.5%	\$ 12,000	\$ 442,529	10.10%
Corporate Bank Loans	256,594	166,710	5	24.18%	13.39%	0.9	9.9%	—	208,863	18.85%
B-Notes	109,323	101,385	4	10.12%	5.30%	1.5	79.3%	—	161,610	10.40%
Whole Loans	29,715	29,715	2	3.65%	3.72%	0.0	98.0%	—	30,130	5.21%
Total Real Estate Related and other Loans Held-for-Sale, Net ^(D)	\$ 567,829	\$ 437,530	20	13.92%	9.39%	1.1	48.4%	\$ 12,000	\$ 843,132	12.15%
Non-Securitized Manufactured Housing Loan Portfolio I	\$ 501	\$ 130	14	81.79%	7.90%	0.9	0.0%	—	\$ 163	38.84%
Non-Securitized Manufactured Housing Loan Portfolio II	2,628	2,055	97	15.39%	10.05%	5.1	9.5%	216	2,308	15.46%
Total Residential Mortgage Loans Held-for-Sale, Net ^(F)	\$ 3,129	\$ 2,185	111	19.34%	9.71%	4.4	8.0%	216	\$ 2,471	17.00%
Securitized Manufactured Housing Loan Portfolio I	\$ 102,681	\$ 91,924	2,820	9.44%	8.60%	6.1	0.6%	\$ 976	\$ 100,124	9.48%
Securitized Manufactured Housing Loan Portfolio II	128,975	128,117	4,653	8.11%	9.62%	4.9	16.5%	1,998	150,123	7.54%
Residential Loans	45,968	35,409	172	7.49%	2.26%	5.2	100.0%	6,756	42,214	7.41%
Total Residential Mortgage Loans Held-for-Investment, Net ^{(E) (F)}	\$ 277,624	\$ 255,450	7,645	8.50%	8.02%	5.4	24.4%	\$ 9,730	\$ 292,461	8.19%
Subprime Mortgage Loans Subject to Call Option	\$ 406,217	\$ 406,217							\$ 405,814	

(A) The aggregate United States federal income tax basis for such assets at December 31, 2013 was approximately \$748.5 million (unaudited), excluding the securitized subprime mortgage loans, which are fully consolidated for tax purposes. Carrying value includes interest receivable of \$0.1 million for the residential housing loans and principal and interest receivable of \$4.3 million for the manufactured housing loans.

(B) The weighted average maturity is based on the timing of expected principal reduction on the assets.

(C) Includes loans that are 60 days or more past due (including loans that are in foreclosure and borrowers in bankruptcy) or considered real estate owned ("REO"). As of December 31, 2013 and December 31, 2012, \$76.5 million and \$137.7 million face amount of real estate related and other loans, respectively, was on non-accrual status.

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(D) Loans which are more than 3% of the total current carrying value (or \$13.1 million) at December 31, 2013 are as follows:

Loan Type		Outstanding		December 31, 2013		Yield (2)	Coupon (2)	Weighted Average Maturity (Years)
		Face Amount	Carrying Value	Prior Liens (1)	Loan Count			
Individual Bank Loan	(3)	\$ 185,579	\$ 155,579	573,000	1	24.90%	15.55%	0.6
Individual B-Note Loan	(4)	52,169	49,236	2,013,921	1	12.00%	3.04%	0.8
Individual Mezzanine Loan	(4)	36,016	34,395	742,473	1	7.00%	7.00%	1.3
Individual Whole Loan	(5)	29,117	29,117	—	1	3.65%	3.65%	0.0
Individual Mezzanine Loan	(4)	28,939	28,939	169,933	1	7.00%	8.00%	0.6
Individual Mezzanine Loan	(4)	24,581	24,581	311,649	1	9.00%	9.00%	3.3
Individual Mezzanine Loan	(4)	24,500	24,500	75,000	1	6.00%	8.17%	0.9
Individual B-Note Loan	(4)	21,500	21,500	36,000	1	7.00%	8.48%	0.3
Individual B-Note Loan	(4)	22,629	18,795	128,897	1	12.00%	7.32%	5.0
Individual Mezzanine Loan	(6)	14,205	14,205	—	1	3.42%	3.31%	0.0
Others	(7)	128,594	36,683	—	10	7.73%	6.85%	1.4
		<u>\$ 567,829</u>	<u>\$ 437,530</u>		<u>20</u>	<u>13.92%</u>	<u>9.39%</u>	<u>1.1</u>

- (1) Represents face amount of third party liens that are senior to Newcastle's position.
(2) For others, represents weighted average yield and weighted average coupon.
(3) Interest accrued to principal balance over life to maturity with a discounted payoff option prior to April 2015. Following a public offering by the debt issuer in January 2014, Newcastle received cash of \$83.3 million, which reduced the face of the loan to \$99.4 million.
(4) Interest only payments over life to maturity and balloon principal payment upon maturity.
(5) Interest only payments over life to maturity with a discounted payoff option prior to April 2014. The borrower repaid the financing and received the discount in January 2014.
(6) The borrower repaid the financing in January 2014.
(7) Various terms of payment. This represents \$71.0 million, \$44.0 million, \$13.0 million and \$0.6 million face amounts of bank loans, mezzanine loans, B-notes and whole loans, respectively. Each of the ten loans had a carrying value of less than \$13.1 million at December 31, 2013.

(E) The following is an aging analysis of past due residential loans held-for-investment as of December 31, 2013:

	30-59 Days 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	\$ 655	\$ 99	\$ 550	\$ 327	\$ 1,631	\$ 101,050	\$ 102,681
Securitized Manufactured Housing Loan Portfolio II	\$ 963	\$ 390	\$ 1,208	\$ 400	\$ 2,961	\$ 126,014	\$ 128,975
Residential Loans	\$ 392	\$ 798	\$ 4,832	\$ 1,126	\$ 7,148	\$ 38,820	\$ 45,968

Newcastle's management monitors the credit qualities of the Manufactured Housing Loan Portfolios I and II and residential loans primarily by using the aging analysis, current trends in delinquencies and the actual loss incurrence rate.

(F) Loans acquired at a discount for credit quality.

Newcastle's investments in real estate related and other loans and non-securitized manufactured housing loans were classified as held-for-sale as of December 31, 2013 and December 31, 2012. Loans held-for-sale are marked to the lower of carrying value or fair value.

Newcastle's investment in the securitized manufactured housing loan portfolios I and II were classified as held-for-investment as of December 31, 2013 and December 31, 2012. In connection with the securitizations of the manufactured housing loan portfolios, Newcastle gave representations and warranties with respect to the manufactured housing loans sold to the securitization trusts. To the extent a breach of any such representations and warranties materially and adversely affects the value or enforceability of the related loans, Newcastle will be required to repurchase such loans from the respective securitization trusts.

Newcastle's investment in the residential loans was classified as held-for-investment as of December 31, 2013 and December 31, 2012.

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The following is a summary of real estate related and other loans by maturity at December 31, 2013:

Year of Maturity ⁽¹⁾	Outstanding Face Amount	Carrying Value	Number of Loans
Delinquent ⁽²⁾	\$ 12,000	\$ —	1
2014	115,623	49,236	5
2015	57,943	56,271	5
2016	64,955	63,334	2
2017	94,912	81,213	4
2018	22,628	18,796	1
Thereafter	199,768	168,680	2
Total	\$ 567,829	\$ 437,530	20

(1) Based on the final extended maturity date of each loan investment as of December 31, 2013.

(2) Includes loans that are non-performing, in foreclosure, or under bankruptcy.

Activities relating to the carrying value of real estate related and other loans and residential mortgage loans are as follows:

	Held for Sale		Held for Investment	
	Real Estate Related Loans	Residential Mortgage Loans	Residential Mortgage Loans	NPL Reverse Mortgage Loans
December 31, 2010	\$ 782,605	\$ 253,213	\$ 124,974	\$ —
Purchases / additional fundings	384,850	—	—	—
Interest accrued to principal balance	19,507	—	—	—
Principal paydowns	(270,767)	(8,818)	(30,514)	—
Sales	(125,141)	—	—	—
Transfer to held for investment	—	(238,721)	238,721	—
Valuation (allowance) reversal on loans	21,629	(2,864)	(3,602)	—
Accretion of loan discount and other amortization	(7)	—	2,371	—
Other	904	(123)	(714)	—
December 31, 2011	\$ 813,580	\$ 2,687	\$ 331,236	\$ —
Purchases / additional fundings	109,491	—	—	—
Interest accrued to principal balance	22,835	—	—	—
Principal paydowns	(129,950)	(686)	(38,182)	—
Valuation (allowance) reversal on loans	28,213	493	(4,119)	—
Loss on repayment of loans held for sale	(1,614)	—	—	—
Accretion of loan discount and other amortization	—	—	4,002	—
Other	577	(23)	(476)	—
December 31, 2012	\$ 843,132	\$ 2,471	\$ 292,461	\$ —
Purchases / additional fundings	315,296	—	—	35,138
Interest accrued to principal balance	26,588	—	—	—
Principal paydowns	(257,335)	(373)	(45,665)	—
Sales	(101,338)	—	—	—
New Residential spin-off	—	—	—	(35,865)
Conversion to equity-GateHouse	(393,531)	—	—	—
Elimination after restructure-Golf	(29,412)	—	—	—
Valuation (allowance) reversal on loans	19,479	105	5,451	—
Gain on repayment of loans held for sale	7,216	—	—	—
Accretion of loan discount and other amortization	6,689	—	3,684	727
Other	746	(18)	(481)	—
December 31, 2013	\$ 437,530	\$ 2,185	\$ 255,450	\$ —

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The following is a rollforward of the related loss allowance:

	Held for Sale		Held for Investment
	Real Estate Related and Other Loans	Residential Mortgage Loans	Residential Mortgage Loans (B)
Balance at December 31, 2011	\$ (228,017)	\$ (2,461)	\$ (26,075)
Charge-offs ^(A)	17,742	896	7,716
Valuation (allowance) reversal on loans	28,213	493	(4,119)
Balance at December 31, 2012	\$ (182,062)	\$ (1,072)	\$ (22,478)
Charge-offs ^(A)	68,546	143	4,780
Valuation (allowance) reversal on loans	19,479	105	5,451
Balance at December 31, 2013	\$ (94,037)	\$ (824)	\$ (12,247)

(A) The charge-offs for real estate related loans represent three and six loans which were written off, sold, restructured, or paid off at a discounted price during 2013 and 2012, respectively.

(B) The allowance for credit losses was determined based on the guidance for loans acquired with deteriorated credit quality.

The average carrying amount of Newcastle's real estate related and other loans was approximately \$761.7 million, \$843.4 million and \$795.3 million during 2013, 2012 and 2011, respectively, on which Newcastle earned approximately \$81.5 million, \$81.5 million and \$65.7 million of gross interest revenues, respectively.

The average carrying amount of Newcastle's residential mortgage loans was approximately \$282.7 million, \$312.5 million and \$354.9 million during 2013, 2012 and 2011, respectively, on which Newcastle earned approximately \$27.3 million, \$31.6 million and \$34.1 million of gross interest revenues, respectively.

The loans are encumbered by various debt obligations as described in Note 14.

The table below summarizes the geographic distribution of real estate related and other loans and residential loans at December 31, 2013:

Geographic Location	Real Estate Related and Other Loans		Residential Mortgage Loans	
	Outstanding Face Amount	Percentage	Outstanding Face Amount	Percentage
Western U.S.	\$ 94,204	29.9%	\$ 168,132	59.9%
Northeastern U.S.	34,847	11.0%	9,014	3.2%
Southeastern U.S.	52,178	16.5%	61,646	22.0%
Midwestern U.S.	11,296	3.6%	10,490	3.7%
Southwestern U.S.	32,005	10.1%	31,424	11.2%
Foreign	91,129	28.9%	47	0.0%
	\$ 315,659	100.0%	\$ 280,753	100.0%
Other	252,170	(A)		
	\$ 567,829			

(A) Includes corporate bank loans which are not directly secured by real estate assets.

Securitization of Subprime Mortgage Loans

Newcastle acquired and securitized two portfolios of subprime residential mortgage loans ("Subprime Portfolio I" and "Subprime Portfolio II"), through subsidiaries, as summarized in the table below. Both portfolios are being serviced by an affiliate of the Manager for a servicing fee equal to 0.50% per annum on their respective unpaid principal balances.

Both portfolios were securitized through special purpose entities ("Securitization Trust 2006") and ("Securitization Trust 2007") which are not consolidated by Newcastle. Newcastle retained a portion of the notes issued by, and all of the equity of, both entities. Newcastle, as holder of the equity (or residual interest), has the option (a call option) to redeem the notes once the aggregate principal balance of Subprime Portfolio I or Subprime Portfolio II is equal to or less than 20% or 10%, respectively, of such balance at the date of the transfer. The transactions between Newcastle and each securitization trust qualified as sales for accounting purposes. However, the loans which are subject to a call option by Newcastle were not treated as being sold and are classified as "held for investment" subsequent to the completion of the securitizations. The loans subject to call option and the corresponding financing recognize interest income and expense based on the expected weighted average coupons of the loans subject to call option at the call date of 9.24% and 8.68% for Subprime Portfolios I

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and II, respectively. The call options are “out of the money,” meaning that the price Newcastle would have to pay to acquire such loans exceeds their fair value at this time, and there is no requirement to exercise such options.

In both transactions, the residual interests and the retained bonds are reported as real estate securities, available for sale. The retained loans subject to call option and corresponding financing are reported as separate line items on Newcastle’s balance sheet.

Newcastle has no obligation to repurchase any loans from either of its subprime securitizations. Therefore, it is expected that its exposure to loss is limited to the carrying amount of its retained interests in the securitization entities, as described above. A subsidiary of Newcastle gave limited representations and warranties with respect to Subprime Portfolio II and is required to pay the difference, if any, between the repurchase price of any loan in such portfolio and the price required to be paid by a third party originator for such loan. Such subsidiary, however, has no assets and does not have recourse to the general credit of Newcastle.

	Subprime Portfolio	
	I	II
Date of acquisition	March 2006	March 2007
Original number of loans (approximate)	11,300	7,300
Predominant origination date of loans	2005	2006
Original face amount of purchase	\$1.5 billion	\$1.3 billion
Pre-securitization loan write-down	(\$4.1 million)	(\$5.8 million)
Gain on pre-securitization hedge	\$5.5 million	\$5.8 million
Gain on sale	Less than \$0.1 million	\$0.1 million
Securitization date	April 2006	July 2007
Face amount of loans at securitization	\$1.5 billion	\$1.1 billion
Face amount of notes sold by trust	\$1.4 billion	\$1.0 billion
Stated maturity of notes	March 2036	April 2037
Face amount of notes retained by Newcastle	\$37.6 million	\$38.8 million
Fair value of equity retained by Newcastle	\$62.4 million (A)	\$46.7 million (A)
Key assumptions in measuring such fair value ^(A) :		
Weighted average life (years)	3.1	3.8
Expected credit losses	5.3%	8.0%
Weighted average constant prepayment rate	28.0%	30.1%
Discount rate	18.8%	22.5%
(A)	As of the date of transfer.	

The following table presents information on the retained interests in the securitizations of Subprime Portfolios I and II at December 31, 2013:

	Subprime Portfolio		
	I	II	Total
Total securitized loans (unpaid principal balance) ^(A)	\$ 372,661	\$ 506,620	\$ 879,281
Loans subject to call option (carrying value)	\$ 299,176	\$ 107,041	\$ 406,217
Retained interests (fair value) ^(B)	\$ 2,485	\$ —	\$ 2,485
(A)	Average loan seasoning of 101 months and 83 months for Subprime Portfolios I and II, respectively, at December 31, 2013.		
(B)	The retained interests include retained bonds of the securitizations. Their fair value is estimated based on pricing models. Newcastle’s residual interests were written off in 2010. The weighted average yield of the retained note was 24.53% as of December 31, 2013.		

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The following table summarizes certain characteristics of the underlying subprime mortgage loans, and related financing, in the securitizations as of December 31, 2013 (unaudited, except stated otherwise):

	Subprime Portfolio	
	I	II
Loan unpaid principal balance (UPB) ^(A)	\$ 372,661	\$ 506,620
Weighted average coupon rate of loans	5.88%	5.19%
Delinquencies of 60 or more days (UPB) ^(B)	\$ 110,539	\$ 204,653
Net credit losses for year ended		
December 31, 2013	\$ 26,388	\$ 44,855
December 31, 2012	\$ 27,548	\$ 34,866
Cumulative net credit losses	\$ 246,805	\$ 301,574
Cumulative net credit losses as a % of original UPB	16.4%	27.7%
Percentage of ARM loans ^(C)	51.5%	57.0%
Percentage of loans with loan-to-value ratio >90%	9.4%	7.7%
Percentage of interest-only loans	11.4%	14.2%
Face amount of debt ^{(A) (D)}	\$ 368,661	\$ 506,620
Weighted average funding cost of debt ^(E)	0.53%	0.45%

(A) Audited.

(B) Delinquencies include loans 60 or more days past due, in foreclosure, under bankruptcy filing or real estate owned.

(C) ARM loans are adjustable-rate mortgage loans. An option ARM is an adjustable-rate mortgage that provides the borrower with an option to choose from several payment amounts each month for a specified period of the loan term. None of the loans in the subprime portfolios are option ARMs.

(D) Excludes face amount of \$4.0 million of retained notes for Subprime Portfolio I at December 31, 2013.

(E) Includes the effect of applicable hedges.

Newcastle received negligible cash flows from the retained interests of Subprime Portfolios I and II during the years ended December 31, 2013, 2012 and 2011.

8. INVESTMENTS IN CDO SERVICING RIGHTS

In February 2011, Newcastle, through one of its subsidiaries, purchased the management rights with respect to certain C-BASS Investment Management LLC ("C-BASS") CDOs for \$2.2 million pursuant to a bankruptcy proceeding. Newcastle initially recorded the cost of acquiring the collateral management rights as a servicing asset and subsequently amortizes this asset in proportion to, and over the period of, estimated net servicing income. Servicing assets are assessed for impairment on a quarterly basis, with impairment recognized as a valuation allowance. Key economic assumptions used in measuring any potential impairment of the servicing assets include the prepayment speeds of the underlying loans, default rates, loss severities and discount rates. During the years ended December 31, 2013 and 2012, Newcastle recorded \$0.3 million and \$0.3 million, respectively of servicing rights amortization and no servicing rights impairment. As of December 31, 2013, Newcastle's servicing asset had a carrying value of \$1.4 million recorded in receivables and other assets.

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9. INVESTMENTS IN SENIOR HOUSING REAL ESTATE

In the year ended December 31, 2013, Newcastle completed eight acquisitions of senior housing properties described in Note 3. The following table sets forth certain information regarding the investments in real estate at December 31, 2013:

Property Type (A)	City, State	Initial Cost				Costs Capitalized Subsequent to Acquisition	Gross Carrying Amount (B) (F)					Accumulated Depreciation (B)(C)
		Land	Building	Building Improvements	Furniture, Fixtures and Equipment		Land	Building	Building Improvements	Furniture, Fixtures and Equipment	Total	
<i>Investments during 2012</i>												
AL/MC	Scottsdale, AZ	\$ 2,307	\$ 16,809	\$ 183	\$ 101	\$ 170	\$ 2,307	\$ 16,809	\$ 327	\$ 127	\$ 19,570	\$ (708)
AL/MC	Citrus Heights, CA	831	3,089	94	59	29	831	3,090	114	67	4,102	(154)
AL/MC	Santa Cruz, CA	2,255	20,931	265	58	124	2,255	20,932	370	76	23,633	(870)
AL/MC	Clovis, CA	1,133	16,789	205	45	77	1,133	16,790	235	91	18,249	(671)
AL/MC	Boise, ID	1,465	13,157	477	58	116	1,465	13,157	580	71	15,273	(599)
AL/MC	Corvallis, OR	1,060	4,886	164	8	56	1,060	4,886	196	32	6,174	(209)
AL/MC	Eugene, OR	935	20,383	411	91	88	935	20,383	507	83	21,908	(862)
AL/MC	Cottonwood Heights, UT	1,496	16,160	238	58	154	1,496	16,160	275	175	18,106	(674)
AL/MC	Bountiful, UT	570	9,492	66	50	362	570	9,492	298	180	10,540	(355)
AL/MC	Taylorsville, UT	1,111	3,009	117	39	266	1,111	3,009	242	180	4,542	(154)
AL/MC	Salt Lake City, UT	700	3,253	44	15	212	700	3,253	131	140	4,224	(129)
AL/MC	Fort Worth, TX	2,130	16,260	338	672	139	2,130	16,260	423	726	19,539	(775)
Subtotal 2012		\$ 15,993	\$ 144,218	\$ 2,602	\$ 1,254	\$ 1,793	\$ 15,993	\$ 144,221	\$ 3,698	\$ 1,948	\$ 165,860	\$ (6,160)
<i>Investments during 2013</i>												
IL-only	Poughkeepsie, NY	—	11,848	282	670	102	—	11,849	341	712	12,902	(215)
AL/MC	Brooksville, FL	1,807	8,578	211	568	74	1,807	8,578	230	623	11,238	(150)
AL/MC	Port Charlotte, FL	1,078	8,381	231	679	51	1,078	8,383	238	721	10,420	(158)
AL/MC	Bradenton, FL	1,177	9,129	211	748	75	1,177	9,129	229	805	11,340	(172)
AL/MC	Brooksville, FL	708	4,895	244	439	43	708	4,895	254	472	6,329	(101)
AL/MC	Bradenton, FL	1,367	14,124	235	1,247	124	1,367	14,124	259	1,347	17,097	(270)
AL/MC	Hollywood, FL	918	4,057	204	509	94	918	4,057	239	568	5,782	(99)
AL/MC	Pinellas Park, FL	1,447	9,564	185	848	56	1,447	9,564	203	886	12,100	(183)
AL/MC	Lake Placid, FL	1,217	4,442	277	838	40	1,217	4,442	282	873	6,814	(131)
AL/MC	Hollywood, FL	948	4,624	126	399	50	948	4,624	138	437	6,147	(91)
AL/MC	Venice, FL	1,078	13,034	277	838	59	1,078	13,034	290	884	15,286	(222)
AL/MC	New Bern, NC	1,676	12,808	234	1,148	132	1,676	12,808	258	1,256	15,998	(250)
AL/MC	Winter Haven, FL	3,532	21,840	222	1,477	148	3,532	21,840	287	1,560	27,219	(371)
AL/MC	Sanford, FL	1,407	8,742	269	629	63	1,407	8,742	291	670	11,110	(159)
AL/MC	Spring Hill, FL	798	5,449	248	529	44	798	5,449	261	560	7,068	(114)
AL/MC	Lakeland, FL	1,108	14,790	48	918	76	1,108	14,790	70	972	16,940	(239)
AL/MC	Media, PA	1,940	15,834	406	870	140	1,940	15,834	440	976	19,190	(233)
AL/MC	Port Charlotte, FL	2,000	13,316	252	1,370	163	2,000	13,316	275	1,510	17,101	(213)
AL/MC	Pittsburgh, PA	3,260	11,435	203	410	207	3,260	11,435	352	468	15,515	(129)
IL-only	Richmond, VA	1,630	9,241	329	705	115	1,630	9,241	419	730	12,020	(69)
AL/MC	Fort Myers, FL	1,950	9,018	242	1,040	48	1,950	9,018	242	1,088	12,298	(18)
IL-only	Surprise, AZ	1,150	11,083	248	646	—	1,150	11,083	248	646	13,127	(9)
IL-only	Santa Clara, CA	—	17,979	609	767	—	—	17,979	609	767	19,355	(15)
IL-only	Pueblo, CO	454	13,983	63	384	—	454	13,983	63	384	14,884	(10)
IL-only	Rocky Hill, CT	—	23,976	215	615	—	—	23,976	215	615	24,806	(18)
IL-only	Farmington, CT	3,649	23,586	155	272	—	3,649	23,586	155	272	27,662	(16)
IL-only	Urbandale, IA	706	12,017	270	484	—	706	12,017	270	484	13,477	(10)
IL-only	Bettendorf, IA	1,512	10,991	136	474	—	1,512	10,991	136	474	13,113	(9)
IL-only	Topeka, KS	333	14,500	221	746	—	333	14,500	221	746	15,800	(13)

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Property Type (A)	City, State	Initial Cost				Costs Capitalized Subsequent to Acquisition	Gross Carrying Amount (B) (F)				Accumulated Depreciation (B)(C)	
		Land	Building	Building Improvements	Furniture, Fixtures and Equipment		Land	Building	Building Improvements	Furniture, Fixtures and Equipment		Total
<i>Senior Housing Properties:</i>												
IL-only	Salem, OR	1,411	16,772	240	907	—	1,411	16,772	240	907	19,330	(15)
IL-only	St Louis, MO	1,079	24,741	162	847	—	1,079	24,741	162	847	26,829	(19)
IL-only	Durham, NC	1,079	22,424	199	615	—	1,079	22,424	199	615	24,317	(17)
IL-only	Cary, NC	2,137	19,310	195	786	—	2,137	19,310	195	786	22,428	(16)
IL-only	Reno, NV	1,079	19,821	336	615	—	1,079	19,821	336	615	21,851	(16)
IL-only	Salem, OR	917	6,423	362	—	—	917	6,423	362	—	7,702	(5)
IL-only	Corvallis, OR	1,129	7,830	77	232	—	1,129	7,830	77	232	9,268	(6)
IL-only	Hillsboro, OR	1,643	11,890	125	494	—	1,643	11,890	125	494	14,152	(10)
IL-only	Eugene, OR	1,603	17,452	262	686	—	1,603	17,452	262	686	20,003	(14)
IL-only	Harrisburg, PA	1,008	22,683	116	776	—	1,008	22,683	116	776	24,583	(18)
IL-only	Boyertown, PA	313	18,292	91	504	—	313	18,292	91	504	19,200	(14)
IL-only	Clarksville, TN	635	10,624	149	302	—	635	10,624	149	302	11,710	(8)
IL-only	Dallas, TX	2,389	12,364	167	534	—	2,389	12,364	167	534	15,454	(10)
IL-only	Denton, TX	1,018	18,611	237	726	—	1,018	18,611	237	726	20,592	(15)
IL-only	San Antonio, TX	1,553	15,056	178	272	—	1,553	15,056	178	272	17,059	(11)
IL-only	Flower Mound, TX	2,107	17,616	243	716	—	2,107	17,616	243	716	20,682	(15)
IL-only	Dallas, TX	2,883	12,230	232	454	—	2,883	12,230	232	454	15,799	(10)
IL-only	Eau Claire, WI	524	18,951	250	655	—	524	18,951	250	655	20,380	(15)
IL-only	Simi Valley, CA	3,161	21,489	191	719	—	3,161	21,489	191	719	25,560	(17)
IL-only	Lakewood, CO	1,307	13,656	542	344	—	1,307	13,656	542	344	15,849	(11)
IL-only	Greeley, CO	233	13,572	151	588	—	233	13,572	151	588	14,544	(11)
IL-only	Fort Collins, CO	628	17,671	154	618	—	628	17,671	154	618	19,071	(14)
IL-only	Tallahassee, FL	1,084	19,912	259	658	—	1,084	19,912	259	658	21,913	(16)
IL-only	Sarasota, FL	658	21,508	213	658	—	658	21,508	213	658	23,037	(16)
IL-only	Port Richey, FL	1,084	13,796	202	760	—	1,084	13,796	202	760	15,842	(12)
IL-only	Normal, IL	324	14,112	209	618	—	324	14,112	209	618	15,263	(12)
IL-only	Wichita, KS	496	17,438	213	790	—	496	17,438	213	790	18,937	(15)
IL-only	Paducah, KY	263	23,413	199	851	—	263	23,413	199	851	24,726	(19)
IL-only	Shreveport, LA	517	5,479	72	172	—	517	5,479	72	172	6,240	(4)
IL-only	Fort Gratiot, MI	61	15,552	334	821	—	61	15,552	334	821	16,768	(14)
IL-only	St Joseph, MO	851	15,913	277	618	—	851	15,913	277	618	17,659	(13)
IL-only	Ridgeland, MS	952	7,020	199	527	—	952	7,020	199	527	8,698	(7)
IL-only	Missoula, MT	304	16,090	141	648	—	304	16,090	141	648	17,183	(13)
IL-only	Greece, NY	689	20,181	184	658	—	689	20,181	184	658	21,712	(16)
IL-only	Fayetteville, NY	770	25,116	166	658	—	770	25,116	166	658	26,710	(18)
IL-only	Ballwin, MO	1,236	16,134	159	517	—	1,236	16,134	159	517	18,046	(12)
IL-only	Corvallis, OR	1,520	17,659	219	831	—	1,520	17,659	219	831	20,229	(15)
IL-only	Lemoyne, PA	922	25,074	148	658	—	922	25,074	148	658	26,802	(18)
IL-only	Arlington, TX	314	9,525	473	385	—	314	9,525	473	385	10,697	(9)
IL-only	Richardson, TX	1,297	11,872	206	699	—	1,297	11,872	206	699	14,074	(11)
IL-only	Lubbock, TX	1,003	20,501	425	932	—	1,003	20,501	425	932	22,861	(18)
IL-only	North Logan, UT	1,033	17,356	337	729	—	1,033	17,356	337	729	19,455	(15)
IL-only	Yorktown, VA	2,178	19,055	197	679	—	2,178	19,055	197	679	22,109	(15)
Subtotal 2013		\$ 86,242	\$ 1,055,448	\$ 16,344	\$ 47,524	\$ 1,904	\$ 86,242	\$ 1,055,451	\$ 17,006	\$ 48,763	\$ 1,207,462	\$ (4,262)
Total		\$ 102,235	\$ 1,199,666	\$ 18,946	\$ 48,778	\$ 3,697	\$ 102,235	\$ 1,199,672	\$ 20,704	\$ 50,711	\$ 1,373,322	\$ (10,422)

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Property Type (A)	City, State	Year Acquired (D)	Year Constructed/ Renovated (D)	Net Carrying Value		Encumbrances (E)	
				12/31/2013	12/31/2012	12/31/2013	12/31/2012
AL/MC	Scottsdale, AZ	2012	1999/2005	\$ 18,862	\$ 19,212	\$ 16,380	\$ 12,600
AL/MC	Citrus Heights, CA	2012	1997/2011	3,948	4,027	3,440	2,940
AL/MC	Santa Cruz, CA	2012	1990/NA	22,763	23,272	19,850	17,220
AL/MC	Clovis, CA	2012	1998/2007	17,578	17,969	15,343	11,700
AL/MC	Boise, ID	2012	1997/2011	14,674	15,016	12,799	12,960
AL/MC	Corvallis, OR	2012	1999/NA	5,965	6,069	5,166	3,020
AL/MC	Eugene, OR	2012	1998/NA	21,046	21,607	18,425	15,480
AL/MC	Cottonwood Heights, UT	2012	2001/NA	17,432	17,772	15,159	12,480
AL/MC	Bountiful, UT	2012	1978/2000	10,185	10,171	8,819	10,024
AL/MC	Taylorsville, UT	2012	1976/1994	4,388	4,276	3,704	3,341
AL/MC	Salt Lake City, UT	2012	1984/2007	4,095	4,017	3,476	2,635
AL/MC	Fort Worth, TX	2012	1986/NA	18,764	19,393	16,125	16,125
				<u>\$ 159,700</u>	<u>\$ 162,801</u>	<u>\$ 138,686</u>	<u>\$ 120,525</u>
IL-only	Poughkeepsie, NY	2013	2001/NA	12,687	—	14,100	—
AL/MC	Brooksville, FL	2013	1960/2012	11,088	—	9,951	—
AL/MC	Port Charlotte, FL	2013	1998/NA	10,262	—	9,240	—
AL/MC	Bradenton, FL	2013	1973/1988	11,168	—	10,041	—
AL/MC	Brooksville, FL	2013	1988/NA	6,228	—	5,603	—
AL/MC	Bradenton, FL	2013	1988/NA	16,827	—	15,128	—
AL/MC	Hollywood, FL	2013	1998/NA	5,683	—	5,069	—
AL/MC	Pinellas Park, FL	2013	1986/2007	11,917	—	10,735	—
AL/MC	Lake Placid, FL	2013	2007/NA	6,683	—	6,039	—
AL/MC	Hollywood, FL	2013	1988/2012	6,056	—	5,434	—
AL/MC	Venice, FL	2013	1998/NA	15,064	—	13,572	—
AL/MC	New Bern, NC	2013	1985/2004	15,748	—	14,141	—
AL/MC	Winter Haven, FL	2013	1984/NA	26,848	—	19,199	—
AL/MC	Sanford, FL	2013	1984/NA	10,951	—	5,549	—
AL/MC	Spring Hill, FL	2013	1988/2006	6,954	—	7,405	—
AL/MC	Lakeland, FL	2013	1984/NA	16,701	—	9,082	—
AL/MC	Media, PA	2013	1995/NA	18,957	—	16,875	—
AL/MC	Port Charlotte, FL	2013	1985/2004	16,888	—	14,250	—
AL/MC	Pittsburgh, PA	2013	1996/NA	15,386	—	8,250	—
IL-only	Richmond, VA	2013	1987/2008	11,951	—	8,775	—
AL/MC	Fort Myers, FL	2013	1988/NA	12,280	—	10,688	—
IL-only	Surprise, AZ	2013	1998/NA	13,118	—	10,046	—
IL-only	Santa Clara, CA	2013	1991/NA	19,340	—	14,814	—
IL-only	Pueblo, CO	2013	1985/NA	14,874	—	11,392	—
IL-only	Rocky Hill, CT	2013	1998/NA	24,788	—	18,988	—
IL-only	Farmington, CT	2013	1989/NA	27,646	—	21,174	—
IL-only	Urbandale, IA	2013	1995/NA	13,467	—	10,316	—
IL-only	Bettendorf, IA	2013	1990/NA	13,104	—	10,037	—
IL-only	Topeka, KS	2013	1998/NA	15,787	—	12,094	—
IL-only	Salem, OR	2013	1990/NA	19,315	—	14,797	—
IL-only	St Louis, MO	2013	2006/NA	26,810	—	20,537	—
IL-only	Durham, NC	2013	1989/NA	24,300	—	18,615	—
IL-only	Cary, NC	2013	2003/NA	22,412	—	17,169	—
IL-only	Reno, NV	2013	2002/NA	21,835	—	16,726	—
IL-only	Salem, OR	2013	1990/NA	7,697	—	5,897	—

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Property Type (A)	City, State	Year Acquired (D)	Year Constructed/ Renovated (D)	Net Carrying Value		Encumbrances (E)					
				12/31/2013	12/31/2012	12/31/2013	12/31/2012				
				IL-only	Corvallis, OR	2013	1983/NA	9,262	—	7,094	—
IL-only	Hillsboro, OR	2013	1996/NA	14,142	—	10,834	—				
IL-only	Eugene, OR	2013	1995/NA	19,989	—	15,311	—				
IL-only	Harrisburg, PA	2013	2000/NA	24,565	—	18,819	—				
IL-only	Boyertown, PA	2013	1997/NA	19,186	—	14,697	—				
IL-only	Clarksville, TN	2013	1993/NA	11,702	—	8,965	—				
IL-only	Dallas, TX	2013	1996/NA	15,444	—	11,830	—				
IL-only	Denton, TX	2013	2005/NA	20,577	—	15,763	—				
IL-only	San Antonio, TX	2013	1984/NA	17,048	—	13,058	—				
IL-only	Flower Mound, TX	2013	2007/NA	20,667	—	15,832	—				
IL-only	Dallas, TX	2013	2001/NA	15,789	—	12,094	—				
IL-only	Eau Claire, WI	2013	2003/NA	20,365	—	15,601	—				
IL-only	Simi Valley, CA	2013	2006/NA	25,543	—	19,658	—				
IL-only	Lakewood, CO	2013	1992/NA	15,838	—	12,190	—				
IL-only	Greeley, CO	2013	1986/NA	14,533	—	11,185	—				
IL-only	Fort Collins, CO	2013	1987/NA	19,057	—	14,668	—				
IL-only	Tallahassee, FL	2013	2001/NA	21,897	—	16,854	—				
IL-only	Sarasota, FL	2013	2005/NA	23,021	—	17,719	—				
IL-only	Port Richey, FL	2013	1987/NA	15,830	—	12,184	—				
IL-only	Normal, IL	2013	1989/NA	15,251	—	11,739	—				
IL-only	Wichita, KS	2013	2001/NA	18,922	—	14,565	—				
IL-only	Paducah, KY	2013	2004/NA	24,707	—	19,017	—				
IL-only	Shreveport, LA	2013	1988/NA	6,236	—	4,799	—				
IL-only	Fort Gratiot, MI	2013	2001/NA	16,754	—	12,895	—				
IL-only	St Joseph, MO	2013	1990/NA	17,646	—	13,581	—				
IL-only	Ridgeland, MS	2013	1986/NA	8,691	—	6,689	—				
IL-only	Missoula, MT	2013	1997/NA	17,170	—	13,216	—				
IL-only	Greece, NY	2013	2004/NA	21,696	—	16,699	—				
IL-only	Fayetteville, NY	2013	2003/NA	26,692	—	20,543	—				
IL-only	Ballwin, MO	2013	1990/NA	18,034	—	13,879	—				
IL-only	Corvallis, OR	2013	1999/NA	20,214	—	15,558	—				
IL-only	Lemoyne, PA	2013	2002/NA	26,784	—	20,614	—				
IL-only	Arlington, TX	2013	1987/NA	10,688	—	8,227	—				
IL-only	Richardson, TX	2013	1996/NA	14,063	—	10,824	—				
IL-only	Lubbock, TX	2013	1997/NA	22,843	—	17,582	—				
IL-only	North Logan, UT	2013	2001/NA	19,440	—	14,963	—				
IL-only	Yorktown, VA	2013	2005/NA	22,094	—	17,003	—				
Subtotal				\$	1,203,200	\$	—	\$	938,477	\$	—
Total				\$	1,362,900	\$	162,801	\$	1,077,163	\$	120,525

(A) AL represents assisted living; IL represents independent living and MC represents memory care.

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(B) The following is a rollforward of the gross carrying amount and accumulated depreciation of senior housing real estate for the years ended December 31, 2013 and 2012.

	Year ended December 31,	
	2013	2012
Gross Carrying Amount		
Balance at beginning of year	\$ 164,359	\$ —
Additions:		
Acquisitions of real estate	1,205,558	164,067
Improvements	3,450	296
Transferred from operating real estate held for sale	—	—
Disposals:		
Disposal of long-lived assets	(45)	(4)
Balance at end of year	<u>\$ 1,373,322</u>	<u>\$ 164,359</u>
Accumulated Depreciation		
Balance at beginning of year	\$ (1,558)	\$ —
Additions:		
Depreciation expense	(8,874)	(1,559)
Transferred from assets held for sale	—	—
Disposals:		
Disposal of long-lived assets	10	1
Balance at end of year	<u>\$ (10,422)</u>	<u>\$ (1,558)</u>

(C) Depreciation is calculated on a straight line basis using the estimated useful lives detailed in Note 2.

(D) Unaudited.

(E) See Note 14.

(F) The aggregate United States federal income tax basis for Newcastle's senior housing real estate at December 31, 2013 was approximately \$1.4 billion.

The investments in senior housing real estate are generally financed with non-recourse mortgage notes payable (see Note 14).

The following table sets forth the future contracted minimum rentals, excluding contingent rent escalations, for Newcastle's triple net leases relating to the Holiday Portfolio as of December 31, 2013:

	Total Holiday Portfolio
2014	\$ 65,031
2015	67,957
2016	71,015
2017	74,211
2018	76,808
Thereafter	1,170,819
Total	<u>\$ 1,525,841</u>

The resident leases relating to Newcastle's managed senior housing properties are generally cancelable within a 30-day notice.

10. INVESTMENTS IN OTHER REAL ESTATE

In the year ended December 31, 2013, Newcastle acquired other real estate assets as part of the acquisition of the Golf business, which consisted of primarily land, buildings, machinery and equipment. These assets were recognized at fair value on the acquisition date. The following table summarizes the balances of other real estate assets at December 31, 2013. Please refer to Note 3 for a description of the Golf acquisition.

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Property Type (A)	City, State	Initial Cost					Costs Capitalized Subsequent to Acquisition	Gross Carrying Amount (B) (F)					Accumulated Depreciation (B),(C)	
		Land	Building	Building Improvements	Furniture, Fixtures and Equipment	Construction In-Progress		Land	Building	Building Improvements	Furniture, Fixtures and Equipment	Construction In-Progress		Total
GC	California	\$ 62,000	\$ 21,185	\$ 59,116	\$ 12,461	\$ 4,766	\$ —	\$ 62,000	\$ 21,185	\$ 59,116	\$ 12,461	\$ 4,766	\$ 159,528	\$ —
GC	Florida	—	406	759	822	35	—	—	406	759	822	35	2,022	—
GC	Georgia	2,400	1,635	8,055	729	—	—	2,400	1,635	8,055	729	—	12,819	—
GC	Hawaii	—	17	192	135	—	—	—	17	192	135	—	344	—
GC	Idaho	2,700	321	1,995	271	13	—	2,700	321	1,995	271	13	5,300	—
GC	New Jersey	7,733	—	—	—	—	—	7,733	—	—	—	—	7,733	—
GC	New Mexico	1,700	1,171	6,703	447	359	—	1,700	1,171	6,703	447	359	10,380	—
GC	New York	—	22,818	2,168	2,219	48	—	—	22,818	2,168	2,219	48	27,253	—
GC	Oklahoma	—	761	294	344	68	—	—	761	294	344	68	1,467	—
GC	Oregon	6,900	1,540	7,166	457	50	—	6,900	1,540	7,166	457	50	16,113	—
GC	Tennessee	6,400	297	2,018	322	233	—	6,400	297	2,018	322	233	9,270	—
GC	Texas	—	166	276	569	59	—	—	166	276	569	59	1,070	—
GC	Virginia	—	33	1	66	—	—	—	33	1	66	—	100	—
GC	Washington	3,701	265	1,993	186	29	—	3,701	265	1,993	186	29	6,174	—
		\$ 93,534	\$ 50,615	\$ 90,736	\$ 19,028	\$ 5,660	\$ —	\$ 93,534	\$ 50,615	\$ 90,736	\$ 19,028	\$ 5,660	\$ 259,573	\$ —

Other Operating Real Estate (E):

OB	Beavercreek, OH	\$ 386	\$ 2,287	\$ —	\$ —	\$ —	\$ 413	\$ 364	\$ 2,170	\$ 390	\$ —	\$ —	\$ 2,924	\$ (779)
OB	Beavercreek, OH	401	2,326	—	—	—	175	381	2,268	92	—	—	2,741	(547)
OB	Beavercreek, OH	382	2,242	—	—	—	587	361	2,150	488	—	—	2,999	(741)
		\$ 1,169	\$ 6,855	\$ —	\$ —	\$ —	\$ 1,175	\$ 1,106	\$ 6,588	\$ 970	\$ —	\$ —	\$ 8,664	\$ (2,067)
		\$ 94,703	\$ 57,470	\$ 90,736	\$ 19,028	\$ 5,660	\$ 1,175	\$ 94,640	\$ 57,203	\$ 91,706	\$ 19,028	\$ 5,660	\$ 268,237	\$ (2,067)

Property Type (A)	City, State	Year Acquired (D)	Year Constructed/Renovated (D)	Net Rentable Sq. Ft. (D)	Ending Occupancy (D)
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Other Operating Real Estate (E):

OB	Beavercreek, OH	2006	1984/2006	55,024 Sq. Ft.	84.40%
OB	Beavercreek, OH	2006	1985/2006	29,916 Sq. Ft.	100.00%
OB	Beavercreek, OH	2006	1987/2006	45,500 Sq. Ft.	100.00%

(A) OB represents office building. GC represents golf course.

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(B) The following is a rollforward of the gross carrying amount and accumulated depreciation of other real estate for the years ended December 31, 2013 and 2012.

	Year ended December 31, 2013	Year ended December 31, 2012
<u>Gross Carrying Amount</u>		
Balance at beginning of year	\$ 8,520	\$ —
Additions:		
Acquisitions of other real estate	259,573	—
Improvements	144	—
Transferred from operating real estate held for sale	—	8,520
Disposals:		
Disposal of long-lived assets	—	—
Balance at end of year	<u>\$ 268,237</u>	<u>\$ 8,520</u>
<u>Accumulated Depreciation</u>		
Balance at beginning of year	\$ (1,848)	\$ —
Additions:		
Depreciation expense	(219)	(1,191)
Transferred from assets held-for-sale	—	(657)
Disposals:		
Disposal of long-lived assets	—	—
Balance at end of year	<u>\$ (2,067)</u>	<u>\$ (1,848)</u>

(C) Depreciation is calculated on a straight line basis using the estimated useful lives detailed in Note 2.

(D) Unaudited.

(E) The other operating real estate assets were pledged as collateral in one of Newcastle's non-recourse financing structures at December 31, 2013.

(F) The aggregate United States federal income tax basis for Newcastle's other operating real estate at December 31, 2013 was approximately \$266.6 million.

The real estate assets in the Golf businesses are encumbered by various debt obligations, as described in Note 14, at December 31, 2013.

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11. PROPERTY, PLANT AND EQUIPMENT

In the year ended December 31, 2013, Newcastle acquired property, plant and equipment as part of the acquisition of the Media business which consisted of land, buildings, machinery and equipment. These assets were recognized at fair value on the acquisition date. The following table summarizes the balances of property, plant and equipment at December 31, 2013:

	December 31, 2013
Land	23,087
Buildings and improvements	110,522
Machinery and equipment	125,836
Furniture, fixtures, and computer software	13,970
	273,415
Less: accumulated depreciation and amortization	(3,227)
Total	\$ 270,188
	Year ended December 31, 2013
<u>Gross Carrying Amount</u>	
Balance at beginning of acquisition	\$ 272,153
Additions:	
Acquisitions of property, plant and equipment	1,262
Improvements	—
Disposals:	
Disposal of long-lived assets	—
Balance at end of year	\$ 273,415
<u>Accumulated Depreciation</u>	
Balance at beginning of acquisition	\$ —
Additions:	
Depreciation expense	(3,227)
Transferred from assets held for sale	—
Disposals:	
Disposal of long-lived assets	—
Balance at end of year	\$ (3,227)

Depreciation is calculated on a straight line basis using the estimated useful lives as described in Note 2.

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12. GOODWILL AND INTANGIBLES

The following table summarizes Newcastle's goodwill and intangibles related to its senior housing real estate, media and golf businesses:

	December 31, 2013			December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortizable intangible assets:						
In-place resident lease intangibles	\$ 112,267	\$ (21,902)	\$ 90,365	\$ 22,711	\$ (4,205)	\$ 18,506
Non-compete intangibles	1,600	(23)	1,377	600	(20)	580
Land lease intangibles	3,498	(1)	3,497	—	—	—
PILOT intangible	3,700	(124)	3,576	—	—	—
Other intangibles	2,046	(2)	2,044	—	—	—
Total Senior Housing	123,111	(22,252)	100,859	23,311	(4,225)	19,086
Advertiser relationships	58,269	(359)	57,910	—	—	—
Customer relationships	5,666	(35)	5,631	—	—	—
Subscriber relationships	35,966	(221)	35,745	—	—	—
Trade name	268	(3)	265	—	—	—
Total Media	100,169	(618)	99,551	—	—	—
Trade name	700	—	700	—	—	—
Leasehold intangibles	52,066	—	52,066	—	—	—
Management contracts	39,000	—	39,000	—	—	—
Internally-developed software	800	—	800	—	—	—
Membership base	5,400	—	5,400	—	—	—
Total Golf	97,966	—	97,966	—	—	—
Total	\$ 321,246	\$ (22,870)	\$ 298,376	\$ 23,311	\$ (4,225)	\$ 19,086
Nonamortizable intangible assets:						
Mastheads-Media	45,849	—	45,849	—	—	—
Liquor license-Golf	900	—	900	—	—	—
Goodwill	126,686	—	126,686	—	—	—
Total	\$ 494,681	\$ (22,870)	\$ 471,811	—	—	—

The unamortized balance of intangible assets at December 31, 2013 are expected to be charged to amortization expense as follows:

2014	\$ 61,435
2015	49,122
2016	33,262
2017	16,304
2018	15,543
Thereafter	122,710
	<u>\$ 298,376</u>

The changes in the carrying amount of goodwill for the year ended December 31, 2013 are as follows:

Gross balance at January 1, 2013	\$ —
Business combination	126,686
Net balance at December 31, 2013	<u>\$ 126,686</u>

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13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value may be based upon broker quotations, counterparty quotations or pricing services quotations, which provide valuation estimates based upon reasonable market order indications or a good faith estimate thereof and are subject to significant variability based on market conditions, such as interest rates, credit spreads and market liquidity. A significant portion of Newcastle's loans, securities and debt obligations are currently not traded in active markets and therefore have little or no price transparency. As a result, Newcastle has estimated the fair value of these illiquid instruments based on internal pricing models rather than quotations. The determination of estimated cash flows used in pricing models is inherently subjective and imprecise. Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant change to estimated fair values. It should be noted that minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values, and that the fair values reflected below are indicative of the interest rate and credit spread environments as of December 31, 2013 and do not take into consideration the effects of subsequent changes in market or other factors.

Newcastle has various processes and controls in place to ensure that fair value is reasonably estimated. With respect to the broker and pricing service quotations, to ensure these quotes represent a reasonable estimate of fair value, Newcastle's quarterly procedures include a comparison to the outputs generated from its internal pricing models and transactions Newcastle has completed with respect to these or similar securities, as well as on its knowledge and experience of these markets. With respect to fair value estimates generated based on Newcastle's internal pricing models, Newcastle's management validates the inputs and outputs of the internal pricing models by comparing them to available independent third party market parameters and models for reasonableness. Newcastle believes its valuation methods and the assumptions used are appropriate and consistent with other market participants.

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Fair Value Summary Table

The carrying values and estimated fair values of Newcastle's assets and liabilities at December 31, 2013 and 2012 were as follows:

	December 31, 2013						December 31, 2012	
	Principal Balance or Notional Amount	Carrying Value	Estimated Fair Value	Fair Value Method (A)	Weighted Average Yield/Funding Cost	Weighted Average Maturity (Years)	Carrying Value	Estimated Fair Value
Assets								
Financial instruments:								
Real estate securities, available-for-sale*	\$ 1,170,905	\$ 984,263	\$ 984,263	Broker quotations, counterparty quotations, pricing services, pricing models	5.44%	2.9	\$ 1,691,575	\$ 1,691,575
Real estate related and other loans, held-for-sale, net	567,829	437,530	456,535	Broker quotations, counterparty quotations, pricing services, pricing models	13.92%	1.1	843,132	853,102
Residential mortgage loans, held-for-investment, net	277,624	255,450	252,039	Pricing models	8.50%	5.4	292,461	297,030
Residential mortgage loans, held-for-sale, net	3,129	2,185	2,185	Pricing models	19.34%	4.4	2,471	2,471
Subprime mortgage loans subject to call option (B)	406,217	406,217	406,217	(B)	9.09%	(B)	405,814	405,814
Restricted cash*		12,366	12,366				2,064	2,064
Cash and cash equivalents*		105,944	105,944				231,898	231,898
Non-hedge derivative assets (D)(E)*	116,806	43,662	43,662	Counterparty quotations	N/A	(D)	165	165
Investments in senior housing real estate, net		1,362,900					162,801	
Investments in other real estate, net		266,170					6,672	
Property, plant and equipment, net		270,188					—	
Goodwill and intangibles		471,811					19,086	
Other investments		25,468					24,907	
Receivables and other assets		208,409					17,197	
Assets of discontinued operations		—					245,069	
		<u>\$ 4,852,563</u>					<u>\$ 3,945,312</u>	
Liabilities								
Financial instruments:								
CDO bonds payable (F)	\$ 543,516	\$ 544,525	\$ 395,689	Pricing models	2.26%	1.9	\$ 1,091,354	\$ 781,856
Other bonds and notes payable (F)	243,745	230,279	235,464	Broker quotations, pricing models	3.50%	3.1	183,390	190,302
Repurchase agreements	556,347	556,347	556,347	Market comparables	0.52%	0.1	929,435	929,435
Mortgage notes payable	1,077,163	1,076,828	1,075,390	Pricing models	4.75%	6.8	120,525	120,525
Credit facilities, media and golf	335,498	334,514	334,514	(G)	6.68%	4.4		
Financing of subprime mortgage loans subject to call option (B)	406,217	406,217	406,217	(B)	9.09%	(B)	405,814	405,814
Junior subordinated notes payable	51,004	51,237	35,479	Pricing models	7.39%	21.3	51,243	31,545
Interest rate swaps, treated as hedges (C)(E)*	105,031	6,203	6,203	Counterparty quotations	N/A	(C)	12,175	12,175
Non-hedge derivatives (D)(E)*	185,871	7,592	7,592	Counterparty quotations	N/A	(D)	19,401	19,401
Dividends payable, accounts payable, accrued expenses and other liabilities		412,697					58,435	
Liabilities of discontinued operations		—					480	
		<u>\$ 3,626,439</u>					<u>\$ 2,872,252</u>	

*Measured at fair value on a recurring basis.

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- (A) Methods are listed in order of priority. In the case of real estate securities and real estate related and other loans, broker quotations are obtained if available and practicable, otherwise counterparty quotations or pricing service valuations are obtained or, finally, internal pricing models are used. Internal pricing models are only used for (i) securities and loans that are not traded in an active market, and, therefore, have little or no price transparency, and for which significant unobservable inputs must be used in estimating fair value, or (ii) loans or debt obligations which are private and untraded.
- (B) These two items results from an option, not an obligation, to repurchase loans from Newcastle's subprime mortgage loan securitizations (Note 7), are noneconomic until such option is exercised, and are equal and offsetting.
- (C) Represents derivative agreements as follows:

Year of Maturity	Weighted Average Month of Maturity	Aggregate Notional Amount	Weighted Average Fixed Pay Rate / Cap Rate	Aggregate Fair Value Asset / (Liability)
Interest rate swap agreements which receive 1-Month LIBOR:				
2016	Apr	\$ 105,031	5.04%	\$ (6,203)

- (D) This represents a linked transaction entered into in June 2013 with \$116.8 million face amount of underlying financial securities. This derivative agreement was not designated as a hedge for accounting purposes as of December 31, 2013.
- (E) Newcastle's derivatives fall into two categories. As of December 31, 2013, all derivatives liabilities, which represent three interest rate swaps, were held within Newcastle's nonrecourse structures. An aggregate notional balance of \$290.9 million, is only subject to the credit risks of the respective CDO structures. As they are senior to all the debt obligations of the respective CDOs and the fair value of each of the CDOs' total investments exceeded the fair value of each of the CDOs' derivative liabilities, no credit valuation adjustments were recorded. A derivative asset with an aggregate notional balance of \$116.8 million, represents linked transactions with \$116.8 million face amount of underlying financed securities. Newcastle's interest rate swap counterparties include Bank of America and Bank of New York Mellon. Newcastle's derivatives are included in other assets or other liabilities in the consolidated balance sheets, as applicable.
- (F) Newcastle notes that the unrealized gain on the liabilities within such structures cannot be fully realized. Assets held within CDOs and other non-recourse structures are generally not available to satisfy obligations outside of such financings, except to the extent Newcastle receives net cash flow distributions from such structures. Furthermore, creditors or beneficial interest holders of these structures have no recourse to the general credit of Newcastle. Therefore, Newcastle's exposure to the economic losses from such structures is limited to its invested equity in them and economically their book value cannot be less than zero. As a result, the fair value of Newcastle's net investments in these non-recourse financing structures is equal to the present value of their expected future net cash flows.
- (G) These credit facilities were entered into late in the fourth quarter of 2013 and Newcastle believes their terms are market terms as of December 31, 2013.

Refer to Note 15 for a discussion of the fair value of the New Media pension plan assets.

Valuation Hierarchy

The methodologies used for valuing such instruments have been categorized into three broad levels, which form a hierarchy.

Level 1 - Quoted prices in active markets for identical instruments.

Level 2 - Valuations based principally on other observable market parameters, including

- Quoted prices in active markets for similar instruments,
- Quoted prices in less active or inactive markets for identical or similar instruments,
- Other observable inputs (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates), and
- Market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3 - Valuations based significantly on unobservable inputs.

Newcastle follows this hierarchy for its financial instruments measured at fair value on a recurring basis. The classifications are based on the lowest level of input that is significant to the fair value measurement.

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Newcastle has various processes and controls in place to ensure that fair value is reasonably estimated. With respect to the broker and pricing service quotations, to ensure these quotes represent a reasonable estimate of fair value, Newcastle's quarterly procedures include a comparison to quotations from different sources, outputs generated from its internal pricing models and transactions Newcastle has completed with respect to these or similar securities, as well as on its knowledge and experience of these markets. With respect to fair value estimates generated based on Newcastle's internal pricing models, Newcastle's management validates the inputs and outputs of the internal pricing models by comparing them to available independent third party market parameters, where available, and models for reasonableness. Newcastle believes its valuation methods and the assumptions used are appropriate and consistent with other market participants. The board of directors has reviewed Newcastle's process for determining the valuations of its investments based on information provided by the Manager and has concluded such process is reasonable and appropriate.

Fair value measurements categorized within Level 3 are sensitive to changes in the assumptions or methodology used to determine fair value and such changes could result in a significant increase or decrease in the fair value. For Newcastle's investments in real estate securities, real estate related and other loans and residential mortgage loans categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs include the discount rates, assumptions relating to prepayments, default rates and loss severities. Significant increases (decreases) in any of the discount rates, default rates or loss severities in isolation would result in a significantly lower (higher) fair value measurement. The impact of changes in prepayment speeds would have differing impacts on fair value, depending on the seniority of the investment. Generally, a change in the default assumption is generally accompanied by directionally similar changes in the assumptions used for the loss severity and the prepayment speed.

The following table summarizes financial assets and liabilities measured at fair value on a recurring basis at December 31, 2013:

	Principal Balance or Notional Amount	Carrying Value	Fair Value		
			Level 2	Level 3	Total
Assets:					
Real estate securities, available for sale:					
CMBS	\$ 333,121	\$ 284,469	\$ —	\$ 284,469	\$ 284,469
REIT debt	29,200	31,186	31,186	—	31,186
Non-Agency RMBS	96,762	57,581	—	57,581	57,581
ABS - other real estate	8,464	—	—	—	—
FNMA / FHLMC	514,994	551,270	551,270	—	551,270
CDO	188,364	59,757	—	59,757	59,757
Real estate securities total	\$ 1,170,905	\$ 984,263	\$ 582,456	\$ 401,807	\$ 984,263
Derivative assets:					
Linked transactions at fair value	\$ 116,806	\$ 43,662	\$ —	\$ 43,662	\$ 43,662
Derivative assets total	\$ 116,806	\$ 43,662	\$ —	\$ 43,662	\$ 43,662
Liabilities:					
Derivative Liabilities:					
Interest rate swaps, treated as hedges	\$ 105,031	\$ 6,203	\$ 6,203	\$ —	\$ 6,203
Interest rate swaps, not treated as hedges	185,871	7,592	7,592	—	7,592
Derivative liabilities total	\$ 290,902	\$ 13,795	\$ 13,795	\$ —	\$ 13,795

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Newcastle's investments in instruments measured at fair value on a recurring basis using Level 3 inputs changed as follows:

	Level 3 Assets							Total
	CMBS		ABS		Equity/Other Securities	Linked Transactions		
	Conduit	Other	Subprime	Other				
Balance at December 31, 2011	\$ 956,905	\$ 171,913	\$ 128,622	\$ 38,107	\$ 55,986	\$ —	\$ 1,351,533	
CDO X Deconsolidation ^(A)	(767,660)	(40,172)	(86,704)	(26,174)	—	—	(920,710)	
Total gains (losses) ^(B)								
Included in net income (loss) ^(C)	(4,947)	(396)	828	(4,092)	—	—	(8,607)	
Included in other comprehensive income (loss)	22,537	12,515	28,573	1,739	15,125	—	80,489	
Amortization included in interest income	33,538	1,777	17,691	288	5,657	—	58,951	
Purchases, sales and settlements								
Purchases	116,087	—	315,475	—	—	—	431,562	
Proceeds from sales	(43,259)	—	(3,295)	(3,743)	—	—	(50,297)	
Proceeds from repayments	(58,432)	(24,015)	(45,215)	(4,650)	(5,743)	—	(138,055)	
Balance at December 31, 2012	\$ 254,769	\$ 121,622	\$ 355,975	\$ 1,475	\$ 71,025	\$ —	\$ 804,866	
Spin-off of New Residential ^(A)	—	—	(560,783)	—	—	—	(560,783)	
Total gains (losses) ^(B)								
Included in net income (loss) ^(C)	348	(331)	2,372	(82)	1,638	1,168	5,113	
Included in other comprehensive income (loss)	14,999	2,168	24,755	73	(726)	—	41,269	
Amortization included in interest income	11,880	969	17,981	331	5,265	—	36,426	
Purchases, sales and settlements								
Purchases	—	—	267,160	—	—	43,172	310,332	
Proceeds from sales	(73,576)	(31,989)	(11,181)	(1,359)	(8,156)	—	(126,261)	
Proceeds from repayments	(9,485)	(6,905)	(38,698)	(438)	(9,289)	(678)	(65,493)	
Balance at December 31, 2013	\$ 198,935	\$ 85,534	\$ 57,581	\$ —	\$ 59,757	\$ 43,662	\$ 445,469	

(A) CDO X was deconsolidated on September 12, 2012 and the spin-off of New Residential occurred on May 15, 2013.

(B) None of the gains (losses) recorded in earnings during the periods is attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting dates.

(C) These gains (losses) are recorded in the following line items in the consolidated statements of income:

	Year Ended December 31,	
	2013	2012
Gain (loss) on settlement of investments, net	\$ 5,367	\$ 10,196
Other income (loss), net	1,168	—
OTTI	(1,422)	(18,803)
Total	\$ 5,113	\$ (8,607)
Gain (loss) on sale of investments, net, from investments transferred into Level 3 during the period	\$ —	\$ —

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Securities Valuation

As of December 31, 2013, Newcastle's securities valuation methodology and results are further detailed as follows:

Asset Type	Outstanding Face Amount (A)	Amortized Cost Basis (B)	Fair Value			Total
			Multiple Quotes (C)	Single Quote (D)	Internal Pricing Models (E)	
CMBS	\$ 333,121	\$ 227,878	\$ 240,358	\$ 42,341	\$ 1,770	\$ 284,469
REIT debt	29,200	28,667	31,186	—	—	31,186
Non-Agency RMBS	96,762	40,675	57,581	—	—	57,581
ABS - other real estate	8,464	—	—	—	—	—
FNMA / FHLMC	514,994	547,639	551,270	—	—	551,270
CDO	188,364	56,996	—	57,755	2,002	59,757
Total	\$ 1,170,905	\$ 901,855	\$ 880,395	\$ 100,096	\$ 3,772	\$ 984,263

- (A) Net of incurred losses.
- (B) Net of discounts (or gross premiums) and after OTTI, including impairment taken during the period ended December 31, 2013.
- (C) Management generally obtained pricing service quotations or broker quotations from at least two sources, one of which was generally the seller (the party that sold the security). Management selected one of the quotes received as being most representative of fair value and did not use an average of the quotes. Even if Newcastle receives two or more quotes on a particular security that come from non-selling brokers or pricing services, it does not use an average because management believes using an actual quote more closely represents a transactable price for the security than an average level. Furthermore, in some cases there is a wide disparity between the quotes Newcastle receives. Management believes using an average of the quotes in these cases would generally not represent the fair value of the asset. Based on Newcastle's own fair value analysis using internal models, management selects one of the quotes which is believed to more accurately reflect fair value. Newcastle never adjusts quotes received. These quotations are generally received via email and contain disclaimers which state that they are "indicative" and not "actionable" – meaning that the party giving the quotation is not bound to actually purchase the security at the quoted price.
- (D) Management was unable to obtain quotations from more than one source on these securities. The one source was generally the seller (the party that sold the security) or a pricing service.
- (E) Securities whose fair value was estimated based on internal pricing models are further detailed as follows:

Asset Type	Amortized Cost Basis (B)	Fair Value	Impairment Recorded in Current Year	Unrealized Gains (Losses) in Accumulated OCI	Weighted Average Significant Input			
					Discount Rate	Prepayment Speed (F)	Cumulative Default Rate	Loss Severity
CMBS - conduit	\$ 738	\$ 1,770	\$ 76	\$ 1,032	8.0%	N/A	99.5%	27.6%
CDO	—	2,002	—	2,002	35.0%	3.5%	17.5%	73.5%
Total	\$ 738	\$ 3,772	\$ 76	\$ 3,034				

All of the assumptions listed have some degree of market observability, based on Newcastle's knowledge of the market, relationships with market participants, and use of common market data sources. Collateral prepayment, default and loss severity projections are in the form of "curves" or "vectors" that vary for each monthly collateral cash flow projection. Methods used to develop these projections vary by asset class (e.g., CMBS projections are developed differently than home equity ABS projections) but conform to industry conventions. Newcastle uses assumptions that generate its best estimate of future cash flows of each respective security.

The prepayment vector specifies the percentage of the collateral balance that is expected to voluntarily pay off at each point in the future. The prepayment vector is based on projections from a widely published investment bank model, which considers factors such as collateral FICO score, loan-to-value ratio, debt-to-income ratio, and vintage on a loan level basis. This vector is scaled up or down to match recent collateral-specific prepayment experience, as obtained from remittance reports and market data services.

Loss severities are based on recent collateral-specific experience with additional consideration given to collateral characteristics. Collateral age is taken into consideration because severities tend to initially increase with collateral age before eventually stabilizing. Newcastle typically uses projected severities that are higher than the historic experience for collateral that is relatively new to account for this effect. Collateral characteristics such as loan size, lien position, and location (state) also effect loss severity. Newcastle considers whether a collateral pool has experienced a significant change in its composition with respect to these factors when assigning severity projections.

Default rates are determined from the current "pipeline" of loans that are more than 90 days delinquent, in foreclosure, or are REO. These significantly delinquent loans determine the first 24 months of the default vector. Beyond month 24, the default vector transitions to a steady-state value that is generally equal to or greater than that given by the widely published investment bank model.

The discount rates Newcastle uses are derived from a range of observable pricing on securities backed by similar collateral and offered in a live market. As the markets in which Newcastle transacts have become less liquid, Newcastle has had to rely on fewer data points in this analysis.

- (F) Projected annualized average prepayment rate.

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Loan Valuation

Loans which Newcastle does not have the ability or intent to hold into the foreseeable future are classified as held-for-sale. As a result, these held-for-sale loans are carried at the lower of amortized cost or fair value and are therefore recorded at fair value on a non-recurring basis. These loans were written down to fair value at the time of the impairment, based on broker quotations, pricing service quotations or internal pricing models. All the loans were within Level 3 of the fair value hierarchy. For real estate related and other loans, the most significant inputs used in the valuations are the amount and timing of expected future cash flows, market yields and the estimated collateral value of such loan investments. For residential mortgage loans, significant inputs include management's expectations of prepayment speeds, default rates, loss severities and discount rates that market participants would use in determining the fair values of similar pools of residential mortgage loans.

The following tables summarize certain information for real estate related and other loans and residential mortgage loans held-for-sale as of December 31, 2013:

Loan Type	Outstanding Face Amount	Carrying Value	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Significant Input			
					Range		Weighted Average	
					Discount Rate	Loss Severity	Discount Rate	Loss Severity
Mezzanine	\$ 172,197	\$ 139,720	\$ 143,217	\$ (14,246)	3.4% - 9.0%	0.0% - 100.0%	6.6%	17.3%
Bank Loan	256,594	166,710	180,945	(3,610)	13.1% - 33.8%	0.0% - 100.0%	24.2%	23.1%
B-Note	109,323	101,385	102,645	(1,623)	5.0% - 12.0%	0.0%	10.1%	0.0%
Whole Loan	29,715	29,715	29,728	—	3.7% - 4.0%	0.0% - 15.5%	3.7%	15.1%
Total Real Estate Related and Other Loans Held for Sale, Net	\$ 567,829	\$ 437,530	\$ 456,535	\$ (19,479)				

Loan Type	Outstanding Face Amount	Carrying Value	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Significant Input (Weighted Average)			
					Discount Rate	Prepayment Speed	Constant Default Rate	Loss Severity
Non-securitized Manufactured Housing Loans Portfolio I	\$ 501	\$ 130	\$ 130	\$ (58)	81.8%	5.0%	11.6%	65.0%
Non-securitized Manufactured Housing Loans Portfolio II	2,628	2,055	2,055	(47)	15.4%	5.0%	3.5%	60.0%
Total Residential Mortgage Loans Held for Sale, Net	\$ 3,129	\$ 2,185	\$ 2,185	\$ (105)				

Loans which Newcastle has the intent and ability to hold into the foreseeable future are classified as held-for-investment. Loans held-for-investment are carried at the aggregate unpaid principal balance adjusted for any unamortized premium or discount, deferred fees or expenses, an allowance for loan losses, charge-offs and write-downs for impaired loans.

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The following table summarizes certain information for residential mortgage loans held-for-investment as of December 31, 2013:

Loan Type	Outstanding Face Amount	Carrying Value	Fair Value	Valuation Allowance/ (Reversal) In Current Year	Significant Input (Weighted Average)			
					Discount Rate	Prepayment Speed	Constant Default Rate	Loss Severity
Securitized Manufactured Housing Loans Portfolio I	\$ 102,681	\$ 91,924	\$ 89,674	\$ (5,465)	9.4%	6.0%	3.0%	65.0%
Securitized Manufactured Housing Loans Portfolio II	128,975	128,117	123,471	840	8.1%	7.0%	3.5%	60.0%
Residential Loans	45,968	35,409	38,894	(826)	7.5%	4.6%	2.8%	45.9%
Total Residential Mortgage Loans, Held-for-Investment, Net	\$ 277,624	\$ 255,450	\$ 252,039	\$ (5,451)				

Derivatives

Newcastle's derivative instruments are comprised of interest rate swaps and linked transactions. Newcastle's interest rate swaps are valued using counterparty quotations. These quotations are generally based on valuation models with model inputs that can generally be verified and which do not involve significant judgment. The significant observable inputs used in determining the fair value of Newcastle's Level 2 interest rate swap derivative contracts are contractual cash flows and market based interest rate curves. The linked transactions, which are categorized into Level 3, are evaluated on a net basis considering their underlying components, the security acquired and the related repurchase financing agreement. The securities are valued using a similar methodology to the one described in "Securities Valuation" above and this value is netted against the carrying value of the repurchase agreement (which approximates fair value as described in "Liabilities for Which Fair Value is Only Disclosed" below), adjusted for net accrued interest receivable/payable on the securities and repurchase agreement of the linked transactions (see Note 14 for a discussion of Newcastle's outstanding linked transactions).

Newcastle's derivatives are recorded on its balance sheet as follows:

	Balance sheet location	Fair Value	
		December 31,	
		2013	2012
Derivative Assets			
Linked transaction at fair value	Receivables and other assets	\$ 43,662	\$ —
Interest rate caps, not designated as hedges	Receivables and other assets	—	165
		<u>\$ 43,662</u>	<u>\$ 165</u>
Derivative Liabilities			
Interest rate swaps, designated as hedges	Accounts payable, accrued expenses and other liabilities	\$ 6,203	\$ 12,175
Interest rate swaps, not designated as hedges	Accounts payable, accrued expenses and other liabilities	7,592	19,401
		<u>\$ 13,795</u>	<u>\$ 31,576</u>

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The following table summarizes information related to derivatives:

	December 31,	
	2013	2012
Cash flow hedges		
Notional amount of interest rate swap agreements	\$ 105,031	\$ 154,450
Amount of (loss) recognized in other comprehensive income on effective portion	(6,117)	(12,050)
Deferred hedge gain (loss) related to anticipated financings, which have subsequently occurred, net of amortization	170	237
Deferred hedge gain (loss) related to designation, net of amortization	(45)	(210)
Expected reclassification of deferred hedges from accumulated other comprehensive income ("AOCI") into earnings over the next 12 months	53	4
Expected reclassification of current hedges from AOCI into earnings over the next 12 months	(3,915)	(6,259)
Non-hedge Derivatives		
Notional amount of interest rate swap agreements	185,871	294,203
Notional amount of interest rate cap agreements	—	23,400
Notional amount of linked transactions ^(A)	116,806	—

(A) This represents the current face amount of the underlying financial securities comprising linked transactions.

The following table summarizes gains (losses) recorded in relation to derivatives:

	Income Statement Location	Year Ended December 31,		
		2013	2012	2011
Cash flow hedges				
Gain (loss) on the ineffective portion	Other income (loss)	\$ —	\$ 483	\$ (917)
	Gain (loss) on sale of			
Loss immediately recognized at dedesignation	investments, Other income (loss)	(110)	(7,036)	(13,939)
Amount of loss reclassified from AOCI into income, related to effective portion	Interest expense	(6,128)	(30,631)	(63,350)
Deferred hedge gain reclassified from AOCI into income, related to anticipated financings	Interest expense	67	61	58
Deferred hedge (loss) gain reclassified from AOCI into income, related to effective portion of dedesignated hedges	Interest expense	(56)	1,189	2,259
Non-hedge derivatives gain (loss)				
Interest rate swaps	Other income (loss)	10,577	9,101	3,284
Linked transactions	Interest expense	(236)	—	—

The following table presents both gross and net information about linked transactions:

	As of December 31,	
	2013	2012
Real estate securities-available for sale ^(A)	\$ 104,308	\$ —
Repurchase agreements ^(B)	(60,646)	—
Net assets recognized as linked transactions	\$ 43,662	\$ —

(A) Represents the fair value of the securities accounted for as part of linked transactions.

(B) Represents the carrying value, which approximates fair value, of the repurchase agreements accounted for as part of linked transactions.

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Liabilities for Which Fair Value is Only Disclosed

The following table summarizes the level of the fair value hierarchy, valuation techniques and inputs used for estimating each class of liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed:

Type of Liabilities Not Measured At Fair Value for Which Fair Value Is Disclosed	Fair Value Hierarchy	Valuation Techniques and Significant Inputs
CDO bonds payable	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: <ul style="list-style-type: none"> • Underlying security and loan prepayment, default and cumulative loss expectations • Amount and timing of expected future cash flows • Market yields and credit spreads implied by comparisons to transactions of similar tranches of CDO debt by the varying levels of subordination
Other bonds and notes payable	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: <ul style="list-style-type: none"> • Amount and timing of expected future cash flows • Interest rates • Broker quotations • Market yields and credit spreads implied by comparisons to transactions of similar tranches of securitized debt by the varying levels of subordination
Repurchase agreements	Level 2	Valuation technique is based on market comparables. Significant variables include: <ul style="list-style-type: none"> • Amount and timing of expected future cash flows • Interest rates • Collateral funding spreads
Mortgage notes payable	Level 3	Valuation technique is based on discounted cash flows. Significant inputs include: <ul style="list-style-type: none"> • Amount and timing of expected future cash flows • Interest rates • Collateral funding spreads
Media Credit Facilities	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: <ul style="list-style-type: none"> • Amount and timing of expected future cash flows • Interest rates • Credit spread of New Media
Golf Credit Facilities	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: <ul style="list-style-type: none"> • Amount and timing of expected future cash flows • Interest rates • Credit spread of Golf
Junior subordinated notes payable	Level 3	Valuation technique is based on discounted cash flow. Significant inputs include: <ul style="list-style-type: none"> • Amount and timing of expected future cash flows • Interest rates • Market yields and the credit spread of Newcastle

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14. DEBT OBLIGATIONS

The following table presents certain information regarding Newcastle's debt obligations and related hedges:

Debt Obligation/Collateral	Month Issued	December 31, 2013							Collateral					December 31, 2012			
		Outstanding Face Amount	Carrying Value	Final Stated Maturity	Unhedged Weighted Average Funding Cost (A)	Weighted Average Funding Cost (B)	Weighted Average Maturity (Years)	Face Amount of Floating Rate Debt	Outstanding Face Amount (C)	Amortized Cost Basis (C)	Carrying Value (C)	Weighted Average Maturity (Years)	Floating Rate Face Amount (C)	Aggregate Notional Amount of Current Hedges(D)	Outstanding Face Amount	Carrying Value	
CDO Bonds Payable																	
CDO VI ^(E)	Apr 2005	\$ 92,018	\$ 92,018	Apr 2040	0.85%	5.35%	5.5	\$ 88,727	166,452	88,965	123,478	2.3	\$ 40,482	88,727	91,578	91,578	
CDO VIII	Nov 2006	264,733	264,277	Nov 2052	0.88%	2.45%	1.5	257,133	421,487	317,202	346,101	1.7	184,585	105,031	518,501	517,541	
CDO IX	May 2007	186,765	188,230	May 2052	0.56%	0.50%	0.6	186,765	433,012	357,224	366,581	1.9	162,115	—	400,938	402,424	
Repaid Debt															79,898	79,811	
		543,516	544,525			2.26%	1.9	532,625	1,020,951	763,391	836,160	1.9	387,182	193,758	1,090,915	1,091,354	
Other Bonds & Notes Payable																	
MH loans Portfolio I ^(F)	Apr 2010	53,753	50,424	Jul 2035	6.56%	6.56%	4.1	—	102,681	91,924	91,924	6.1	612	—	70,056	66,199	
MH loans Portfolio II	May 2011	93,863	93,536	Dec 2033	4.70%	4.70%	3.8	—	128,975	128,117	128,117	4.9	21,321	—	117,907	117,191	
NCT 2013-VI IMM-1 ^(I)	Nov 2013	96,129	86,319	Apr 2040	LIBOR+0.25%	0.42%	2.0	96,129	—	—	—	0.0	—	—	—	—	
		243,745	230,279			3.50%	3.1	96,129	231,656	220,041	220,041	5.4	21,933	—	187,963	183,390	
Repurchase Agreements ^(G)																	
FNMA/FHLMC securities ^(H)	Dec 2013	516,134	516,134	Jan 2014	0.40%	0.40%	0.1	516,134	514,994	547,639	551,270	3.6	514,994	—	772,855	772,855	
CDO Securities ^(I)	Dec 2013	15,094	15,094	Jan 2014	LIBOR+1.65%	1.82%	0.1	15,094	—	—	—	0.0	—	—	5,658	5,658	
Residential Mortgage Loans	Nov 2013	25,119	25,119	Nov 2014	LIBOR+2.00%	2.17%	0.9	25,119	36,029	27,173	27,173	5.5	36,029	—	—	—	
Repaid Debt															150,922	150,922	
		556,347	556,347			0.5%	0.1	556,347	551,023	574,812	578,443	3.7	551,023	—	929,435	929,435	
Mortgage Notes Payable																	
Fixed Rate		878,579	878,244	Aug 2018 to Jan 2024	1.43% to 4.30%	(J)(K)	4.72%	7.4	—	N/A	1,193,583	1,193,583	N/A	N/A	—	88,400	88,400
Floating Rate		198,584	198,584	Aug 2016 to Dec 2018	LIBOR+3.50% to LIBOR+3.75%		4.88%	4.1	198,584	N/A	270,175	270,175	N/A	N/A	—	32,125	32,125
		1,077,163	1,076,828				4.75%	6.8	198,584	N/A	1,463,758	1,463,758	N/A	N/A	—	120,525	120,525

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	December 31, 2013									Collateral					December 31, 2012	
	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Unhedged Weighted Average Funding Cost (A)	Weighted Average Funding Cost (B)	Weighted Average Maturity (Years)	Face Amount of Floating Rate Debt	Outstanding Face Amount (C)	Amortized Cost Basis (C)	Carrying Value (C)	Weighted Average Maturity (Years)	Floating Rate Face Amount (C)	Aggregate Notional Amount of Current Hedges(D)	Outstanding Face Amount	Carrying Value
Media Credit Facilities																
GateHouse Credit Facilities: (Q)																
Revolving Credit Facilities	Nov 2013	\$ 25,000	\$ 25,000	Nov 2018	LIBOR+3.25%	3.42%	4.9	\$ 25,000	N/A	\$ —	\$ —	N/A	N/A	—	\$ —	\$ —
Term Loan A	Nov 2013	25,000	25,000	Nov 2018	LIBOR+4.25%	(L) 5.00%	4.0	25,000	N/A	—	—	N/A	N/A	—	—	—
Term Loan B	Nov 2013	50,000	50,000	Nov 2018	LIBOR+8.00%	(L) 8.75%	4.0	50,000	N/A	—	—	N/A	N/A	—	—	—
Second Lien Credit Facility	Nov 2013	50,000	49,016	Nov 2019	LIBOR+11.00%	11.17%	5.9	50,000	N/A	—	—	N/A	N/A	—	—	—
Local Media Group Credit Facility	Sep 2013	33,000	33,000	Sep 2018	LIBOR+6.50%	(M) 7.50%	4.3	33,000	N/A	—	—	N/A	N/A	—	—	—
		183,000	182,016			7.93%	4.7	183,000	N/A	—	—	N/A	N/A	—	—	—
Golf Credit Facilities (Q)																
First Lien Loan	Dec 2013	46,922	46,922	Dec 2018	LIBOR+4.00%	(N) 4.50%	4.0	46,922	N/A	—	—	N/A	N/A	—	—	—
Second Lien Loan	Dec 2013	105,576	105,576	Dec 2018	5.50%	5.50%	4.0	—	N/A	—	—	N/A	N/A	—	—	—
		152,498	152,498			5.19%	4.0	46,922	N/A	—	—	N/A	N/A	—	—	—
Corporate																
Junior subordinated notes payable	Mar 2006	51,004	51,237	Apr 2035	7.57%	(O) 7.39%	21.3	—	—	—	—	—	—	—	51,004	51,243
		51,004	51,237			7.39%	21.3	—	—	—	—	—	—	—	51,004	51,243
Subtotal debt obligation		2,807,273	2,793,730			3.60%	4.2	\$ 1,613,607	\$ 1,803,630	\$ 3,022,002	\$ 3,098,402	2.9	\$ 960,138	\$ 193,758	2,143,364	2,139,317
Financing on subprime mortgage loans subject to call option (P)																
		406,217	406,217												406,217	405,814
Total debt obligation		\$ 3,213,490	\$ 3,199,947												\$ 2,786,059	\$ 2,781,761

See notes on next page.

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(A)	Weighted average, including floating and fixed rate classes.
(B)	Including the effect of applicable hedges.
(C)	Excluding (i) restricted cash held in CDOs to be used for principal and interest payments of CDO debt, and (ii) operating cash from the senior housing business.
(D)	Including \$88.7 million notional amount of interest rate swap in CDO VI, which was an economic hedge not designed as a hedge for accounting purposes.
(E)	This CDO was not in compliance with its applicable over collateralization tests as of December 31, 2013. Newcastle is not receiving cash flows from this CDO (other than senior management fees and cash flows on senior classes of bonds that were repurchased), since net interest is being used to repay debt, and expects this CDO to remain out of compliance for the foreseeable future.
(F)	Excluding \$20.5 million of other bonds payable relating to MH loans Portfolio I sold to certain Newcastle CDOs, which were eliminated in consolidation.
(G)	These repurchase agreements had \$0.1 million accrued interest payable at December 31, 2013. \$556.3 million face amount of these repurchase agreements were renewed subsequent to December 31, 2013. The counterparties on these repurchase agreements are Bank of America (\$299.1 million), Barclays (\$138.0 million), Citi (\$35.6 million), Goldman Sachs (\$7.4 million), Nomura (\$51.1 million) and Credit Suisse (\$25.1 million).
(H)	Interest rates on these repurchase agreements are fixed, but will be reset on a short-term basis.
(I)	Represents refinancing of repurchased Newcastle CDO bonds where collateral is, therefore, eliminated in consolidation period.
(J)	For loans totaling \$41.2 million issued in August 2013, Newcastle bought down the interest rate to 4% for the first two years. Thereafter, the interest rate will range from 5.99% to 6.76%.
(K)	For a loan with a total balance of \$11.4 million, the interest rate for the first two years is based on the applicable US Treasury Security rates. The interest rate for years 3 through 5 is 4.5%, 4.75% and 5.0%, respectively.
(L)	This financing has a LIBOR floor of 0.75%.
(M)	This financing has a LIBOR floor of 1.0%
(N)	Interest rate on this is based on 3 month LIBOR with a LIBOR floor of 0.5%.
(O)	Issued in April 2006 and July 2007. Secured by the general credit of Newcastle. See Note 7 regarding the securitizations of Subprime Portfolio I and II.
(P)	LIBOR +2.25% after April 2016.
(Q)	These facilities are collateralized by all the assets of the respective businesses.

Certain of the debt obligations included above are obligations of consolidated subsidiaries of Newcastle which own the related collateral. In some cases, including the CDO and Other Bonds Payable, such collateral is not available to other creditors of Newcastle.

CDO Bonds Payable

Each CDO financing is subject to tests that measure the amount of over collateralization and excess interest in the transaction. Failure to satisfy these tests would cause the principal and/or interest cashflow that would otherwise be distributed to more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. As a result, cash flow and liquidity are negatively impacted upon such a failure. As of December 31, 2013, CDO VI was not in compliance with its over collateralization tests.

During 2011, Newcastle repurchased \$167.5 million face amount of CDO bonds for \$102.0 million and recorded a gain of \$65.0 million. During 2012, Newcastle repurchased \$34.1 million face amount of CDO bonds for \$10.9 million and recorded a gain of \$23.2 million. During 2013, Newcastle repurchased \$35.9 million face amount of CDO bonds for \$31.3 million and recorded a gain of \$4.6 million.

In December 2010, Newcastle, together with one or more of its wholly owned subsidiaries, completed a series of transactions whereby it repurchased approximately \$257 million current principal balance of Newcastle CDO VI Class I-MM notes at a price of 67.5% of par. The purchased notes represent all of the outstanding Class I-MM notes of Newcastle CDO VI (the "notes"). In January 2013, Newcastle paid off the outstanding repurchase agreement.

In April 2011, Newcastle entered into an agreement to sell its retained interests in Newcastle CDO VII. Pursuant to the agreement, the buyer of the retained interests liquidated CDO VII in June 2011 and paid Newcastle total consideration of approximately \$3.9 million. As a result, Newcastle recorded a gain of approximately \$3.4 million in the second quarter of 2011, representing the excess of the sales proceeds over the carrying value of Newcastle's retained interests.

In June 2011, Newcastle deconsolidated a non-recourse financing structure, CDO V. Newcastle determined that it does not currently have the power to direct the relevant activities of CDO V as an event of default had occurred and Newcastle may be removed as the collateral manager by a single party. So long as the event of default continues, Newcastle will not be permitted to purchase or sell any collateral in CDO V. If Newcastle is removed as the collateral manager of CDO V, it would no longer receive the senior management fees from such CDO. As of February 27, 2014, Newcastle has not been removed as collateral manager. Newcastle does not expect the failure of these additional tests to have a material negative impact on its cash flows, business, results of operations or financial condition.

On September 12, 2012, Newcastle deconsolidated a non-recourse financing structure, CDO X. Newcastle completed the sale of 100% of its interests in CDO X to the sole owner of the senior notes and another third party, in connection with the liquidation and termination of CDO X. Newcastle received \$130 million for \$89.75 million face amount of subordinated notes and all of its equity in CDO X. As a result, Newcastle recorded a gain on sale and deconsolidated CDO X. The sale

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and resulting deconsolidation has reduced Newcastle's gross assets by \$1.1 billion, reduced liabilities by \$1.2 billion, decreased other comprehensive income by \$25.5 million and resulted in a gain of \$224.3 million in the quarter ended September 30, 2012. A condition to the sale of its interests was the right to purchase certain collateral held by CDO X. Newcastle purchased eight securities with a face amount of \$101 million for 49.4% of par, or approximately \$50 million. As of December 31, 2012, Newcastle had no continuing involvement with CDO X as it had been liquidated.

In June 2013, Newcastle completed the sale of 100% of the assets in CDO IV. Newcastle sold \$153.4 million face amount of collateral at an average price of 95% of par, or \$145.2 million. Subsequently, Newcastle paid off \$71.9 million of outstanding third party debt and terminated the CDO. This transaction resulted in approximately \$73.1 million of proceeds to Newcastle of which approximately \$5.3 million was received in Newcastle CDO VIII. Newcastle recovered par on \$59.5 million of CDO debt which had been repurchased in the past at an average price of 52% of par and \$8.0 million of proceeds on its subordinated interests. This transaction has also decreased Newcastle's comprehensive income by \$0.6 million and resulted in a net gain on sale of assets of \$4.2 million and a \$0.8 million gain on hedge termination.

In June 2013, Newcastle completed the purchase of \$116.8 million aggregate face amount of securities that are collateralized by certain Newcastle CDO VIII Class I notes for an aggregate purchase of approximately \$103.1 million, or an average price of 88.3% of par. Simultaneously, Newcastle financed the purchase with \$60.0 million received pursuant to a master repurchase agreement with the seller of the securities ("CDO VIII Repack"). The terms of the repurchase agreement included a rate of one-month LIBOR plus 150 bps and a 30-day maturity. The repurchase agreement includes various customary default events, including a default if Newcastle's market capitalization declines by 50% from the market capitalization observed at the last trading day of the previous quarter. An event of default under the master repurchase agreement, if one occurs, would require Newcastle to immediately pay off the outstanding debt or the lender would have the right to liquidate the collateral. The purchase of the securities and the repurchase agreement are treated as a linked transaction and accordingly recorded on a net basis as a non-hedge derivative instrument, with changes in market value recorded on the consolidated statements of income. During the year ended December 31, 2013, there was a \$0.5 million increase in carrying value in CDO VIII Repack.

As of December 31, 2013, CDO VI was not in compliance with its applicable over collateralization tests and, consequently, Newcastle was not receiving cash flows from this CDO currently (other than senior management fees and interest distributions from senior classes of bonds Newcastle owns). Based upon Newcastle's current calculations, Newcastle expects this CDO to remain out of compliance for the foreseeable future. Moreover, given current market conditions, it is possible that all of Newcastle's CDOs could be out of compliance with their over collateralization tests as of one or more measurement dates within the next twelve months.

Other Bonds Payable

On April 15, 2010, Newcastle completed a securitization transaction to refinance its Manufactured Housing Loans Portfolio I (the "Portfolio"). Newcastle sold approximately \$164.1 million outstanding principal balance of manufactured housing loans to Newcastle MH I LLC (the "2010 Issuer"). The 2010 Issuer issued approximately \$134.5 million aggregate principal amount of asset-backed notes, of which \$97.6 million was sold to third parties and \$36.9 million was sold to certain CDOs managed and consolidated by Newcastle. Under the applicable accounting guidance, the securitization transaction is accounted for as a secured borrowing. Newcastle continues to recognize the portfolio of manufactured housing loans as pledged assets, which have been classified as loans held for investment at securitization, and records the notes issued to third parties as a secured borrowing. The associated assets, liabilities, revenues and expenses are presented in the non-recourse financing structure sections of the consolidated financial statements.

On May 4, 2011, Newcastle completed a securitization transaction to refinance its Manufactured Housing Loans Portfolio II. Newcastle sold approximately \$197.0 million outstanding principal balance of manufactured housing loans to Newcastle Investment Trust 2011-MH 1 (the "2011 Issuer"), an indirect wholly-owned subsidiary of Newcastle. The 2011 Issuer issued approximately \$159.8 million aggregate principal amount of investment grade notes, of which \$142.8 million was sold to third parties and \$17.0 million was sold to one of the CDOs managed and consolidated by Newcastle. In addition, Newcastle retained the below investment grade notes and residual interest. As a result, Newcastle invested approximately \$20.0 million of its unrestricted cash in the new securitization structure. The notes issued to third parties have an average expected maturity of 3.8 years and bear interest at an average rate of 3.23% per annum. At the closing of the securitization transaction, Newcastle used the gross proceeds received from the issuance of the notes to repay the previously existing debt in full, terminate the related interest rate swap contracts and pay the related transaction costs. Under the applicable accounting guidance, the securitization transaction is accounted for as a secured borrowing. As a result, no gain or loss is recorded for the transaction. Newcastle continues to recognize the portfolio of manufactured housing loans as pledged assets, which have been classified as residential mortgage loans held-for-investment at securitization, and records the notes

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Mortgage Notes Payable with respect to Senior Housing Portfolio

issued to third parties as a secured borrowing. The associated assets, liabilities, revenues and expenses are presented in the non-recourse financing structure sections of the consolidated financial statements. Repayments of principal balances on \$147.8 million of fixed rate mortgage notes commenced in September 2013 and are based on a 30-year amortization schedule, with the entire outstanding amounts due on maturity dates ranging from December 2018 to March 2020. Repayments of principal balances for the remaining fixed rate mortgage notes commence in February 2014 based on a 30-year amortization schedule, with the entire outstanding amounts due on maturity dates ranging from August 2018 to January 2024. For floating rate mortgage notes, repayments of principal balances commence in January 2015 based on a 30-year amortization schedule, with the entire outstanding amounts due on maturity dates ranging from August 2016 to December 2018.

Credit Facilities

Local Media Group Credit Facility

In connection with the acquisition of Local Media Group (see Note 3) on September 3, 2013, certain of Local Media Group's subsidiaries (together, the "Borrowers") and Local Media Group entered into a Credit Agreement, dated as of September 3, 2013, with a syndicate of financial institutions with Credit Suisse AG, Cayman Islands Branch, as administrative agent (the "Local Media Group Credit Facility").

The Local Media Group Credit Facility provided for: (a) a \$33.0 million term loan facility that matures on September 4, 2018; and (b) a \$10.0 million revolving credit facility, with a \$3.0 million sub-facility for letters of credit and a \$4.0 million sub-facility for swing loans, that matures on September 4, 2018 and was undrawn and available as of December 31, 2013. The Local Media Group Credit Facility is secured by a first priority security interest in all assets of the Borrowers and Local Media Group.

Borrowings under the Local Media Group Credit Facility bear interest, at the Borrower's option, equal to the LIBOR Rate (as defined in the Local Media Group Credit Facility) plus 6.5% per annum for a LIBOR Rate Loan (as defined in the Local Media Group Credit Facility), or the Base Rate (as defined in the Local Media Group Credit Facility) plus 5.5% per annum for a Base Rate Loan (as defined in the Local Media Group Credit Facility). Under the revolving credit facility, the Borrowers will also pay a monthly commitment fee of 0.75% per annum on the unused portion of the revolving credit facility and a fee of 6.0% on the aggregate amount of outstanding letters of credit.

No principal payments are due on the revolving credit facility until the maturity date. Principal payments are due on the term loan facility as follows: (a) \$0.2 million at the end of each fiscal quarter beginning with the fiscal quarter ending December 31, 2013 until the fiscal quarter ending September 30, 2015; and (b) \$0.4 million beginning with the fiscal quarter ending December 31, 2015 and at the end of each fiscal quarter thereafter. The Borrowers are required to prepay borrowings under the Local Media Group Credit Facility in an amount equal to: (i) 100% of Excess Cash Flow (as defined in the Local Media Group Credit Facility) earned during any fiscal quarter if the Leverage Ratio (as defined in the Local Media Group Credit Facility) of Local Media Group and the Borrowers as of the end of such fiscal quarter was greater than or equal to 2.0 to 1.0; (ii) 50% of Excess Cash Flow earned during any fiscal quarter if the Leverage Ratio of Local Media Group and the Borrowers as of the end of such fiscal quarter was less than 2.0 to 1.0 and greater than or equal to 1.75 to 1.0; and (iii) 0% of Excess Cash Flow earned during any fiscal quarter if the Leverage Ratio of Local Media Group and the Borrowers as of the end of such fiscal quarter was less than 1.75 to 1.0, in each case subject to an annual audit adjustment. In addition, the Borrowers are required to prepay borrowings under the Local Media Group Credit Facility with (A) net cash proceeds of asset dispositions, (B) 100% of Extraordinary Receipts (as defined in the Local Media Group Credit Facility), (C) net cash proceeds of funded indebtedness (other than indebtedness permitted by the Local Media Group Credit Facility); and (D) 100% of all Specified Equity Contributions (as defined in the Local Media Group Credit Facility) to Local Media Group.

The Local Media Group Credit Facility contains financial covenants that require Local Media Group and the Borrowers to maintain a Leverage Ratio of not more than 2.5 to 1.0 and a Fixed Charge Coverage Ratio (as defined in the Local Media Group Credit Facility) of at least 2.0 to 1.0, each measured at the end of each fiscal quarter for the four-quarter period then ended. The Local Media Group Credit Facility contains affirmative and negative covenants applicable to Local Media Group and the Borrowers customarily found in loan agreements for similar transactions, including, but not limited to, restrictions on their ability to incur indebtedness, create liens on assets, engage in certain lines of business, engage in mergers or consolidations, dispose of assets, make investments or acquisitions, engage in transactions with affiliates, pay dividends or make other restricted payments. The Local Media Group Credit Facility contains customary events of default, including, but not limited to, defaults based on a failure to pay principal, reimbursement obligations, interest, fees or other

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obligations, subject to specified grace periods; any material inaccuracy of a representation or warranty; breach of covenant; failure to pay other indebtedness; a Change of Control (as defined in the Local Media Group Credit Facility); events of bankruptcy and insolvency; material judgments; failure to meet certain requirements with respect to ERISA; and impairment of collateral. As of December 31, 2013 Local Media Group was in compliance with the applicable covenants.

GateHouse Credit Facilities

The reorganized GateHouse's (see Note 3) debt structure consists of multiple credit facilities. The Revolving Credit, Term Loan and Security Agreement (collectively, the "First Lien Credit Facility") dated November 26, 2013 by and among GateHouse, GateHouse Media Intermediate Holdco, LLC formerly known as GateHouse Media Intermediate Holdco, Inc. ("GMIH"), certain wholly-owned subsidiaries of GMIH (collectively with GMIH and GateHouse, the "Loan Parties"), PNC Bank, National Association, as the administrative agent, Crystal Financial LLC, as term loan B agent, and each of the lenders party thereto provides for (i) a term loan A in the aggregate principal amount of \$25.0 million, a term loan B in the aggregate principal amount of \$50.0 million, and a revolving credit facility in an aggregate principal amount of up to \$40.0 million (of which \$25.0 million was funded on the Effective Date). Borrowings under the First Lien Credit Facility bear interest at a rate per annum equal to (i) with respect to the revolving credit facility, the applicable Revolving Interest Rate (as defined in the First Lien Credit Agreement), (ii) with respect to the term loan A, the Term Loan A Rate (as defined in the First Lien Credit Agreement), and (iii) with respect to the term loan B, the Term Loan B Rate (as defined in the First Lien Credit Agreement). Amounts outstanding under the term loans and revolving credit facility will be fully due and payable on November 26, 2018.

The Term Loan and Security Agreement (collectively, the "Second Lien Credit Facility" and together with the First Lien Credit Facility, the "GateHouse Credit Facilities") dated November 26, 2013 by and among the Loan Parties, Mutual Quest Fund and each of the lenders party thereto provides for a term loan in an aggregate principal amount of \$50.0 million. Borrowings under the Second Lien Credit Facility bear interest, at the Loan Parties' option, equal to (1) the LIBOR Rate (as defined in the Second Lien Credit Facility) plus 11.00% or (2) the Alternate Base Rate (as defined in the Second Lien Credit Facility) plus 10.00%. The outstanding principal will be fully due and payable on the maturity date of November 26, 2019.

No principal payments are due on the revolving credit facility until the maturity date. Principal amounts outstanding under Term Loan A and Term Loan B of the First Lien Credit Facility will be payable in quarterly installments as follows: (I) four consecutive quarterly installments each in the amount of \$0.9 million, commencing on January 1, 2014, (II) four consecutive quarterly installments each in the amount of \$1.3 million, commencing on January 1, 2015, and (III) twelve consecutive quarterly installments each in the amount \$2.0 million, commencing on January 1, 2016, followed by a final payment of all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses which will be fully due and payable on November 26, 2018. The principal payments will be applied against Term Loan A until fully paid, and then to Term Loan B. The outstanding principal of the Second Lien Credit Facility will be fully due and payable on the maturity date of November 26, 2019. Only interest payments are due under the Second Lien Credit Facility until maturity. The Loan Parties are required to prepay borrowings under the GateHouse Credit Facility in an amount equal to: (i) 100% of Excess Cash Flow (as defined in GateHouse Credit Facility) earned during any fiscal year quarter if the Leverage Ratio (as defined in the GateHouse Credit Facility) as of the end of such fiscal quarter was greater than or equal to 2.75 to 1.0; (ii) 50% of Excess Cash Flow earned during any fiscal quarter if the Leverage Ratio of the Loan Parties as of the end of such fiscal quarter was less than 2.75 to 1.0 and greater than or equal to 2.5 to 1.0; and (iii) 0% of Excess Cash Flow earned during any fiscal quarter if the Leverage Ratio of the Loan Parties as of the end of such fiscal quarter was than 2.5 to 1.0.

The GateHouse Credit Facilities impose upon GateHouse certain financial and operating covenants, including, among others, requirements that GateHouse satisfy certain financial tests, including a minimum fixed charge coverage ratio of not less than 1.0 to 1.0, a maximum leverage ratio of not greater than 3.25 to 1.0, a minimum EBITDA and a limitation on capital expenditures, and restrictions on GateHouse's ability to incur additional debt, incur liens and encumbrances, consolidate, amalgamate or merge with any other person, dispose of assets, make certain restricted payments, engage in transactions with its affiliates, materially alter the business it conducts and taking certain other corporate actions. As of December 31, 2013, GateHouse was in compliance with all applicable covenants and the revolving credit facility under the First Lien Credit Facility was undrawn and available.

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Golf Credit Facilities

In December 2013, the Golf business entered into two loan agreements (“First Lien Loan” and “Second Lien Loan”) with General Electric Capital Corporation (“GECC”). The loans mature on December 30, 2017. The terms of the loans may be extended for an additional 12-month period.

The First Lien Loan has an available principal balance of \$54.5 million (of which \$46.9 million was funded to date). The interest rate on the First Lien Loan is 3-month LIBOR, with a floor of 0.50%, plus a margin of 4.00% (less the impact of the interest rate cap agreement that limits Newcastle’s exposure on LIBOR to 4.79% on a notional amount of \$94.0 million). As of December 31, 2013, LIBOR was below the floor. Repayments of principal shall commence on January 1, 2017 based on a 30-year amortization schedule, with the entire outstanding amount due on the maturity date.

The Second Lien Loan has a principal balance of \$105.6 million and bears interest as at 5.5% per annum. Interest is paid on a monthly basis, and the monthly repayments of principal commence on January 1, 2017 based on a 30-year amortization schedule, with the entire outstanding amount due on the maturity date.

Approximately \$7.5 million of the facilities is subject to a working capital hold-back provision and can be used only to ensure that there are adequate funds for the settlement of third party lease terminations, and to cover modifications events, and operating expenses, including up to \$2.5 million of interest on these loans.

Maturity Table

Newcastle’s debt obligations (gross of \$13.5 million of discounts at December 31, 2013) have contractual maturities as follows:

	Nonrecourse	Recourse	Total
2014	\$ 13,593	\$ 560,659	\$ 574,252
2015	16,537	5,813	22,350
2016	41,083	9,625	50,708
2017	73,297	162,529	235,826
2018	142,789	103,219	246,008
Thereafter	2,034,346	50,000	2,084,346
Total	<u>\$ 2,321,645</u>	<u>\$ 891,845</u>	<u>\$ 3,213,490</u>

Debt Covenants

Newcastle’s non-CDO financings, mortgage notes payable, media credit facilities and golf credit facilities contain various customary loan covenants. Newcastle was in compliance with all of these covenants as of February 28, 2014.

15. PENSION AND POSTRETIREMENT BENEFITS

New Media maintains a legacy pension plan and legacy postretirement medical and life insurance plans which cover qualifying employees of its New Media subsidiaries. The pension plan and postretirement medical and life insurance plans are closed to new participants and the pension plan was amended to freeze all future benefit accruals as of December 31, 2008, except for a select group of union employees whose benefits were frozen during 2009. Also, during 2008 the medical and life insurance benefits for a select group of active employees were frozen and the plan was amended to limit future benefits.

New Media uses the accrued benefit actuarial method and best estimate assumptions to determine pension costs, liabilities and other pension information for defined benefit plans.

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The following provides information on the pension plan and postretirement medical and life insurance plan as of December 31, 2013 and for the period from November 26, 2013 to December 31, 2013:

	<u>Pension</u>		<u>Postretirement</u>	
	<u>Period Ended December 31, 2013</u>		<u>Period Ended December 31, 2013</u>	
Change in projected benefit obligation:				
Benefit obligation at beginning of period	\$	24,651	\$	6,015
Service cost		48		6
Interest cost		187		41
Actuarial loss		(408)		176
Benefits and expenses paid		(163)		(29)
Participant contributions		—		2
Employer implicit subsidy fulfilled		—		(5)
Projected benefit obligation at end of period	\$	<u>24,315</u>	\$	<u>6,206</u>
Change in plan assets				
Fair value of plan assets at beginning of period	\$	19,981	\$	—
Actual return on plan assets		472		—
Employer contributions		—		27
Employer implicit subsidy contribution		—		5
Participant contributions		—		2
Employer implicit subsidy fulfilled		—		(5)
Benefits paid		(123)		(29)
Expenses paid		(40)		—
Fair value of plan assets at end of period	\$	<u>20,290</u>	\$	<u>—</u>
Reconciliation of funded status				
Benefit obligation at end of period	\$	(24,315)	\$	(6,206)
Fair value of assets at end of period		20,290		—
Funded status		(4,025)		(6,206)
Unrecognized actuarial (gain) loss		(634)		176
Net accrued benefit cost	\$	<u>(4,659)</u>	\$	<u>(6,030)</u>
	<u>Pension</u>		<u>Postretirement</u>	
	<u>Period Ended December 31, 2013</u>		<u>Period Ended December 31, 2013</u>	
Balance sheet presentation				
Accounts payable, accrued expenses and other liabilities(A)		4,025		6,206
Accumulated other comprehensive income		634		(176)
Net accrued benefit cost	\$	<u>4,659</u>	\$	<u>6,030</u>
Components of net periodic benefit cost				
Service cost	\$	48	\$	6
Interest cost		187		41
Expected return on plan assets		(246)		—
Net periodic benefit cost	\$	<u>(11)</u>	\$	<u>47</u>
Other changes in plan assets and benefit obligations recognized in other comprehensive income				
Net actuarial cost	\$	(634)	\$	176
Total recognized in other comprehensive income	\$	<u>(634)</u>	\$	<u>176</u>
Comparison of obligations to plan assets				
Projected and accumulated benefit obligation	\$	24,315	\$	6,206
Fair value of plan assets	\$	20,290	\$	—

(A) Reconciliation of total funded status to pension and other postretirement benefit obligations balance (Note 2):

Pension	\$	4,025
Postretirement		6,206
Other		240
	\$	<u>10,471</u>

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The following assumptions were used to calculate the net periodic benefit cost for New Media's defined benefit pension and post retirement plans:

	Pension	Postretirement
	Period Ended December 31, 2013	Period Ended December 31, 2013
Weighted average discount rate	5.0%	4.5%
Rate of increase in future compensation levels	0.0%	0.0%
Expected return on assets	8.0%	0.0%
Current year trend	0.0%	7.8%
Ultimate year trend	0.0%	4.8%
Year of ultimate trend	—	2025

To determine the expected long-term rate of return on pension plan assets, New Media considers the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets, input from the actuaries and investment consultants, and long-term inflation assumptions. The expected allocation of pension plan assets is based on a diversified portfolio consisting of domestic and international equity securities and fixed income securities. This expected return is then applied to the fair value of plan assets. New Media amortizes experience gains and losses, including the effects of changes in actuarial assumptions and plan provisions over a period equal to the average future service of plan participants.

Amortization of prior service costs was calculated using the straight-line method over the average remaining service periods of the employees expected to receive benefits under the plan. The effect of a 1% increase and decrease in health care rates are presented as follows:

	Postretirement	
	Period Ended December 31, 2013	
Effect of 1% increase in health care cost trend rates		
Accumulated pension benefit obligation ("APBO")	\$	6,611
Dollar change	\$	405
Percent change		6.5%
Effect of 1% decrease in health care cost trend rates		
APBO	\$	5,863
Dollar change	\$	(343)
Percent change		(5.5%)

The fair value of plan assets is measured on a recurring basis using quoted market prices in active markets for identical assets, a Level 1 input. The pension plan's assets by asset category are as follows:

	Period Ended December 31, 2013	
	Amount	Percent
Equity mutual funds	\$ 14,738	72.6%
Fixed income mutual funds	4,021	19.8%
Cash and cash equivalents	803	4.0%
Other	728	3.6%
Total	<u>\$ 20,290</u>	<u>100.0%</u>

Plan fiduciaries of the George W. Prescott Publishing Company LLC Pension Plan set investment policies and strategies for the pension trust. Objectives include preserving the funded status of the plan and balancing risk against return. The general target allocation is 70% in equity funds and 30% in fixed income funds for the plan's investments. To accomplish this goal, each plan's assets are actively managed by outside investment managers with the objective of optimizing long-term return while maintaining a high standard of portfolio quality and proper diversification. New Media monitors the maturities of fixed income securities so that there is sufficient liquidity to meet current benefit payment obligations.

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The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid as follows:

	Pension	Postretirement
2014	\$ 1,461	\$ 412
2015	1,508	410
2016	1,536	410
2017	1,545	379
2018	1,565	390
2019-2023	8,126	1,584
Employer contribution expected to be paid during the year ending December 31, 2014	\$ 1,501	\$ 412

The postretirement plans are not funded.

The aggregate amount of net actuarial gain and prior service cost related to New Media's pension and post retirement plans recognized in other comprehensive income as of December 31, 2013 was \$0.5 million.

16. EQUITY AND EARNINGS PER SHARE

Earnings per Share

Newcastle is required to present both basic and diluted earnings per share ("EPS"). Basic EPS is calculated by dividing net income (loss) applicable to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted EPS is calculated by dividing net income (loss) applicable to common stockholders by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period. Newcastle's common stock equivalents are its stock options. During 2013, 2012 and 2011, based on the treasury stock method, Newcastle had 6,428,351, 1,620,043, and 6,324, dilutive common stock equivalents, respectively, resulting from its outstanding options. As of December 31, 2013, 2012 and 2011, Newcastle had 2,322,268, 3,495,984, and 4,439,734 antidilutive options, respectively. Net income (loss) applicable to common stockholders is equal to net income (loss) less preferred dividends.

In June 2012, Newcastle filed a shelf registration statement with the SEC covering common stock, preferred stock, depositary shares, debt securities and warrants.

On June 6, 2013, Newcastle's stockholders approved an amendment to Newcastle's charter, to increase the total number of authorized shares of common stock, par value \$0.01 per share, from 500 million shares to 1.0 billion shares and correspondingly, to increase the total number of authorized shares of Newcastle capital stock from 600 million shares to 1.1 billion shares, which includes 100 million shares of preferred stock, par value \$0.01 per share.

Common Stock Offerings

The following table presents shares of common stock issued by Newcastle in connection with public offerings since 2011:

Date	Number of Shares Issued	Price per Share		Net Proceeds (millions)	Aggregate Shares Purchased by Principals of Fortress		Options Granted to Manager (A)		
		To Public	To Underwriters		Number of Shares	Price	Number of Shares	Strike Price	Grant Date Value (millions)
March 2011	17,250,000	\$ 6.00	N/A	\$ 98.4	—	—	1,725,000	\$ 6.00	\$ 7.0
September 2011	25,875,000	\$ 4.55	N/A	\$ 112.3	1,314,780 (B)	\$ 4.55	2,587,500	\$ 4.55	\$ 5.6
April 2012	18,975,000	\$ 6.22	N/A	\$ 115.2	—	—	1,897,500	\$ 6.22	\$ 5.6
May 2012	23,000,000	\$ 6.71	N/A	\$ 152.0	—	—	2,300,000	\$ 6.71	\$ 7.6
July 2012	25,300,000	N/A	\$ 6.63	\$ 167.4	450,000	\$ 6.70	2,530,000	\$ 6.70	\$ 8.3
January 2013	57,500,000	\$ 9.35	N/A	\$ 526.2	213,900	\$ 9.35	5,750,000	\$ 9.35	\$ 18.0
February 2013	23,000,000	N/A	\$ 10.34	\$ 237.4	191,000	\$ 10.48	2,300,000	\$ 10.48	\$ 8.4
June 2013	40,250,000	N/A	\$ 4.92	\$ 197.6	750,000	\$ 4.97	4,025,000	\$ 4.97	\$ 3.8
November 2013	57,950,952	N/A	\$ 5.21	\$ 301.4	450,952	\$ 5.25	5,795,095	\$ 5.25	\$ 6.0

(A) In connection with these offerings, Newcastle granted options to the Manager for the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle.

(B) This figure also includes shares purchased by officers of Newcastle.

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Option Plan

In June 2002, Newcastle (with the approval of Newcastle's board of directors) adopted the Newcastle Nonqualified Stock Option and Incentive Award Plan, or the Newcastle Option Plan, for officers, directors, consultants and advisors, including the Manager and its employees.

In May 2012, with the approval of the shareholders, Newcastle's board of directors adopted the 2012 Newcastle Nonqualified Stock Option and Incentive Plan, or the 2012 Plan. The 2012 Plan is the successor to the Newcastle Option Plan for officers, directors, consultants and advisors, including the Manager and its employees, and is intended to facilitate the continued use of long-term equity-based awards and incentives for the benefit of the service providers to Newcastle and its Manager. All outstanding options granted under the Newcastle Option Plan will continue to be subject to the terms and conditions set forth in the agreements evidencing such options and the terms of the Newcastle Option Plan. The maximum number of shares available for issuance in the aggregate over the ten-year term of the 2012 Plan is 20,000,000 shares. Newcastle's board of directors may also determine to issue options to the Manager that are not subject to the 2012 Plan, provided that the number of shares underlying any options granted to the Manager in connection with capital raising efforts would not exceed 10% of the shares sold in such offering and would be subject to New York Stock Exchange rules. Upon exercise, all options will be settled in an amount of cash equal to the excess of the fair market value of a share of common stock on the date of exercise over the strike price per share, unless advance approval is made to settle the option in shares of common stock.

Upon joining the board, the non-employee directors were, in accordance with the Newcastle Option Plan, automatically granted options relating to an aggregate of 20,000 shares of common stock. The fair value of such options was not material at the date of grant.

For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, the Manager has been granted options relating to shares of Newcastle's common stock, with strike prices subject to adjustment as necessary to preserve the value of such options in connection with the occurrence of certain events (including capital dividends and capital distributions made by Newcastle). These options represented an amount equal to 10% of the shares of common stock of Newcastle sold in its public offerings and the value of such options was recorded as an increase in equity with an offsetting reduction of capital proceeds received. The options granted to the Manager, which may be assigned by Fortress to its employees, were fully vested on the date of grant and one thirtieth of the options become exercisable on the first day of each of the following thirty calendar months, or earlier upon the occurrence of certain events, such as a change in control of Newcastle or the termination of the Management Agreement. These options will be settled in an amount of cash equal to the excess of the fair market value of a share of common stock on the date of exercise over the strike price per share, unless a majority of the independent members of Newcastle's board of directors determine to settle the option in shares of common stock. The options expire ten years from the date of issuance.

In connection with the spin-off of New Residential (Note 4), 21.5 million options that were held by the Manager, or by the directors, officers or employees of the Manager, were converted into an adjusted Newcastle option and a new New Residential option. The strike price of each adjusted Newcastle option and New Residential option was set to collectively maintain the intrinsic value of the Newcastle option immediately prior to the spin-off and to maintain the ratio of the strike price of the adjusted Newcastle option and the New Residential option, respectively, to the fair market value of the underlying shares as of the spin-off date, in each case based on the five day average closing price subsequent to the spin-off date.

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Newcastle's outstanding options were summarized as follows:

	Year Ended December 31, 2013			Year Ended December 31, 2012		
	Issued Prior to 2011	Issued in 2011 and thereafter	Total	Issued Prior to 2011	Issued in 2011 and thereafter	Total
Held by the Manager	1,496,555	25,996,428	27,492,983	1,751,172	7,934,166	9,685,338
Issued to the Manager and subsequently transferred to certain Manager's employees	535,570	2,510,000	3,045,570	701,937	3,010,000	3,711,937
Issued to the independent directors	2,000	2,000	4,000	10,000	2,000	12,000
Total	2,034,125	28,508,428	30,542,553	2,463,109	10,946,166	13,409,275

The following table summarizes Newcastle's outstanding options at December 31, 2013. Note that the last sales price on the New York Stock Exchange for Newcastle's common stock in the year ended December 31, 2013 was \$5.74 per share.

Recipient	Date of Grant/Exercise	Number of Options	Options Exercisable at December 31, 2013	Weighted Average Strike Price (A)	Fair Value At Grant Date (millions) (B)	Intrinsic Value at December 31, 2013 (millions)
Directors	Various	20,000	4,000	\$ 8.06	Not Material	—
Manager (C)	2002 - 2007	3,523,727	2,032,125	\$ 12.66	\$ 6.4	—
Manager (C)	Mar-11	1,725,000	1,580,166	\$ 2.72	\$ 7.0 (G)	\$ 4.8
Manager (C)	Sep-11	2,587,500	2,165,361	\$ 2.07	\$ 5.6 (H)	\$ 8.9
Manager (C)	Apr-12	1,897,500	1,244,778	\$ 2.82	\$ 5.6 (I)	\$ 5.5
Manager (C)	May-12	2,300,000	1,421,667	\$ 3.05	\$ 7.6 (J)	\$ 6.1
Manager (C)	Jul-12	2,530,000	1,416,195	\$ 3.04	\$ 8.3 (K)	\$ 6.7
Manager (C)	Jan-13	5,750,000	2,108,333	\$ 4.24	\$ 18.0 (L)	\$ 8.6
Manager (C)	Feb-13	2,300,000	766,667	\$ 4.75	\$ 8.4 (M)	\$ 2.3
Manager (C)	Jun-13	4,025,000	805,000	\$ 4.97	\$ 3.8 (N)	\$ 3.1
Manager (C)	Nov-13	5,795,095	193,170	\$ 5.25	\$ 6.0 (O)	\$ 2.8
Exercised (D)	Prior to 2008	(1,043,118)	N/A	\$ 15.70	N/A	N/A
Exercised (E)	Oct-12	(95,834)	N/A	\$ 5.28	N/A	N/A
Exercised (F)	Sep-13	(307,833)	N/A	\$ 2.56	N/A	N/A
Expired unexercised	2002-2003	(464,484)	N/A	N/A	N/A	N/A
Outstanding		30,542,553	13,737,462			

- (A) The strike prices are subject to adjustment in connection with return of capital dividends and spin-offs. A portion of Newcastle's 2008 dividends was deemed return of capital dividends. The effect on the strike prices was not significant. The strike prices were adjusted for the New Residential spin-off as described above. As of December 31, 2013, the weighted average strike price of the outstanding options issued prior to 2011 was \$12.66.
- (B) The fair value of the options was estimated using an option valuation model. Since the Newcastle Option Plan and 2012 Plan have characteristics significantly different from those of traded options, and since the assumptions used in such model, particularly the volatility assumption, are subject to significant judgment and variability, the actual value of the options could vary materially from management's estimate. The volatility assumption for these options was estimated based primarily on the historical volatility of Newcastle's common stock and management's expectations regarding future volatility. The expected life assumption for options issued prior to 2011 was estimated based on the simplified term method. This simplified method was used because Newcastle did not have sufficient historical data to conclude on the appropriate expected life of its options and because historical data to date was consistent with the simplified term method. The expected life assumption for options issued in 2011 and thereafter was estimated based primarily on the historical expected life of applicable previously issued options.
- (C) The Manager assigned certain of its options to Fortress's employees as follows:

Date of Grant	Range of Strike Prices	Total Unexercised Inception to Date
2004	\$11.49-\$14.05	226,125
2005	\$13.24	89,925
2006	\$13.16	48,450
2007	\$12.40-\$14.01	171,070
2011	\$2.07-\$2.72	1,210,000
2012	\$2.82-\$3.05	1,300,000
Total		3,045,570

- (D) 670,620 of the total options exercised were by the Manager. 368,498 of the total options exercised were by employees of Fortress subsequent to their assignment. 4,000 of the total options exercised were by directors.
- (E) Exercised by employees of Fortress subsequent to their assignment. The options exercised had an intrinsic value of \$0.2 million.
- (F) Exercised by employees of Fortress subsequent to their assignment. The options exercised had an intrinsic value of \$0.9 million.
- (G) The assumptions used in valuing the options were: a 1.7% risk-free rate, 107.8% volatility and a 3.3 year expected term.
- (H) The assumptions used in valuing the options were: a 1.13% risk-free rate, 13.2% dividend yield, 151.1% volatility and a 4.6 year expected term.
- (I) The assumptions used in valuing the options were: a 1.3% risk-free rate, 12.9% dividend yield, 149.4% volatility and a 4.7 year expected term.
- (J) The assumptions used in valuing the options were: a 1.05% risk-free rate, 11.9% dividend yield, 148.4% volatility and a 4.8 year expected term.
- (K) The assumptions used in valuing the options were: a 0.75% risk-free rate, 11.9% dividend yield, 147.5% volatility and a 4.8 year expected term.

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(L)	The assumptions used in valuing the options were: a 2.0% risk-free rate, 8.8% dividend yield, 56.2% volatility and a 10 year term.
(M)	The assumptions used in valuing the options were: a 2.1% risk-free rate, 7.8% dividend yield, 55.5% volatility and a 10 year term.
(N)	The assumptions used in valuing the options were: a 2.5% risk-free rate, 8.8% dividend yield, 36.9% volatility and a 10 year term.
(O)	The assumptions used in valuing the options were: a 2.8% risk-free rate, 6.7% dividend yield, 32.0% volatility and a 10 year term.

Preferred Stock

In March 2003, Newcastle issued 2.5 million shares (\$62.5 million face amount) of its 9.75% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred"). In October 2005, Newcastle issued 1.6 million shares (\$40.0 million face amount) of its 8.05% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred"). In March 2007, Newcastle issued 2.0 million shares (\$50.0 million face amount) of its 8.375% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred"). The Series B Preferred, Series C Preferred and Series D Preferred are non-voting, have a \$25 per share liquidation preference, no maturity date and no mandatory redemption. Newcastle has the option to redeem the Series B Preferred, the Series C Preferred and the Series D Preferred, at their liquidation preference. If the Series C Preferred or Series D Preferred cease to be listed on the NYSE or the AMEX, or quoted on the NASDAQ, and Newcastle is not subject to the reporting requirements of the Exchange Act, Newcastle has the option to redeem the Series C Preferred or Series D Preferred, as applicable, at their liquidation preference and, during such time any shares of Series C Preferred or Series D Preferred are outstanding, the dividend will increase to 9.05% or 9.375% per annum, respectively.

In connection with the issuance of the Series B Preferred, Series C Preferred and Series D Preferred, Newcastle incurred approximately \$2.4 million, \$1.5 million, and \$1.8 million of costs, respectively, which were netted against the proceeds of such offerings. If any series of preferred stock were redeemed, the related costs would be recorded as an adjustment to income available for common stockholders at that time.

In March 2010, Newcastle settled its offer to exchange (the "Exchange Offer") shares of its common stock and cash for shares of its preferred stock. After settlement of the Exchange Offer, 1,347,321 shares of Series B Preferred Stock, 496,000 shares of Series C Preferred Stock and 620,000 shares of Series D Preferred Stock remain outstanding for trading on the New York Stock Exchange.

As of January 31, 2014, Newcastle had paid all current and accrued dividends on its preferred stock.

Noncontrolling Interest

Noncontrolling interest is comprised of the 15.4% interest in New Media and its subsidiaries, Local Media Group and GateHouse, that Newcastle does not own.

17. TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES

Management Agreements

Newcastle is party to a Management Agreement with its Manager which provides for automatically renewing one-year terms subject to certain termination rights. The Manager's performance is reviewed annually and the Management Agreement may be terminated by Newcastle by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the twelve consecutive calendar months immediately preceding the termination, upon the affirmative vote of at least two-thirds of the independent directors, or by a majority vote of the holders of common stock. Pursuant to the Management Agreement, the Manager, under the supervision of Newcastle's board of directors, formulates investment strategies, arranges for the acquisition of assets, arranges for financing, monitors the performance of Newcastle's assets and provides certain advisory, administrative and managerial services in connection with the operations of Newcastle. For performing these services, Newcastle pays the Manager an annual management fee equal to 1.5% of the gross equity of Newcastle, as defined, including adjustments for return of capital dividends.

The Management Agreement provides that Newcastle will reimburse the Manager for various expenses incurred by the Manager or its officers, employees and agents on Newcastle's behalf, including costs of legal, accounting, tax, auditing, administrative and other similar services rendered for Newcastle by providers retained by the Manager or, if provided by the Manager's employees, in amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis.

To provide an incentive for the Manager to enhance the value of the common stock, the Manager is entitled to receive an incentive return (the "Incentive Compensation") on a cumulative, but not compounding, basis in an amount equal to the product of (A) 25% of the dollar amount by which (1) (a) the Funds from Operations (defined as the net income available

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for common stockholders before Incentive Compensation, excluding extraordinary items, plus depreciation of operating real estate and after adjustments for unconsolidated subsidiaries, if any) of Newcastle per share of common stock (based on the weighted average number of shares of common stock outstanding) plus (b) gains (or losses) from debt restructuring and from sales of property and other assets per share of common stock (based on the weighted average number of shares of common stock outstanding), exceed (2) an amount equal to (a) the weighted average of the price per share of common stock in the IPO and the value attributed to the net assets transferred to Newcastle by its predecessor, and in any subsequent offerings by Newcastle (adjusted for prior return of capital dividends or capital distributions) multiplied by (b) a simple interest rate of 10% per annum (divided by four to adjust for quarterly calculations) multiplied by (B) the weighted average number of shares of common stock outstanding.

Newcastle is party to the Senior Housing Management Agreement with Holiday and Blue Harbor. Pursuant to the property management agreements with Holiday, Newcastle pays management fees equal to either (i) 5% of the property's effective gross income (as defined in the agreements) or (ii) 6% of the property's effective gross income (as defined in the agreements) for the first two years and 7% thereafter. Pursuant to the property management agreements with Blue Harbor, Newcastle pays management fees equal to 6% of the property's effective gross income (as defined in the agreement) for the first two years and 7% thereafter. As the owner of managed properties, Newcastle is responsible for the properties' operating costs, including repairs, maintenance, capital expenditures, utilities, taxes, insurance and the payroll expense of property-level employees. The payroll expense is structured as a reimbursement to the property manager, who is the employer of record in order for Newcastle to comply with REIT requirements (Newcastle reimbursed the Senior Housing Managers for \$23.9 million and \$7.9 million of property-level payroll expenses during the years ended December 31, 2013 and 2012, respectively, which is included in property operating expenses in the consolidated statements of income).

	Amounts incurred under the management agreements (in millions)		
	2013	2012	2011
Management Fees (A)	\$ 32.6	\$ 24.2	\$ 17.8
Expense Reimbursement to the Manager	0.5	0.5	0.5
Incentive Compensation	—	—	—
Total management fees to affiliate	\$ 33.1	\$ 24.7	\$ 18.3

(A) During 2013, Newcastle paid management fees of \$27.6 million, \$3.5 million and \$1.5 million to its Manager, Blue Harbor and Holiday, respectively. In 2012, Newcastle paid management fees of \$23.1 million and \$1.1 million to its Manager and Blue Harbor, respectively.

At December 31, 2013, Fortress, through its affiliates, and principals of Fortress, owned 6.4 million shares of Newcastle's common stock and Fortress, through its affiliates, had options relating to an additional 27.5 million shares of Newcastle's common stock (Note 16).

At December 31, 2013 and 2012, due to affiliates (Note 2) was comprised of \$5.9 million and \$3.6 million, respectively, of management fees and expense reimbursements payable to the Manager and to the Senior Housing Managers.

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Other Affiliated Entities

In April 2006, Newcastle securitized Subprime Portfolio I and, through Securitization Trust 2006, entered into a servicing agreement with a subprime home equity mortgage lender (the "Subprime Servicer") to service this portfolio. In July 2006, private equity funds managed by an affiliate of Newcastle's Manager completed the acquisition of the Subprime Servicer. As compensation under the servicing agreement, the Subprime Servicer will receive, on a monthly basis, a net servicing fee equal to 0.5% per annum on the unpaid principal balance of the portfolio. In March 2007, through Securitization Trust 2007, Newcastle entered into a servicing agreement with the Subprime Servicer to service Subprime Portfolio II under substantially the same terms. The outstanding unpaid principal balances of Subprime Portfolios I and II were approximately \$372.7 million and \$506.6 million at December 31, 2013, respectively.

In April 2010, Newcastle, through two of its CDOs, made a cash investment of \$75.0 million in a new real estate related loan to a portfolio company of a private equity fund managed by an affiliate of Newcastle's Manager. Newcastle's chairman is an officer of the borrower. This investment improves the applicable CDOs' results under some of their respective tests, and is expected to yield approximately 22%. The loan is secured by subordinated interests in the properties of the borrower and its maturity has been extended to June 2019. Interest on the loan will be accrued and deferred until maturity.

In January 2011, Newcastle, through two of its CDOs, made a cash investment of approximately \$47 million in a portion of a new secured loan to a portfolio company of a private equity fund managed by Newcastle's Manager. Newcastle's chairman and secretary are officers or directors of the borrower. The terms of the loan were negotiated by a third party bank who acted as agent for the creditors on the loan. At closing, Newcastle received an origination fee on the loan equal to 2% of the amount of cash it loaned to the portfolio company, which was the same fee received by other creditors on the loan. In February 2011, the portfolio company repaid the loan in full.

As of December 31, 2013, Newcastle held on its balance sheet total investments of \$185.6 million face amount of real estate securities and related loans issued by affiliates of the Manager. Newcastle earned approximately \$36.5 million, \$25.8 million and \$22.5 million of interest on investments issued by affiliates of the Manager for the years ended December 31, 2013, 2012 and 2011, respectively.

In each instance described above, affiliates of Newcastle's Manager have an investment in the applicable affiliated fund and receive from the fund, in addition to management fees, incentive compensation if the fund's aggregate investment returns exceed certain thresholds.

18. COMMITMENTS AND CONTINGENCIES

Litigation — Newcastle is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business including governmental and administrative proceedings concerning employment, labor, environmental and other claims. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions, individually and in the aggregate, which existed at December 31, 2013, if any, will not materially affect Newcastle's consolidated results of operations, financial position or cash flow.

Environmental Costs — As a commercial real estate owner, Newcastle is subject to potential environmental costs. At December 31, 2013, management of Newcastle is not aware of any environmental concerns that would have a material adverse effect on Newcastle's consolidated financial position or results of operations.

Debt Covenants — Newcastle's debt obligations contain various customary loan covenants. See Note 14.

Subprime Securitizations — Newcastle has no obligation to repurchase any loans from either of its subprime securitizations. Therefore, it is expected that Newcastle's exposure to loss is limited to the carrying amount of its retained interests in the securitization entities (Note 7). A subsidiary of Newcastle's gave limited representations and warranties with respect to the second securitization; however, it has no assets and does not have recourse to the general credit of Newcastle.

Operating lease obligations — Media operating lease commitments are primarily for office space and equipment. Certain office space leases provide for rent adjustments relating to changes in real estate taxes and other operating costs. The lease terms range up to 99 years and typically contain renewal options. Rental expense amounted to \$0.6 million for the period from November 26, 2013 through December 31, 2013.

The Golf business leases substantially all of its golf courses and related facilities under long-term operating leases, including triple net leases. In addition to minimum payments, certain leases require the payment of the excess of various

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percentages of gross revenue or net operating income over the minimum rental payments. The triple net leases require the payment of taxes assessed against the leased property and the cost of insurance and maintenance. The majority of the lease terms range from 10 to 20 years and, typically, the leases contain renewal options. Certain leases include minimum scheduled increases in rental payments at various times during the term of the lease. These scheduled rent increases are recognized on a straight-line basis over the term of the lease, resulting in an accrual, which is included in other long-term liabilities, for the amount by which the cumulative straight-line rent exceeds the contractual cash rent.

The Golf business is required to maintain bonds under certain third-party agreements, as requested by certain utility providers, and under the rules and regulations of licensing authorities and other governmental agencies. Golf had bonds outstanding of approximately \$0.9 million as of December 31, 2013.

The future minimum rental commitments under non-cancellable leases, net of subleases, as of December 31, 2013 were as follows:

For the years ending December 31:	Media	Golf	Total
2014	\$ 4,320	\$ 41,648	\$ 45,968
2015	3,594	39,489	43,083
2016	3,277	34,600	37,877
2017	3,205	32,059	35,264
2018	2,299	26,810	29,109
Thereafter	1,895	242,077	243,972
Total Minimum lease payments	\$ 18,590	\$ 416,683	\$ 435,273

Membership Deposit Liability – In the Golf business, members are required to pay an initiation deposit upon their acceptance as a member to a private club. In most cases, membership deposits are fully refundable after a fixed number of years, typically 30 years. As of December 31, 2013, the total face amount of membership deposits was approximately \$235.0 million.

Restricted Cash – Restricted cash at December 31, 2013 in the aggregate amount of \$10.0 million is used to collateralize standby letters of credit in the name of New Media’s insurers in accordance with certain insurance policies and as cash collateral for certain business operations, as well as credit enhancement for Golf’s obligations related to the performance of lease agreements and certain insurance claims.

19. INCOME TAXES

The provision for income taxes consists of the following:

	Year Ended December 31,	
	2013	2012
	(in thousands)	
Current:		
Federal	\$ 2,170	\$ —
State and Local	381	—
Total Current Provision	\$ 2,551	\$ —
Deferred		
Federal	\$ (404)	\$ —
State and Local	(47)	—
Total Deferred Provision	\$ (451)	\$ —
Total Provision for Income Taxes	\$ 2,100	\$ —

Newcastle Investment Corp. is organized and conducts its operations to qualify as a REIT under the Code. A REIT will generally not be subject to U.S. federal corporate income tax on that portion of its net income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements. A portion of this distribution requirement may be met through stock dividends rather than cash, subject to limitations based on the value of Newcastle’s stock. Newcastle distributed 100% of its 2013, 2012 and 2011 REIT taxable income.

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Common stock distributions relating to 2013, 2012, and 2011 were taxable as follows:

	Dividends Per Share	Ordinary Income	Long-term Capital Gain	Return of Capital
2013	\$ 7.38(A)	33.91%	0.00%	66.09%
2012	\$ 0.84	100.00%	0.00%	0.00%
2011	\$ 0.40	100.00%	0.00%	0.00%

(A) Includes the distribution of New Residential (Note 4) common stock valued at \$6.89 per share.

During 2010 and 2009, Newcastle repurchased an aggregate of \$787.8 million face amount of its outstanding CDO debt and junior subordinated notes at a discount and recorded \$521.1 million of aggregate gain. The gain recorded upon such cancellation of indebtedness is characterized as ordinary income for tax purposes. In compliance with current tax laws, Newcastle has the ability to defer such ordinary income to future years and has deferred all or a portion of such gain for 2010 and 2009. However, cancellation of indebtedness income recognized on or after January 1, 2011 cannot be deferred and must generally be recognized as ordinary income in the year of such cancellation. During 2011, Newcastle repurchased \$188.9 million face amount of its outstanding CDO debt and notes payable at a discount and recorded \$81.1 million of gain for tax purposes, of which only \$66.1 million gain relating to \$171.8 million face amount of debt repurchased was recognized for GAAP purposes. During 2012, Newcastle repurchased \$39.3 million face amount of Newcastle CDO debt and notes payable at a discount and recorded a \$24.1 million gain on extinguishment of debt for GAAP, of which only \$23.2 million of gain relating to \$34.1 million face amount of debt repurchased was recognized for tax purposes. During 2013, Newcastle repurchased \$35.9 million face amount of Newcastle CDO debt and notes payable at a discount and recorded a \$4.6 million gain on extinguishment of debt for GAAP and tax purposes.

In addition, Newcastle may recognize material ordinary income from the cancellation of debt within its non-recourse financing structures, including its subprime securitizations, while losses on the related collateral may be recognized as capital losses. Through December 31, 2013, \$101.9 million of debt in Newcastle's subprime securitizations has been cancelled as a result of losses incurred on the underlying assets in the securitization trusts.

As of December 31, 2012, Newcastle had a loss carryforward, inclusive of net operating loss and capital loss, of approximately \$750.2 million. The net operating loss carryforward and capital loss carryforward can generally be used to offset future ordinary taxable income and taxable capital gains, for up to 20 years and 5 years, respectively. The amounts of net operating loss carryforward and net long-term capital loss carryforward as of December 31, 2013 are subject to the finalization of the 2013 tax returns. The net operating loss carryforward and capital loss carryforward will begin to expire in 2029 and 2015, respectively.

In January 2013, an "ownership change" for purposes of Section 382 of the Code occurred. The provisions of Section 382 of the Code will impose an annual limit on the amount of net operating loss and net capital loss carryforwards that Newcastle can use to offset future taxable income. Such limitation may increase Newcastle's dividend distribution requirement in the future. Newcastle does not believe that the limitation as a result of the January 2013 ownership change will prevent it from satisfying the REIT distribution requirement for the current year and future years.

The Media and Golf businesses are held through TRSs and, as such, are subject to regular corporate income taxes. At December 31, 2013, Newcastle's TRSs had approximately \$540.2 million of net operating loss carryforwards for federal and state income tax purposes which may be available to offset future taxable income, if any. These federal and state net operating loss carryforwards will begin to expire in 2018. A significant portion of these net operating losses are subject to the limitations of the Code Section 382. This section provides substantial limitations on the availability of net operating losses to offset current taxable income if significant ownership changes have occurred for federal tax purposes.

Newcastle and its TRSs file income tax returns with the U.S. federal government and various state and local jurisdictions. Newcastle is no longer subject to tax examinations by tax authorities for years prior to 2010. Generally, Newcastle has assessed its tax positions for all open years, which includes 2010 to 2013, and concluded that there are no material uncertainties to be recognized.

During the years ended December 31, 2013, 2012 and 2011, Newcastle's TRSs recorded approximately \$2.1 million, \$0 and \$0, respectively, of income tax expense. Generally, the Newcastle's effective tax rate differs from the federal statutory rate as a result of state and local taxes and non-taxable REIT income.

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The difference between Newcastle's reported provision for income taxes and the U.S. federal statutory rate of 35% is as follows:

	December 31,		
	2013	2012	2011
Provision at the statutory rate	35.00%	35.00%	35.00%
Non-taxable REIT income	(33.88%)	(35.00%)	(35.00%)
State and local taxes	0.21%	—	—
Other	0.40%	—	—
Total provision	1.73%	0.00%	0.00%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets as of December 31, 2013 are presented below:

	December 31, 2013
Deferred tax assets:	
Allowance for loan losses	\$ 2,076
Depreciation and amortization	94,880
Leaseholds	6,489
Accrued expenses	23,816
Deposits	7,787
Net operating losses	211,560
Other	17,036
Total deferred tax assets	363,644
Less valuation allowance	(363,192)
Net deferred tax assets	\$ 452

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible.

Newcastle had recorded a valuation allowance against a significant portion of its deferred tax assets as of December 31, 2013 as management does not believe that it is more likely than not that the deferred tax assets will be realized.

During the period from November 26, 2013 to December 31, 2013, the valuation allowance decreased by \$4.4 million primarily related to activity in the net operating loss carryforwards of the Media and Golf businesses.

The following table summarizes the change in the deferred tax asset valuation allowance:

Valuation allowance at December 31, 2012	\$ —
Increase due to business acquisitions	367,541
Other decrease	(4,349)
Valuation allowance at December 31, 2013	\$ 363,192

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20. RECENT ACTIVITIES

These financial statements include a discussion of material events which have occurred subsequent to December 31, 2013 (referred to as “subsequent events”) through the issuance of these consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

On February 13, 2014, Newcastle completed the spin-off of its media business, as detailed in Note 4, and establishment of New Media as a separate, publicly traded company (NYSE:NEWM). The spin-off was effected as a taxable pro rata distribution by Newcastle of all of the outstanding shares of common stock it held of New Media to Newcastle’s common stockholders of record at the close of business on February 6, 2014. The distribution ratio was 0.0722 shares of New Media common stock for each share of Newcastle common stock.

In January 2014, Newcastle completed the acquisitions of two senior housing properties for an aggregate purchase price of approximately \$23.0 million plus acquisition costs. Each of these acquisitions was accounted for as a business combination, under which all assets acquired and liabilities assumed are recognized at their acquisition-date fair value with acquisition-related costs being expensed as incurred.

In January 2014, Newcastle sold \$503.0 million face amount of the remaining FNMA/FHLMC securities at an average price of 105.82% for total proceeds of \$532.2 million and repaid \$516.1 million of associated repurchase agreements. Newcastle recognized a net gain of approximately \$1.9 million on the sale of these securities.

In January 2014, Intrawest, a portfolio company of a private equity fund managed by an affiliate of Newcastle’s Manager completed a \$37.5 million primary offering and a \$150.0 million secondary offering. At December 31, 2013, Newcastle had an outstanding investment balance of \$185.6 million in Intrawest’s debt. Following Intrawest’s public offerings, Newcastle received total cash of \$83.3 million, which reduced the face of the debt balance down to \$99.4 million.

In January 2014, Newcastle financed an additional \$50.0 million face amount of previously repurchased CDO bonds payable with repurchase agreements for \$30.8 million. These repurchase agreements bear interest at one month LIBOR + 1.65%, mature in March 2014 and are subject to customary margin provisions.

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21. SUMMARY QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

The following is unaudited summary information on Newcastle's quarterly operations.

2013

	Quarter Ended				Year Ended
	March 31 (A)	June 30 (A)	September 30 (A)	December 31	December 31
Interest income	\$ 61,332	\$ 62,824	\$ 47,486	\$ 42,073	\$ 213,715
Interest expense	22,710	21,998	20,555	25,710	90,973
Net interest income (expense)	38,622	40,826	26,931	16,363	122,742
Impairment	2,773	3,201	(12,998)	(12,745)	(19,769)
Other revenues	13,500	14,013	24,912	96,535	148,960
Other income (loss) (B)	5,770	8,090	7,755	15,529	37,144
Property operating expenses	8,363	8,409	15,804	21,142	53,718
Depreciation and amortization	4,079	4,070	7,732	15,092	30,973
Other operating expenses	14,812	19,107	16,217	72,679	122,815
Income tax expense	—	—	1,213	887	2,100
Income (loss) from continuing operations	27,865	28,142	31,630	31,372	119,009
Income (loss) from discontinued operations	10,148	25,581	(2,386)	(11)	33,332
Preferred dividends	(1,395)	(1,395)	(1,395)	(1,395)	(5,580)
Net income attributable to noncontrolling interests	—	—	—	(928)	(928)
Income (loss) applicable to common stockholders	\$ 36,618	\$ 52,328	\$ 27,849	\$ 29,038	\$ 145,833
Net income (loss) per share of common stock					
Basic	\$ 0.16	\$ 0.20	\$ 0.09	\$ 0.09	\$ 0.53
Diluted	\$ 0.15	\$ 0.20	\$ 0.09	\$ 0.09	\$ 0.51
Income (loss) from discontinued operations per share of common stock					
Basic	\$ 0.04	\$ 0.10	\$ (0.01)	\$ —	\$ 0.12
Diluted	\$ 0.04	\$ 0.10	\$ (0.01)	\$ —	\$ 0.11
Weighted average number of shares of common stock outstanding					
Basic	235,137	259,228	293,374	318,687	276,881
Diluted	240,079	265,396	301,028	325,601	283,310

2012

	Quarter Ended				Year Ended
	March 31 (A)	June 30 (A)	September 30 (A)	December 31	December 31
Interest income	\$ 72,862	\$ 77,956	\$ 72,947	\$ 59,186	\$ 282,951
Interest expense	30,165	29,462	28,411	21,886	109,924
Net interest income (expense)	42,697	48,494	44,536	37,300	173,027
Impairment	(7,080)	8,499	5,014	(12,097)	(5,664)
Other revenues	509	515	8,071	10,980	20,075
Other income (loss) (B)	28,536	(4,882)	234,008	4,632	262,294
Property operating expenses	225	232	5,043	7,443	12,943
Depreciation and amortization	2	2	2,385	4,586	6,975
Other operating expenses	8,237	11,575	11,926	14,462	46,200
Income (loss) from continuing operations	70,358	23,819	262,247	38,518	394,942
Income (loss) from discontinued operations	3,113	6,620	10,974	18,461	39,168
Preferred dividends	(1,395)	(1,395)	(1,395)	(1,395)	(5,580)
Income (loss) applicable to common stockholders	\$ 72,076	\$ 29,044	\$ 271,826	\$ 55,584	\$ 428,530
Net income (loss) per share of common stock					
Basic	\$ 0.68	\$ 0.21	\$ 1.65	\$ 0.32	\$ 2.97
Diluted	\$ 0.68	\$ 0.21	\$ 1.63	\$ 0.32	\$ 2.94
Income (loss) from discontinued operations per share of common stock					
Basic	\$ 0.03	\$ 0.05	\$ 0.07	\$ 0.11	\$ 0.27
Diluted	\$ 0.03	\$ 0.05	\$ 0.07	\$ 0.11	\$ 0.27
Weighted average number of shares of common stock outstanding					
Basic	105,181	134,115	164,238	172,519	144,146
Diluted	105,670	135,173	166,429	175,413	145,766

(A) The Income Available for Common Stockholders shown agrees with Newcastle's quarterly report(s) on Form 10-Q as filed with the Securities and Exchange Commission. However, individual line items may vary from such report(s) due to the operations of properties sold, or classified as held for sale, during subsequent periods being retroactively reclassified to Income for Discontinued Operations for all periods presented (Note 8).

(B) Including equity in earnings of unconsolidated subsidiaries.

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22. UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information was derived from the application of pro forma adjustments to the consolidated financial statements of Newcastle. The unaudited pro forma condensed consolidated statement of income and unaudited pro forma condensed consolidated balance sheet should be read in conjunction with the other information contained in these financial statements and related notes and with Newcastle's historical consolidated financial statements.

The unaudited pro forma information set forth below reflects the historical information of Newcastle, as adjusted to give effect to the following transactions:

- The spin-off of New Residential from Newcastle in May 2013,
- The acquisition of the Holiday Portfolio in December 2013,
- The 17-year triple net master leases related to the Holiday Portfolio, and
- The spin-off of New Media from Newcastle in February 2014.

The unaudited pro forma condensed consolidated statement of income gives effect to the above transactions as if they had occurred on January 1, 2013. The unaudited pro forma condensed consolidated balance sheet assumes that the Media spin-off occurred on December 31, 2013.

In the opinion of management, all adjustments necessary to reflect the effects of the transactions described above have been included and are based upon available information and assumptions that Newcastle believes are reasonable.

Further, the historical financial information presented herein has been adjusted to give pro forma effect to events that Newcastle believes are factually supportable and which are expected to have a continuing impact on Newcastle's results. However, such adjustments are estimates and may not prove to be accurate. Information regarding these adjustments is subject to risks and uncertainties that could cause actual results to differ materially from those anticipated.

These unaudited pro forma condensed consolidated financial statements are provided for information purposes only. The unaudited pro forma condensed consolidated statement of income does not purport to represent what Newcastle's results of operations would have been had such transactions been consummated on the date indicated, nor does it represent the results of operations of either Newcastle, New Residential or New Media for any future date or period.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

At December 31, 2013

	Newcastle Consolidated Historical (A)	Pro Forma Adjustments Media Spin-off (B)	Newcastle Consolidated Pro Forma
Assets			
Real estate securities, available-for-sale	\$ 984,263	—	\$ 984,263
Real estate related and other loans, held-for-sale, net	437,530	—	437,530
Residential mortgage loans, held-for-investment, net	255,450	—	255,450
Residential mortgage loans, held-for-sale, net	2,185	—	2,185
Subprime mortgage loans subject to call option	406,217	—	406,217
Investments in senior housing real estate, net of accumulated depreciation	1,362,900	—	1,362,900
Investments in other real estate, net of accumulated depreciation	266,170	—	266,170
Property, plant and equipment, net of accumulated depreciation	270,188	(270,188)	—
Intangibles, net of accumulated amortization	345,125	(145,401)	199,724
Goodwill	126,686	(126,686)	—
Other investments	25,468	—	25,468
Cash and cash equivalents	105,944	(31,811)	74,133
Restricted cash	12,366	(6,477)	5,889
Receivables and other assets	252,071	(110,183)	141,888
	—	—	—
Total Assets	\$ 4,852,563	\$ (690,746)	\$ 4,161,817
Liabilities and Equity			
Liabilities			
CDO bonds payable	\$ 544,525	\$ —	\$ 544,525
Other bonds and notes payable	230,279	—	230,279
Repurchase agreements	556,347	—	556,347
Mortgage notes payable	1,076,828	—	1,076,828
Credit facilities, media and golf	334,514	(182,016)	152,498
Financing of subprime mortgage loans subject to call option	406,217	—	406,217
Junior subordinated notes payable	51,237	—	51,237
Dividends payable	36,075	—	36,075
Accounts payable, accrued expenses and other liabilities	390,417	(113,164)	277,253
Total Liabilities	\$ 3,626,439	\$ (295,180)	\$ 3,331,259
Equity			
Preferred stock	\$ 61,583	\$ —	\$ 61,583
Common stock	3,515	—	3,515
Additional paid-in capital	2,970,786	(334,653)	2,636,133
Accumulated deficit	(1,947,913)	—	(1,947,913)
Accumulated other comprehensive income	76,874	—	76,874
Noncontrolling interests	61,279	(60,913)	366
Total Equity	\$ 1,226,124	\$ (395,566)	\$ 830,558
Total Liabilities and Equity	\$ 4,852,563	\$ (690,746)	\$ 4,161,817

(A) Represents Newcastle's historical consolidated balance sheet at December 31, 2013.

(B) Represents New Media's historical consolidated balance sheet at December 31, 2013.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
Year ended December 31, 2013

	Pro Forma Adjustments				Newcastle Consolidated Pro Forma
	Newcastle Consolidated Historical (A)	New Residential Spin-off (B)	Holiday Portfolio Acquisition	Media Spin-off (C)	
Interest income	\$ 213,715	\$ (12,019)	\$ —	\$ (8,399)	193,297
Interest expense	90,973	(2,152)	33,844(D)	(1,591)	121,074
Net interest income	122,742	(9,867)	(33,844)	(6,808)	72,223
Impairment (Reversal)					
Valuation allowance (reversal) on loans	(25,035)	—	—	12,027	(13,008)
Other-than-temporary impairment on securities	5,222	(3,756)	—	—	1,466
Impairment of long-lived assets	—	—	—	—	—
Portion of other-than-temporary impairment on securities recognized in other comprehensive income (loss), net of the reversal of other comprehensive loss into net income (loss)	44	—	—	—	44
	(19,769)	(3,756)	—	12,027	(11,498)
Net interest income (loss) after impairment/reversal	142,511	(6,111)	(33,844)	(18,835)	83,721
Other Revenues					
Rental income	74,936	—	87,625(E)	—	162,561
Care and ancillary income - senior housing	12,387	—	—	—	12,387
Advertising income - media	38,757	—	—	(38,757)	—
Circulation income - media	16,649	—	—	(16,649)	—
Commercial printing and other income - media	6,231	—	—	(6,231)	—
Total other revenues	148,960	—	87,625	(61,637)	174,948
Other Income (Loss)					
Gain (loss) on settlement of investments, net	17,369	(58)	—	(7,216)	10,095
Gain on extinguishment of debt	4,565	—	—	—	4,565
Equity in earnings of Local Media Group	1,870	—	—	(1,870)	—
Other income (loss), net	13,340	—	—	(1,514)	11,826
	37,144	(58)	—	(10,600)	26,486
Expenses					
Loan and security servicing expense	3,857	(108)	—	—	3,749
Property operating expenses	53,718	—	—	—	53,718
Media operating expenses	49,092	—	—	(49,092)	—
General and administrative expense	36,775	(38)	—	(1,579)	35,158
Management fee to affiliate	33,091	(4,134)	4,038(F)	—	32,995
Depreciation and amortization	30,973	—	48,264(G)	(3,845)	75,392
	207,506	(4,280)	52,302	(54,516)	201,012
Income (loss) from continuing operations before income tax	121,109	(1,889)	1,479	(36,556)	84,143
Income tax expense	2,100	—	—	(1,062)	1,038
Income from continuing operations	119,009	(1,889)	1,479	(35,494)	83,105
Income from discontinued operations	33,332	—	—	—	33,332
Net income	152,341	(1,889)	1,479	(35,494)	116,437
Preferred dividends	(5,580)	—	—	—	(5,580)
Net income attributable to noncontrolling interests	(928)	—	—	928	—
Income (loss) applicable to common stockholders	\$ 145,833	\$ (1,889)	\$ 1,479	\$ (34,566)	\$ 110,857
Income (loss) from continuing operations per share of common stock, after preferred dividends and noncontrolling interest					
Basic	0.41				0.24(H)
Diluted	0.40				0.23(H)
Weighted Average Number of Shares of Common Stock Outstanding					
Basic	276,881,294				328,481,457(H)
Diluted	283,309,645				334,909,808(H)

See notes on next page.

- (A) Represents Newcastle's historical consolidated statement of income for the year ended December 31, 2013, excluding discontinued operations.
- (B) Represents the portion of New Residential's historical consolidated statement of income for the period from January 1, 2013 to May 15, 2013 that is not included in Newcastle's income (loss) from discontinued income. After the May 15, 2013 spin-off of New Residential from Newcastle, no results of New Residential have been reported in Newcastle's consolidated statement of income.
- (C) Represents the portion of New Media's historical consolidated statement of income for the year ended December 31, 2013, the impact of the GateHouse debt held by Newcastle through the November 26, 2013 restructuring and the equity method investment income recorded for the investment in Local Media Group for the period from September 3, 2013 until November 26, 2013.
- (D) Represents the estimated interest expense on the loan related to the acquisition of the Holiday Portfolio including the estimated amortization of deferred financing costs.
- (E) Represents the estimated rental income from the independent senior housing properties acquired under a triple net lease agreement for the year ended December 31, 2013.
- (F) Represents the estimated management fees for the year ended December 31, 2013 that Newcastle would have paid Fortress Investment Group LLC as a result of the public offering of common stock in November 2013.
- (G) Represents the estimated depreciation expense for the year ended December 31, 2013 based on the carrying value of the assets acquired and their estimated useful life.
- (H) Weighted average number of shares of common stock outstanding and income from continuing operations per share of common stock, after preferred dividends and noncontrolling interest, were adjusted retrospectively to reflect the issuance of 57,950,952 shares on November 22, 2013, the proceeds of which were used to fund a portion of the purchase price for the Holiday Portfolio. Weighted average number of shares of common stock outstanding and income from continuing operations per share of common stock, after preferred dividends and noncontrolling interest were not adjusted to include potential additional diluted shares as a result of the changes to outstanding Newcastle options from the spin-offs. The number of additional diluted shares will depend on various factors, including the share prices of Newcastle, New Residential and New Media subsequent to the spin-offs.
- (I) The effect of the Holiday Portfolio acquisition on 2012 revenue if Newcastle had consummated the acquisition as of January 1, 2012 would have been \$89.3 million. The effect of this acquisition on income from continuing operations would have been \$0.1 million.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

- a) **Disclosure Controls and Procedures.** The Company's management, with the participation of the Company's Chief Executive Officer and Interim Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, the Company's Chief Executive Officer and Interim Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.
- b) **Changes in Internal Control Over Financial Reporting.** Except for the changes noted below, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company is currently engaged in refining and harmonizing the internal controls and processes relating to the following acquisitions with the Company's internal controls and processes: (i) 21 senior housing properties acquired in seven different portfolios from July 2013 to December 2013; (ii) New Media beginning on November 26, 2013 and (iii) the December 30, 2013 acquisition of the golf business. The results of these acquisitions since their respective acquisition dates are included in the December 31, 2013 consolidated financial statements of the Company and constituted approximately 30 percent and 42 percent of total assets and net assets, respectively as of December 31, 2013, and approximately 25 percent of revenue for the year then ended. Internal control over financial reporting of the acquired businesses has been excluded from the Company's annual assessment of the effectiveness of the Company's internal control over financial reporting in accordance with the general guidance issued by the SEC that an assessment of a recent business combination may be omitted from management's report on internal control over financial reporting in the year of consolidation.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the *1992 Internal Control-Integrated Framework*. As noted above, the Company has excluded from its assessment the internal control over financial reporting of recently acquired businesses in accordance with the general guidance issued by the Securities and Exchange Commission that an assessment of a recent business combination may be omitted from management's report on internal control over financial reporting in the year of consolidation. See Note 3 to the Company's consolidated financial statements included in this Form 10-K.

Based on our assessment, management concluded that, as of December 31, 2013, the Company's internal control over financial reporting was effective.

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears at the beginning of "Financial Statements and Supplementary Data."

Item 9B. Other Information.

On February 28, 2014, Justine Cheng was appointed Chief Financial Officer, Treasurer and Chief Operating Officer of Newcastle, effective as of March 4, 2014. Ms. Cheng, 38, joins Newcastle with over 15 years of finance and banking experience. Ms. Cheng serves as a Managing Director in Fortress's Private Equity group, where she has been responsible for various financial services, infrastructure and lodging, and leisure & gaming investments. Prior to joining Fortress 10 years ago, Ms. Cheng held various investment banking and private equity roles at UBS, Credit Suisse and Donaldson Lufkin & Jenrette. Ms. Cheng received a BA in Economics and a Masters in International and Public Affairs from Columbia University.

Effective as of March 4, 2014, Jonathan Brown will resign as Interim Chief Financial Officer and Treasurer. Mr. Brown will continue to serve as Principal Accounting Officer of Newcastle. Also effective as of March 4, 2014, Jonathan Ashley will resign as Chief Operating Officer.

Newcastle's officers are appointed annually by the Board of Directors. There is no arrangement or understanding between Ms. Cheng and any other person pursuant to which she was appointed as an officer of Newcastle. There are also no family relationships between Ms. Cheng and any director or executive officer of Newcastle.

Newcastle's officers are not employees of Newcastle and do not receive direct cash compensation for services rendered to Newcastle. Rather, they are employees of Newcastle Manager and are compensated by the Manager for their services to Newcastle as well as other entities affiliated with the Manager. The Manager has informed Newcastle that, because the services performed by the individuals who serve as officers of Newcastle are not performed exclusively for Newcastle, the Manager cannot segregate and identify that portion of compensation awarded to, earned by or paid to Newcastle's officers, including Ms. Cheng, that relates solely to her service to Newcastle. Outside of the fees and compensation paid to the Manager by Newcastle, Ms. Cheng does not have any direct or indirect material interests in any transaction with Newcastle or in any currently proposed transaction to which Newcastle is a party.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference to our definitive proxy statement for the 2014 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2013.

Item 11. Executive Compensation.

Incorporated by reference to our definitive proxy statement for the 2014 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2013.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Incorporated by reference to our definitive proxy statement for the 2014 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2013.

Item 13. Certain Relationships and Related Transactions, Director Independence.

Incorporated by reference to our definitive proxy statement for the 2014 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2013.

Item 14. Principal Accounting Fees and Services.

Incorporated by reference to our definitive proxy statement for the 2014 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2013.

PART IV

Item 15. Exhibits; Financial Statement Schedules.

- (a) and (c) Financial statements and schedules:
See "Financial Statements and Supplementary Data."
- (b) Exhibits filed with this Form 10-K:
- 2.1 Separation and Distribution Agreement dated April 26, 2013, between New Residential Investment Corp. and the Registrant (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 2.1), filed on May 3, 2013.
 - 3.1 Articles of Amendment and Restatement (incorporated by reference to the Registrant's Registration Statement on Form S-11 (File No. 333-90578), Exhibit 3.1).
 - 3.2 Articles Supplementary relating to the Series B Preferred Stock (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2003, Exhibit 3.3).
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 - 10.4 Exchange Agreement, dated as of January 29, 2010, by and among Newcastle Investment Corp., Taberna Capital Management, LLC, Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd. And Taberna Preferred Funding VII, Ltd. (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on February 2, 2010).

- 10.5 Master Designation Agreement, dated as of July 17, 2012, among B Healthcare Properties LLC and the designees listed on the signature pages attached thereto (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on July 23, 2012).
- 10.6 Amended and Restated Purchase Agreement, dated as of February 27, 2012, by and among the Purchasers named therein, the Sellers named therein, the Former Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.2, filed on July 23, 2012).
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- 10.9 Amendment No. 3 to the Amended and Restated Purchase Agreement, dated as of April 27, 2012, among the Purchasers named therein, the Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.5, filed on July 23, 2012).
- 10.10 Amendment No. 4 to the Amended and Restated Purchase Agreement, dated as of June 14, 2012, among the Purchasers named therein, the Sellers named therein and Walter C. Bowen (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.6, filed on July 23, 2012).
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- 10.12 Master Credit Facility Agreement, dated as of July 18, 2012, by and among the Borrowers named therein, Propco LLC, TRS LLC and Oak Grove Commercial Mortgage, LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.8, filed on July 23, 2012).
- 10.13 Assignment of Master Credit Facility Agreement and Other Loan Documents, dated as of July 18, 2012, from Oak Grove Commercial Mortgage, LLC to Fannie Mae (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.9, filed on July 23, 2012).
- 10.14 Management Agreement, dated as of July 5, 2012, between Willow Park Management LLC and Willow Park Leasing LLC (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.10, filed on July 23, 2012).
- 10.15 Sale and Cooperation Agreement, dated September 7, 2012, among Newcastle Investment Corp., Barclays Bank PLC and ED LIMITED (incorporated by reference to the Registrant's Report on Form 10-Q, Exhibit 10.33, filed on October 26, 2012).
- 10.16 Purchase and Sale Agreement, dated November 18, 2013, by and between the Sellers named therein and the Purchasers named therein.
- 10.17 Master Lease, dated December 23, 2013, by and among the Landlords named therein and NCT Master Tenant I LLC.
- 10.18 Guaranty of Lease, dated December 23, 2013, by Holiday AL Holdings LP in favor of the Landlords named therein.
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- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Ernst & Young LLP, independent registered public accounting firm.
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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.
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101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
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101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

*XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

The following management agreements are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K, as discussed in Item 1.01 on Form 8-K filed on July 23, 2012:

Management Agreement, dated as of July 5, 2012, between Sun Oak Management LLC and Sun Oak Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Orchard Park Management LLC and Orchard Park Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Desert Flower Management LLC and Desert Flower Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Canyon Creek Property Management LLC and Canyon Creek Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Regent Court Management LLC and Regent Court Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Sunshine Villa Management LLC and Sunshine Villa Leasing LLC.

Management Agreement, dated as of July 5, 2012, between Sheldon Park Management LLC and Sheldon Park Leasing LLC.

In addition, the following Master Lease and Guaranty of Lease are substantially identical in all material respects, except as to the parties thereto, to the Master Lease and Guaranty of Lease that are filed as Exhibits 10.17 and 10.18, respectively, hereto and are being omitted in reliance on Instruction 2 to Item 601 of Regulation S-K:

- Master Lease, dated December 23, 2013, by and among the Landlords named therein and NCT Master Tenant II LLC.
- Guaranty of Lease, dated December 23, 2013, by Holiday AL Holdings LP in favor of the Landlords named therein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

NEWCASTLE INVESTMENT CORP.

By: /s/ Wesley R. Edens

Wesley R. Edens
Chairman of the Board

March 3, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following person on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Wesley R. Edens

Wesley R. Edens
Chairman of the Board

March 3, 2014

By: /s/ Kenneth M. Riis

Kenneth M. Riis
Director and Chief Executive Officer

March 3, 2014

By: /s/ Jonathan R. Brown

Jonathan R. Brown
Interim Chief Financial Officer and Principal Accounting Officer

March 3, 2014

By: /s/ Kevin J. Finnerty

Kevin J. Finnerty
Director

March 3, 2014

By: /s/ Stuart A. McFarland

Stuart A. McFarland
Director

March 3, 2014

By: /s/ David K. McKown

David K. McKown
Director

March 3, 2014

By: /s/ Alan L. Tyson

Alan L. Tyson
Director

March 3, 2014

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Annual Report on Form 10-K and the Company's other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>. See "Business – Corporate Governance and Internet Address; Where Readers Can Find Additional Information."

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

Exhibit Index

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PURCHASE AGREEMENT

BY AND BETWEEN

THE ENTITY SET FORTH UNDER THE HEADING "PURCHASER"
ON THE SIGNATURE PAGES HERETO

AND

EACH OF THE ENTITIES SET FORTH UNDER THE HEADING "SELLERS"
ON THE SIGNATURE PAGES HERETO

November 18, 2013

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INDEX OF DEFINED TERMS

As used herein the following terms shall have the meanings indicated below:

“Affiliate” shall mean, as applied to any Person, any other Person directly or indirectly controlling, controlled by or under common control with or by such Person. For purposes of this definition, “control” (including the terms “controlling,” “controlled by” and “under common control with”) will mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities or by contract or otherwise.

“Agreement” shall have the meaning set forth in the preamble.

“Ancillary Assets” shall have the meaning set forth in Section 1.1(b).

“Applicable Laws” shall mean all statutes, laws, ordinances, rules, regulations, requirements, judgments, orders and decrees of any Governmental Authority applicable to Sellers, Purchaser, and/or the Assets, including applicable zoning, building, safety and environmental laws, ordinances and codes and other federal, state and municipal requirements.

“Approvals” shall mean (i) all waivers, permits, consents, approvals or other authorizations from Governmental Authorities or third parties including joint venture partners, and (ii) all registrations, filings and notices with or to Governmental Authorities or third parties, in each case, as are required for Sellers to consummate the transactions contemplated by this Agreement.

“Assets” shall have the meaning set forth in Section 1.1(a).

“Assigned Records” shall have the meaning set forth in Section 1.1(a)(v).

“Assumed Liabilities” shall have the meaning set forth in Section 1.6.

“Books and Records” shall have the meaning set forth in Section 1.1(a)(vi).

“Break Up Fee” shall mean Ten Million Dollars (\$10,000,000).

“Business” shall have the meaning set forth in the recitals.

“Business Day” shall mean any day other than a Saturday, Sunday or any other day on which banks are authorized to be closed in the State of New York. Time is of the essence with respect to all terms, provisions, covenants and conditions contained in this Agreement.

“Casualty Event” shall mean damage or loss to or destruction by fire or other casualty of any one or more of the Facilities, the costs of repair for which are reasonably estimated to exceed Ten Million Dollars (\$10,000,000) in the aggregate.

“Closing” shall have the meaning set forth in Section 1.2.

“Closing Date” shall have the meaning set forth in Section 1.2.

“Closing Statement” shall have the meaning set forth in Section 9.2(a)(ix).

“Code” shall mean the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

“Common Products” shall have the meaning set forth in Section 2.11(b).

“Confidential Information” shall mean all non-public, proprietary or confidential information that any Party obtains from the other in connection with, or pursuant to, this Agreement.

“Contracts” shall have the meaning set forth in Section 1.1(b)(vi).

“Copied Records” shall have the meaning set forth in Section 1.1(a)(vi).

“Data Site” shall mean the data site created by Sellers at <http://holidayretirement.firmex> containing information related to the Assets.

“Disclosure Schedules” shall have the meaning set forth in Article II.

“Effective Date” shall have the meaning set forth in the preamble.

“Environmental Laws” shall have the meaning set forth in Section 2.11.

“Excluded Assets” shall have the meaning set forth in Section 1.1(b).

“Excluded Documents” shall have the meaning set forth in Section 1.1(b)(iii).

“Excluded Liabilities” shall have the meaning set forth in Section 1.7.

“Facility” or “Facilities” shall have the meaning set forth in the recitals.

“Facility Balance Sheets and Income Statements” shall have the meaning set forth in Section 2.5.

“Facility Material Adverse Effect” shall mean, with respect to any Facility, any event, occurrence, change or effect that is, or is reasonably likely in the future to be, individually or in the aggregate materially adverse to the business, operations, results of operations, condition (financial or otherwise), properties (including intangible properties), rights, obligations or assets of such Facility; provided, however, that a Facility Material Adverse Effect shall not include any event, change or effect arising out of or relating to (i) general political, economic or financial market conditions (or changes in such conditions), (ii) changes generally affecting the industries in which such Facility operates, (iii) any change in Applicable Law or interpretations thereof by a Governmental Authority thereof or any change in GAAP or other accounting principles or requirements, (iv) any natural disaster, epidemic, acts of terrorism, sabotage or war, including any escalation or general worsening of any such events, changes or events, (v) the execution, delivery or announcement of this Agreement if done in accordance with the terms of this Agreement (including as to the identity of the Purchaser) or the pendency or consummation of the transactions contemplated hereunder, including any losses or threatened losses of employees, customers, suppliers, distributors or others having relationships with the Sellers and their

Affiliates, (vi) any failure to meet any internal or published projections, forecasts or revenue or earnings predictions for any period ending on or after the Effective Date, (vii) compliance with the terms of, or the taking of any action permitted or required by, this Agreement or with the prior written consent or at the direction of the Purchaser (or any action not taken as a result of a failure of the Purchaser to consent to an action otherwise requiring the Purchaser's consent) or (viii) any of the items listed in the Disclosure Schedules.

“Financial Statements” shall have the meaning set forth in Section 1.1(a)(vi).

“Governmental Authority” shall mean any court, board, agency, commission, office or authority of any nature whatsoever for any governmental unit (federal, state, county, district, municipal, city, foreign or otherwise) whether now or hereafter in existence having jurisdiction over any Seller, any of the Assets, or Purchaser, as applicable.

“Hazardous Substance” shall have the meaning set forth in Section 2.11.

“Immaterial Taking” shall mean any condemnation or taking by any Governmental Authority with respect to one or more Facilities other than a condemnation or taking which renders such Facility or Facilities less than a functional structure in all material respects within which to continue to operate the Business thereon and the portion of the Purchase Price allocated to such Facility or Facilities pursuant to Section 1.7 of this Agreement is in excess of Ten Million Dollars (\$10,000,000).

“Improvements” shall mean, collectively, the Seller Improvements.

“Indebtedness” means, for any Person, without duplication: (a) all indebtedness of such Person for borrowed money (including the principal amount thereof, any accrued interest thereon and any prepayment premiums or termination fees with respect thereto), for amounts drawn under a letter of credit, or for the deferred purchase price of property for which such Person is liable, (b) all unfunded amounts under a loan agreement, letter of credit (unless secured in full by cash), or other credit facility for which such Person would be liable or subject, if such amounts were advanced under the credit facility, (c) any indebtedness arising under any capital lease, conditional sales contract and other similar title retention instrument, whether short term or long term, (d) all liabilities, including judgments, secured by any Liens on any of the Assets, (e) all liabilities under any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement or other similar agreement designed to protect the Seller against fluctuations in interest rates, (f) any indebtedness evidenced by any note, bond, debenture mortgage or other debt instrument or debt security, (g) all interest, fees and other expenses owed with respect to indebtedness described in the foregoing clauses (a) through (f), and (h) all indebtedness referred to in the foregoing clauses (a) through (g) which is directly or indirectly guaranteed by any Seller or that is secured by the Assets.

“Inspection Period” means the period beginning on the Effective Date and ending at 6:00 p.m. ET on the seven (7) day anniversary of the Effective Date.

“Indemnified Party” shall have the meaning set forth in Section 7.3(b).

“Indemnifying Party” shall have the meaning set forth in Section 7.3(b).

“Initial Surveys” shall have the meaning set forth in Section 4.4(a).

“Initial Title Commitments” shall have the meaning set forth in Section 4.4(a).

“Inventory” shall have the meaning set forth in Section 1.1(b)(x).

“Land” shall mean, collectively, the Seller Land.

“Leases” shall have the meaning set forth in Section 1.1(b)(v).

“Leasehold Interests” (i) the right, title and interest of Santa Clara Retirement Residence Limited Partnership under (a) that certain Ground Lease, dated August 19, 1988, between Masonic Hall Corporation of Santa Clara, as lessor, and Santa Clara Retirement Residence Limited Partnership (as successor by assignment to Matrix Properties, Inc.), as lessee (as amended, modified, assigned and supplemented from time to time) (as further amended, modified, assigned and supplemented from time to time) and (b) that certain Premises Lease, dated August 19, 1988 between Santa Clara Retirement Residence Limited Partnership, as lessor and Masonic Hall Corporation of Santa Clara, as lessee (as amended, modified, assigned and supplemented from time to time) and (ii) the right, title and interest of Rock Hill Land Limited Partnership under that certain Ground Lease, dated February 26, 1999, between LM Rocky Hill Land Holding Limited Partnership, as lessor, and Rock Hill Land Limited Partnership, as lessee, as amended by that certain Amendment to Ground Lease, dated June 30, 2003 (as further amended, modified, assigned and supplemented from time to time).

“Legal Proceedings” shall have the meaning set forth in Section 2.12.

“License” or “Licenses” shall have the meaning set forth in Section 2.3.

“Lien” shall mean any lien, claim, charge, encumbrance, security interest, mortgage, pledge, easement, or conditional sale or other title retention contract.

“Manager” shall mean Harvest Management Sub LLC.

“Master Lease” shall have the meaning set forth in Section 9.2(a)(xii).

“Master Tenant” shall have the meaning set forth in Section 9.2(a)(xii).

“Monetary Lien Condition” shall mean the removal of any and all Liens securing the Outstanding Debt.

“New Manager” shall mean Holiday AL Management Sub LLC.

“New Title Matter” shall have the meaning set forth in Section 4.4(b).

“OFAC” shall have the meaning set forth in Section 2.17.

“Other Property” shall have the meaning set forth in Section 1.1(a)(iii).

“Outside Date” shall mean December 31, 2013.

“Outdated Initial Surveys” shall have the meaning set forth in Section 4.4(b).

“Outstanding Debt” means indebtedness evidenced by the following agreement: Loan Agreement (as amended, restated, supplemented or modified from time to time), dated as of February 28, 2007, by and among the borrowers identified therein and Citigroup Global Markets Realty Corp., and Goldman Sachs Commercial Mortgage Capital, L.P., as succeeded by Fannie Mae, in the original principal amount of \$1,756,094,352.47.

“Party” or “Parties” shall have the meaning set forth in the preamble.

“Permitted Liens” shall have the meaning set forth in Section 4.4(b).

“Person” shall mean an individual, partnership, joint venture, corporation, trust, estate, association, Governmental Authority or other legal entity.

“Personal Property” shall have the meaning set forth in Section 1.1(a)(iv).

“Proprietary Software” shall have the meaning set forth in Section 1.1(b)(ix).

“Purchase Price” shall have the meaning set forth in Section 1.3.

“Purchaser” shall have the meaning set forth in the preamble.

“Purchaser Basket” shall have the meaning set forth in Section 7.2(b).

“Purchaser Certificate” shall have the meaning set forth in Section 9.2(b)(ii).

“Purchaser Documents” shall have the meaning set forth in Section 9.2(b).

“Purchaser Indemnified Losses” shall have the meaning set forth in Section 7.1(a).

“Purchaser Indemnified Parties” shall have the meaning set forth in Section 7.1(a).

“Purchaser Knowledge Individual” shall have the meaning set forth in Article III.

“Purchaser Material Adverse Effect” shall mean, with respect to the Purchaser, a material adverse effect on the ability of the Purchaser to timely perform its obligations hereunder or under any Purchaser Documents or to timely consummate the transactions contemplated by this Agreement.

“Purchaser Representative” shall have the meaning set forth in Section 4.3(b).

“Purchaser’s Expenses” shall mean all actual out-of-pocket costs and expenses incurred by the Purchaser in connection with the transactions contemplated by this Agreement, including, without limitation, due diligence expenses, legal expenses, and expenses in connection with preparations for Closing, but, excluding any hedging costs; provided however, Purchaser’s Expenses, for which the Sellers may have a reimbursement obligation hereunder, shall not include any underwriting fees, discounts, commissions or similar expenses incurred in connection with any equity offering or debt financing.

“Purchaser’s Knowledge” shall have the meaning set forth in Article III.

“Required Approvals” shall mean those Approvals listed on Schedule I.

“Reimbursement Cap” shall mean Seven Hundred and Fifty Thousand Dollars (\$750,000).

“Resident Records” shall have the meaning set forth in Section 1.1(b)(viii).

“Section 4.3 Indemnified Parties” shall have the meaning set forth in Section 4.3(b).

“Seller” or “Sellers” shall have the meaning set forth in the preamble.

“Seller Basket” shall have the meaning set forth in Section 7.1(b).

“Seller Certificate” shall have the meaning set forth in Section 9.2(a)(vii).

“Seller Documents” shall have the meaning set forth in Section 9.2(a).

“Seller Improvements” shall have the meaning set forth in Section 1.1(a)(i).

“Seller Indemnified Losses” shall have the meaning set forth in Section 7.2(a).

“Seller Indemnified Parties” shall have the meaning set forth in Section 7.2(a).

“Seller Knowledge Individuals” shall have the meaning set forth in Article II.

“Seller Land” shall have the meaning set forth in Section 1.1(a)(i).

“Seller Material Adverse Effect” shall mean any event, occurrence, change or effect that is, or is reasonably likely in the future to be, individually or in the aggregate materially adverse to the business, operations, results of operations, condition (financial or otherwise), properties (including intangible properties), rights, obligations or assets of the Facilities or the Business, in each case taken as a whole; provided, however, that a Seller Material Adverse Effect shall not include any event, change or effect arising out of or relating to (i) general political, economic or financial market conditions (or changes in such conditions), (ii) changes generally affecting the industries in which the Facilities operate, (iii) any change in Applicable Law or interpretations thereof by a Governmental Authority or any change in GAAP or other accounting principles or requirements, (iv) any natural disaster, epidemic, acts of terrorism, sabotage or war, including any escalation or general worsening of any such events, changes or events, (v) the execution, delivery or announcement of this Agreement if done in accordance with the terms of this Agreement (including as to the identity of the Purchaser) or the pendency or consummation of the transactions contemplated hereunder, including any losses or threatened losses of employees, customers, suppliers, distributors or others having relationships with the Sellers and their Affiliates, (vi) any failure to meet any internal or published projections, forecasts or revenue or earnings predictions for any period ending on or after the Effective Date, (vii) compliance with the terms of, or the taking of any action permitted or required by, this Agreement or with the prior written consent or at the direction of the Purchaser (or any action not taken as a result of a

failure of the Purchaser to consent to an action otherwise requiring the Purchaser's consent) or (viii) any of the items listed in the Disclosure Schedules.

“Seller Real Property” shall have the meaning set forth in Section 1.1(a)(ii).

“Seller Representations” shall have the meaning set forth in Article II.

“Seller Response Period” shall have the meaning set forth in Section 4.4(b).

“Sellers' Knowledge” shall have the meaning set forth in Article II.

“Survival Period” shall have the meaning set forth in Section 7.4(a).

“Surviving Obligations” shall mean those obligations which expressly survive termination of this Agreement or the Closing, as applicable.

“Title Company” shall have the meaning set forth in Section 4.4(a).

“Title Matters” shall have the meaning set forth in Section 4.4(b).

“Title Objection Notice” shall have the meaning set forth in Section 4.4(b).

“Title Objection Response Notice” shall have the meaning set forth in Section 4.4(b).

“Title Policy” or “Title Policies” shall have the meaning set forth in Section 4.4(c).

“Transfer Taxes” shall have the meaning set forth in Section 9.4(a).

“Unsatisfied Party” shall have the meaning set forth in Section 8.4.

“Updated Report” shall have the meaning set forth in Section 4.7.

“Work Product” shall have the meaning set forth in Section 1.1(a)(iii).

PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT (this "Agreement"), dated as of this 18th day of November, 2013 (the "Effective Date"), is made and entered into by and among the entity set forth under the heading "Purchaser" on the signature pages hereto (the "Purchaser"), each entity set forth under the heading "Seller" on the signature pages hereto (individually a "Seller" and, together, the "Sellers"). Each entity comprising the Sellers and the Purchaser is sometimes referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS

A. Each Seller is in the business (the "Business") of owning, operating and maintaining the senior living facility identified next to such Seller's name, on Schedule 2.9 (each such facility, a "Facility" and, collectively, the "Facilities").

B. The Purchaser desires to purchase and acquire from the Sellers, and the Sellers desire to sell and transfer to the Purchaser, all of the Assets (as defined herein), on the terms and conditions set forth in this Agreement.

Now, therefore, in consideration of the representations, warranties and covenants herein contained, the Parties agree as follows.

ARTICLE I

PURCHASE AND SALE

Section 1.1 Transfer.

(a) For the consideration hereinafter provided, in accordance with the terms and subject to the conditions in this Agreement, at the Closing the Sellers shall sell, convey, transfer and assign to the Purchaser, and the Purchaser shall purchase and acquire from the Sellers, free and clear of all Liens, other than Permitted Liens, the Sellers' right, title and interest in and to, the following (specifically excluding the Excluded Assets, hereinafter collectively referred to as the "Assets"):

(i) the land, as more particularly described in Exhibit A (collectively, the "Seller Land"), and all buildings, structures, fixtures, facilities, amenities, driveways, walkways, parking lots and other improvements located on the Seller Land (collectively, the "Seller Improvements");

(ii) all easements, rights-of-way, rights of ingress and egress, strips, zones, licenses, transferable hereditaments, privileges, tenements and appurtenances in any way belonging to or appertaining to the Seller Land or the Seller Improvements, and any right or interest in any open or proposed highways, streets, roads, avenues, alleys, easements, strips, gores and rights-of-way in, across, in front of, contiguous to, abutting or adjoining the Seller Land (collectively with the Seller Land and the Seller Improvements, the "Seller Real Property");

(iii) (A) to the extent any Seller's interest is assignable pursuant to Applicable Law and to the extent the Purchaser in its sole discretion elects to assume the same, all licenses, permits, approvals, entitlements, land use applications, land use permits and approvals, other operating permits and other governmental authorizations (including certificates of occupancy) issued by any Governmental Authority for the benefit of the Seller Real Property in connection with the ownership, operation, planning, development, use or maintenance of any Seller Real Property and the Business, as applicable, that an operator of a Facility would not be required to maintain in its own name but which may be held by the owner of the Seller Real Property separate and apart from those permits required to be maintained in the name of the operator of a Facility under Applicable Law, (B) all rights and work product under outstanding construction, service, consulting, engineering, architectural, design and construction agreements relating exclusively to the Seller Real Property (the "Work Product"), (C) to the extent assignable, all construction warranties, manufacturers' warranties and other warranties applicable to the Seller Real Property or the Business, and (D) all development rights related to any portion of any Seller Real Property (collectively, the "Other Property");

(iv) all furniture, appliances, equipment, fixtures, and other tangible personal property owned by the Sellers and which is used by the Sellers in connection with the Business (collectively, and together with the Inventory, the "Personal Property");

(v) except for the Excluded Documents, the following documents that relate exclusively to the Seller Real Property: (A) third party reports and studies (excluding appraisals), land surveys, structural reviews, environmental assessments or audits, architectural drawings and engineering, geophysical, soils, seismic, geologic, environmental (including with respect to the impact of materials used in the construction or renovation of the Improvements) and architectural reports, studies and certificates pertaining to the Seller Real Property, and (B) building designs ((A) and (B) collectively, the "Assigned Records");

(vi) copies of the following records (the parties agreeing that the originals and all other rights associated therewith shall be retained by the Sellers): (A) accounting records, including billing records and invoices, (B) regulatory surveys and reports and incident tracking reports and (C) all financial statements and other accounting, tax, financial and other books and records, in each case, relating exclusively to the use, maintenance and operation of the Seller Real Property and any Facility and/or the Business (collectively, the "Financial Statements"), but excluding any Excluded Documents (collectively, the "Copied Records," and, together with the Assigned Records, the "Books and Records"); and

(vii) the Leasehold Interests.

(b) Notwithstanding anything to the contrary contained herein, no Seller shall sell, assign, transfer, convey or deliver to the Purchaser, and the Purchaser shall not purchase, and the Assets shall not include any of the Sellers' right, title and interest in the following items (collectively, the "Excluded Assets");

- (i) any bank accounts, cash, cash equivalents, securities and accounts receivable, prepaid accounts, deposits and advance payments made by the Sellers and held by third parties with respect to any of the Assets or the Business, real estate tax, insurance, maintenance, replacement and other escrows, reserves and impounds held in connection with any loans and any causes of action (but only to the extent such causes of action relate to periods prior to the Closing);
- (ii) refunds, rebates and dividends paid in respect of insurance premiums paid by the Sellers relating to periods prior to the Closing Date, and refunds and additional recoveries by or payments to the Sellers from any Person for services, goods or supplies which were provided by such Person to the Sellers prior to the Closing Date;
- (iii) the following books and records: income tax returns and records, minute books and other books and records relating solely to the corporate or similar governance of each Seller as a legal entity (collectively, the "Excluded Documents");
- (iv) originals of the Copied Records;
- (v) all leases of all machinery, equipment and other tangible property leased to any Sellers which are used exclusively at the Seller Real Property and all leases of any portion of each Facility by any Sellers to any third party other than a resident (excluding the Leasehold Interests) (the "Leases");
- (vi) the agreements and contracts entered into in connection with the operation of each Facility by the Sellers, Manager or certain affiliates thereof, as applicable (the "Contracts");
- (vii) the residency agreements together with any leads regarding prospective residents;
- (viii) all records and reports relating to residents at the Facilities, (collectively, the "Resident Records");
- (ix) all licensed software and proprietary software (the "Proprietary Software") used in the operation of the Facilities;
- (x) all materials, supplies, inventory, consumables, perishable and nonperishable food products, and other similar tangible property used exclusively in connection with the Business and located on the Seller Real Property (collectively, the "Inventory");
- (xi) all motor vehicles used by the Sellers in connection with the Business; and
- (xii) the trademarks, trade names, service marks, web addresses and telephone numbers used in connection with the Assets.

Notwithstanding anything to the contrary contained in this Agreement, any correspondence and/or communications between counsel, on the one hand, and the Sellers whether or not covered by attorney-client privilege, and whether or not related to the transactions contemplated by this Agreement shall remain the property of the Sellers and the Sellers shall have no obligation to deliver the same to the Purchaser.

Purchaser and each Seller agree that, upon entry into the Master Lease, all property, assets, contracts and permits necessary for the operation of the Assets consistent with past practice that are owned or controlled by the Sellers immediately prior to the Closing, including, without limitation, the Contracts, the Leases and residency agreements (the "Ancillary Assets"), shall be leased, assigned, licensed or otherwise made available to Master Tenant pursuant to the terms of the Master Lease. In connection therewith, Purchaser hereby directs the Sellers to, upon the Closing, assign all Ancillary Assets owned or leased by Sellers after taking into account the transactions described herein, excluding the Work Product (which Work Product shall be licensed to the Master Tenant pursuant to the Master Lease), to Master Tenant, for and on behalf of Purchaser.

Section 1.2 Closing.

(a) Unless this Agreement shall have been terminated pursuant to Article X, the closing of the transactions contemplated herein (the "Closing") shall occur on December 20, 2013 or as soon as possible thereafter. The date on which the Closing occurs is hereinafter referred to as the "Closing Date". The Closing hereunder shall be deemed to be effective as of 11:59 p.m. (ET) on the Closing Date.

(b) If the Purchaser does not obtain equity or debt financing for the acquisition of the Assets on or prior to December 20, 2013, the Purchaser, at its option, may extend the Closing up to and including the Outside Date by delivering written notice thereof to the Sellers on or prior to such date, provided that, in no event may the Purchaser extend the Closing beyond the Outside Date (except as provided pursuant to Section 4.4(b)).

(c) If the Sellers do not satisfy the Monetary Lien Condition on or prior to December 20, 2013, the Sellers, at their option, may extend the Closing up to and including the Outside Date by delivering written notice thereof to the Purchaser on or prior to such date, provided that, in no event may the Sellers extend the Closing beyond the Outside Date (except as provided pursuant to Section 4.4(b)).

(d) Notwithstanding anything to the contrary contained herein, if the Purchaser elects to extend the date of Closing pursuant to Section 1.2(b), any closing condition that was satisfied as of December 20, 2013 shall be deemed satisfied as of the extended closing date (notwithstanding any change of circumstance that would result in the failure of such condition).

Section 1.3 Purchase Price. The aggregate purchase price for the Assets shall be One Billion Nine Million Dollars (\$1,009,000,000) (the "Purchase Price"), subject to the prorations and further adjustments as provided for in this Agreement.

Section 1.4 Reserved. Reserved.

Section 1.5 Payment of Purchase Price. At the Closing, the Purchaser shall pay to Sellers the Purchase Price adjusted for any credits and additions for the benefit of the Purchaser and/or the Sellers as specified in Article IX. The Purchase Price as adjusted per the foregoing sentence, shall be paid by wire transfer of immediately available federal funds to the Escrow Agent and such funds shall then be disbursed to or for the benefit of the Sellers in accordance with the Closing Statement.

Section 1.6 Assumed Liabilities. From and after the Closing, the Purchaser shall assume and thereafter pay, perform or otherwise discharge, as and when the same shall become due and payable, subject to the terms and conditions of the Master Lease, all liabilities and all obligations arising out of or related to periods from and after the Closing, or as otherwise expressly set forth herein, with respect to all of the Assets (the "Assumed Liabilities").

Section 1.7 Excluded Liabilities. "Excluded Liabilities" shall mean (i) any obligation or liability accruing, arising out of, or relating to acts or omissions of any Person in connection with the Assets, the Excluded Assets, the Facilities or the operation of the Business, in each case, prior to the Closing, (ii) any Indebtedness of any Seller, (iii) any obligation or liability accruing, arising out of, or relating to any of the Leases or Contracts for the period, in each case, prior to the Closing, (iv) any obligation or liability for any federal, state or local taxes, whether or not accrued, assessed or currently due and payable, related to the Assets, the Facilities or the Business for the period, in each case, prior to the Closing, (v) any civil or criminal obligation or liability accruing, arising out of, or relating to any acts or omissions of any Seller, any of their respective Affiliates or any of their respective directors, officers, employees and agents claims to violate any Applicable Laws, (vi) any obligation or liability accruing, arising out of, or relating to any federal, state or local investigations, claims or actions with respect to acts or omissions (or suspected or alleged acts or omissions) of any Seller, their respective Affiliates or any of their respective employees, agents, or vendors, (vii) any other obligation or liability, fixed or contingent, known or unknown, relating to or arising out of the ownership, operation or use of the Assets or the Facilities, or the operation of the Business, in each case, prior to Closing; and (viii) any liability or obligation of the Sellers or its affiliates that is not an Assumed Liability.

Section 1.8 Allocation of Purchase Price. Sellers and the Purchaser agree that the Purchase Price shall be allocated among the Assets at the Closing as provided and as described in the allocation statement attached hereto as Exhibit B, which Exhibit B shall show the aggregate amount of the Purchase Price being allocated to each Facility. Within forty five (45) days following the Closing Date (or such other time period as reasonably agreed by Purchaser and Sellers), the Parties will mutually agree on the amount of the Purchase Price allocated to the Personal Property. The Sellers shall timely and properly prepare, execute (with the Purchaser, as required), file and deliver all such documents, forms and other information as the Purchaser may reasonably request to prepare and determine such allocation. Each Party hereby covenants and agrees (i) to timely file all forms (including IRS Form 8594) and tax returns required to be filed in connection with such allocation and (ii) to take no position on any income tax return or form, before any governmental agency charged with the collection of any income tax, in any judicial proceeding or otherwise with any Governmental Authority that is any way inconsistent with the terms of this Section 1.7, unless otherwise required by Applicable Law.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE SELLERS

The disclosure schedules attached hereto (the "Disclosure Schedules") are arranged in sections and subsections corresponding to the numbered and lettered sections and subsections contained in this Agreement to which such sections and subsections of the Disclosure Schedules relate. Notwithstanding the foregoing, information disclosed in any section or subsection of the Disclosure Schedules shall be deemed to be disclosed with respect to all other sections or subsections of this Agreement. An exception to a representation or warranty in this Article II set forth in the Disclosure Schedules effectively modifies the corresponding representation or warranty in this Article II, notwithstanding whether such representation and warranty specifically references the Disclosure Schedules. Any fact or item disclosed in any section of the Disclosure Schedules shall not be deemed, solely by reason of such inclusion, to be material and shall not be employed as a point of reference in determining any standard of materiality under this Agreement. In connection with the remaking of representations and warranties as of the Closing (but not as to representations and warranties made as of the Effective Date), Sellers shall be permitted to update the Disclosure Schedules to accurately reflect the current state of matters as of the Closing.

Notwithstanding anything to the contrary contained herein, any reference in this Agreement to "Sellers' Knowledge," or words of similar import, shall be deemed to refer exclusively to the matters within the actual knowledge of Kai Hsiao, Scott Shanaberger and Christopher Bouchard ("Seller Knowledge Individuals"), which individuals are the individuals in the Sellers' organization who are most knowledgeable of the matters set forth herein. As regards any representations or warranties in this Agreement that are qualified to the extent of "Sellers' Knowledge", the Seller Knowledge Individuals shall have a duty of reasonable inquiry of the appropriate persons employed by the Manager into the matters which are the subject of such representations or warranties; provided that, in no event will the Seller Knowledge Individuals have any duty of reasonable inquiry with respect to persons employed at the Facility level.

The Purchaser acknowledges and agrees that neither the Sellers nor any of their representatives or agents have made, nor are they making, any representations or warranties whatsoever regarding the Assets or the subject matter of this Agreement, express or implied, except for the Seller Representations, and that the Purchaser is not relying, and has not relied, on any representations or warranties whatsoever regarding the Assets or the subject matter of this Agreement, express or implied, except for the representations and warranties in this Agreement or in the Seller Documents delivered to Purchaser at the Closing (collectively, the "Seller Representations").

Each Seller represents and warrants, as applicable, to the Purchaser, as of the Effective Date and as of the Closing Date (unless otherwise expressly provided), that except as set forth in the Disclosure Schedules:

Section 2.1 Organization and Qualification.

(a) (i) Each Seller is duly organized and validly existing and in good standing under the laws of the jurisdiction in which it is formed with all requisite power and authority to carry on its respective business as currently being conducted and to own or lease and operate the assets it owns or leases as and in the places now owned, leased or operated, respectively; and (ii) each Seller is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership, management or operation of the Facilities makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, has not resulted in, and would not be reasonably expected to result in, a Seller Material Adverse Effect.

Section 2.2 Authority; Binding Effect; Approvals; No Conflicts; Capitalization

(a) (i) Each Seller has, and at the Closing each Seller will have, the requisite limited liability company or limited partnership right, power and authority, as applicable, to execute, deliver and perform its obligations with respect to this Agreement and its Seller Documents and (ii) the execution, delivery, performance and consummation of this Agreement, the applicable Seller Documents and all of the transactions contemplated herein and therein have been duly authorized and approved by all necessary partnership or limited liability company action of each Seller, as applicable.

(b) This Agreement and each Seller Document, upon due execution and delivery by each Seller party thereto, will constitute the legal, valid, and binding obligation of such Seller, enforceable against such Seller in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by application of equitable principles.

(c) The execution, delivery and performance of this Agreement and the Seller Documents by each Seller party thereto does not and will not: (i) conflict with or result in any breach or violation of the provisions of, or constitute a default under the organizational documents of any Seller, (ii) subject to obtaining the Required Approvals, violate (or give rise to any right of termination, cancellation or acceleration under) any mortgage, deed of trust, license, permit, lease, indenture, contract, agreement, obligation, commitment, arrangement, understanding, instrument or other agreement or instrument, whether oral or written, to which any Seller is a party, or by which it or any of its assets are bound, or result in the termination of any such instrument or termination of any provisions in such instrument, in each case that would, individually or in the aggregate, have a Facility Material Adverse Effect; (iii) result in the creation or imposition of any Lien (other than Permitted Liens, and whether arising by contract or by operation of law) upon the Assets that would, individually or in the aggregate, have a Facility Material Adverse Effect; or (iv) violate any Applicable Law that would, individually or in the aggregate, have a Facility Material Adverse Effect.

Section 2.3 Permits; Licenses; Schedule 2.3 sets forth all material permits, licenses and other authorizations issued and required by any Governmental Authority in connection with the ownership or operation of any Facility as conducted by the Sellers in accordance with past practice (each a "License", collectively, the "Licenses"). Except as disclosed on Schedule 2.3,

each License is in good standing and the Sellers have not received written notice that the Sellers are in violation of any License or any restriction, rule or regulation affecting possession and use thereof that would, individually or in the aggregate, have a Facility Material Adverse Effect.

Section 2.4 Governmental Approvals. Except as set forth in Schedule 2.4, to Sellers' Knowledge (a) no Seller is required to submit any notice, report or other filing with any Governmental Authority in connection with its execution or delivery of this Agreement or any Seller Documents or the consummation of the transactions contemplated hereby, and (b) no consent, approval or authorization of any Governmental Authority is required to be obtained by any Seller in connection with the execution, delivery and performance of this Agreement.

Section 2.5 Financial Statements. The Sellers have provided the following financial statements with respect to each Facility in the Data Site at least five (5) days prior to the Effective Date: (i) balance sheets of each Facility as of December 31, 2011, December 31, 2012 and September 30, 2013, and (ii) income statements of each Facility for the twelve (12) month periods ended December 31, 2011 and December 31, 2012 and for the nine (9) month period ended September 30, 2013 ((i) and (ii) collectively, the "Facility Balance Sheets and Income Statements"). The Facility Balance Sheets and Income Statements are true, correct and complete in all material respects and present fairly the financial condition of each Facility as of their respective dates or for the periods indicated.

Section 2.6 Absence of Certain Changes, Events and Conditions. Since September 30, 2013, there has not been any event, occurrence or development that has had, or could reasonably be expected to have, individually or in the aggregate, a Seller Material Adverse Effect.

Section 2.7 Title to Personal Property. Seller has good and valid title to, or interest in, all of the Personal Property owned by the Sellers.

Section 2.8 Condition and Sufficiency of Assets. The Assets, when taken together with the Ancillary Assets, are sufficient for the continued conduct of the Business after the Closing in substantially the same manner as conducted prior to the Closing and constitute, when taken together with the Ancillary Assets, all of the rights, property and assets necessary to conduct the Business as currently conducted.

Section 2.9 Real Property. (a) Exhibit A sets forth the complete and accurate legal description of each parcel of Seller Real Property. Schedule 2.9 sets forth an accurate street address of each parcel of Seller Real Property. The Seller Real Property is all of the real property used in or necessary for the conduct of the Business as currently conducted. With respect to each parcel of the Sellers Real Property, the Sellers have good, valid and insurable fee simple title, free and clear of all Liens, except Permitted Liens.

(b) To Sellers' Knowledge, Sellers have not received any written notice of (i) violations that remain pending or unresolved of building codes and/or zoning ordinances or other governmental or regulatory laws affecting the Seller Real Property, (ii) existing, pending or threatened condemnation proceedings affecting the Seller Real Property, (iii) existing, pending or threatened zoning, building code or other moratorium proceedings, or similar matters, or (iv) any violation that remains pending or unresolved of any Applicable Law affecting the Seller Real

Property, in each case, which could reasonably be expected to have, individually or in the aggregate, a Facility Material Adverse Effect.

Section 2.10 Compliance with Laws. The Sellers have operated the Business and have maintained the Assets in compliance with all Applicable Laws in all material respects.

Section 2.11 Hazardous Substances. For purposes of this Agreement, "Environmental Laws" means the Resource Conservation and Recovery Act (RCRA), 42 U.S.C. Section 6901 et seq., the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601 et seq., the Clean Water Act, 33 U.S.C. Section 1251 et seq., the Toxic Substances Control Act, the Clean Air Act, 42 U.S.C. Section 7401 et seq., the Safe Drinking Water Act 42 U.S.C. Section 300(f) et seq. and all other applicable state, county, municipal, administrative or other environmental, hazardous waste or substance, ordinances, rules, regulations, judgments, and orders relating or pertaining to (A) the protection, preservation or reclamation of the environment or natural resources or (B) the management, release and threatened release of Hazardous Substances. For purposes of this Agreement, "Hazardous Substance" shall mean any and all substances, wastes, materials, pollutants, contaminants, compounds, chemicals or elements which are defined or classified as a "hazardous substance," "hazardous material," "toxic substance," "hazardous waste," "pollutant," "contaminant" or words of similar import under any Environmental Law, including all dibenzodioxins and dibenzofurans, polychlorinated biphenyls (PCBs), petroleum hydrocarbon, including crude oil or any derivative thereof, asbestos-containing materials in any form, and radon gas.

(a) Except as would not reasonably be expected to result in a Facility Material Adverse Effect or except as disclosed on Schedule 2.11(a) or in any Phase I environmental report made available to the Purchaser on the Data Site: (i) to Sellers' Knowledge the operations of Sellers with respect to the Facilities and the other Assets are and have been in compliance with all material applicable Environmental Laws; and (ii) the Sellers have not received from any Person, with respect to the Seller Real Property, any (A) written notice or claim alleging liability or a breach of any Environmental Laws or (B) written request for information pursuant to Environmental Law, which, in each case, either remains pending or unresolved, or is the source of ongoing obligations or requirements as of the Closing Date.

(b) Except as would not reasonably be expected to result in a Facility Material Adverse Effect or except as disclosed on Schedule 2.11(b) or in any Phase I environmental report made available to Purchaser on the Data Site, to Sellers' Knowledge, Sellers do not currently store or use any Hazardous Substances at any Seller Real Property, except for Hazardous Substances used in the ordinary course of business at any Facility, including cleaning fluids, insecticides, medicines and similar items (the "Common Products"), which Common Products have been used, transported, stored and disposed of by the Sellers in compliance, in all material respects, with all applicable Environmental Laws.

(c) Except as would not reasonably be expected to result in a Facility Material Adverse Effect or except as disclosed on Schedule 2.11(c) or in any Phase I environmental report made available to the Sellers on the Data Site, to Sellers' Knowledge none of the Seller Real Property is listed on, or has been proposed for listing on, the National Priorities List or the

CERCLIS pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601, et. seq. or any similar state list.

(d) Except as would not reasonably be expected to result in a Facility Material Adverse Effect or except as disclosed on Schedule 2.11(d) or in any Phase I environmental report made available to the Purchaser on the Data Site, to Sellers' Knowledge there has been no release of Hazardous Substances in contravention of Environmental Law with respect to the Seller Real Property, and the Sellers have not received any written notice of any such release which would reasonably be expected to result in a claim under Environmental Laws or a violation of Environmental Laws or a violation of the term of any License issued to Sellers pursuant to applicable Environmental Laws.

(e) The Sellers have, prior to the Effective Date, made available to the Purchaser on the Data Site for each Facility a copy of the most recent Phase I environmental reports, none of which are dated prior to the date which is six (6) months prior to the Effective Date, other than the report for the Westmont Facility, which is dated June 20, 2012 and for the Simi Hills Facility, which is dated June 20, 2012.

Section 2.12 No Litigation. As of the Effective Date, and except as set forth in Schedule 2.12, there are no actions, suits, claims, arbitrations, governmental investigations or other legal or administrative proceedings ("Legal Proceedings"), or any orders, decrees or judgments in progress or pending in any state or federal court, or any other local court or other tribunal, or, to Sellers' Knowledge, threatened against any Seller relating to the Assets or the Seller Real Property which could reasonably be expected to have a Seller Material Adverse Effect.

Section 2.13 Employees. None of the Sellers has any employees. Seller is not a party to any collective bargaining agreement, and no collective bargaining agreement is currently being negotiated by the Sellers. To the Sellers' Knowledge, no petitions for representation are currently filed against any Facility nor have any demands been made for recognition.

Section 2.14 ERISA. Seller does not hold any "plan assets" within the meaning of Section 3(42) of the Employee Retirement Income Security Act of 1974, as amended.

Section 2.15 Insurance. Schedule 2.15 contains a description of all insurance policies insuring the Facilities, as of the Effective Date. All such policies are in full force and effect, and to Sellers' Knowledge, have been issued by licensed insurers, all premiums with respect thereto covering all periods up to and including the Closing Date have been paid, and none of the Sellers has received written notice of cancellation or termination with respect to any such policies that remains pending or unresolved. The insurance policies described in Schedule 2.15 are not being assigned or transferred to the Purchaser.

Section 2.16 Brokers and Finders. Except as set forth in Schedule 2.16, no Seller has employed or engaged any investment banker, broker or finder in connection with the transactions contemplated by this Agreement who might be entitled to any fee or any commission in connection with or upon consummation of the Closing.

Section 2.17 OFAC. Neither the Sellers nor, to the Sellers' Knowledge, any of their respective direct equity owners nor their respective officers or directors, is a person or entity with whom U.S. persons or entities are restricted from doing business under regulations of the Office of Foreign Asset Control of the Department of the Treasury ("OFAC"), (including those named on OFAC's Specially Designated and Blocked Persons List) or under any similar statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism) or other similar governmental regulations.

THE PURCHASER HEREBY ACKNOWLEDGES AND AGREES THAT, EXCEPT WITH RESPECT TO THE SELLER REPRESENTATIONS, THE ASSETS ARE HEREBY SOLD, AND THE PURCHASER SHALL TAKE AND ACCEPT TITLE TO AND POSSESSION OF THE ASSETS ON THE CLOSING DATE, "AS IS, WHERE IS, WITH ALL FAULTS," WITH NO RIGHT OF SET-OFF, CONTRIBUTION, COST RECOVERY OR REDUCTION IN THE PURCHASE PRICE, AND THAT, EXCEPT FOR THE SELLER REPRESENTATIONS, SUCH SALE SHALL BE WITHOUT REPRESENTATION OR WARRANTY OF ANY KIND OR NATURE WHATSOEVER BY THE SELLERS, WHETHER EXPRESS, IMPLIED, STATUTORY, OR OTHERWISE, INCLUDING, WARRANTY OF INCOME POTENTIAL, OPERATING EXPENSES, USES, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND EACH SELLER DOES HEREBY DISCLAIM AND RENOUNCE ANY SUCH REPRESENTATION OR WARRANTY. THE PURCHASER SPECIFICALLY ACKNOWLEDGES THAT, EXCEPT FOR THE SELLER REPRESENTATIONS, THE PURCHASER IS NOT RELYING ON ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE WHATSOEVER, WHETHER ORAL OR WRITTEN, EXPRESS, IMPLIED, STATUTORY, OR OTHERWISE, FROM SELLER AS TO ANY MATTERS CONCERNING THE ASSETS. THE PURCHASER FURTHER ACKNOWLEDGES AND AGREES THAT (A) EXCEPT FOR THE SELLER REPRESENTATIONS, THE PURCHASER IS RELYING SOLELY UPON THEIR OWN INSPECTION OF THE ASSETS AND NOT UPON ANY REPRESENTATIONS OR WARRANTIES MADE TO THEM BY ANY PERSON WHOMSOEVER, (B) EXCEPT AS PROVIDED HEREIN, ANY REPORTS, REPAIRS, OR WORK REQUIRED BY THE PURCHASER OR PROVIDED BY THE SELLERS TO THE PURCHASER IN CONNECTION WITH THE TRANSACTION CONTEMPLATED BY THIS AGREEMENT ARE TO BE THE SOLE RESPONSIBILITY OF THE PURCHASER AND (C) EXCEPT AS PROVIDED HEREIN, THERE IS NO OBLIGATION ON THE PART OF THE SELLERS TO MAKE ANY CHANGES, ALTERATIONS, OR REPAIRS TO THE ASSETS.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser represents and warrants to the Sellers, as of the Effective Date, as follows:

Section 3.1 Organization; Etc. The Purchaser is (i) duly organized and validly existing and in good standing under the laws of the jurisdiction in which it is formed with all requisite power and authority to carry on its business as currently being conducted and to own or lease and operate the assets it owns or leases as and in the places now owned, leased or operated;

and (ii) the Purchaser is duly qualified or licensed to do business and is in good standing in the jurisdiction in which the nature of its business or the ownership, construction, management or operation of its assets makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, has not resulted in, and would not reasonably be expected to result in, a Purchaser Material Adverse Effect.

Section 3.2 Authority, Binding Effect.

(a) The Purchaser has, and at the Closing the Purchaser will have, the requisite limited liability company right, power and authority, to execute, deliver and perform its obligations with respect to this Agreement and the Purchaser Documents. The execution, delivery, performance and consummation of this Agreement, the Purchaser Documents and all of the transactions contemplated herein and therein have been duly authorized and approved by all necessary limited liability action of the Purchaser.

(b) This Agreement and the Purchaser Documents, upon due execution and delivery by the Purchaser, will constitute the legal, valid, and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by application of equitable principles.

(c) The execution, delivery and performance of this Agreement and the Purchaser Documents by the Purchaser does not and will not: (i) conflict with or result in any breach or violation of the provisions of, or constitute a default under its organizational documents, (ii) violate any mortgage, deed of trust, license, permit, lease, indenture, contract, agreement, obligation, commitment, arrangement, understanding, instrument or other agreement or instrument, whether oral or written, to which the Purchaser is a party, or by which it or any of its assets are bound, or result in the termination of any such instrument or termination of any provisions in such instrument in each case that would, individually or in the aggregate, have a Purchaser Material Adverse Effect, or (ii) violate any Applicable Law.

Section 3.3 No Litigation. As of the Effective Date, the Purchaser is not a party to, or defending or subject to, any Legal Proceeding, nor, to Purchaser's Knowledge, is any such Legal Proceeding threatened in each case, which would have a Purchaser Material Adverse Effect on the Purchaser's ability to execute, deliver and perform this Agreement, the Purchaser Documents and any other documents and transaction contemplated hereby.

Section 3.4 Governmental Approvals. To the Purchaser's Knowledge, the Purchaser is not required to submit any notice, report or other filing with any Governmental Authority in connection with its execution or delivery of this Agreement or any Purchaser Document or the consummation of the transactions contemplated hereby and no consent, approval or authorization of any Governmental Authority is required to be obtained by the Purchaser in connection with the execution, delivery and performance of this Agreement.

Section 3.5 Brokers and Finders. Except as set forth in Section 3.5, the Purchaser has not employed or engaged any investment banker, broker or finder in connection with the

transactions contemplated by this Agreement who might be entitled to any fee or any commission in connection with or upon consummation of the Closing.

Section 3.6 Available Funds. Upon the Closing, Purchaser will have immediately available to it, sufficient funds to pay the Purchase Price and all costs and expenses as required by this Agreement.

Notwithstanding anything to the contrary contained herein, any reference in this Agreement to "Purchaser's Knowledge" or words of similar import shall be deemed to refer exclusively to matters within the actual knowledge of Jonathan Brown ("Purchaser Knowledge Individual"), which individual is the individual in Purchaser's organization who is most knowledgeable of the matters set forth herein, but without any obligation to investigate or make inquiries of other Persons with respect to any of the representations and warranties contained in this Agreement. Without limiting the foregoing, the Sellers acknowledges that the Purchaser Knowledge Individual has not performed and is not obligated to perform any investigation or review of any files or other information in the possession of the Purchaser, or to make any inquiry of any persons, or to take any other actions in connection with the representations and warranties of the Purchaser set forth in this Agreement other than as required herein. Neither the actual, present, conscious knowledge of any other individual or entity, nor the constructive knowledge of the Purchaser Knowledge Individual or of any other individual or entity, shall be imputed to the Purchaser Knowledge Individual. Notwithstanding anything to the contrary contained in this Agreement, the Purchaser's Knowledge shall be deemed to include the information provided on the Disclosure Schedules and the Phase I environmental reports and property condition reports for the Seller Real Property posted to the Data Site on or prior to the Effective Date.

ARTICLE IV

COVENANTS OF THE SELLERS

From and after the Effective Date and, subject to earlier termination of this Agreement, until the Closing, except as otherwise consented to or approved by the Purchaser in writing, the Sellers covenant and agree as follows:

Section 4.1 Interim Operating Covenants. Except as expressly contemplated by this Agreement, the Business shall be conducted in the ordinary course of business consistent with past practice, and the Sellers shall use commercially reasonable efforts to (a) maintain the Facilities, or cause the Facilities to be maintained, in substantially their condition as of the Effective Date, reasonable wear and tear, and casualty and condemnation, excepted; (b) comply in all material respects with all Applicable Laws; and (c) keep in full force and effect insurance policies with substantially the same terms as existing policies.

Section 4.2 Liens. The Sellers shall not create or permit to become effective any Liens upon the Assets, other than the Permitted Liens and any other Lien arising in the ordinary course of business and consistent with past practice so long as such other Lien is removed, satisfied or otherwise bonded over at or prior to the Closing, such that such Lien is not included as an exception to a Title Policy.

Section 4.3 Inspection Rights

(a) The Sellers shall, upon not less than forty-eight (48) hours prior notice from the Purchaser, at reasonable business hours and subject to the rights of residents under the residency agreements, the Leases and all Applicable Laws, afford to the Purchaser reasonable access, subject to the Purchaser's obligation to comply with this Agreement, (i) to the Seller Real Property in order to examine and inspect such Seller Real Property, including the Books and Records and (ii) to meet with the managers at the Facilities; provided, however, such access shall not include the right to meet with any residents, any tenants or any other employees of the Manager; provided, further, however, Sellers and/or their agents shall be given the opportunity and permitted to supervise all meetings, calls or other contact or communications with the Sellers' personnel including but not limited to meetings with the managers at the Facilities.

(b) The Purchaser shall use commercially reasonable efforts to not cause damage, loss, cost or expense to the Seller Real Property, the Facilities, the Sellers, any residents, any tenants, the Manager and its employees or any invitee at any Facility (collectively, the "Section 4.3 Indemnified Parties"). To the extent of any damage caused by the Purchaser or any agent, representative or contractor or other Person entering onto the Seller Real Property on behalf of, or at the direction of, the Purchaser (each a "Purchaser Representative") to the Seller Real Property, any Facility or assets located thereat, the Purchaser shall promptly restore such property to its condition immediately preceding such inspections and examinations and shall keep all such property free and clear of any mechanic's liens or materialmen's liens arising as a result such inspections and investigations (and promptly cause, at the Purchaser's sole cost and expense, the removal of any such mechanic's liens or materialmen's liens). The Purchaser shall indemnify, defend, and hold harmless for, from, and against any and all claims, liabilities costs and/or expenses incurred by any such Section 4.3 Indemnified Party in connection with, or as a result of, the entry of any Purchaser Representative onto the Seller Real Property or resulting from the action or inaction of any of the Purchaser Representatives while at the Seller Real Property prior to the Closing Date including, costs and expenses arising or resulting from (i) loss, injury to or death of any Purchaser Representative or any Section 4.3 Indemnified Party, as applicable (waiving all limitations under workers' compensation), and (ii) any loss, damage, cost and/or expense to or destruction of any property owned by any Section 4.3 Indemnified Party (including claims or liabilities for loss of use of any property).

(c) The obligations of the Purchaser under this Section 4.3 shall survive the Closing or earlier termination of this Agreement.

Section 4.4 Title Insurance and Surveys.

(a) Prior to the Effective Date, the Sellers have provided to the Purchaser (i) title commitments for each Seller Real Property (collectively, the "Initial Title Commitments"), issued by First American Title Insurance Company (the "Title Company"), together with copies of all recorded exceptions to title referred to therein and (ii) a survey of each Seller Real Property (collectively, the "Initial Surveys"). All matters contained in the Initial Title Commitments and Initial Surveys are hereinafter referred to as the "Existing Title Matters". On or before the expiration of the Inspection Period, the Purchaser shall have the right to object, in writing and in its reasonable discretion, to an Existing Title Matter that (i) has a material adverse effect on the

current use and value of a Facility or (ii) may be removed or cured by the payment of a readily ascertainable amount, by delivering a written notice to Sellers specifying any Existing Title Matter to which the Purchaser objects (such notice being referred to herein as the "Existing Title Objection Notice"). The failure of the Purchaser to object to any Existing Title Matter within said period shall be deemed a waiver by the Purchaser of its right to object to such Existing Title Matter and, in such event, such Existing Title Matter shall be deemed approved by the Purchaser and shall be a Permitted Lien.

(b) The Sellers acknowledge that certain of the Initial Surveys provided in the Data Site were completed more than ninety (90) days prior to the Effective Date (the "Outdated Initial Surveys"). On or before the expiration of the Inspection Period, Seller will provide in the Data Site updates (or new surveys, as the case may be) to the Outdated Initial Surveys that will have been prepared recently enough to reasonably satisfy the Purchaser and the Title Company. Prior to the Closing Date, the Purchaser shall have the right to order updates to the Initial Title Commitments and/or Initial Surveys, and in the event that any such update reveals any new matter not previously shown or disclosed on the Initial Title Commitments or Initial Surveys which (i) would reasonably be expected to have a material adverse effect on the current use and value of a Facility or (ii) may be removed or cured by the payment of a readily ascertainable amount (each, a "New Title Matter"), the Purchaser shall have the right to object, in writing and in its reasonable discretion, to such New Title Matter by the earlier of (i) the Closing Date and (ii) the date which is three (3) Business Days after receipt of such update, as applicable, with any such objection notice specifying any New Title Matter to which the Purchaser objects (such notice being referred to herein as the "New Title Objection Notice") (the Existing Title Objection Notice and the New Title Objection Notice are hereinafter collectively referred to as the "Title Objection Notice"). The failure of the Purchaser to object to any New Title Matter within said period shall be deemed a waiver by the Purchaser of its right to object to such New Title Matter and, in such event, such New Title Matter shall be deemed approved by the Purchaser and shall be a Permitted Lien. Notwithstanding the foregoing, the Purchaser shall not have the right to disapprove any of the following, all of which (together with all other matters deemed approved by the Purchaser pursuant to terms hereof) shall be deemed to be "Permitted Liens" hereunder: (A) matters created or consented to in a separate written consent by the Purchaser, (B) the Assumed Liabilities, (C) all Liens for taxes, assessments, water rates, water meter charges, water frontage charges and sewer taxes, rents and charges, if any, provided that such items are not due and payable. If the Purchaser delivers a Title Objection Notice to the Sellers within either of the above-described periods, the Sellers shall have three (3) Business Days after receipt of the Title Objection Notice (such period is the "Seller Response Period") in which to send the Purchaser a written notice (the "Title Objection Response Notice") informing the Purchaser of which Existing or New Title Matters (collectively the "Title Matters"), as applicable, the Sellers will and will not agree to cure prior to the Closing Date (as the same may be extended as provided herein). If the Sellers fail to deliver the Title Objection Response Notice with respect to any Title Matters to the Purchaser on or before the expiration of the Seller Response Period, the Sellers shall be deemed to have refused to cure such Title Matter. The Closing Date may be extended by the Sellers to accommodate the giving of notices and the cure periods contemplated herein, provided that the Closing Date shall not be extended by the Sellers for a period beyond the date which is ten (10) days after the last Title Objection Notice is delivered by Purchaser, for the purposes of curing any Title Matter to which the Purchaser has objected and which the Sellers have informed the Purchaser they have agreed to cure and, in

such event, the Closing shall occur upon the curing of such Title Matters. If the Sellers are unable after using commercially reasonable efforts (considered in the context of the allotted time) during such period to cure any such Title Matter, the Sellers shall be deemed to have refused to cure such Title Matter. If the Sellers refuse (or are deemed to have refused) to cure any Title Matter set forth in the Title Objection Notice, the Purchaser shall have three (3) Business Days after receipt of Sellers' Title Objection Response Notice (or, if Seller has not responded to the Title Objection Notice, then within three (3) Business Days following the expiration of the Seller Response Period) in which to advise the Sellers in writing of the Purchaser's election (x) to waive its objection to the Title Matters that Sellers either refused to cure, or could not cure, and to proceed to the Closing or (y) to terminate this Agreement, in which event the Parties shall have no further obligations or liabilities under this Agreement other than the Surviving Obligations, which, solely to the extent this Agreement was terminated due to Purchaser objecting to Title Matters consented to or created by the Sellers, shall include the obligation of the Sellers to reimburse the Purchaser in the amount equal to the lesser of (i) Purchaser Expenses and (ii) the Reimbursement Cap in accordance with Section 10.1(d) hereof. If the Purchaser does not terminate this Agreement pursuant to the preceding sentence, then all Title Matters appearing in the Title Objection Notice that Sellers either did not agree to cure (as set forth in the Title Objection Response Notice) or could not cure by Closing shall be deemed Permitted Liens. The Purchaser agrees that the Sellers may cure any objectionable matter by causing the Title Company to remove the same as an exception in the applicable Title Policy or to affirmatively insure over such matter.

(c) The title insurance policies issued to the Purchaser as of the Closing shall be dated as of the date of Closing, insure the fee simple interest or leasehold interest, as applicable, of the Purchaser in the Seller Real Property or Leasehold Interests, as applicable, in the form of the Pro Forma 2006 ALTA Title Policies (except for Facilities located in the state of Texas), each subject to only the Permitted Liens (each a "Title Policy" and collectively the "Title Policies") and cover the "gap period". The Sellers and the Purchaser shall execute customary affidavits, gap indemnities and other instruments, in forms reasonably agreed by the party(ies) thereto, as reasonably requested by the Title Company to cause the Title Company to issue the Title Policies.

Section 4.5 Further Assurances. In addition to the acts and deeds recited herein and contemplated to be performed, executed or delivered by the Sellers, the Sellers hereby agree to perform, execute and deliver, or cause to be performed, executed and delivered, on the Closing Date or thereafter any and all such further acts, deeds and assurances the Purchaser may reasonably require in order to consummate fully the transactions contemplated hereunder. The obligation of the Parties under this Section 4.5 shall survive the Closing.

Section 4.6 8-K Requirements.

(a) For a period from the date hereof until three (3) years after Closing, the Sellers shall from time to time upon Purchaser's request, make the Facility Balance Sheets and Income Statements, Financial Statements, any underlying financial data associated therewith, and all other books, records and files relating to any period prior to the Closing (whether in paper or electronic format) available to the Purchaser for inspection, copying and audit by Purchaser and Purchaser's designated accountants, at the Purchaser's expense. Provided that Purchaser

agrees to bear any associated third-party expense (i.e. excluding expenses of Sellers' personnel and other overhead expenses), the Sellers shall provide the Purchaser with copies of, or access to, such factual information as may be reasonably requested by the Purchaser, and in the possession or under the direct or indirect control of the Sellers, to enable the Purchaser or an affiliate (or their respective successors) to (x) include such information in registration statements, offering memoranda or prospectuses, or similar disclosure documents in connection with syndications, private placements or public offerings of equity or debt securities or interests of the Purchaser or any of its affiliates, and (y) comply with all reporting and disclosure requirements of Purchaser or any of its affiliates under applicable federal and state laws and the rules and regulations promulgated thereunder, as such requirements are interpreted in good faith by Purchaser or any such affiliate.

(b) Without limiting the foregoing, the Purchaser or its designated independent or other accountants may audit the Financial Statements and any other financial statements of the Sellers, and the Sellers shall supply such documentation in their possession or under their direct or indirect control as the Purchaser or its accountants may reasonably request in order to complete such audit, and the Sellers shall execute the form of audit and representation letter reasonably required by such accountants, and take such other actions as shall be reasonably necessary, in order to (i) permit such accountants to provide an unqualified audit opinion in accordance with generally accepted accounting principles with respect to such audit, (ii) obtain the consent of such accountants to the inclusion of such opinion in one or more reports or registration statements that may be filed by Purchaser or an affiliate with the Securities and Exchange Commission, or in any offering memorandum or similar disclosure documents in connection with any syndications or private placements, (iii) cause such accounting firm to issue one or more customary comfort letters with respect to financial information of the Sellers, and (iv) cause such accounting firm to perform a review of any interim financial periods in accordance with AU 722 in order to be able to provide customary comfort with respect to such periods. The Sellers shall otherwise reasonably cooperate with the Purchaser and its affiliates, accountants and auditors in connection with any public or private offering of equity or debt securities which, in Purchaser's (or such affiliate's) good faith judgment, may require disclosure of information relating to Seller Real Property or the Business for any period prior to the Closing. In this connection, Sellers shall cause to be made reasonably available to the Purchaser and its affiliates, accountants and auditors such personnel of Sellers or of any affiliate of Sellers (including, without limitation, management personnel employed in connection with any of the Seller Real Property) to address questions relating to the financial statements, financial data, and/or the ownership, operation and/or financial performance of the Seller Real Property and the Business for any period prior to the Closing.

(c) In addition, from the date hereof in connection with any financing sought to be obtained by the Purchaser for its acquisition of Seller Real Property at the Closing, the Sellers shall reasonably cooperate (and shall cause associated management personnel reasonably to cooperate) to expedite and assist with the consummation such financing, provided that Purchaser bears any associated third-party expense. Without limitation, such cooperation shall include, upon the Purchaser's request (with the Purchaser bearing any associated third-party expenses): establishing special purpose entities and associated structuring changes, implementing documentation and other changes to facilitate "sale" treatment of the Purchaser's acquisition of the Assets for accounting and/or "true sale" legal purposes, implementing changes in accounts as

the lender may reasonably request, and making appropriate personnel reasonably available to address questions and issues. The obligations of the Parties under this Section 4.6 shall survive the Closing.

Section 4.7 Phase I Updates. The Sellers shall provide an updated Phase I environmental report for the Westmont Facility and the Simi Hills Facility on the Data Site (the "Updated Report") on or prior to Closing. If the Updated Report recommends that the Sellers take any further action with respect to any environmental matter not already disclosed on the prior Phase I environmental report that was provided on the Data Site on or prior to the Effective Date, the Sellers, as applicable, shall either (i) take such recommended action at the Sellers' sole cost and expense, or (ii) cause the Master Tenant under the Master Lease, or the applicable Subtenant, to take such recommended action at Master Tenant's or such Subtenant's sole cost and expense; provided, however, that any costs or expenses incurred by tenant or such subtenant to take such recommended action shall not be counted towards the satisfaction of the obligation of Master Tenant to incur capital expenditures under the Master Lease.

ARTICLE V

COVENANTS OF THE PURCHASER

The Purchaser covenants and agrees with the Sellers that:

Section 5.1 Cooperation. After the Closing Date, the Purchaser, at Sellers' expense, shall cooperate with the Sellers and provide reasonable access to the Books and Records in the Purchaser's possession that are required by the Sellers to respond to any third party litigation, government audit, other audit or any other reasonable purpose, upon reasonable advance notice. The Sellers shall be responsible for the cost and expense of copying any records in the Purchaser's possession. The obligation of the Parties under this Section 5.1 shall survive the Closing.

Section 5.2 Further Assurances. In addition to the acts and deeds recited herein and contemplated to be performed, executed or delivered by the Purchaser, the Purchaser hereby agrees to perform, execute and deliver, or cause to be performed, executed and delivered, on the Closing Date or thereafter any and all such further acts, deeds and assurances Sellers may reasonably require in order to consummate fully the transactions contemplated hereunder. The obligation of the Parties under this Section 5.2 shall survive the Closing.

ARTICLE VI

OTHER COVENANTS

Section 6.1 Confidentiality. From and after the Effective Date through the Closing and thereafter, each Party shall use all information that it obtains from the other in connection with, or pursuant to, this Agreement and observe the terms of this Section 6.1. Except as otherwise permitted under this Agreement, each Party shall use the Confidential Information solely for the effectuation of the transactions contemplated by this Agreement or for other

purposes consistent with the intent of this Agreement and shall not use any of such information for any other purpose, including the competitive detriment of the other Parties.

(a) Each Party may disclose (i) such information to its respective Affiliates, counsel, accountants, underwriters, tax advisors and consultants as necessary to consummate this transaction. Additionally, the Parties hereby agree that neither Party shall make any announcement or press release regarding the nature or existence of this Agreement without the consent of the other Party; provided that, each Party shall reasonably cooperate with the other Party in connection with the wording of any press release or other public announcement. The terms of this Section 6.1 shall not prohibit the use or disclosure of confidential any information pursuant to court order or which has otherwise become publicly available through no fault of the recipient party;

(b) Purchaser (or any of its Affiliates) shall be able to disclose such Confidential Information as is, in the good faith judgment of Purchaser's counsel, accountants or advisors, required or reasonably advisable to be disclosed because of the operation of law, rule, regulation or legal process, a governmental agency such as the Internal Revenue Service or Securities and Exchange Commission, or a stock exchange such as the New York Stock Exchange, court order or requirement of any Governmental Authority; and

(c) Purchaser (or any of its Affiliates) shall be able to disclose such Confidential Information as is, in the good faith judgment of Purchaser's counsel, accountants or advisors, required or reasonably advisable to be disclosed in connection with Purchaser's (or any of its Affiliates') quarterly earnings results or financing activities.

(d) Notwithstanding anything to the contrary contained herein, prior to the expiration of the Inspection Period, the terms and existence of this Agreement shall be strictly confidential subject to any disclosure requirements imposed by any applicable Governmental Authority and to the extent this Agreement is terminated at the expiration of the Inspection Period, its existence and terms shall remain strictly confidential subject to any disclosure requirements imposed by any applicable Governmental Authority. This Section 6.1(d) shall survive termination of this Agreement.

If this Agreement is terminated for any reason prior to Closing, the provisions of this Section 6.1 shall survive the Closing for a period of twenty-four (24) months.

Section 6.2 Casualty Event. If between the Effective Date and the Closing a Casualty Event shall occur with respect to any one or more Facilities, the Sellers shall be required to provide the Purchaser with prompt written notice of such occurrence and the Purchaser or the Sellers may elect, within ten (10) Business Days of receipt of such notice, to terminate this Agreement, in which event the Parties shall have no further obligations or liabilities under this Agreement. If between the Effective Date and the Closing (i) a Casualty Event shall occur with respect to any one or more Facilities and neither the Purchaser nor the Sellers have elected to terminate this Agreement in accordance with this Section 6.2 and not to proceed to Closing or (ii) a casualty has occurred with respect to one or more Facilities that does not constitute a Casualty Event (provided the Sellers shall be required to provide the Purchaser with prompt written notice of such occurrence in any event), all insurance proceeds and/or awards attributable to any such

casualty shall be assigned to the Purchaser at Closing and the Sellers shall provide a credit against the Purchase Price in the amount of any applicable insurance deductible payable or uninsured amount in connection therewith (and if any casualty is uninsured, the amount of such uninsured casualty), and Purchaser agrees to make all such amounts immediately available to Master Tenant if, as and when required under the Master Lease, which funds will be treated as if the Casualty Event or casualty occurred during the term of the Master Lease.

Section 6.3 Condemnation Event. If, prior to Closing, Sellers receive notice of any actual or threatened taking in condemnation or by eminent domain (or a sale in lieu thereof) of all or any portion of any Seller Real Property, Sellers will notify the Purchaser promptly thereof. Other than with respect to an Immaterial Taking, any actual or threatened taking or condemnation for any public or quasi-public purpose or use by any competent authority in appropriate proceedings or by any right of eminent domain of all or any part of a Seller Real Property between the Effective Date and the Closing shall, at the Purchaser's or the Sellers' option, cause a termination of this Agreement in which event the Parties shall have no further obligations or liabilities under this Agreement with respect to such Facility or Facilities. The election to terminate provided hereby must be exercised by the Purchaser or the Sellers (and if not timely exercised, shall be deemed waived by Purchaser or the Sellers) by written notice to the other party given within ten (10) Business Days following the Purchaser's receipt of Sellers' notice of the condemnation of all or any portion of any Seller Real Property. If neither party shall elect to terminate this Agreement or in the event of an Immaterial Taking, Sellers shall assign at Closing to the Purchaser all net proceeds of any such taking or condemnation to the extent not yet expended for the restoration of the Seller Real Property by the Sellers, and the Purchaser agrees to make all such amounts immediately available to Master Tenant if, as and when required under the Master Lease, which funds will be treated as if the condemnation or taking occurred during the term of the Master Lease.

ARTICLE VII

INDEMNIFICATION

Section 7.1 Indemnification by the Sellers.

(a) Subject to the limitations set forth in this Article VII, each Seller shall, jointly and severally, indemnify, protect, defend, exculpate and hold the Purchaser and their Affiliates and their respective partners, directors, managers, members, shareholders, officers, employees and agents (collectively, the "Purchaser Indemnified Parties") harmless from and against, and defend the Purchaser Indemnified Parties from and reimburse the Purchaser Indemnified Parties for, any and all actual losses, damages, costs, expenses, liabilities, obligations and claims of any kind (including costs of investigation, reasonable attorneys' fees and other legal costs and expenses, but not including consequential, punitive, treble or other similar damages, lost profits, special or indirect damages, including loss of future revenue, profits or income or loss of business reputation or opportunity related to the breach or alleged breach of this Agreement) (the "Purchaser Indemnified Losses") which the Purchaser Indemnified Parties shall at any time suffer or incur, or become subject to, as a result of or in connection with:

(i) Any breach or inaccuracy in any of the representations or warranties (other than a breach of Section 2.2(d)) as and when made by the Sellers in or pursuant to this Agreement or any Seller Documents;

(ii) Any breach of any covenant, agreement or undertaking made by the Sellers under this Agreement;

(iii) Any failure by any Seller to satisfy any Excluded Liability; and

(iv) Any breach of Section 2.2(d) as and when made by the Sellers in or pursuant to this Agreement.

(b) Except as provided otherwise herein, (i) the aggregate liability of the Sellers for Purchaser Indemnified Losses under Section 7.1(a)(i) and Section 7.1(a)(ii) shall not exceed the amount of Fifteen Million (\$15,000,000) in the aggregate, and (ii) the Sellers shall be liable for Purchaser Indemnified Losses under Section 7.1(a)(i) or Section 7.1(a)(ii) only if the aggregate Purchaser Indemnified Losses exceed the amount of Five Hundred Thousand Dollars (\$500,000) (the Seller Basket), at which point the Sellers shall be liable for all Purchaser Indemnified Losses (i.e., from the first dollar of such Purchaser Indemnified Losses) provided, that Sellers' obligations hereunder shall be reduced by the amount of insurance proceeds, tax benefits, indemnification payments and other third-party payments, actually received in connection with such claims (net of any costs incurred in recovering such amounts). For the avoidance of doubt, the limitations set forth in this Section 7.1(b) shall not apply in the case of any claim made pursuant to Section 7.1(a)(iii).

Section 7.2 Indemnification by the Purchaser.

(a) The Purchaser shall indemnify, protect, defend, exculpate and hold the Sellers and their Affiliates and their respective partners, directors, managers, members, shareholders, officers, employees and agents (collectively, the "Seller Indemnified Parties"), harmless from and against, and defend the Seller Indemnified Parties from and reimburse the Seller Indemnified Parties for, any and all losses, damages, costs, expenses, liabilities, obligations and claims of any kind (including costs of investigation, reasonable attorneys' fees and other legal costs and expenses, but not including consequential, punitive, treble or other similar damages, lost profits, special or indirect damages, including loss of future revenue, profits or income or loss of business reputation or opportunity related to the breach or alleged breach of this Agreement) (the "Seller Indemnified Losses") which the Seller Indemnified Parties shall at any time suffer or incur, or become subject to, as a result of or in connection with:

(i) Any breach or inaccuracy of any of the representations or warranties made by the Purchaser in this Agreement;

(ii) Any breach of any covenant, agreement or undertaking made by the Purchaser under this Agreement; and

(iii) Any failure by Purchaser to satisfy the Assumed Liabilities.

(b) Except as provided otherwise herein, (i) the aggregate liability of the Purchaser for Seller Indemnified Losses pursuant to Section 7.2(a)(i) and Section 7.2(a)(ii) shall not exceed the amount of Fifteen Million Dollars (\$15,000,000) in the aggregate and (ii) the Purchaser shall be liable for Seller Indemnified Losses pursuant to Section 7.2(a)(i) or Section 7.2(a)(ii) only if the aggregate Seller Indemnified Losses exceed the amount of Five Hundred Thousand Dollars (\$500,000) (the "Purchaser Basket"), at which point the Purchaser shall be liable for all Seller Indemnified Losses (i.e., from the first dollar of such Seller Indemnified Losses); provided, that Purchaser's obligations hereunder shall be reduced by the amount of insurance proceeds, tax benefits, indemnification payments and other third-party payments, actually received in connection with such claims (net of any costs incurred in recovering such amounts). For the avoidance of doubt, the limitations set forth in this Section 7.2(b) shall not apply in the case of any claim made pursuant to Section 7.2(a)(iii).

Section 7.3 Notification of Claims.

(a) Any and all claims by any Indemnified Party pursuant to this Article VII must be made in writing prior to 5:00 p.m. (ET) on the last day of the Survival Period. Failure by any Section VII Indemnified Party to provide written notice of claim to the Indemnifying Party prior to 5:00 p.m. (ET) on the last day of the Survival Period shall forever bar such Indemnified Party from making any claim of any sort, including claims under this Agreement and all other agreements related to the sale and purchase of the Assets, by statute, at common law or otherwise, and whether known or unknown, contingent, liquidated or unliquidated.

(b) A Party entitled to be indemnified pursuant to Sections 7.1 or 7.2 (the "Indemnified Party") shall notify the Party liable for such indemnification (the "Indemnifying Party") in writing of any claim or demand which the Indemnified Party has determined gives rise or will likely give rise to a right of indemnification under this Agreement, promptly after the Indemnified Party becomes aware of such claim or demand and has made such determination; provided, however, that the Indemnified Party's failure to give such notice to the Indemnifying Party in a timely fashion shall not result in the loss of the Indemnified Party's rights with respect thereto except to the extent any Party to this Agreement is prejudiced by the delay, and then only to the extent of such prejudice. Subject to the Indemnifying Party's right to defend in good faith third party claims as hereinafter provided, the Indemnifying Party shall satisfy its obligations under this Article VII within thirty (30) days after the receipt of written notice thereon from the Indemnified Party.

(c) If the Indemnified Party shall notify the Indemnifying Party of any claim or demand pursuant to Section 7.3(a), and if such claim or demand relates to a claim or demand asserted by a third party against the Indemnified Party which the Indemnifying Party acknowledges is a claim or demand for which it must indemnify or hold harmless the Indemnified Party under Sections 7.1 or 7.2, the Indemnifying Party shall have the right to either (i) pay such claim or demand or (ii) employ counsel reasonably acceptable to the Indemnifying Party to defend any such claim or demand asserted against the Indemnified Party. The Indemnified Party, at its own expense, shall have the right to participate in the defense of any such claim or demand. The Indemnifying Party shall notify the Indemnified Party in writing, as promptly as possible (but in any case reasonably in advance of the due date for the answer or response to a claim) after the date of the notice of claim given by the Indemnified Party to the

Indemnifying Party under Section 7.3(a) of its election to defend in good faith any such third party claim or demand. So long as the Indemnifying Party is defending in good faith any such claim or demand asserted by a third party against the Indemnified Party, the Indemnified Party shall not settle or compromise such claim or demand. The Indemnified Party shall make available to counsel engaged by the Indemnifying Party all records and other materials in the Indemnified Party's possession reasonably requested for its use in contesting any third party claim or demand. Whether or not the Indemnifying Party elects to defend any such claim or demand, the Indemnified Party shall have no obligations to do so. Notwithstanding the foregoing, if the actual or potential defendants in, or targets of, such third party claim include both the Indemnifying Party and the Indemnified Party, and the Indemnified Party shall have reasonably concluded that there are or are reasonably likely to be legal defenses available to it that are different from or additional to those available to the Indemnifying Party or that there exists or is reasonably likely to exist a conflict of interest, in either case that would make it inappropriate in the reasonable judgment of the Indemnified Party for the same counsel to represent both the Indemnified Party and the Indemnifying Party, then the Indemnified Party shall be entitled to participate in the defense of such third party claim, in which case the Indemnifying Party shall bear the reasonable fees, costs and expenses of one separate counsel to the Indemnified Party in each jurisdiction (and shall pay reasonable fees, costs and expenses as incurred); provided that the Indemnified Party shall use diligent and good faith efforts in such defense.

(d) An Indemnifying Party may not, without the prior written consent of the Indemnified Party, settle or compromise any claim against an Indemnified Party or consent to the entry of any judgment with respect to which indemnification is being sought hereunder unless such settlement, compromise or consent includes an unconditional release of the Indemnified Party from all liability arising out of such claim and does not contain any equitable order, judgment or term which in any manner affects, restrains or interferes with the business of the Indemnified Party or any of the Indemnified Party's Affiliates.

Section 7.4 Survival of Representations.

(a) Except as otherwise provided in this Section 7.4, (i) all representations and warranties contained in this Agreement other than those set forth in Section 2.2(d) (and any claims for any breach thereof) or any Seller Document or Purchaser Document (and any claims for any breach thereof) shall survive the Closing for a period of eighteen (18) months, and (ii) obligations of the Parties with respect to Assumed Liabilities, Excluded Liabilities and for breaches of Section 2.2(d) shall survive indefinitely (the "Survival Period").

(b) Unless another date is specified herein, all of the representations and warranties made by Sellers or the Purchaser in this Agreement are made as of the Effective Date and (without prejudice to the representations and warranties made as of the Effective Date) shall be deemed remade as of the Closing pursuant to the Seller Certificate or the Purchaser Certificate, as applicable. In connection with the remaking of representations and warranties as of the Closing (but not as to representations and warranties made as of the Effective Date), Sellers and the Purchaser shall be permitted to update their representations and warranties (for all purposes under this Agreement other than for purposes of satisfying the condition to Closing contained in Article VIII), to accurately reflect the current state of matters as of the Closing, provided neither

Sellers nor the Purchaser shall be permitted to update their respective representations and warranties to reflect matters caused by the willful or intentional breach of this Agreement by the Purchaser or Sellers, as applicable.

(c) All covenants and agreements contained in this Agreement (and any claims for any breach thereof) that by their terms apply or are to be performed in whole or in part after the Closing shall remain in full force and effect after the Closing in accordance with their terms (or, if no survival period is stated therein, then such covenants and agreements shall survive indefinitely). All covenants and agreements contained in this Agreement that by their terms apply or are to be performed in their entirety on or prior to the Closing shall terminate at the Closing.

(d) Notwithstanding the foregoing, if prior to 5:00 p.m. (ET) on the last day of the Survival Period, an Indemnifying Party shall have been properly notified of a claim for indemnity hereunder and such claim shall not have been finally resolved or disposed of at such date, such claim shall continue to survive and shall remain a basis for indemnity hereunder until such claim is finally resolved or disposed of in accordance with the terms in this Agreement.

(e) Notwithstanding anything to the contrary contained in this Agreement, Sellers shall have no liability with respect to any of Sellers' representations or warranties herein or in any representations or warranties in any Seller Document if, prior to the Closing, the Purchaser has actual knowledge of any breach by Sellers of such representation or warranty, or the Purchaser obtains actual knowledge (from whatever source, as a result of the Purchaser's due diligence tests, investigations and inspections of the Assets, or as a result of written disclosure by Sellers or any of Sellers' agents, representatives or employees) that contradicts any of Sellers' representations or warranties herein or in any representation or warranty in any Seller Document (and the representations and warranties of Sellers shall be deemed modified thereby to be accurate), and the Purchaser nevertheless consummates the transaction contemplated by this Agreement (in which event any such breach or contradiction shall be deemed waived by the Purchaser).

Section 7.5 No Punitive Damages. No Indemnified Party shall be entitled to indemnification for any punitive, consequential, special or indirect damages, including business interruption, loss of future revenue, profits or income or loss of business reputation or opportunity related to the breach or alleged breach of this Agreement.

Section 7.6 Broker's Fee. Sellers agree to indemnify and hold harmless the Purchaser from and against any loss, liability, damage, cost or expense (including court costs and reasonable attorneys' fees) paid or incurred by the Purchaser by reason of any claim to any broker's, finder's or other fee in connection with this transaction by any party, claiming by, through or under Sellers. The Purchaser agrees to indemnify and hold harmless Sellers from and against any loss, liability, damage or expense (including court costs and reasonable attorneys' fees) paid or incurred by Sellers by reason of any claim to any broker's, finder's or other fee in connection with this transaction claiming by, through or under the Purchaser.

Section 7.7 Treatment of Indemnification Payments. Any payments made pursuant to the indemnification obligations arising under this Article VII shall be treated as adjustments to the Purchase Price for all tax purposes.

Section 7.8 Survival. The provisions of this Article VII shall survive the Closing or earlier termination of this Agreement.

ARTICLE VIII

CONDITIONS

Section 8.1 Conditions to Each Party's Obligations. The respective obligations of each Party to effect the Closing are subject to the satisfaction or waiver delivered to the other Party of each of the following conditions precedent:

(a) There shall not be in force any order, decree, judgment or injunction of any Governmental Authority enjoining or prohibiting the consummation of the transactions contemplated by this Agreement or any Seller Document or Purchaser Document; and

(b) No Legal Proceeding shall be pending wherein an unfavorable judgment, order, decree, stipulation or injunction would (i) prevent consummation of the transactions contemplated by this Agreement, or (ii) cause the transaction contemplated by this Agreement to be rescinded following consummation.

Section 8.2 Conditions to Obligations of the Purchaser. The obligation of the Purchaser to effect the Closing is subject to the satisfaction or waiver delivered to the Sellers of each of the following conditions precedent:

(a) The representations and warranties of the Sellers set forth in this Agreement and in the Seller Documents that are qualified as to materiality shall be true and correct and the representations and warranties of the Sellers that are not qualified as to materiality shall be true and correct in all material respects, in each case, as of the Closing as though made as of the Closing; provided that, to the extent that any such representation or warranty speaks as of a specified date, it need only be true and correct as of such date.

(b) Each of the Sellers shall have performed and complied, in all material respects, with its agreements and covenants (in each case, disregarding any materiality qualifiers contained therein) required to be performed or complied with under this Agreement as of or prior to the Closing.

(c) The Title Company shall, at the Closing, be irrevocably and unconditionally committed to issue each of the Title Policies upon payment of the premium and the application of the Purchase Price to the repayment of any Indebtedness encumbering the Assets, and such Title Policies shall not contain any exceptions to title other than the standard preprinted exceptions (unless the Purchaser pays for extended coverage, in which case the standard preprinted exceptions shall not appear in the Title Policy) and the Permitted Liens.

(d) Each of the Sellers shall have executed and delivered to the Purchaser or the Title Company their respective Seller Documents and provided the Purchaser the items listed in Section 9.2(a).

(e) Purchaser shall have obtained from a bank, insurance company, institutional lender or other financing source satisfactory to Purchaser, a loan secured by a first priority security Lien on the Seller Real Property in such amount and upon such other terms as Purchaser may approve in Purchaser's sole and absolute discretion, and such loan shall be funded contemporaneously with the Closing.

Section 8.3 Conditions to Obligations of the Sellers. The obligation of each of the Sellers to effect the Closing is subject to the satisfaction or waiver delivered to the Purchaser of each of the following conditions precedent:

(a) The representations and warranties of the Purchaser set forth in this Agreement and the Purchaser Documents that are qualified as to materiality shall be true and correct and the representations and warranties of the Purchaser that are not qualified as to materiality shall be true and correct in all material respects, in each case, as of the Closing as though made as of the Closing; provided that, to the extent that any such representation or warranty speaks as of a specified date, it need only be true and correct as of such date.

(b) The Purchaser shall have performed and complied with in all material respects its agreements and covenants (in each case, disregarding any materiality qualifiers contained therein) required to be performed or complied with under this Agreement as of or prior to the Closing.

(c) The Purchaser shall have executed and delivered their respective Purchaser Documents and provided the Sellers the items listed in Section 9.2(b).

(d) The Purchaser shall have wired the balance of the Purchase Price to be paid at the Closing to the Sellers.

(e) The Monetary Lien Condition has been, or simultaneously with the Closing will be, satisfied.

ARTICLE IX

CLOSING

Section 9.1 Possession. Possession of all Facilities and the other Assets sold hereunder shall be delivered to the Purchaser on the Closing Date.

Section 9.2 Closing Documents.

(a) The Sellers shall deliver to the Purchaser on the Closing Date, the following:

(i) Deeds. Duly executed grant deeds for the Seller Real Property located in the State of California and special warranty deeds (or the state equivalent) for the Seller Real Property located in the remaining states, in recordable form and otherwise sufficient to convey such Seller Real Property to the Purchaser, subject to no Liens except Permitted Liens, and pursuant to the laws of the state in which such Seller Real Property is located, as reasonably approved by the Purchaser and the Title Company;

(ii) Bill of Sale. A Bill of Sale duly executed by the Sellers, in the form of Exhibit 9.2(a)(ii), sufficient to convey such Personal Property to the Purchaser, subject to no Liens except Permitted Liens;

(iii) Assignment of Other Property. An Assignment and Assumption of Other Property duly executed by the Sellers in the form of Exhibit 9.2(a)(iii);

(iv) Other Conveyance Instruments. Such other appropriate instruments of assignment and conveyance, in form mutually but reasonably satisfactory to the Parties, dated as of the Closing Date, conveying all of the Sellers' right, title and interest in and title to the Assets, free and clear of all Liens except as otherwise permitted herein;

(v) FIRPTA Certificate. Certificate and affidavit of the Sellers' non-foreign status that complies with Section 1445 of the Code, in the form attached hereto as Exhibit 9.2(a)(v);

(vi) Evidence of Seller Authority. Evidence of the authority of each Seller to execute and deliver the applicable Seller Documents in order to effectuate the Closing, including certificates of foreign qualification of the applicable Seller from the Secretary of State or other applicable Governmental Authority in the jurisdiction where the applicable Seller Real Property is located;

(vii) Bring-Down Certificate. A bring-down certificate executed by Sellers reaffirming that the representations and warranties are true and correct as of the Closing Date in the form of Exhibit 9.2(a)(vii) (the "Seller Certificate");

(viii) Tax Declarations. Such applicable sales tax or real property transfer tax forms or declarations or similar forms as prepared by Purchaser and executed by Sellers as required by Applicable Law;

(ix) Closing Statement. The Closing Statement, executed by the Sellers and in form agreed to by the Sellers and the Purchaser (the "Closing Statement");

(x) Rent Roll. A rent roll for each Facility for the period ending not earlier than thirty (30) days prior to Closing, certified by the Sellers as of the Closing Date as true, complete and accurate in all material respects as of the date indicated therein;

(xi) Title Insurance. Customary owners' affidavits, gap indemnities, in form reasonably agreed by the parties thereto, as reasonably requested by the Title Company to cause the Title Company to issue the Title Policies; and

(xii) Master Lease. Seller shall cause an Affiliate of Sellers ("Master Tenant") to (A) execute (i) a Master Lease and Sublease in the form attached hereto as Exhibit 9.2(a)(xii) (the "Master Lease") pursuant to which Master Tenant will lease the Facilities from the Purchaser, and (ii) all documents required to be delivered in connection with the Master Lease, including all guaranty agreements, security agreements, pledge agreements and subleases, and (B) execute an agreement with the New Manager (or other manager party thereto) subordinating its interests in and to the management agreement(s) set forth in accordance with the Master Lease.

(xiii) Assignment of Leasehold Interests. An Assignment and Assumption of Leasehold Interests duly executed by applicable Sellers in the form of Exhibit 9.2(a)(xiii)

(xiv) Other Deliveries. Such other documents a reasonably necessary to effectuate the transactions described herein.

(Items (i) through (xiii) hereafter are referred to as the "Seller Documents.")

(b) The Purchaser shall deliver to the Sellers or cause to be delivered to the Sellers on the Closing Date the following:

(i) Assignment of Other Property. An Assignment of Other Property duly executed by the Purchaser in the form of Exhibit 9.2(a)(iii);

(ii) Bring-Down Certificate. A bring-down certificate executed by the Purchaser reaffirming that the representations and warranties are true and correct as of the Closing Date in the form of Exhibit 9.2(b)(ii) (the "Purchaser Certificate");

(iii) Tax Declarations. Such applicable sales tax or real property transfer tax forms or declarations or similar forms as prepared and executed by the Purchaser as required by Applicable Law;

(iv) Closing Statement. The Closing Statement executed by the Purchaser;

(v) Title Insurance. Customary owners' affidavits, gap indemnities and other instruments, in form reasonably acceptable to the parties thereto, as reasonably requested by the Title Company to cause the Title Company to issue the Title Policies;

(vi) Evidence of Purchaser Authority. Evidence of the authority of the Purchaser to execute and deliver the applicable Purchaser Documents in order to effectuate the Closing, including a good standing certificate of the Purchaser from the Secretary of State in its state of organization; and

(vii) Master Lease. The Master Lease duly executed by Purchaser and all other documents required to be delivered by the Master Lease to the extent such documents require Purchaser's signature.

(viii) Other Deliveries. Such other documents a reasonably necessary to effectuate the transactions described herein;

(Items (i) through (viii) hereafter are referred to as the "Purchaser Documents").

Section 9.3 Closing Adjustments. As the Master Lease is a triple net lease and the Master Tenant (as the tenant thereunder) is entitled thereunder to all revenue of the Facilities and is liable for all expenses of the Facilities from and after Closing, including the payment of real property taxes, there shall be no credits or prorations at the Closing between Purchaser and Sellers with respect to the revenues or costs associated with owning or operating the Facilities. As applicable, all such credits and prorations shall be made between Sellers and Master Tenant under terms outside of this Agreement.

Section 9.4 Closing Costs; Transfer Taxes

(a) Each Party shall pay its own legal, accounting and other professional fees incurred by such Party in connection with the transactions described in this Agreement and any other cost or expense not specifically enumerated in Section 9.4(b). Purchaser shall pay one hundred percent (100%) of any and all costs and expenses, including all documentary or similar taxes and recording fees, that relate solely to borrowings by Purchaser to finance the acquisition of the Assets.

(b) Subject to Section 9.4(c), at or before the Closing, the Sellers shall pay all of the following transaction expenses incurred in connection with the transactions described in this Agreement: (i) any escrow or closing charges of the Title Company; (ii) any and all sales, documentary, stamp, transfer, sales, use, gross receipts or similar taxes or recording fees related to the transfer of the Assets (collectively, the "Transfer Taxes"); (iii) any search fees and costs for the Initial Title Commitments and any updates Purchaser deems reasonably necessary thereto; (iv) the cost of the Initial Surveys and any updates Purchaser deems reasonably necessary thereto; (v) the cost of any reasonable U.C.C., judgment, bankruptcy, tax and other appropriate searches reasonably acceptable to Purchaser, (vi) the premium for each Title Policy issued to the Purchaser, which premium shall include the cost to obtain extended coverage and the following endorsements, to the extent available: zoning, comprehensive, access, tax parcel (single or multiple as need), same as survey, contiguity (as needed), utility facility, (vii) the cost of any endorsement required to cure or insure over any exceptions identified by the Purchaser in any Title Objection Notice which Sellers agreed to cure, and (viii) the costs associated any Phase I environmental reports, property inspection reports and all other reports, inspections and investigations placed in the Data Site by the Sellers.

(c) At Closing, the Closing Statement will reflect that Purchaser shall reimburse or pay, as the case may be, One Million Five Hundred Thousand Dollars (\$1,500,000) toward the expenses incurred by Sellers pursuant to Section 9.4(b).

(d) The Purchaser shall prepare and cause to be filed at Closing all applicable sales tax or real property transfer tax forms or declarations or similar forms as required by Applicable Law. Sellers agree to reasonably cooperate in the preparation of such declarations or forms.

Section 9.5 Survival. The terms of this Article IX shall survive the Closing.

ARTICLE X

TERMINATION AND ABANDONMENT

Section 10.1 Method of Termination. This Agreement may be terminated and the transactions herein contemplated may be abandoned at any time on or before the Closing:

- (a) by either Party in its sole discretion prior to the expiration of the Inspection Period;
- (b) by mutual written consent of the Parties;
- (c) by the Purchaser giving written notice to the Sellers at any time prior to the Closing in the event the Sellers have breached any representation, warranty or covenant contained in this Agreement in any material respect, provided that the Purchaser has notified the Sellers of the breach and the breach has continued without cure for a period of fifteen (15) days following the notice of breach;
- (d) by the Purchaser giving written notice to the Sellers at any time after the later to occur of (i) the Outside Date (regardless of whether the cure period set forth in Section 10.1(c) has expired) and (ii) the date to which the Sellers have postponed the Closing pursuant to and in accordance with Section 4.4(b) hereof, if (i) Purchaser is ready, willing and able to close on the date such notice is provided, which for purposes hereof, shall be based upon the Purchaser's ability to demonstrate the ability to fund all amounts necessary to consummate the Closing; provided however, the Purchaser shall be able to demonstrate such ability to fund without having to actually fund such required amounts, and (ii) Sellers are unwilling or unable to close on the date of such notice despite all of the conditions to Sellers' obligation to close being satisfied in full, including, without limitation, the Monetary Lien Condition (other than those conditions that by their nature cannot be satisfied or waived until the Closing Date);
- (e) by the Purchaser giving written notice to the Sellers at any time after the Outside Date if the Sellers are unable or unwilling to close the transaction described herein on the basis that the Monetary Lien Condition has not been and simultaneously with the Closing will not have been, satisfied;
- (f) by the Sellers giving written notice to the Purchaser at any time prior to the Closing in the event the Purchaser has breached any representation, warranty or covenant contained in this Agreement in any material respect, provided that the Sellers have notified the Purchaser of the breach and the breach has continued without cure for a period of fifteen (15) days following the notice of breach;
- (g) by the Sellers giving written notice to the Purchaser at any time after the Outside Date (regardless of whether the cure period set forth in Section 10.1(f) has expired) if (i) Sellers are ready, willing and able to close on the date such notice is provided, and (ii) Purchaser is unwilling or unable to close on the date of such notice despite all of the conditions

to Purchaser's obligation to close being satisfied in full (other than those conditions that by their nature cannot be satisfied or waived until the Closing Date);

(h) by the Purchaser or the Sellers pursuant to Sections 4.4(b), 6.2 or 6.3; or

(i) by either Party, by giving written notice to the other Party, if a court of competent jurisdiction or other Governmental Authority shall have issued a non-appealable final order, decree or ruling or taken any other action, in each case having the effect of permanently restraining, enjoining or otherwise prohibiting the transactions contemplated hereby, unless the Party relying on such order, decree or ruling or other action has not complied in all material respects with its obligations under this Agreement.

Section 10.2 Procedure Upon Termination. In the event either party exercises its right to terminate this Agreement pursuant to Section 10.1, this Agreement shall immediately terminate and shall be abandoned, without further action by any of the Parties. If this Agreement is terminated for any reason, no Party shall have any liability or further obligation except as set forth in Section 10.3 and for the Surviving Obligations.

Section 10.3 Effect of Termination; Remedies for Default; Break Up Fees.

(a) Reserved.

(b) Purchaser Defaults. If the Sellers terminate this Agreement pursuant to Section 10.1(f) or Section 10.1(g), then within three (3) Business Days following such termination the Purchaser shall pay to the Sellers cash in good funds in the amount of the Break Up Fee. In addition, the Surviving Obligations shall remain in effect.

(c) Specific Performance. If the Purchaser has the right to terminate this Agreement pursuant to Section 10.1(d), the Parties agree that because Purchaser will not have an adequate remedy at law, Purchaser shall have the right, in lieu of termination of this Agreement, to seek specific performance.

(d) Representation and Warranty Defaults. In the event that the Purchaser terminates this Agreement pursuant to Section 10.1(c), as a result of the Sellers' breach of a material representation and warranty which breach (i) existed as of Effective Date or (ii) occurred after the Effective Date but prior to the Closing Date as a result of the Sellers' intentional, willful or negligent actions, the Sellers shall pay to the Purchaser an amount equal to the lesser of (i) Purchaser's Expenses and (ii) the Reimbursement Cap within three (3) Business Days following such termination.

(e) Other Termination. If this Agreement is terminated pursuant to Section 10.1(a), Section 10.1(b), Section 10.1(c) (other than as a result of breaches covered by Section 10.3(d)(i) or Section 10.3(d)(ii)), Section 10.1(e), Section 10.1(h) or Section 10.1(i), then the only obligations of the Parties shall be the Surviving Obligations.

(f) Liquidated Damages. The Parties have agreed that the actual damages of either Party, in the event of a failure of the other Party to consummate the transactions described herein due to a default or breach of its covenants hereunder, would be extremely difficult or

impracticable to determine. After negotiation, the Parties have agreed that, considering all the circumstances existing on the date of this Agreement, in the circumstances set forth in this Agreement requiring payment of the same, an amount equal to the Break Up Fee is a reasonable estimate of the damages that the applicable Party would incur in such event.

ARTICLE XI

MISCELLANEOUS PROVISIONS

Section 11.1 Amendment and Modification. This Agreement may be amended, modified and supplemented only by written agreement signed by all of the Parties.

Section 11.2 Waiver of Compliance: Consent. Any failure of the Sellers on the one hand, or the Purchaser, on the other hand, to comply with any obligation, covenant agreement or condition herein may be waived in writing by the other Party, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Whenever this Agreement requires or permits consent by or on behalf of any Party, such consent shall be given in writing in a manner consistent with the requirements for a waiver of compliance as set forth in this Section 11.2.

Section 11.3 Notice. All notices, requests, demands and other communications required or permitted hereunder shall be in writing and shall be personally delivered, or sent by facsimile transmission or electronic mail (provided a copy is thereafter promptly mailed or delivered as hereinafter provided), or sent by overnight commercial delivery service (provided a receipt is available with respect to such delivery), and shall be effective when received during business hours (a business hour being the hours from 8:00 a.m. to 5:00 p.m. on Business Days and if notice is received after business hours it shall be deemed delivered on the next Business Day), if sent by personal delivery, by facsimile transmission, electronic mail or by overnight delivery service:

(a) If to the Purchaser, to:

NIC Acquisitions LLC
c/o Fortress Investment Group LLC
1345 Avenue of the Americas, 46th Floor
New York, NY 10105
Telephone: (212) 798-6100
Attention: Jonathan Brown

With a copy to:

Donald A. Stern
Cleary Gottlieb Steen & Hamilton LLP
c/o Donald A. Stern
One Liberty Plaza, New York NY 10006
Telephone: (212) 225-2640
Facsimile: (212) 225-3999
Email: dstern@cgsh.com

(b) If to the Sellers, to:

c/o - Holiday Retirement
5885 Meadows Rd., Suite 500
Lake Oswego, OR 97035
Attn: Chief Legal Officer
E-mail: legal@holidaytouch.com

with a copy (which shall not constitute notice) to:

Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York, New York 10036
Attn: Neil Rock
Tel: (212) 735-3787
Fax: (917) 777-3787
Email: neil.rock@skadden.com

or to such other person or address as any Party shall furnish to the other Party in writing pursuant to this Section 11.3. Notice shall be deemed given to any Person in accordance with the terms of this Section 11.3 if and when rejected by such Person.

Section 11.4 Bulk Sales Laws. The Purchaser and Sellers hereby waive compliance by the other with the provisions of any bulk sales, bulk transfer or similar laws of any jurisdiction that may otherwise be applicable with respect to the sale of all or any portion of the Assets to the Purchaser.

Section 11.5 Expenses. Except as otherwise provided herein, each Party shall bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

Section 11.6 Assignment. This Agreement and all of the terms, covenants and conditions in this Agreement shall be binding upon and inure to the benefit of the Parties and their respective heirs, successors and permitted assigns. Neither the Purchaser nor the Sellers may assign this Agreement without first obtaining the other Party's prior written consent, which may be withheld in the other Party's sole discretion. No permitted assignment of this Agreement shall release the Purchaser from its obligations hereunder. Notwithstanding the foregoing, this Agreement may be assigned by Purchaser to one or more Affiliates of Purchaser at Closing;

provided that (i) Purchaser and any assignees by accepting assignment of this Agreement, expressly agrees to defend and indemnify the Sellers from any litigation arising out of the assignment; (ii) no further assignment shall occur without the prior written consent of the Seller; and (iii) written notice of the assignment, is provided to the Sellers no fewer than five (5) Business Days prior to Closing.

Section 11.7 Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of New York, without giving effect to any principles regarding conflict of laws to the extent such principles would require or permit the application of the laws of another jurisdiction.

Section 11.8 Business Day. If the date for giving of notice or performance of any duty or obligation hereunder falls on a day that is not a Business Day hereunder, such date shall be automatically extended to the next Business Day hereunder.

Section 11.9 Counterparts. This Agreement may be executed by facsimile signature or other electronic form of signature, (including "pdf") and in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 11.10 Headings. The Article and Section headings and table of contents contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 11.11 Entire Agreement. This Agreement, as such term is used throughout, includes the Exhibits and Disclosure Schedules hereto and embodies the entire agreement and understanding of the Parties in respect of the subject matter contained herein. There are no restrictions, promises, representations, warranties, covenants, agreements or undertakings, other than those expressly set forth or referred to herein. This Agreement supersedes all prior agreements and understandings among the Parties with respect to such subject matters contained herein.

Section 11.12 Warranty of Authority. Each of the Parties warrants that the persons signing on their behalf have the right and power to enter into this Agreement and to bind them to the terms of this Agreement.

Section 11.13 Publicity. All pre-Closing publicity concerning the transactions contemplated by this Agreement and all notices respecting publicity shall be jointly planned, coordinated and released by and among the Parties; provided, however, that nothing herein shall prohibit either Party from making any press release or disclosure as may be required to comply with Applicable Law, regulation or stock market rule provided that the releasing or disclosing Party provides notice to the other of the substance of such release or disclosure in advance thereof.

Section 11.14 Waiver of Jury Trial. EACH OF THE PARTIES HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT TO TRIAL BY JURY IN ANY LEGAL ACTION BROUGHT ON IN CONNECTION WITH ANY MATTER ARISING

OUT OF OR IN ANY WAY CONNECTED WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. THE PROVISIONS OF THIS SECTION 11.14 SHALL SURVIVE THE CLOSING OR EARLIER TERMINATION OF THIS AGREEMENT.

Section 11.15 Third Party Beneficiaries. Nothing in this Agreement, expressed or implied, is intended or shall be construed to confer upon any third party other than the Parties hereto and the Indemnified Parties as set forth in Article IV and Article VII any right, remedy or claim under or by reason of this Agreement.

Section 11.16 Interpretation. When a reference is made in this Agreement to an Article, a Section, Exhibit or section of the Disclosure Schedules, such reference shall be to an Article of, a Section of, or an Exhibit or section of the Disclosure Schedules to, this Agreement unless otherwise indicated. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.” The words “hereof,” “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. References to a person are also to its permitted successors and assigns. The Parties have participated jointly in the negotiating and drafting of this Agreement. In the event of an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provisions of this Agreement. In the event of a conflict between this Agreement and any Exhibit hereto, this Agreement shall govern.

Section 11.17 Submission to Jurisdiction. Each Party (i) submits to the exclusive jurisdiction of the state courts of the State of New York in New York County and to the jurisdiction of the United States District Court for the Southern District of New York for the purposes of each and every suit, action or other proceeding arising out of or based upon this Agreement or the subject matter hereof brought by the Parties, it being expressly understood and agreed that this consent to jurisdiction shall be self-operative and no further instrument or action, other than service of process as required by law, shall be necessary in order to confer jurisdiction upon a party in any such court; and (ii) waives, and agrees not to assert, by way of motion, as a defense, or otherwise, in any suit, action or proceeding brought in any such court, any claim that either the Purchaser or Sellers are not subject personally to the jurisdiction of the above-named courts, that the Purchaser's or Sellers' property is exempt or immune from attachment or execution, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that this Agreement or the subject matter hereof may not be enforced in or by such court, and further agrees to waive, to the fullest extent permitted under Applicable Law, the benefit of any defense that would hinder, fetter or delay the

levy, execution or collection of any amount to which Sellers, the Purchaser or its respective successors or assigns are entitled pursuant to the final judgment of any court having jurisdiction.

Section 11.18 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of Applicable Law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible to the fullest extent permitted by Applicable Law in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, each of the Parties has executed this Agreement as of the date first written above.

SELLERS:

Blair House Retirement Residence LP
St. Louis Retirement Residence LP
Denton Retirement Residence LP
Lemoyne Retirement Residence LP
Greeley Retirement Residence LP
Harrisburg Retirement Residence LP
Flower Mound Retirement Residence LP
Holiday Retirement Associates III LP
Simi Valley Retirement Residence LP
Boyertown Retirement Residence LP
Durham Retirement Residence LP

By: Harvest General Partner II LLC, Its
General Partner

By:

Name: Scott Shanaberger

Title: Chief Financial Officer

Signature Pages to NCT Purchase Agreement

**Yorktown Retirement Residence LLC
Sarasota Retirement Residence LLC
Greece Retirement Residence, LLC
Paducah Retirement Residence LLC
Cary Retirement Residence LLC
Rocky Hill Retirement Residence LLC
Fayetteville Retirement Residence LLC
Eau Claire Retirement Residence LLC
St. Louis Retirement Residence III LLC
Logan Retirement Residence LLC
Madrona Ridge, L.L.C.
Rock Creek Retirement Residence LLC
Corvallis Retirement Residence LLC
Shreveport Retirement Residence II LLC
Topeka Retirement Residence LLC
Surprise Retirement Residence LLC**

By: Harvest General Partner II LLC, Its
General Partner

By: _____
Name: Scott Shanaberger
Title: Chief Financial Officer

Signature Pages to NCT Purchase Agreement

Harvest Arlington Retirement Residence LLC
Harvest Bentley Retirement Residence LLC
Port Huron Retirement Residence LLC
Harvest Citation - Chateau Ridgeland Retirement Residence LLC
Tallahassee Retirement Residence LLC
Harvest Country Squire Retirement Residence LLC
Harvest Citation - Lakewood LLC
Harvest El Dorado Retirement Residence LLC
Harvest Hidden Lakes Retirement Residence LLC
Harvest Grasslands Estates Retirement Residence LLC
Harvest Grizzly Peak Retirement Residence LLC
Harvest Fountains at Hidden Lakes Retirement Residence LLC
Harvest Illahee Hills Retirement Residence LLC
Harvest Madison Estates LLC
Harvest Palmer Hills Retirement Residence LLC
Harvest Parkwood Estates Retirement Residence LLC
Harvest Pueblo Regent Retirement Residence LLC
Harvest Regency Residence Retirement Residence LLC
Harvest Sky Peaks Retirement Residence LLC
Harvest Uffelman Estates Retirement Residence LLC
Harvest Ventura Place Retirement Residence LLC
Harvest Village Gate Retirement Residence LLC
Harvest Westmont Retirement Residence LLC
Harvest Whiterock Court Retirement Residence LLC

By: Harvest Mezzanine II LLC

By: _____
Name: Scott Shanaberger
Title: Chief Financial Officer

Signature Pages to NCT Purchase Agreement

HARVEST REGENT CORVALLIS LLC

By: Harvest Facility Holdings II LP,

By: Harvest Facility Holdings II GP
LLC, Its General Partner

By: _____
Name: Scott Shanaberger
Title: Chief Financial Officer

[END OF SELLERS' SIGNATURE PAGES]

Signature Pages to NCT Purchase Agreement

PURCHASER:

NIC ACQUISITIONS LLC

By:

Name: Jonathan Brown

Title: Chief Financial Officer

[END OF PURCHASER'S SIGNATURE PAGES]

JOINDER BY HARVEST FACILITY HOLDINGS LP:

Harvest Facility Holdings LP ("Sellers' Guarantor"), hereby joins in the execution of this Agreement and hereby unconditionally guaranties to the Purchaser the full and faithful payment and performance by the Sellers of all of their obligations to the Purchaser under this Agreement. The liability of Sellers' Guarantor hereunder shall in no way be affected, diminished or released by any extension of time or forbearance that may be granted by the Purchaser to the Sellers or by the acceptance by the Purchaser of additional security for performance of the Agreement or any release, substitution or changes in any such security, or by any modifications, amendments or extensions of the Agreement agreed upon by the Sellers and the Purchaser. The Purchaser, in its sole discretion, may waive or release any provision or provisions of the Agreement as the Purchaser may deem proper or desirable, without any notice to or further assent from Sellers' Guarantor and without in any manner impairing or affecting this guaranty as to any provision(s) not so waived or released or any of the Sellers' Guarantor's obligations hereunder. Sellers' Guarantor waives all rights and defenses arising out of an election of remedies by the Purchaser, even though that election of remedies has destroyed Sellers' Guarantor's rights of subrogation and reimbursement against the Sellers. Sellers' Guarantor waives all suretyship rights or defenses under applicable law. The Purchaser may enforce this guaranty against the Sellers' Guarantor without the necessity at any time of resorting to or exhausting any other remedy or any other security or collateral and without the necessity at any time of having recourse to any of its rights or remedies under the Agreement, and without the necessity of proceeding against the Sellers. This is a guaranty of payment and performance and not merely of collection. The obligations of Sellers' Guarantor hereunder are absolute, primary, unconditional and irrevocable obligations, enforceable by the Purchaser at the Purchaser's election, simultaneously with or after proceeding against Sellers or without the necessity of any suit or proceedings against the Sellers, and in any event, without the necessity of any notice of non-payment, non-performance or non-observance, or of any notice of acceptance of this guaranty or any other notice or demand to which Sellers' Guarantor might otherwise be entitled or that may be required to preserve any rights against Sellers' Guarantor, all of which Sellers' Guarantor expressly waives.

HARVEST FACILITY HOLDINGS LP

By: _____

Name: _____

Title: _____

JOINDER BY NEWCASTLE SENIOR LIVING HOLDINGS LLC:

Newcastle Senior Living Holdings LLC ("Purchaser's Guarantor"), hereby joins in the execution of this Agreement and hereby unconditionally guaranties to the Sellers the full and faithful payment and performance by the Purchaser of all of their obligations to the Sellers under this Agreement. The liability of Purchaser's Guarantor hereunder shall in no way be affected, diminished or released by any extension of time or forbearance that may be granted by the Sellers to the Purchaser or by the acceptance by the Sellers of additional security for performance of the Agreement or any release, substitution or changes in any such security, or by any modifications, amendments or extensions of the Agreement agreed upon by the Purchaser and the Sellers. The Sellers, in their sole discretion, may waive or release any provision or provisions of the Agreement as the Sellers may deem proper or desirable, without any notice to or further assent from Purchaser's Guarantor and without in any manner impairing or affecting this guaranty as to any provision(s) not so waived or released or any of the Purchaser's Guarantor's obligations hereunder. Purchaser's Guarantor waives all rights and defenses arising out of an election of remedies by the Sellers, even though that election of remedies has destroyed Purchaser's Guarantor's rights of subrogation and reimbursement against the Purchaser. Purchaser's Guarantor waives all suretyship rights or defenses under applicable law. The Sellers may enforce this guaranty against the Purchaser's Guarantor without the necessity at any time of resorting to or exhausting any other remedy or any other security or collateral and without the necessity at any time of having recourse to any of its rights or remedies under the Agreement, and without the necessity of proceeding against the Purchaser. This is a guaranty of payment and performance and not merely of collection. The obligations of Purchaser's Guarantor hereunder are absolute, primary, unconditional and irrevocable obligations, enforceable by the Sellers at the Sellers' election, simultaneously with or after proceeding against Purchaser or without the necessity of any suit or proceedings against the Purchaser, and in any event, without the necessity of any notice of non-payment, non-performance or non-observance, or of any notice of acceptance of this guaranty or any other notice or demand to which Purchaser's Guarantor might otherwise be entitled or that may be required to preserve any rights against Purchaser's Guarantor, all of which Purchaser's Guarantor expressly waives.

NEWCASTLE SENIOR LIVING HOLDINGS LLC

By: _____

Name: _____

Title: _____

MASTER LEASE

by and among

**NIC 12 ARLINGTON PLAZA OWNER LLC, NIC 12 BLAIR HOUSE OWNER LLC,
NIC 12 BLUE WATER LODGE OWNER LLC, NIC 12 BRIARCREST ESTATES
OWNER LLC, NIC 12 CHATEAU RIDGELAND OWNER LLC, NIC 12 CHERRY
LAUREL OWNER LLC, NIC 12 COLONIAL HARBOR OWNER LLC, NIC 12
COUNTRY SQUIRE OWNER LLC, NIC 12 COURTYARD AT LAKEWOOD OWNER
LLC, NIC 12 DESOTO BEACH CLUB OWNER LLC, NIC 12 EL DORADO OWNER
LLC, NIC 12 ESSEX HOUSE OWNER LLC, NIC 12 FLEMING POINT OWNER LLC,
NIC 12 GRASSLANDS ESTATES OWNER LLC, NIC 12 GREELEY PLACE OWNER
LLC, NIC 12 GRIZZLY PEAK OWNER LLC, NIC 12 JACKSON OAKS OWNER LLC,
NIC 12 MAPLE DOWNS OWNER LLC, NIC 12 PARKWOOD ESTATES OWNER LLC,
NIC 12 PIONEER VALLEY LODGE OWNER LLC, NIC 12 REGENCY RESIDENCE
OWNER LLC, NIC 12 SIMI HILLS OWNER LLC, NIC 12 STONEYBROOK LODGE
OWNER LLC, NIC 12 SUMMERFIELD ESTATES OWNER LLC, NIC 12 VENTURA
PLACE OWNER LLC,**

each a Delaware limited liability company,

collectively, as “**Landlord**”

and

NCT MASTER TENANT I LLC,

a Delaware limited liability company

as “**Tenant**”

December 23rd, 2013

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MASTER LEASE

THIS MASTER LEASE is executed this 23rd day of December, 2013 to become effective as of the Commencement Date (as hereinafter defined), by and between NCT MASTER TENANT I LLC, a Delaware limited liability company, having its principal office at c/o Holiday Retirement, 5885 Meadows Rd., Suite 500, Lake Oswego, OR 97035, as Tenant (“Tenant”), and each of the undersigned entities listed under the heading “Landlord” on the signature pages hereto, each a Delaware limited liability company, having its principal office at c/o Fortress Investment Group LLC, 1345 Avenue of the Americas, 46th Floor, New York, NY 10105, as Landlord (individually and collectively, “Landlord”).

RECITALS

- A. Landlord is (i) the owner of those facilities listed on Exhibit O.
- B. Landlord and Tenant have reached agreement upon the terms of a lease under which Tenant will lease or sublease, as applicable, the Facilities from Landlord.

NOW, THEREFORE, in consideration of the foregoing Recitals, the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

ARTICLE 1

DEFINITIONS

For all purposes of this Lease, unless otherwise expressly provided in this Lease or unless the context in which such term is used indicates a contrary intent, (a) the terms defined in this Article shall have the meanings ascribed to them in this Article, and the terms defined elsewhere in this Lease shall have the meanings ascribed to them herein, (b) all accounting terms not otherwise defined in this Article shall have the meanings ascribed to them in accordance with generally accepted accounting principles at the time applicable to the accrual method of accounting, applied on a consistent basis, (c) all references in this Lease to designated “Articles,” “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this Lease, and (d) the words “herein,” “hereof” and “hereunder” and other words of similar import refer to this Lease as a whole and not to any particular Article, Section or other subdivision:

“Accounts” means Tenant’s accounts receivable (including healthcare insurance receivables or other governmental healthcare payments, if applicable) and other rights to payment arising from the Facilities now existing or hereafter arising and whether for the sale or provision of goods or services to residents, including, but not limited to occupancy charges of all kinds.

“Additional Charges” shall have the meaning ascribed to such term in Section 4.3.

“Adjusted Net Worth” means, with respect to a Person, on any date of determination, for such Person and, if applicable, its Consolidated Subsidiaries determined on a consolidated basis, an amount equal to the book value of such Person’s assets as of such date, plus (a) (i) accumulated depreciation and (ii) the Cumulative Straight-line Rent (to the extent reflected as a liability on the balance sheet of such Person as of the applicable date of calculation), minus (b) (i) the liabilities of such Person as of such date, (ii) the book value of the total intangible assets (excluding resident lease intangibles) of such Person as of such date, and (iii) the Cumulative Straight-line Rent (to the extent reflected as an asset on the balance sheet of such Person as of the applicable date of calculation), each as determined in accordance with GAAP.

“Affiliate” shall mean (a) with respect to Tenant or Subtenant, any individual, corporation, trust, business trust, association, limited liability company, partnership, joint venture, or other entity which, directly or indirectly, controls, or is controlled by, or is under common control with, Tenant or Subtenant, respectively, and (b) with respect to Landlord, any corporation, business trust, association, company, partnership, joint venture, or other entity which, directly or indirectly, controls, or is controlled by, or is under common control with, Landlord.

“Agent” shall have the meaning given to such term in Section 8.4(a).

“Allocated Facility Rent” means the Base Rent attributable to each Facility in the amount specified in Schedule 1.1 (each such amount as increased in accordance with the terms hereof).

“Alteration” means any alteration or modification to a Facility.

“Applicable Transfer Conditions” mean the following conditions:

- (a) neither the Proposed Transferee nor any Affiliate of the Proposed Transferee is a Prohibited Person;
- (b) Tenant has provided Landlord with not less than forty-five (45) days’ prior written notice of such proposed transaction;
- (c) Tenant delivers to Landlord copies of all documentation related to such proposed transaction; provided, however, that to the extent the Transfer includes assets or interests in entities other than the Tenant and the Facilities, Tenant shall be permitted to omit from the delivered documents all documents or provisions which do not relate to the Tenant and the Facilities;
- (d) Tenant shall have delivered to Landlord a certification from an officer of Tenant confirming that to Tenant’s knowledge, Tenant and any Proposed Transferee, or its Affiliates, are not the subject of any investigation, proceeding, audit, inquiry, or examination by any governmental authority, concerning any actual or alleged violation of any Legal Requirements that could result in a material adverse effect on the surviving tenant under this Lease or on the Facilities taken as a whole;
- (e) After giving effect to the proposed transaction, no material action would need to be taken by Tenant or Landlord pursuant to Section 25.20, provided that, if Landlord reasonably determines that any such material action would need to be taken, Landlord shall provide

reasonably acceptable evidence to support its determination to Tenant within the forty-five (45) day period described in subsection (b) above;

(f) Tenant or Proposed Transferee pays all actual and reasonable out of pocket reasonable fees, costs, and expenses incurred by Landlord in connection with the proposed transaction, including, without limitation, all reasonable legal (for outside counsel) and accounting fees whether or not the transaction is actually consummated;

(g) Tenant, Guarantor and any Proposed Transferee, as applicable, shall take such actions and execute and deliver such documents to Landlord, including without limitation amendments to the Collateral Documents and/or replacement Collateral Documents, as are reasonably necessary and appropriate for Landlord to maintain equivalent security interests in Tenant, the Subtenants and the Facilities, as are provided in favor of Landlord immediately prior to the proposed transaction;

(h) Proposed Transferee (and any manager of the Facilities following the proposed transaction) is a Person, or an Affiliate of a Person, that owns or operates at least twenty (20) senior housing communities (in addition to the Facilities and any facilities leased pursuant to the Sister Lease) and none of the chief executive officer, chief financial officer, chief operating officer or chief compliance officer or any such Person holding a reasonably equivalent position at the Proposed Transferee or Manager, as applicable, has been convicted of a felony relating to (A) the ownership or operation of senior housing facilities or (B) fraud and/or embezzlement; and

(i) either:

(i) after giving effect to the proposed transaction, (A) Tenant or Proposed Transferee, as applicable, shall remain, directly or indirectly, controlled by Guarantor, (B) on a pro forma basis Guarantor shall satisfy, at a minimum, the financial covenants as set forth on Schedule 1 of the Guaranty, as evidenced by (I) documentation reasonably acceptable to Landlord or (II) a certificate provided by an independent accounting firm and (C) all other representations, warranties and covenants contained in the Guaranty (other than the representation and warranty contained in the last sentence of Section 10(a) thereof to the extent, as of the date of the Transfer, Guarantor meets the requirements of Section 10(b) of the Guaranty) shall remain true and correct on and as of the effectiveness of any such proposed transaction with the same force and effect as if made on and as of such date except to the extent that such representations and warranties expressly relate solely to an earlier date (in which case such representations and warranties shall have been true and correct on and as of such earlier date) and except for changes in factual circumstances specifically and expressly permitted thereunder; or

(ii) Tenant, Guarantor or any Proposed Transferee shall have delivered or caused to be delivered a new guaranty to Landlord, in the form of the Guaranty and from an entity which is an Affiliate of the Tenant (after giving effect to the Transfer) and, after giving effect to the proposed Transfer, satisfies the terms and conditions of clause (i) of this Paragraph (i).

“ Approvals” shall have the meaning given to such term in Section 25.11(b).

“ Approved Landlord” shall mean (a) “Landlord” as of the date hereof and (b) each successor or assignee landlord provided any such Person, together with all Affiliates of such Person, have NTA Net Worth, in the aggregate, of not less than \$200,000,000.

“ Assignment of Contracts and Operating Leases” means the Assignment and Assumption of Contracts and Operating Leases in the form of Exhibit A attached hereto and incorporated herein by this reference pursuant to which Tenant shall assign all of its right, title and interest in the Contracts and Operating Leases to Landlord (or to Landlord’s successor in title to the Facilities) effective upon the termination of this Lease.

“ Assignment of Resident Agreements” means the Assignment and Assumption of Resident Agreements in the form of Exhibit B attached hereto and incorporated herein by this reference pursuant to which Tenant shall assign all of its right, title and interest in the Resident Agreements to Landlord (or to Landlord’s successor in title to the Facilities) effective upon the termination of this Lease.

“ Authority” shall mean the United States, the State, the county, the city or any other political subdivision in which any portion of the Property is located, and any other political subdivision, agency, instrumentality, department, commission, board, court, authority, official, officer, accreditation authority or any other Person, domestic or foreign, exercising jurisdiction or control over Landlord, Tenant and/or any portion of the Property.

“ Award” shall have the meaning ascribed to such term in Section 16.1(c).

“ Bankruptcy Code” shall have the meaning given to such term in Section 4.4(b)(1).

“ Base Rent” shall mean the monthly installments of Base Rent payable under this Lease in the amounts set forth in Section 4.1.

“ Bill of Sale” means the instrument in the form of Exhibit C attached hereto and incorporated herein by this reference, pursuant to which Tenant will convey to Landlord, (or to Landlord’s successor in title to the Facilities), effective upon the termination of this Lease, all of Tenant’s right, title and interest in the Transferred Tenant’s Personal Property, Inventory and Records.

“ Cap Ex Account” shall mean an account established by Landlord into which any required deposits pursuant to Section 7.2 shall be deposited by Tenant.

“ Capital Additions” shall mean (a) a material expansion of any Facility, (b) the renovation of the structural elements of any portion of a Facility, (c) the construction of an addition to or new wing on, or conversion of, any Facility, in each case, in order to (i) materially increase the unit, or service capacity, (ii) improve, add or change any material services, both medical and non-medical, so as to include services not previously offered at the respective Facility, or (iii) subject to the provisions of Section 8.2(b), change the purpose for which any Facility is utilized or (d) any alteration or modification that increases the size of the footprint of the building and improvements of such Facility.

“Capital Expenditures” shall mean expenditures which are accounted for as capitalized expenditures under GAAP and which are for the maintenance, improvement or preservation of the physical condition of a Facility.

“Capital Stock” shall mean, with respect to any Person, any capital stock (including preferred stock), shares, interests, participation or other ownership interests (however designated) of such entity and any rights (other than debt securities convertible into or exchangeable for capital stock), warrants or options to purchase any thereof; provided, however, that leases of real property that provide for contingent rent based on the financial performance of the tenant shall not be deemed to be Capital Stock.

“Collateral Documents” shall have the meaning given to such term in Section 11.2.

“Code” means the Internal Revenue Code of 1986, as amended.

“Combined Lease Right” shall have the meaning given to such term in Section 25.21.

“Commencement Date” shall mean the date Landlord acquires record title to all of the Facilities.

“Company” shall have the meaning given to such term on the Signature Page.

“Condemnation” shall have the meaning ascribed to such term in Section 16.1(a).

“Condemnor” shall have the meaning ascribed to such term in Section 16.1(d).

“Consolidated Subsidiaries” shall mean, with respect to a Person, any subsidiaries or other entities the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date.

“Contracts” means collectively those agreements (other than the Operating Leases and Licenses) to which Tenant or Subtenant is a party and under which Tenant conducts the business of the Facilities.

“Control”, including the correlative meanings of the terms “controlled by” and “under common control with”, as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such entity, through the ownership of voting securities, partnership interests or other equity interests, or through any other means, including the right to act as managing member. For the purpose of this Lease, the transfer or assignment of (a) 51% or more of the ownership interests in any Person shall constitute a change in Control and (b) less than 51% of the ownership interests in any Person shall not constitute a change in Control.

“CPI” shall mean the United States Department of Labor, Bureau of Labor Statistics Consumer Price Index for All Urban Consumers, United States City Average (1982 — 1984 = 100). If the foregoing index is discontinued or revised during the Term, the governmental index or computation with which it is replaced shall be used to obtain substantially the same result.

“CPI Increase” shall mean, for a particular calculation period, the percentage increase (rounded to two decimal places), if any, in (a) the average CPI published for each of the trailing 6 months ending on the applicable calculation date over (b) the average CPI published for each of the trailing 6 months ending on January 1, 2018.

“Cumulative Minimum Portfolio Capex Shortfall” shall mean for each Cumulative Period, the amount, if any, by which the Cumulative Minimum Portfolio Capex Target Amount exceeds the sum of (a) the aggregate actual Capital Expenditures for all Facilities for such period and (b) any amounts held by Landlord or a Facility Mortgagee pursuant to Section 7.5.

“Cumulative Minimum Portfolio Capex Target Amount” shall mean, as of each December 31st occurring during the Term (or such other date of termination or expiration of this Lease if not on December 31), an amount equal to the aggregate number of units at the Facilities multiplied by the amount reflected for the corresponding December 31st as set forth in Schedule 7.1(a).

“Cumulative Period” shall mean the period commencing on the date hereof and ending on the December 31st that most recently preceded the date of calculation of the applicable Cumulative Minimum Portfolio Capex Shortfall.

“Cumulative Straight-line Rent” shall mean the sum of all non-cash straight-line rent adjustments made by a given Person or its Consolidated Subsidiaries whether made before or after the date hereof, but only to the extent such adjustments remain directly reflected as an asset or as a liability on the balance sheet of such Person as of the applicable date of calculation.

“Date of Taking” shall have the meaning ascribed to such term in Section 16.1(b).

“Designated Representative” shall have the meaning given to such term in Section 25.1.

“Disclosing Party” shall have the meaning given to such term in Section 27.2(a).

“Elapsed Period” shall have the meaning given to such term in Section 7.1(a).

“Encumbrance” shall have the meaning ascribed to such term in Article 23.

“Event of Default” shall have the meaning ascribed to such term in Section 17.1 and elsewhere throughout this Lease.

“Excess Capex Amount” shall have the meaning given to such term in Section 7.5(b).

“Excess Capex Deposit” shall mean the amount by which the funds held in the Cap Ex Account exceed the amounts required to be held in such account pursuant to Section 7.2.

“Facility or Facilities” shall mean any one or more of the twenty-five (25) independent living facilities described in the Purchase Agreement and shall include all land, improvements (whether now existing or made during the term of the Lease), FF&E and other personal property located at and used in the operation of the Facilities.

“Facility Mortgage” shall have the meaning ascribed to such term in Section 14.1.

“Facility Mortgagee” shall have the meaning given to such term in Section 14.1.

“Facility Sublease” shall mean each Sublease dated as of the date hereof between Tenant and each Subtenant, as the same may be amended or restated from time to time subject to the terms of this Lease.

“Fair Market Value” shall mean the fair market value of the Facilities as determined in the manner set forth in Exhibit L.

“FF&E” shall mean all furniture, furnishings, fixtures, vehicles, equipment (including non-movable medical equipment), machinery and other items of property, including all components thereof, now and hereafter located in, on or used or incorporated into the Facilities, including, without limitation, any and all furnaces, boilers, heaters, electrical equipment, heating, plumbing, lighting, ventilating, refrigerating, incineration, air and water pollution control, waste disposal, air-cooling and air conditioning systems, equipment and apparatus, sprinkler systems and fire and theft protection equipment, built-in oxygen and vacuum systems, wiring, tubing, central clock systems, elevators, dumb waiters, intercom systems, nurse call systems, affixed cabinetry and counters, pneumatic tube systems, vacuum cleaning systems, conveyor systems, paging systems, mill work, x-ray protection, pass-through boxes, exhaust systems, laboratory plumbing and piping, medical gas systems, nurse station counters, emergency generators and similar items incorporated into and made a part of the Facilities, together with all replacements, modifications, alterations and additions thereto. FF&E shall not be deemed to include Tenant’s Excluded Property.

“Fiscal Year” shall mean Tenant’s Fiscal Year, which now ends December 31 in each calendar year, with the new Fiscal Year beginning on the following January 1. For purposes of this Lease, the partial Fiscal Year between the Commencement Date and January 1 of the next Fiscal Year shall constitute a separate Fiscal Year. If Tenant changes its Fiscal Year at any time during the Term, Tenant shall promptly give Landlord Notice specifying such change. If any such change is made, all reporting and accounting procedures set forth in this Lease shall continue to be made in accordance with generally accepted accounting principles, consistently applied. Any appropriate adjustments to such procedures as a result of such change shall be made upon the reasonable mutual consent of Landlord and Tenant. No such change or adjustment shall alter the Term, and Tenant shall bear any accounting costs reasonably incurred by Landlord as a result of any such change or adjustment.

“GAAP” shall mean generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and directives of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the accounting profession).

“Ground Leases” means (a) that certain Ground Lease, dated August 19, 1988, between Masonic Hall Corporation of Santa Clara, as lessor, and Santa Clara Retirement Residence Limited Partnership (as successor by assignment to Matrix Properties, Inc.), as lessee (as amended, modified, assigned and supplemented from time to time) (as further amended,

modified, assigned and supplemented from time to time) and (b) the right, title and interest of Rocky Hill Retirement Residence LLC, under that certain Ground Lease, effective November 17, 2013, between Rocky Hill Holdings LLC, as lessor, and Rocky Hill Retirement Residence LLC, as lessee (as further amended, modified, assigned and supplemented from time to time).

“Guarantor” shall mean Holiday AL Holdings, LP or any successor, assign or replacement as permitted under this Lease.

“Guaranty” shall mean that certain lease guaranty executed by Guarantor in favor Landlord on the Commencement Date (as amended from time to time), or any replacement thereof, as applicable, the form of which is attached as Exhibit G. Upon the execution of a Severed Lease, the term “Guaranty” as used in this Lease shall refer to the replacement guaranty entered into by Guarantor solely with respect to this Lease (as amended).

“Hazardous Substances” shall mean any hazardous or toxic substances, materials or wastes listed in the United States Department of Transportation Table (49 CFR 172.101) or by the Environmental Protection Agency as hazardous substances (40 CFR Part 302) and amendments thereto, or such substances, materials and wastes which are or become regulated under any applicable Legal Requirement relating to the protection of health or the environment, including any materials, wastes or substances which are (a) hydrocarbons, petroleum and petroleum products, (b) asbestos, (c) polychlorinated biphenyls, (d) formaldehyde, (e) radioactive substances, (f) flammables and explosives, (g) described as a “hazardous substance” pursuant to Section 311 of the Clean Water Act, 33 U.S.C. Section 1251 et seq., 33 U.S.C. Section 1321 or listed pursuant to Section 307 of the Clean Water Act (33 U.S.C. Section 1317), (h) defined as a “hazardous waste” pursuant to Section 1004 of the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. (42 U.S.C. Section 6903), (i) defined as a “hazardous substance” pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq. (42 U.S.C. Section 9601), as the same may be amended from time to time or (j) toxic mold, fungi, bacteria or other microorganism or any related etiologic agents or materials (living or nonliving) which is regulated under State or federal law as a hazardous material, substance or waste.

“HHS” shall have the meaning given to such term in Section 22.3.

“HIPAA” shall have the meaning given to such term in Section 22.3.

“Impositions” shall mean all taxes (including, without limitation, (a) all real property taxes imposed upon the Land, the Facilities or any of the FF&E, (b) all other real property taxes and personal property taxes imposed upon the Property, and (c) all ad valorem, sales, use, single business, gross receipts, transaction privilege, rent or similar taxes relating to rent that are imposed upon Tenant or Landlord (excluding income taxes of Landlord), Tenant’s Personal Property or its business conducted upon any portion of the Land (or the Property or from within the Facilities), assessments (including, without limitation, all supplemental real property tax assessments or assessments for public improvements or benefit, whether or not commenced or completed prior to the date hereof and whether or not to be completed within the Term), any other covenants, conditions or restrictions of record with respect to the Property, water, sewer or other rents and charges, excises, tax levies, fees (including, without limitation, license, permit,

franchise, inspection, authorization and similar fees and any and all connection charges, guaranteed revenues, contributions-in-aid of construction or other charges under any developer agreement or other agreement of record) and all other governmental charges, in each case whether general or special, ordinary or extraordinary, foreseen or unforeseen, of every character or nature whatsoever imposed with respect to or connected with the Property or the business thereon or therein by Tenant (including all interest and penalties thereon due to any failure or delay by Tenant in payment thereof) which at any time prior to, during or with respect to the Term hereof may be assessed or imposed, and which become due and payable, on or with respect to, or to the extent unpaid may be a lien upon (i) Landlord's interest in the Property, (ii) the Property or any part thereof or any Rent therefrom or any estate, right, title or interest therein or (iii) any occupancy, operation, use or possession of, or sales from, or activity conducted on or in connection with the Property or the leasing or use of the Property or any part thereof by Tenant. For the purposes of this definition, the term "real property tax" shall mean for the Facilities all taxes which are imposed, levied or assessed upon or with respect to the Property, the Facilities, the Land, or any portion thereof (including increases in real property taxes which are caused by reason of any new construction in or to the Property). Notwithstanding the foregoing, Impositions shall not include (1) any tax based on net income (whether denominated as a franchise, capital stock or other tax) imposed upon Landlord or any other person, (2) any transfer or net revenue tax imposed upon Landlord or any other person (including any tax imposed as a result of a transfer, either partial or total, of Landlord's interest in the Property or which are added to a tax or charge hereinbefore included within the definition of real property tax by reason of such transfer or which are imposed by reason of this transaction, any modifications hereto, or any transfers hereof) or (3) any tax imposed with respect to the sale, exchange, mortgage or other disposition by Landlord of any property (including the Property) or the proceeds thereof, nor any tax, assessment, tax levy or charge described in the first sentence of this paragraph which is in effect at any time during the Term hereof to the extent (and for the period of time) such tax, assessment, tax levy or charge is totally or partially repealed, unless a tax, assessment, tax levy or charge set forth in clause (1) or (2) is levied, assessed or imposed expressly in lieu thereof, in which case the substitute tax, assessment, tax levy or charge shall be deemed to be an Imposition.

"Initial Improvements Account" shall mean an account established by Landlord into which the required deposits pursuant to Section 7.6 shall have been deposited by Tenant.

"Insurance Requirements" shall mean all terms and conditions of any insurance policy required by this Lease.

"Inventory" means the operating supply of consumable supplies, including food, drugs, medicines, materials and other supplies used in connection with the operation of the Facilities.

"Land" shall mean the parcels of real property described on the attached Exhibit D, and any other land acquired and made subject to this Lease in connection with the Facilities, and including all appurtenant rights relating to any such parcel.

"Lease" shall mean this document, as the same may be amended from time to time in accordance herewith.

“Lease Coverage Ratio” means the ratio of Net Operating Income for the applicable trailing twelve (12) month period for the Facilities in the aggregate, to the Base Rent for such trailing twelve (12) month period.

“Lease Coverage Multiple” means, for any given period, the minimum required Lease Coverage Ratio specified in Section 11.3.

“Lease Term” or “Term” shall have the meaning ascribed to such term in Article 3.

“Lease Year” shall mean each twelve (12) consecutive month period throughout the Term beginning on the Commencement Date and on each anniversary thereof.

“Legal Requirements” shall mean all federal, state, county, municipal and other governmental statutes, laws, rules, orders, regulations, ordinances, judgments, common law, decrees and injunctions affecting the Property or the maintenance, construction, use, alteration, occupancy or operation thereof (including but not limited to the Permitted Use), whether now or hereafter enacted and in force (including any of the foregoing which may require repairs, modifications or alterations in or to the Property), all Licenses, land use entitlements, zoning and regulations relating thereto, and all covenants, conditions, agreements, restrictions, obligations and encumbrances contained in any instruments, either of record or known to Tenant.

“Licenses” shall mean all licenses and permits for the Facilities to operate as an independent living facility issued by the local, state or federal agencies having jurisdiction over such Facilities and all other permits (including building permits), licenses, franchises, certificates (including certificates of occupancy), certificates of need, letters of non-reviewability, provider agreements or other governmental approvals and similar authorizations and entitlements as may be applicable to any Facility or otherwise required under any and all Legal Requirements to perform any and all of Tenant’s obligations under this Lease, and to operate the Facilities for the Permitted Use(s).

“Manager” means Holiday AL Management Sub LLC, a Delaware limited liability company, or any successor manager permitted by the terms of this Lease.

“Market Capitalization” means, with respect to a Person, the Market Price of such Person’s Publicly Traded Capital Stock currently outstanding multiplied by the number of such shares. For purposes of this definition, the number of shares of a Person’s Publicly Traded Capital Stock currently outstanding shall not include any shares held (a) by any subsidiary of such Person; or (b) by such Person as treasury stock or otherwise.

“Market Price” means, on any date, the closing sale price per share of a Person’s Publicly Traded Capital Stock on such date on the New York Stock Exchange or another registered national stock exchange on which such Person’s Publicly Traded Capital Stock is then listed, or if there is no such price on such date, then the closing sale price on such exchange or quotation system on the date nearest preceding such date.

“Minimum Facility Capex Amount” shall have the meaning given to such term in Section 7.1(b).

“Minimum Facility Capex Shortfall” shall mean for any rolling two (2) year period, the amount, if any, by which the Minimum Facility Capex Amount for a given Facility exceeds the sum of (a) the actual Capital Expenditures for such Facility for such period and (b) any amounts held by Landlord or a Facility Mortgagee pursuant to Section 7.5 with respect to such Facility.

“NCT” means Newcastle Investment Corp., a Maryland corporation.

“Net Operating Income” means, for the applicable measuring period, the sum of Tenant and Subtenants’ revenues and income from the operation of the Facilities, less Tenant’s and Subtenants’ operating expenses for the Facilities, which shall include, without limitation or duplication, an assumed management fee equal to 5% of revenues and income, property taxes, insurance and a capital expenditure reserve equal to \$500 per unit per Facility per year, but excluding, Tenant’s Base Rent liability to Landlord under this Lease and all actual Capital Expenditures and depreciation and amortization and other non-cash charges.

“Notice” or “Notices” shall mean any notice required under this Lease, all of which shall be given pursuant to Section 25.8.

“Non-Disclosing Party” shall have the meaning given to such term in Section 27.2(e).

“NTA Net Worth” means, with respect to a Person, an amount equal to total consolidated fair market value of tangible assets of such Person (including real property and financial assets but excluding good will or other intangible assets) minus total consolidated liabilities as determined in accordance with GAAP.

“Officer’s Certificate” shall mean a certificate of Tenant or Landlord, as applicable, signed by the chief executive officer, chief financial officer, chief accounting officer or other duly authorized officer of Tenant or Landlord, as applicable.

“Operating Leases” means collectively those leases of any Personal Property used by Tenant in connection with the operation of the Facilities.

“Other Lease” shall have the meaning given to such term in Section 25.21.

“Overdue Rate” shall mean 5.5% above the lease rate (which lease rate shall be determined from time to time by dividing the then current annual Base Rent by Four Hundred Ninety Four Million, Eight Hundred Eighteen Thousand Two Hundred and Forty-One Dollars (\$494,818,241)).

“Permitted Encumbrances” shall mean the matters, if any, for each respective parcel of Land set forth in Exhibit E, attached hereto and incorporated herein by this reference.

“Permitted Transfer” shall have the meaning given to such term in Section 21.7.

“Permitted Use” shall mean the use and operation of the Facilities and all parts thereof as independent living facilities providing senior residential accommodations (specifically excluding any use as a condominium, cooperative or similar arrangement or regime), and, in connection

therewith, the provision of food services, recreational services, rehabilitative and/or health care and other ancillary services, all in material compliance with all applicable Legal Requirements.

“Person” means any individual, partnership, association, corporation, limited liability company, business trust, trust, or other entity.

“Personal Property” means all linens, parts, Inventory and other items of tangible personal property that are owned by Landlord and used for the operation and/or maintenance of the Facilities. Tenant’s Excluded Property shall be excluded from the definition of “Personal Property.”

“Privacy Standards” shall have the meaning given to such term in Section 22.3.

“Prohibited Person” shall mean any Person that is (a) the target of any sanctions program that is established by Executive Order of the President or published by the Office of Foreign Assets Control, U.S. Department of the Treasury (“OFAC”), (b) designated by the President or OFAC pursuant to the Trading with the Enemy Act, 50 U.S.C. App. § 5, the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701-06, the Patriot Act, Public Law 107-56, or any Executive Order of the President issued pursuant to such statutes, or (c) named on the following list that is published by OFAC: “List of Specially Designated Nationals and Blocked Persons”.

“Property” shall have the meaning ascribed to such term in Section 2.1.

“Property Transfer Date” shall have the meaning given to such term in Section 28.1(a).

“Proposed Transferee” means the proposed assignee, sublessee or transferee of any direct or indirect interest in this Lease, Tenant, Subtenant or Guarantor pursuant to Article 21.

“Publicly Traded Capital Stock” means Capital Stock which is (i) registered under the Securities Exchange Act of 1934, as amended, and (ii) listed or traded, as the case may be, on the New York Stock Exchange, the NASDAQ Stock Market or any other nationally recognized stock exchange.

“Publicly Traded Company” means a company with Publicly Traded Capital Stock.

“Purchase Agreement” shall mean that Asset Purchase Agreement dated November 18, 2013 between Seller and Landlord, as Purchaser.

“Qualified Fund” means any one or more bona-fide private equity real estate fund(s) or sub-funds which is/are (i) sponsored by a Person (collectively, if there are multiple sub-funds) who is recognized in the real estate industry as an experienced operator or owner of commercial properties, and (ii) has or have, in the aggregate in the case of funds or sub-funds with the same or related sponsors that directly or indirectly own an interest in Tenant, total assets or committed, discretionary capital in excess of \$150,000,000.

“Qualified Fund LP” means (a) any limited partner of a Qualified Fund and (b) Retained Interest LLC, a Washington limited liability company.

“Quarterly Compliance Certificate” shall have the meaning ascribed to such term in Section 22.2(b).

“Records” means files and records, including correspondence with residents and suppliers, books of account, employment records, resident files, records pertaining to supplies, advertising records, files and literature and other written materials of Tenant and/or Subtenant relating exclusively to the Facilities but specifically excluding any written materials included in Tenant’s Excluded Property.

“REIT Affiliate” shall have the meaning given to such term in Section 25.20.

“REIT Requirements” shall have the meaning given to such term in Section 25.20.

“Remedial Work” shall have the meaning given to such term in Section 8.4(c).

“Rent” shall mean the Base Rent and Additional Charges.

“Reputable Manager” means a reputable and experienced professional manager of senior housing communities that owns or operates at least twenty (20) senior housing communities (in addition to the Facilities and any facilities leased pursuant to the Sister Lease) and none of the chief executive officer, chief financial officer, chief operating officer or chief compliance officer or any Person holding a reasonably equivalent position at such manager has been convicted of a felony relating to (A) the ownership or operation of senior housing facilities or (B) fraud and/or embezzlement.

“Requested Capex Deposit Amount” shall have the meaning given to such term in Section 7.5(a).

“Resident Agreements” means collectively all written and oral leases, occupancy agreements and other agreements granting any resident of the Facilities the right to occupy certain portions of such Facilities.

“Restricted Landlord” shall mean (a) any Person that is a healthcare real estate investment trust that, together with its Affiliates, as of the Commencement Date has a total Market Capitalization in excess of \$3,000,000,000, (b) any Affiliate of a Person described in clause (a) above and (c) any successor or assign of any Person described in clause (a) or (b) above.

“Restricted Period” shall have the meaning given to such term in Section 26.

“Restricted Period Effective Date” shall have the meaning given to such term in Section 26.

“Restricted Period Termination Date” shall have the meaning given to such term in Section 26.

“Rolling Two Year Period” shall have the meaning given to such term in Section 7.1(b).

“Security Agreement” shall have the meaning given to such term in Section 11.1.

“Security Deposit” shall have the meaning given to such term in Section 4.2.

“Seller” shall mean those Persons that own fee title to the Facilities immediately prior to the Commencement Date.

“Severed Lease” shall have the meaning given to such term in Section 28.1(a).

“Shortfall Deposit” shall mean, as of the date of calculation, an amount, if positive, equal to (a) the product of (i) the Base Rent for the trailing twelve (12) month period and (ii) the applicable Lease Coverage Multiple for such period, minus (b) the sum of (i) Net Operating Income for such trailing twelve (12) month period and (ii) any amounts previously funded as the Shortfall Deposit and still held by or on behalf of Landlord.

“Sister Lease” shall mean that certain master lease dated as of the date hereof between certain Affiliates of Landlord, as landlords, and NCT MASTER TENANT II LLC, a Delaware limited liability company.

“State” shall mean the state in which any one of the Facilities are located.

“Subordination Non-Disturbance and Attornment Agreement” shall mean, with respect to each Subtenant and Manager, a Subordination Non-Disturbance and Attornment Agreement in substantially the form attached hereto as Exhibit N or, if requested by a Facility Mortgagee, such other form as is reasonable and customary.

“Subtenant” shall mean, individually or collectively as the context may require, those Persons listed on Schedule 1.1(S), as the subtenants of the Facilities (together with each successor or assign permitted pursuant to this Lease).

“Successor Entity” shall have the meaning given to such term in Section 26.

“Suspension Period” shall have the meaning given to such term in Section 27.5.

“Taking” shall mean a taking or voluntary conveyance during the Term hereof of all or any part of the Property, or any interest therein, right with respect thereto or use thereof, as a result of, incidental to, or in settlement of any Condemnation or other eminent domain proceedings affecting such Property, regardless of whether such proceedings shall have actually been commenced.

“Targeted Expenditure Shortfall Deposit” shall mean, as of any calculation date, the positive difference, if any, between:

- and
- (a) the greater of (i) the Cumulative Minimum Portfolio Capex Shortfall and (ii) the sum of the each Minimum Facility Capex Shortfall, if any, for all Facilities;
 - (b) the amount then on deposit in the Cap Ex Account.

“Tenant Capex Threshold” shall have the meaning given to such term in Section 7.5(a).

“Tenant Control Party” shall mean:

- (a) (i) Guarantor, (ii) any direct or indirect subsidiary of Guarantor that Controls Tenant or a Subtenant, (iii) Tenant and (iv) each Subtenant; or
- (b) at such time that Tenant is no longer a direct or indirect subsidiary of Guarantor, (i) any Person or group of Persons Controlling Tenant (excluding (x) any Qualified Fund LP, and (y) the general partner of any Qualified Fund) and (ii) Tenant.

“Tenant Pledge Agreement” shall have the meaning given to such term in Section 11.2.

“Tenant’s Excluded Property” shall mean (i) Tenant’s Personal Property, (ii) Tenant’s proprietary property, including, but not limited to, printed materials (such as operating manuals, policies, procedures and training manuals), computer software developed by or for the use of Tenant and/or its Affiliates, and trade names, logos, trademarks and service marks of Tenant and/or its Affiliates including, but not limited to, to the name “Holiday” and any related trademarks, logos and service marks, (iii) Tenant’s Accounts and (iv) the books and records of Manager and Tenant’s direct or indirect parent entities.

“Tenant’s Personal Property” shall mean any items of tangible personal property (including motor vehicles, if any) which are owned or leased by Tenant and used exclusively in connection with the operation of the Facilities.

“Term” shall mean the period commencing on the Commencement Date and, unless terminated earlier in accordance with the provisions of this Lease, expiring on the last day of the next full calendar month following the seventeenth (17th) anniversary of the Commencement Date.

“Terminable Facilities” shall have the meaning given to such term in Section 17.2(a).

“Transfer” shall mean a sale, exchange, assignment, sublease, mortgage, hypothecation, attachment, pledge, levy, seizure, transfer, including a merger, consolidation, or share exchange, and/or all other kinds of conveyances, dispositions, or alienations, whether direct or indirect.

“Transferred Facility” or “Transferred Facilities” shall have the meaning given to such term in Section 28.1.

“Transferred Tenant’s Personal Property” shall have the meaning set forth in Section 8.1(b).

“Unavoidable Delays” shall mean delays due to strikes, lockouts, inability to procure materials, power failures, acts of God, governmental restrictions, enemy action, civil commotion, unavoidable casualty and other causes beyond the control of the party responsible for performing an obligation hereunder, provided that lack of funds shall not be deemed a cause beyond the reasonable control of either party hereto.

“Warranties” shall have the meaning given to such term in Section 2.1(b).

ARTICLE 2

LEASE OF LAND AND FACILITIES

2.1 Letting.

(a) Landlord hereby leases or subleases to Tenant, as applicable, and Tenant hereby leases and subleases from Landlord, as applicable, subject to the terms, covenants, conditions and provisions hereinafter set forth, all of Landlord's right, title and interest in and to all the Land, the Facilities, all rights related to the use and operation of the Facilities sold to Landlord, or any Affiliate thereof, pursuant to the Purchase Agreement (collectively, the "Property").

(b) Landlord hereby assigns to Tenant, without recourse or warranty whatsoever, all assignable warranties, guaranties, indemnities and similar rights (collectively, "Warranties") which Landlord may have against any manufacturer, seller, engineer, contractor or builder in respect of any of the Facilities. Such assignment shall remain in effect until the expiration or earlier termination of this Lease, whereupon such assignment shall cease and all of the Warranties shall automatically revert to Landlord. In confirmation of such reversion Tenant shall execute and deliver promptly any certificate or other document reasonably required by Landlord. Landlord shall also retain the right to enforce any Warranties during the continuance of an Event of Default. Tenant shall enforce the Warranties in accordance with their respective terms.

2.2 [Intentionally omitted].

2.3 AS IS/WHERE IS. Tenant is familiar with each and every aspect of the Facilities, including the condition of the Land and all improvements thereon, and hereby accepts same on an AS IS/WHERE IS BASIS WITH ALL FAULTS and without reliance upon any representations or warranties of Landlord of any kind or nature whatsoever except as set out in Section 2.2 above, whether express or implied, and subject to all matters of every kind and description including, without limitation, (a) the existing state of title, including all covenants, conditions, restrictions, ground leases, easements, Legal Requirements, mortgages, fixture filings, security agreements, financing statements and other financing instruments and any and all other matters, including matters known to Tenant, all matters of record and other matters, (b) matters which would be disclosed by an inspection of the Property or by an accurate survey of each parcel of the Land and (c) all other matters which should reasonably have been known to Tenant (but excluding any matters created or caused by any acts of Landlord). Except for matters arising by, through or under Landlord, Tenant waives any and all claims, demands and cause or causes of action heretofore or hereafter arising against Landlord with respect to the condition of the Property or the ability of Tenant to conduct any business from the Facilities. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, LANDLORD MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, WITH RESPECT TO THE PROPERTY AT THE FACILITIES OR ANY PART THEREOF, EITHER AS TO ITS DESIGN, CONDITION, HABITABILITY, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR USE OR PURPOSE (INCLUDING, WITHOUT LIMITATION, THE PERMITTED USES) OR AS TO THE QUALITY THEREOF OR THE PRESENCE OR

ABSENCE OF DEFECTS IN THE MATERIAL OR WORKMANSHIP THEREIN, LATENT OR PATENT. TENANT ACKNOWLEDGES AND AGREES THAT, AS OF THE COMMENCEMENT DATE, THE PROPERTY AT THE FACILITIES SHALL BE CONCLUSIVELY DEEMED TO HAVE BEEN INSPECTED BY TENANT AND SHALL BE CONCLUSIVELY DEEMED TO BE SATISFACTORY TO IT IN ALL RESPECTS, AND TENANT SPECIFICALLY ACKNOWLEDGES ANY ISSUES WITH RESPECT TO THE PROPERTY THAT ARE SET FORTH IN THE DISCLOSURE SCHEDULES ATTACHED TO THE PURCHASE AGREEMENT.

2.4 Transfer of Business Operations of the Facilities. Landlord makes no warranty or representation to Tenant, express or implied, and shall be subject to no liability, with respect to the past operation or management of the Facilities, or any part thereof, including, but not limited to, any matter relating to any of the following:

- (i) the availability to Tenant of any licenses or permits needed to operate the Facilities or any part thereof;
- (ii) the enforceability of any Resident Agreement with any resident of the Facilities;
- (iii) the status of any account of any resident of the Facilities including, but not limited to, the status of any security deposits, trust accounts, or prepayments for services;
- (iv) the availability of service from or the status of any existing account with other persons, including utility providers, which provide services necessary or useful to the operation of the Facilities as an independent living facility;
- (v) the status of any health care regulatory issues relating to the Facilities;
- (vi) the status of any reports, cost reports or reimbursement issues relating to the Facilities;
- (vii) the status of any deficiency reports or certifications relating to the operation of the Facilities; or
- (viii) any matter relating to any past or present employee or independent contractor who worked at the Facilities including but not limited to issues concerning wages, employer contributions and withholdings, employment benefits, accrued benefits, workmen's compensation claims or unemployment insurance contributions or premiums.

The validity of this Lease shall not be affected by any claim, demand or cause of action regarding the past or future operation of the Facilities as an independent living facility.

2.5 Single Lease. Tenant and Landlord acknowledge and agree that this Lease constitutes a single, indivisible lease of all of the Facilities, and together the Facilities constitute

a single economic unit. Landlord has agreed to all the provisions of this Lease, including Base Rent and other amounts payable based on the intent to lease all of the Facilities as a single and inseparable transaction, and such provisions would have been materially different had the parties intended to enter into separate leases or a divisible lease. Tenant hereby knowingly waives and relinquishes all of its rights under Section 365 (11 U.S.C. §365) of the Federal Bankruptcy Code or any successor or replacement thereof or any analogous state or federal law, to assume, reject, or assign, selectively or individually, the right to lease any of the Facilities covered by this Lease separately from the other Facilities covered by this Lease.

ARTICLE 3

TERM OF LEASE

3.1 Term of Lease. The Property shall be leased by Landlord to Tenant for the Term.

ARTICLE 4

RENT

During the Term, Tenant shall pay the Rent, including the Base Rent and all Additional Charges due hereunder, to NCT on behalf of Landlord, or to the appropriate governmental agency, as applicable, in lawful money of the United States of America, in immediately available funds. Any such payments to NCT shall be without right of offset, by wire transfer in accordance with the following instructions:

Bank Name: Wells Fargo Bank
ABA/Routing Number: 121000248
Account Number: 4123606493
Account Name: NIC 12 Maple Downs Owner LLC
Bank City & State: San Francisco, CA

or to such other account, address, place, or Person, as Landlord may designate from time to time in a Notice. The Base Rent and Additional Charges shall be paid in accordance with this Article.

4.1 Base Rent. Annual Base Rent shall equal Thirty Two Million, One Hundred Sixty Three Thousand One Hundred Eighty Six Dollars (\$32,163,186) and shall be paid to Landlord in twelve (12) equal monthly installments on the 1st day of each month commencing on the Commencement Date and shall be prorated for any period shorter than a whole month. Base Rent shall increase January 1, 2015, January 1, 2016 and January 1, 2017 to an amount equal to one hundred four and one half percent (104.5%) of the Base Rent for the prior twelve (12) month period. Effective January 1, 2018 and each January 1 thereafter during the Term, Base Rent shall increase to an amount equal to the sum of:

(a) The Base Rent applicable to the immediately preceding Lease Year, plus

(b) the product of (i) the Base Rent applicable to the calendar year immediately preceding the date of such Base Rent increase, multiplied by (ii) the lesser of (1) three and 75/100 percent (3.75%) and (2) the greater of (a) three and 50/100 percent (3.50%) and (b) the CPI Increase during the period commencing on January 1, 2018 and ending on December 30 of the calendar year immediately preceding the date of such Base Rent increase.

4.2 Security Deposit. Tenant shall deposit as directed by Landlord, and Landlord shall hold, the amount of Twenty One Million Four Hundred and Forty Two Thousand One Hundred and Twenty Four Dollars (\$21,442,124), (the "Security Deposit"), which shall serve as security for the performance by Tenant and Subtenants of the provisions of this Lease and shall not be deemed advance rent. If an Event of Default has occurred and is continuing, Landlord may use the Security Deposit, or any portion of it, to satisfy any outstanding obligation of Tenant under this Lease. Tenant shall pay Landlord a sum equal to the portion of the Security Deposit expended or applied by Landlord as provided in this Lease, within ten (10) days after written request by Landlord. At the expiration or termination of this Lease, Landlord (or any successor and assign) shall return the Security Deposit to Tenant; provided, however, Landlord may retain an amount of the Security Deposit, as it shall reasonably determine, to secure the payment of any Rent, the amount of which Landlord is then unable to determine finally, or until Tenant confirms (by certificate or otherwise) expenditure by the Tenant of all amounts required under Section 7.1 (prorated as necessary in accordance with Section 7.1(c)) (and Landlord shall return any such retained amount to Tenant promptly following the final determination of such Rent amount and the full payment to Landlord of such Rent, or following confirmation of the expenditure of all amounts required under Section 7.1, as the case may be). The Security Deposit shall be the property of Landlord and, to the extent permitted by Legal Requirements, Landlord may commingle the Security Deposit with other assets of Landlord, and Tenant shall not be entitled to any interest on the Security Deposit; provided, however, if at any time the landlord under this Lease is not an Approved Landlord, the foregoing deposits attributable to such Facility shall be segregated in a separate interest bearing account, and such deposit shall be held by the applicable landlord in trust for the benefit of Tenant. Unless the Security Deposit or any other deposit provided by Tenant pursuant to this Lease (each such deposit, a "Deposit") was made available to a Facility Mortgagee or Mezzanine Lender (as hereinafter defined), Tenant agrees to look solely to the landlord under this Lease which provided the Deposit (or any transferee of such funds), as applicable, and not the Facility Mortgagee or Mezzanine Lender, as applicable, for a return of the applicable Deposit in accordance with the terms of this Lease (provided that for these purposes, if there is a change in a landlord's identity or equity ownership following a foreclosure or conveyance in lieu of foreclosure on the Facility Mortgage or on any pledge of equity interests, the landlord will be regarded as a new landlord, and the Deposits will be regarded as having been received by a previous landlord). "Mezzanine Lender" means any lender to a direct or indirect parent of Landlord, whose loan is secured by a pledge of the equity in Landlord or a direct or indirect parent of Landlord.

4.3 Additional Charges/Late Payments. Except for property taxes for which funds may be escrowed and paid out as described in Section 5.4 hereof and subject to Tenant's rights of contest pursuant to the provisions of Article 13, Tenant shall pay and discharge prior to delinquency all Impositions directly to the persons to whom such Impositions are owed. Except as otherwise provided in Section 5.2, if Tenant fails or refuses to pay any Impositions, Tenant shall promptly pay and discharge every fine, penalty, interest and cost which may arise or accrue

for the non-payment or late payment of such items. The aforementioned amounts, liabilities, obligations, Impositions, fines, penalties, interest and costs and any and all other amounts which Tenant may owe to Landlord or any governmental agency pursuant to the terms of this Lease are referred to herein as “ Additional Charges.” The Additional Charges shall constitute rent hereunder. Tenant hereby acknowledges that late payment by Tenant to Landlord of any Rent due under this Lease will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Landlord by the terms of any Encumbrance covering the Property. Accordingly, if any Rent (but as to Additional Charges, only those which are payable directly to Landlord) shall not be paid on or before its due date, Tenant shall pay Landlord on demand, as an Additional Charge, a late charge (to the extent permitted by law) equal to five percent (5%) of the overdue amount and, in such event, the parties hereby agree that such late charge will represent a fair and reasonable estimate of the costs Landlord will incur by reason of the late payment by Tenant. Landlord and Tenant acknowledge and agree that there is a five (5) calendar day grace period for payment of Base Rent and that if payments are not made on or before the fifth (5th) day of the month, then the late charge shall be imposed. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant’s default with respect to such overdue amount, nor prevent Landlord from exercising any other rights and remedies to which it may be entitled hereunder. If Tenant fails to pay any Rent payable to Landlord when due or within any applicable grace period thereafter, such Rent shall thereafter bear interest at the Overdue Rate until paid. Any payment by Tenant of Additional Charges to Landlord pursuant to any requirement of this Lease shall relieve Tenant of its obligation to pay such Additional Charges to the entity to which such payment would otherwise be paid.

4.4 Triple Net Lease; No Set-off; Bankruptcy. It is the purpose and intent of Landlord and Tenant that the Rent shall be absolutely net to Landlord so that Tenant shall pay or discharge, as additional charges hereunder, any and all Impositions, charges, costs, interest, reimbursements, liabilities, expenses and obligations of any nature whatsoever in connection with the ownership, operation and maintenance of the Property, excepting only (a) any payments for principal, interest, and premiums under any mortgage, security agreement, deed of trust or other Encumbrance Landlord may place upon all or any portion of the Property, (b) any costs actually incurred by Landlord for its own benefit with respect to the Property, such as costs for consultants or advisers retained by Landlord, provided that such costs (i) are not otherwise payable by Tenant hereunder, and (ii) do not, directly or indirectly, arise or grow out of or in connection with Tenant’s non-performance and/or non-compliance with any obligation, covenant, term or provision of this Lease and (c) those items specifically excluded from the definition of Impositions.

(a) No set-off of Rent. Landlord shall receive all Rent (but as to Additional Charges, only those which are payable directly to Landlord) due hereunder and Rent shall be due and payable by Tenant in all events, without notice or demand and without any set-off (except as otherwise specifically provided in this Lease), counterclaim, abatement, suspension, deduction or defense whatsoever. In addition to the Rent, except as set forth in the foregoing paragraph, Tenant shall pay to the parties respectively entitled thereto all Impositions (subject to Tenant’s rights to contest pursuant to the provisions of Article 13), insurance premiums (as provided in Article 14), operating charges, maintenance charges, construction costs

and any other charges, costs, interest, reimbursements, liabilities, expenses and obligations which arise with respect to the Property or which otherwise may be contemplated under any provisions of this Lease during the Term hereof. All of such charges, costs, interest, reimbursements, liabilities, expenses and obligations shall constitute Additional Charges, and upon the failure of Tenant to pay any such costs, charges, interest, reimbursements, liabilities, expenses or obligations and if such failure is not cured within the applicable cure period described in Section 17.1 hereof, Landlord shall have the rights and remedies provided in this Lease. It is the intention of the parties hereto that, except as herein expressly provided, this Lease shall not be terminable for any reason by Tenant. Any present or future law to the contrary shall not alter this agreement of the parties.

(b) Bankruptcy. Except for exercising Tenant's rights and prerogatives under Section 365(h) of the Bankruptcy Code (as defined below) or other applicable law, Tenant covenants and agrees that it will remain obligated under this Lease in accordance with its terms, and that Tenant will not take any action to terminate, rescind, or avoid this Lease, notwithstanding the bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution, winding-up or other proceeding affecting Landlord or any assignee of Landlord in any such proceeding and notwithstanding any action with respect to this Lease which may be taken by any trustee or receiver of Landlord or any such assignee in any such proceeding or by any court in any such proceeding.

(1) In the event that Tenant shall file a petition, or an order for relief is entered against Tenant, under Chapter 7, 9, 11 or 13 of the Bankruptcy Code 11 U.S.C. § 101 et seq. (the "Bankruptcy Code"), and Tenant or the trustee of Tenant shall elect to assume this Lease whether or not for the purpose of assigning the same, and subject to the applicable provisions of Section 365 of the Bankruptcy Code, such assumption and assignment may only be made if all of the terms and conditions of subsections (2) and (3) hereof are satisfied.

(2) No election to assume this Lease shall be effective unless in writing and addressed to Landlord and unless all of the following conditions have been satisfied.

(A) The trustee or the debtor-in-possession has cured or has provided Landlord "adequate assurance" (as defined hereunder) that:

(i) within ten (10) days from the date of such assumption, the trustee (or debtor-in-possession) will cure all monetary defaults under this Lease; and

(ii) within thirty (30) days from the date of such assumption, the trustee (or debtor-in-possession) will cure all non-monetary defaults under this Lease (to the extent curable within said thirty (30) day period).

(B) The trustee or the debtor-in-possession has compensated, or has provided to Landlord adequate assurance that within ten (10) days from the date of assumption Landlord will be compensated, for any actual pecuniary loss incurred by Landlord arising from the default of Tenant, the trustee, or the debtor-in possession, as recited in Landlord's written statement of pecuniary loss sent to the trustee or debtor-in-possession.

(C) The trustee or the debtor-in-possession has provided Landlord with "adequate assurance" of the future performance of each of Tenant's obligations under the Lease with respect to the Facilities; provided, however, that:

(i) the trustee or debtor-in-possession shall also deposit with Landlord, as security for the timely payment of Rent, an amount equal to three (3) months of the then current Base Rent; and

(ii) the obligations imposed upon the trustee or debtor-in-possession shall continue with respect to Tenant after the completion of bankruptcy Proceedings.

(D) Landlord has determined that the assumption of the Lease will not:

(i) breach any provision in any agreement by which Landlord is bound relating to the Property or Landlord has obtained any consents or waivers required to ensure that no such breach occurs; or

(ii) disrupt, in Landlord's reasonable judgment, the reputation and profitability of the Property.

(3) For purposes of this subsection 4.4(b)(3), "adequate assurance" shall mean:

(i) Landlord shall determine that the trustee or the debtor-in-possession has and will continue to have sufficient unencumbered assets (other than by liens in favor of Landlord) after the payment of all secured obligations and administrative expenses to assure Landlord that the trustee or debtor-in possession will have sufficient funds to fulfill the obligations of Tenant under this Lease; and

(ii) an order shall have been entered segregating sufficient cash payable to Landlord and/or there shall have been granted a valid and perfected first lien and security interest in property of Tenant, trustee or debtor-in-possession, acceptable as to value and kind to Landlord, to secure to Landlord the obligation of the Trustee or debtor-in-possession to cure the monetary and/or non-monetary defaults under this Lease within the time periods set forth above.

(4) If the trustee or debtor-in-possession has assumed the Lease pursuant to the terms and provisions of subsections (1) and (2) herein, for the purpose of assigning (or election to assign) Tenant's interest under this Lease or the estate created thereby, to any other person, such interest or estate may be so assigned only if Landlord shall acknowledge in writing that the intended assignee has provided "adequate assurance" (which for purposes of this Section 4.4(b)(4) shall have the meaning set forth in this Section 4.4(b)(4)) of future performance of all of the terms, covenants and conditions of this Lease to be performed by Tenant. For purposes of this subsection 4.4(b)(4), adequate assurance of future performance shall mean that Landlord shall have ascertained that each of the following conditions has been satisfied:

(A) The assignee has submitted a current financial statement audited by independent certified public accountants of recognized standing in the state of Washington or any State selected by Tenant and reasonably acceptable to Landlord which shows a NTA Net Worth and working capital in amounts determined to be sufficient by Landlord to assure the future performance by such assignee of Tenant's obligations under this Lease;

(B) Landlord has obtained all consents or waivers from any third parties required under any lease, mortgage, financing arrangement or other agreement by which Landlord is bound to enable Landlord to permit such assignment;

(C) The assignee has deposited six months of Base Rent as an adequate security deposit with Landlord;
and

(D) The assignee has demonstrated to the reasonable satisfaction of Landlord that its intended use of the Property is consistent with the terms of this Lease and will not diminish the reputation of any Facility.

(E) assignee has all necessary permits and licenses required to operate the Facilities in accordance with past practice.

(5) When, pursuant to the Bankruptcy Code, the trustee or debtor-in-possession shall be obligated to pay reasonable use and occupancy charges for the use of the Property or any portion thereof, such charges shall not be less than the then current Base Rent and any Additional Charges which may become due and other monetary obligations of Tenant.

(6) Neither Tenant's interest in the Lease, nor any lesser interest of Tenant herein, nor any estate of Tenant hereby created, shall pass to any trustee, receiver, assignee for the benefit of creditors, or any other Person, or otherwise by operation of law under the laws of any state having jurisdiction of the person or property of Tenant unless Landlord shall consent to such transfer in writing. No acceptance by Landlord of Rent or any other payments from any such trustee, receiver, assignee, person or other entity shall be deemed to have waived, nor shall it waive the need to obtain Landlord's consent or Landlord's right to terminate this Lease for any transfer of Tenant's interest under this Lease without such consent.

(7) Any Person to which this Lease is assigned pursuant to the provisions of the Bankruptcy Code shall be deemed without further act or deed to have assumed all of the obligations arising under this Lease relating to the Facilities on or after the date of such assignment. Any such assignee shall, upon demand, execute and deliver to Landlord an instrument confirming such assumption.

4.5 Ground Leases. In the event that any of the Ground Lease is terminated other than due to an act or omission of Tenant, such that any Facility covered by such Ground Lease is no longer leased to Landlord, then Base Rent shall be reduced by an amount equal to the Allocated Facility Rent for the applicable Facility. Any such reduction in Base Rent shall begin in the Lease Year in which such Property ceases to be leased to Landlord. Further, any such reduction in Base Rent shall be prorated for any partial Lease Year based on the date that such Property ceases to be leased to Landlord.

4.6 Payment date. If the date on which any amount due to Landlord from Tenant hereunder is not a business day, such amount shall be due and payable on the immediately preceding business day.

ARTICLE 5

IMPOSITIONS

5.1 Payment of Impositions. Subject to Tenant's rights of contest pursuant to the provisions of Article 13, Tenant shall pay, or cause to be paid, all Impositions due or becoming due from and after the Commencement Date as and when such Impositions become due and payable and directly to the parties to whom such Impositions are payable prior to the date on which any fine, penalty, interest or cost may be added for non-payment; provided, however, Tenant shall not be in breach of its obligations under this Section 5.1 in the event of a breach by Landlord of its obligations under Section 5.2. Upon request by Landlord, Tenant shall furnish to Landlord prior to the date on which any such fine, penalty, interest or cost may be added for non-payment, copies of receipts or other reasonably satisfactory evidence of such

payments. Such payments shall be made directly to the authorities levying or to the other persons entitled to such Impositions, if possible. Subject to Tenant's rights of contest pursuant to the provisions of [Article 13](#), Tenant's obligation to pay Impositions shall be deemed absolutely fixed upon the date such Impositions become due to the authority or person entitled thereto. If any such Imposition may, at the option of the payor, lawfully be paid in installments (whether or not interest shall accrue on the unpaid balance of such Imposition), Tenant may pay the same (and shall pay any accrued interest on the unpaid balance of such Imposition) in installments, and in such event shall pay such installments (subject to Tenant's right of contest pursuant to the provisions of [Article 13](#)) as the same become due and before any fine, penalty, premium, further interest or cost is added thereto. Impositions for which escrowed funds are held by Landlord or its lender under [Section 5.4](#) hereof shall be paid as provided in [Section 5.4](#) and the timely payment by Tenant of any amount to be paid to Landlord or a Facility Mortgagee, if applicable, under [Section 5.4](#) shall be deemed to satisfy Tenant's obligation to pay the Imposition for which funds are escrowed. Landlord shall, at its expense and to the extent required or permitted by applicable laws and regulations, prepare and file all returns with respect to Landlord's net income, gross receipts, sales, use, single business, transaction privilege, rent, ad valorem and franchise taxes, and with respect to taxes on Landlord's capital stock. Tenant shall, at its expense, and to the extent required or permitted by applicable laws and regulations, prepare and file all other tax returns and reports with respect to any Imposition as may be required by governmental agencies, authorities or other persons entitled to the receipt of the Impositions. If any refund shall be due from any taxing authority or other persons entitled to the receipt of the Impositions with respect to any Imposition paid by Tenant, the same shall be paid over to and retained by Tenant unless an Event of Default shall have occurred hereunder and be continuing, in which case such refund shall be paid over to and retained by Landlord to either be (i) applied by Landlord to the cost of curing such Event of Default with the balance, if any, thereafter remitted by Landlord to Tenant, or (ii) retained by Landlord and applied as provided in [Article 17](#) if the Event of Default cannot be cured. Landlord and Tenant shall, each upon a request by the other, provide such information as is maintained by the party to whom the request is made with respect to the Property as may be reasonably necessary to prepare any required returns or reports. If any governmental agency or authority classifies any property covered by this Lease as personal property, Tenant shall file all personal property tax returns in such jurisdictions where it may legally so file. Landlord, to the extent it possesses the same, and Tenant, to the extent it possesses the same, will provide to the other party, promptly upon request, cost and depreciation records reasonably necessary for filing returns for any property so classified as personal property. If Landlord is legally required to file any personal property tax returns, Landlord shall provide Tenant with copies of any assessment notices with respect thereto in sufficient time for Tenant to file a protest with respect thereto if it so elects pursuant to [Article 13](#).

5.2 [Notice of Impositions](#). Unless Tenant otherwise has knowledge of any such Imposition, Landlord shall be required to give prompt Notice to Tenant of all Impositions payable by Tenant hereunder of which Landlord at any time has knowledge. Notwithstanding the foregoing, however, Landlord's failure to give any such Notice shall in no way diminish Tenant's obligations hereunder to pay such Impositions, but Landlord shall be responsible for any fine, penalty or interest resulting from its failure to give such Notice and any default by Tenant hereunder shall be obviated for a reasonable time after Tenant receives Notice of any Imposition which it is obligated to pay.

5.3 Adjustment of Impositions. Impositions imposed with respect to the tax period during which the Term expires or terminates shall be adjusted and prorated between Landlord and Tenant, whether or not such Imposition is imposed before or after such expiration or termination, so that Tenant is only obligated to pay that portion of such Imposition(s) pertaining to the tax period within the Term. The obligation of Tenant to pay its prorated share of Impositions shall survive expiration or earlier termination of this Lease. Likewise any refund of any Imposition paid with respect to any tax period within the Term which refund is received by Landlord during or after the expiration or termination of this Lease shall be prorated and shared with Tenant. This Section 5.3 shall survive the expiration or termination of this Lease.

5.4 Escrow for Property Taxes. Upon the written demand of Landlord, if required by a Facility Mortgagee or from and after a breach by Tenant of its obligations with respect to the payment of property taxes, which breach is not cured within ten (10) days after receipt of written notice from Landlord, Tenant shall make monthly payments to Landlord or a Facility Mortgagee, if so directed by Landlord, in escrow on the same day Base Rent is due, or such later date as directed by a Facility Mortgagee, in the amount of one twelfth of the annual ad valorem tax or such other amounts as required by a Facility Mortgagee, plus a one-time additional deposit of the amount accrued in the applicable tax year prior to the first such payment. The monthly tax escrow payment shall be adjusted from time to time to reflect changes in the tax rate or changes in the assessed value of the Land, Facility or personal property. The deposits shall not bear interest, shall not be required to be held by Landlord in trust or as an agent of Tenant and may be commingled with other assets of Landlord; provided, however, if at any time the landlord under this Lease is not an Approved Landlord, the foregoing deposits shall be segregated in a separate interest bearing account, and such deposit shall be held by the applicable landlord in trust for the benefit of Tenant. To the extent that sufficient funds exists in the tax escrow account, Landlord or the Facility Mortgagee shall release funds from the tax escrow account to pay to the tax authorities the installments of tax due on the Property or any part thereof. If there are not sufficient funds in the tax escrow account to meet an installment when due, upon receipt of a written request from Landlord or the Facility Mortgagee setting forth in reasonable detail the shortfall amount, the Tenant shall pay to Landlord or the Facility Mortgagee the shortfall in order for the full payment then due to be paid. In the event that Tenant pays any tax payment to the taxing authority for which funds are held in the tax escrow account without having made a prior request to Landlord or the Facility Mortgagee to release such escrowed funds for the purposes of making such payment, Landlord shall reimburse Tenant for such payment upon Landlord's receipt of proof of full payment to the tax authority. In the event that Tenant pays any tax payment to the taxing authority for which funds are held in the tax escrow account after Landlord or the Facility Mortgagee has wrongfully failed to release such funds after receipt of a request from Tenant for the release thereof, then the amount of the tax payment made by Tenant shall reduce, and be deemed to be offset against, the Rent and any other amounts thereafter payable by to Landlord.

5.5 Utility Charges. Tenant shall pay or cause to be paid all charges (including any connection charges and deposits) for all utilities, including, but not limited to, electricity, power, gas, oil and water, used at or for the Property during the Term.

5.6 Insurance Premiums. Upon the written demand of Landlord, if required by a Facility Mortgagee or from and after a breach by Tenant of its obligations with respect to

the maintenance of the insurance required by the terms of this Lease, which breach is not cured within ten (10) days after receipt of written notice from Landlord, Tenant shall make, or cause to be made, monthly payments in escrow to Landlord or, if directed by Landlord, to the Facility Mortgagee, on the same day Base Rent is due in an amount equal to one-twelfth of the annual insurance premiums, plus a one-time additional deposit of the amount accrued in the applicable insurance year prior to the first such payment.

ARTICLE 6

TERMINATION OR ABATEMENT OF LEASE

6 . 1 No Termination or Abatement. Tenant, to the fullest extent permitted by law and unless specifically provided herein, shall remain bound by this Lease in accordance with its terms in all events. Except as expressly permitted herein, Tenant shall not take any action without the prior written consent of Landlord to modify, surrender or terminate this Lease. The obligations of Landlord and Tenant hereunder shall be separate and independent covenants and agreements, and Rent and all other sums shall continue to be payable by Tenant hereunder in any event unless (i) the obligation of Tenant to pay the same abates or terminates pursuant to the express provisions of this Lease (other than by reason of an Event of Default by Tenant) or (ii) Rent and such other sums abates or is reduced as provided in Section 4.5, Section 5.4 or Section 6.2. Without limiting the generality of the immediately preceding sentence Tenant shall not seek or be entitled to any abatement or reduction (other than as provided in Section 4.5, Section 5.4, Section 6.2 or as otherwise specifically provided by this Lease), deduction, deferment or reduction of Rent, or set-off against Rent, nor shall the respective obligations of Landlord and Tenant be otherwise affected by reason of (a) any damage to, or destruction of, all or any portion of the Property from whatever cause or any Taking of all or any portion of the Property; (b) the lawful or unlawful prohibition of, or restriction upon, Tenant's use of all or any portion of the Property or the interference with such use or with Tenant's quiet enjoyment of the Property by any Person (other than Landlord); (c) the eviction of Tenant from the Property or any portion thereof by any person whose rights or interest arise other than by, through or under Landlord, whether by paramount title or otherwise; (d) any claim which Tenant has or may have against Landlord by reason of any default or breach of any warranty by Landlord under this Lease or any other agreement between Landlord and Tenant or to which Landlord and Tenant are parties; (e) any bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution, winding up or other proceeding affecting Landlord or any assignee or transferee of Landlord; or (f) any other cause, whether similar or dissimilar to any of the foregoing. Tenant hereby specifically waives all rights, arising from any occurrence whatsoever, which (i) may now or hereafter be conferred upon it by law or otherwise to modify, surrender or terminate this Lease or quit or surrender all or any portion of the Property or (ii) entitle Tenant to any abatement, reduction, suspension or deferment of Rent or other sums payable by Tenant hereunder, in the case of either (i) or (ii) immediately above, except to the extent expressly provided in Section 4.5, Section 5.4, Section 6.2 or as otherwise specifically provided by this Lease.

6 . 2 Rent Reduction. In the event of any damage or destruction or Condemnation of any Facility as contemplated in Article 15 and Article 16, respectively, the Base Rent shall be reduced to the extent provided in Section 15.2, Section 15.3 or Section 16.3, as applicable. In no event shall the Rent hereunder abate in any manner whatsoever prior to the

termination of this Lease in accordance with its terms, except as otherwise specifically provided by this Lease.

ARTICLE 7

FF&E AND OTHER CAPITAL IMPROVEMENTS

7.1 Minimum Capital Expenditures.

(a) *Minimum Portfolio Capital Expenditures.* During the period commencing on January 1, 2014 and ending as of the most recent December 31st that has occurred during the Term (the "Elapsed Period"), Tenant shall incur, or cause Subtenant to incur, Capital Expenditures in an amount such that, as of the end of such Elapsed Period, an amount equal to the Cumulative Minimum Portfolio Capex Target Amount shall have been incurred during the Elapsed Period. Any Capital Expenditures incurred in satisfaction of the requirements of Section 7.1(b) shall be recognized in determining whether the requirements of the foregoing Section 7.1(a) have been satisfied.

(b) *Minimum Facility Capital Expenditures.* During each two (2) calendar year period (a "Rolling Two Year Period") occurring during the Term commencing with the two (2) year period ending on December 31, 2015, Tenant shall incur, or cause Subtenant to incur, Capital Expenditures with respect to each Facility, in an amount such that, as of the end of each Rolling Two Year Period, Tenant and Subtenant shall have incurred, in the aggregate, an amount at each Facility equal to \$1,000 per unit at each such Facility during such Rolling Two Year Period (such amount, for each Facility, the "Minimum Facility Capex Amount").

(c) *Pro ration.* If this Lease expires or terminates on a day other than the last day of a calendar year, the amount of Capital Expenditures Tenant or Subtenant shall be required to have incurred under the foregoing Section 7.1(a) and (b) for the period immediately prior to the Lease expiration or termination, shall be pro rated based on the number of days in the calendar year that have elapsed prior to such expiration or termination.

7 . 2 Capex Shortfall Deposit. In the event the report required to be furnished to Landlord under Section 22.2(d) shows that Tenant failed during the applicable period to make Capital Expenditures in accordance with Section 7.1(a) or (b), then Tenant shall deliver to Landlord for deposit into the Cap Ex Account the Target Expenditure Shortfall Deposit, subject to Tenant's right to have the same returned pursuant to Section 7.3 hereof. Amounts in the Cap Ex Account shall not bear interest, shall not be required to be held by Landlord in trust or as an agent of Tenant and may be commingled with other assets of Landlord; provided, however, if at any time the landlord under this Lease is not an Approved Landlord, the foregoing deposits shall be segregated in a separate interest bearing account, and such deposit shall be held by the applicable landlord in trust for the benefit of Tenant.

7 . 3 Return of Target Expenditure Shortfall Deposits. Provided that no uncured monetary Event of Default exists and Tenant is in compliance with Article 7, Tenant shall have the right during the Term to have any Excess Capex Deposit returned immediately

following delivery of a report under Section 22.2(d) that confirms compliance with the provisions hereof.

Upon expiration or termination of the Lease or termination of Tenant's right to possession of the Facilities, any Targeted Expenditure Shortfall Deposits remaining in the Cap Ex Account shall automatically and immediately become the property of Landlord.

7.4 Capital Additions; Alterations. During each calendar year, Tenant either directly or through the Subtenant, may not make any Capital Additions with respect to any single Facility that, inclusive of all related materials and work, cost, individually or in the aggregate with other Capital Additions at such Facility during such calendar year, greater than \$500,000, without the prior written consent of Landlord (such consent not to be unreasonably withheld, conditioned or delayed) and, if applicable, a Facility Mortgagee. Notwithstanding anything else to the contrary in this Lease, provided that Landlord is not a Restricted Landlord, Tenant may not make any Alteration if such Alteration is prohibited by a Facility Mortgagee. For the avoidance of doubt, routine landscaping, painting and floor and wallcovering replacements shall not be deemed Capital Additions within the meaning of this Section 7.4. All alterations or modifications of a Facility, including all Capital Additions, shall be made in a good and workmanlike manner, in accordance with all applicable Legal Requirements and shall comply with the requirements of insurance policies required under this Lease. In connection with the granting of consent under this Section 7.4, Landlord may require appropriate insurance to be carried by contractors performing work at a Facility.

7.5 Lender Requirements.

(a) Upon the written demand of Landlord, if required by a Facility Mortgagee, Tenant shall make deposits for Capital Expenditures to Landlord or a Facility Mortgagee, as directed by Landlord (any such amount, the "Requested Capex Deposit Amount"), in escrow on the same day Base Rent is due, or such later date as directed by a Facility Mortgagee, in an amount required to satisfy the requirements of the Facility Mortgagee; provided, however, that Tenant shall only be required to make deposits up to a maximum of \$400 per unit per Facility per calendar year (the "Tenant Capex Threshold").

(b) If the Requested Capex Deposit Amount exceeds Tenant Capex Threshold (such excess amount, the "Excess Capex Amount") and Landlord funds such Excess Capex Amount, then:

(i) if Landlord uses the Security Deposit to fund the Excess Capex Amount, which Landlord may do in its discretion, (A) Tenant shall have no obligation to replenish the Security Deposit on account of any such deposits made by Landlord, (B) Tenant shall elect at the conclusion of each Elapsed Period, by delivering notice to Landlord, to treat any Excess Capex Amount actually spent on a Facility as Capital Expenditures for the purpose of Article 7 and (C) Landlord shall, subject to the terms of this Lease, be obligated to return to Tenant (I) the full amount of the Security Deposit paid to Tenant pursuant to this Lease less (II) any Excess Capex Amounts which have been treated as Capital Expenditures under (B) above; and

(ii) if Landlord funds the Excess Capex Amount out of funds other than the Security Deposit, which Landlord may do in its discretion, any such Excess Capex Amount spent on the Facilities shall not be considered Capital Expenditures except to the extent Tenant, in its discretion, reimburses Landlord for the funding of such amounts.

7.6 Initial Improvements. On the date hereof, Tenant shall have funded into the Initial Improvements Account an amount with respect to each Facility that is specified in Exhibit M¹ attached hereto (the “Initial Improvement Funds”). Landlord shall promptly make the Initial Improvement Funds available to Tenant in accordance with the plan agreed between Landlord and Tenant with respect to improvements at the Facilities, and Tenant agrees to carry out such improvements in accordance with the terms and timeline specified in such plan. The expenditure of Initial Improvement Funds shall not count towards amounts required to be spent by Tenant pursuant to Section 7.1.

7.7 Survival. This Article 7 shall survive the termination of this Lease.

ARTICLE 8

OWNERSHIP AND USE OF PROPERTY

8.1 Ownership of the Property. The Property is, and throughout the Term shall continue to be, the property of Landlord. Tenant has only the right to the exclusive possession and use of the Property, upon the terms and subject to the conditions set forth in this Lease. At the expiration or termination of this Lease, the following provisions shall apply:

(a) Tenant or Subtenant shall, for no additional consideration, sell, transfer and convey to Landlord or Landlord’s designee, the Inventory owned by Tenant as of the termination date and located at the Facilities.

(b) Tenant or Subtenant shall, for no additional consideration, sell, transfer and convey to Landlord or Landlord’s designee, Tenant’s Personal Property (the “Transferred Tenant’s Personal Property”) and, relative to any Tenant property that is leased by Tenant, Tenant agrees, at its expense, to use commercially reasonable efforts to acquire title thereto, in order to be able to convey title thereto to Landlord as provided in this Section 8.1(b) or, if Tenant is unable to convey title thereto to Landlord, at Landlord’s request, use commercially reasonable efforts to assign the lease for such property to Landlord or Landlord’s designee.

(c) Subject to applicable Legal Requirements, Tenant or Subtenant shall permit Landlord or Landlord’s designee to make copies of the Records.

¹ Note: Amounts to be reasonably determined by Landlord (and any Facility Mortgagee as of the Commencement Date) and Tenant based on the PCRs.

(d) Tenant or Subtenant shall execute a Bill of Sale in favor of Landlord in the form of Exhibit C with respect to the assets being conveyed to Landlord or Landlord's designee pursuant to this Section 8.1.

(e) Except as otherwise specifically set forth in this Section 8.1, Landlord shall not succeed to the ownership of Tenant's Excluded Property at the end of the term of the Lease.

8.2 Use of the Facilities and Land.

(a) Tenant will be responsible for acquiring at Tenant's cost and expense any and all Licenses necessary for its use and operation of the Property during the Term, and will keep and maintain in full force and effect such Licenses as are, from time to time, required for the uses conducted by Tenant on the Property, in accordance with all Legal Requirements.

(b) Throughout the entire Term and subject to Tenant's due contest right as set forth in Article 13, Tenant shall use the Facilities solely in accordance with its Permitted Use(s) in material compliance with all applicable Legal Requirements and all other terms, covenants, provisions and conditions of this Lease. Tenant may not use the Facilities for any purpose other than the Permitted Use without the prior written consent of Landlord.

(c) Tenant shall not commit or suffer to be committed any waste nor shall Tenant cause or permit any nuisance on the Property.

(d) Tenant shall neither suffer nor permit all or any portion of the Property, including any Capital Addition, whether or not financed or paid for by Landlord, to be used in such a manner as (i) would, or would reasonably be expected to, materially adversely impair the Landlord's title to the Property or to any portion thereof or (ii) would, or would reasonably be expected to, make possible a claim or claims of adverse use, adverse possession or implied dedication of all or any portion of the Property to the public.

(e) Tenant will perform the obligations of Landlord required under the Permitted Encumbrances.

8.3 Continuous Operations. Tenant shall maintain continuous operations at the Facilities in accordance with the provisions of this Lease and shall not cease such operations other than a temporary cessation during any period of repair or reconstruction required as a result of damage to or destruction or Condemnation of any of the Property. Tenant shall not voluntarily reduce the number of units and Tenant shall not close any Facility, without the prior written consent of Landlord. Notwithstanding the foregoing, Tenant shall have the right, without the consent of Landlord, to do any of the following: (a) reduce the number of units at any given Facility by not more than ten percent (10%) of the number of units at such Facility as of the Commencement Date (which number shall be reduced to take into account permanent reductions in the number of units from any partial casualty or condemnation at a Facility), and (b) voluntarily close and cease operations at any one (1) Facility at any given time (in addition to any closures resulting from a casualty or condemnation, or any temporary or partial closures as may be required to enable Tenant to satisfy its maintenance obligations under this Lease), in

which event, the number of units attributable to such closed Facility shall not count towards the unit closures permitted by Section 8.3(a) above.

8.4 Hazardous Substances.

(a) Tenant will keep the Facilities free and clear of all Hazardous Substances other than those Hazardous Substances which are required for the operation of the Facilities (which Hazardous Substances shall be handled, used and disposed of in material compliance with the Legal Requirements and Insurance Requirements) and Tenant shall pay all costs required to properly use, handle and dispose of all Hazardous Substances introduced by Tenant or its Agents (as defined below) or otherwise first arising on the Property after the Commencement Date as and when due and Tenant will keep the Property free and clear of any lien relating to Hazardous Substances first arising on the Property after the Commencement Date which may be imposed pursuant to the Legal Requirements and imposed as a result of the presence of such Hazardous Substance at the Facilities. For the purposes of this Article, the term “Property” shall also include, in addition to the items specified in Section 2.1, all air, soil, groundwater, surface water or soils vapor at, on, about, under or within any portion of the Land. All operations or activities upon, or any use or occupancy of the Property, or any portion thereof, by Tenant, or any agent, contractor or employee, or subtenant of Tenant (any of the foregoing being defined herein as Tenant’s “Agent”) shall at all times during the Term be in all respects in material compliance with any and all Legal Requirements relating to Hazardous Substances, including, but not limited to, the discharge and removal of Hazardous Substances. Tenant will not, nor will Tenant permit, any agent, contractor or employee of subtenant of Tenant, to allow the manufacture, storage, voluntary transmission or presence of any Hazardous Substances over or upon the Property or any portion thereof (except in material compliance with the Legal Requirements). Landlord shall have the right at any time to conduct, at its cost, an environmental audit of the Property or any portion thereof and Tenant shall cooperate in the conduct of such environmental audit, provided that any such audit shall not disturb or interfere with the residents at, or the operation of, the Facilities. Tenant shall promptly notify Landlord in writing of any order, receipt of any notice of violation or noncompliance with any applicable law, rule, regulation, standard or order, any threatened or pending action by any regulatory agency or other governmental authority, or any claims made by any third party, in each case relating to Hazardous Substances on, emanations of Hazardous Substances on or from, releases of Hazardous Substances on or from, or threats of releases on or from any of the Property; and shall promptly furnish the Landlord, following written request by Landlord, with copies of any correspondence, notices, or legal pleadings in connection therewith. Landlord shall have the right, but shall not be obligated, to notify any governmental authority of any state of facts which may come to its attention with respect to Hazardous Substances on, released from or emanating from any part of the Property which Landlord reasonably believes may cause harm to any persons or property.

(b) [Intentionally omitted]

(c) In the event any investigation or monitoring of site conditions or any clean-up, containment, restoration, removal or other remedial work is required under any applicable Legal Requirement, any judicial order, or any order of any governmental entity, or in order to comply with any agreements affecting all or any portion of the Property because of, or in

connection with the release, discharge or disposal of Hazardous Substances at the Property caused by the actions or omissions of Tenant (collectively, the “Remedial Work”), Tenant shall perform or cause to be performed the Remedial Work in compliance with such law, regulation, order or agreement; provided, that Tenant may withhold such compliance pursuant to a good faith dispute regarding the application, interpretation or validity of the law, regulation, order, or agreement, subject to the requirements of subsection (d) below; provided, however, that Landlord shall reasonably cooperate with Tenant to the extent necessary to deliver such authorization as may be required in order for Tenant to perform its obligations under this subsection (c). All Remedial Work shall be performed by one or more contractors, selected by Tenant and approved in advance in writing by Landlord (such approval not to be unreasonably withheld, delayed or denied), and under the supervision of a consulting engineer, selected by Tenant and approved in advance in writing by Landlord in its reasonable discretion (such approval not to be unreasonably withheld, delayed or denied). All reasonable costs and expenses of such Remedial Work shall be paid by Tenant, including, without limitation, the reasonable charges of such contractor(s) and/or the consulting engineer and reasonable costs incurred by Landlord “in house”, (such as photocopying charges and travel costs for Landlord’s employees) in connection with monitoring or review of such Remedial Work. In the event Tenant shall fail timely to commence, or cause to be commenced, or fail diligently to prosecute, or cause to be prosecuted, to completion, or fail to complete, or cause to be completed, such Remedial Work in compliance with Legal Requirements, Landlord may, but shall not be required, to cause such Remedial Work to be performed, and all costs and expenses thereof, or incurred in connection therewith, shall be Costs within the meaning of subsection (b) above. All such Costs shall be due and payable upon demand therefor by Landlord. If Tenant fails to perform its obligations hereunder, Landlord shall be subrogated to any rights Tenant may have under any indemnifications from any present, future or former owners, tenants or other occupants or users of the Property (or any portion thereof), relating to the matters covered by this Section 8.4.

(d) Notwithstanding any provision of this Section 8.4 to the contrary, but without limiting the provisions of Article 13 or Tenant’s obligations of protection, defense and indemnification under Section 20.1, Tenant will be permitted to contest or cause to be contested, subject to compliance with the requirements of this subsection (d) and Article 13, by appropriate action any Remedial Work requirement, and Landlord shall not perform such requirement on its behalf, so long as Tenant has given Landlord Notice that Tenant is contesting or shall contest or cause to be contested the same, and Tenant actually contests or causes to be contested the application, interpretation or validity of the Legal Requirements, order or agreement pertaining to the Remedial Work by appropriate proceedings conducted in good faith with due diligence; provided, such contest shall not subject Landlord to civil liability and does not jeopardize Landlord’s interest in the Property or affect in any way the payment of any sums to be paid under this Lease. Tenant shall give such security or assurances as may be reasonably required by Landlord to insure compliance with the legal requirements pertaining to the Remedial Work (and payment of all costs, expenses, interest and penalties in connection therewith) and to prevent any sale, forfeiture or loss by reason of such nonpayment or noncompliance.

(e) The obligations of Tenant under this Section 8.4 shall survive expiration or earlier termination of this Lease.

ARTICLE 9

LEGAL REQUIREMENTS AND INSURANCE REQUIREMENTS

9.1 Compliance with Legal Requirements, Insurance Requirements and Instruments. Subject to the rights of Tenant as provided in Article 13 relating to permitted contests, Tenant, at its sole cost and expense, shall promptly (a) comply with all applicable Legal Requirements and Insurance Requirements from time to time with respect to the use, operation, maintenance, repair and restoration of the Facilities, whether or not compliance therewith shall require the construction of any additional parking spaces or the structural change in the Facilities or interfere with the use and enjoyment of the Facilities (Landlord makes no representation or warranty that any of the Facilities or the operation thereof currently comply with Legal Requirements), and (b) procure, maintain and comply with all appropriate Licenses necessary for the use then conducted on the Facilities by Tenant, which use must be a Permitted Use, and for the proper erection, installation, operation and maintenance of the Facilities or any part thereof, including, without limitation, any Capital Additions.

9.2 [Intentionally omitted].

9.3 Landlord's Cooperation. Landlord shall cooperate, as reasonably necessary or required, with Tenant in applying for and maintaining all appropriate Licenses necessary to operate the Facilities for the Permitted Use(s) in accordance with the provisions of this Lease and to otherwise comply with applicable Legal Requirements, provided that such cooperation is in conformance with all Legal Requirements. Tenant shall promptly advance to Landlord such amounts as are reasonably necessary to pay for all costs and expenses incident to such cooperation. Tenant agrees to indemnify, defend, protect, save and hold Landlord harmless from and against any and all costs, expenses, losses, demands, claims, obligations and liabilities against or incurred by Landlord in connection with such cooperation, except in any cases of fraud, misrepresentation, willful misconduct or intentional non-compliance with Legal Requirements on the part of Landlord. Such indemnity shall survive the expiration or termination of this Lease.

ARTICLE 10

CONDITION OF THE PROPERTY

10.1 Maintenance and Repair.

(a) Tenant, at its sole cost and expense, shall, subject to the express terms of this Lease, keep all portions of the Property and the FF&E and all private roadways, parking surfaces, sidewalks and curbs appurtenant thereto in good order, condition and repair. Except as may otherwise be expressly provided to the contrary in this Section 10.1 and in Articles 14, 15, or 16, Tenant shall with reasonable promptness, at Tenant's sole cost and expense, make all necessary and appropriate repairs and replacements thereto of every kind and nature, whether interior or exterior, structural or nonstructural, ordinary or extraordinary, patent or latent, foreseen or unforeseen, and regardless of the cause necessitating repair. Tenant's duty to maintain the Property and the FF&E shall include such actions as are needed in the reasonable

judgment of Tenant to be consistent with standards and practices in the industry to prevent the deterioration of the value and usefulness of the Property for its then current use. Tenant shall also be obligated at its expense to make all repairs, modifications and renovations necessary to comply with all licensing, safety and health and building codes and regulations applicable to the Facilities for Tenant's use of the Facilities in accordance with this Lease. Tenant shall be obligated to repair at Tenant's sole cost and expense any damage to any portion of the Land, the improvements thereon and the Facilities caused by cave ins, collapse of sub surface support, subsidence of the surface of the land, the extraction of minerals from the Land (whether through the surface of the Land or by mining) but specifically excluding any damages arising from cave ins, collapse of sub surface support, subsidence of the surface of the land and/or the extraction of minerals from the Land (whether through the surface of the Land or by mining) occurring pursuant to any reserved mineral rights in any deed running from Seller, as grantor, to Landlord, as grantee, or to Seller or any predecessor in title. All repairs by Tenant shall be made in a good and workmanlike manner using materials of good quality and in accordance with all Legal Requirements.

(b) Landlord shall not under any circumstances be required to build or rebuild any Facility, or to make any repairs, replacements, alterations, restorations or renewals of any nature or description to the Property, whether interior or exterior, structural or nonstructural, ordinary or extraordinary, patent or latent, foreseen or unforeseen, or to make any expenditure whatsoever with respect thereto, in connection with this Lease, nor shall Landlord under any circumstances be required to maintain the Property or any portion thereof in any way or manner whatsoever. Tenant hereby waives, to the fullest extent permitted by law, the right to make repairs at the expense of Landlord pursuant to any law or equitable principle in effect at the time of the execution of this Lease or hereafter enacted. Landlord shall have the right to give, record and post, at the Facilities and otherwise, as appropriate, notices of non-responsibility under any construction or mechanic's lien laws now or hereafter existing, and any other notices of a similar nature that Landlord may reasonably elect to give, record or post from time to time during the Term. Use of casualty insurance proceeds held by Landlord shall be handled as provided in [Article 15](#).

(c) Nothing contained in this Lease, and no action or inaction by Landlord, shall be deemed or construed in any manner as (i) constituting the consent or request of Landlord, expressed or implied, to any contractor, subcontractor, laborer, materialman or vendor to or for the performance of any labor or services or the furnishing of any materials or other property for the construction, alteration, addition, repair or demolition of or to all or any portion of the Property or the FF&E or (ii) giving Tenant any right, power or permission to contract for or permit the performance of any labor or services or the furnishing of any materials or other property in such a manner as would permit the making of any claim against Landlord or Landlord's interest in any portion of the Property or the FF&E with respect thereto, or to make any agreement that may create, or in any way may be the basis for the assertion of any right, title, interest, lien, claim or other encumbrance upon the estate of Landlord in all or any portion of the Property or the FF&E.

(d) Within thirty (30) days' after Landlord's written request at the expiration of the Term or earlier termination of this Lease, Tenant shall provide to Landlord a schedule listing the FF&E which exists at the Facilities.

(e) Tenant shall, upon the expiration or earlier termination of this Lease, vacate and surrender the Facilities and all FF&E to Landlord in the condition in which the Facilities was originally received from Landlord, except as repaired, rebuilt, restored, altered or added to as permitted or required by the provisions of this Lease, and except for casualty, condemnation or ordinary wear and tear (but subject to the obligation of Tenant under this Section to maintain the Property in good order, condition and repair during the entire Term of this Lease) and subject to the provisions of this Lease with respect to casualties, insurance proceeds and condemnation and containing such Inventory to operate the Facilities in the ordinary course of business for a period of no less than seven (7) days after the expiration or earlier termination of this Lease.

(f) The maintenance and repair obligations of Tenant under this Section 10.1 shall survive the expiration or earlier termination of this Lease as regards any condition requiring repair which existed as of the date of such expiration or termination notwithstanding that such condition is not discovered by Landlord until after the date of such expiration or termination.

ARTICLE 11

SECURITY FOR PERFORMANCE OF OBLIGATIONS

11.1 Security Agreement. Tenant and each Subtenant shall execute in favor of Landlord a security agreement in a form reasonably agreed between Landlord and Tenant (each such agreement, a “Security Agreement”), granting to Landlord a first priority security interest in all Tenant’s Personal Property, deposit accounts, Accounts (to the extent permitted by law), general intangibles, contract rights (to the extent permitted by law) and healthcare insurance receivables (to the extent applicable and permitted by law) arising from the operations of the Facilities and other interests of Tenant which security interest shall secure the payment of all Rent and the performance of all other obligations of Tenant under this Lease. Tenant shall cooperate in filing all financing statements needed to perfect such security interest.

11.2 Additional Collateral Documents. As further security for the performance by Tenant of its obligations under this Lease, (a) Tenant shall cause the Manager and each Subtenant to execute and deliver a Subordination Non-Disturbance and Attornment Agreement, (b) Tenant shall cause Holiday AL Mezzanine I, LLC to execute and deliver a pledge of 100% of the equity in Tenant in a form reasonably agreed between Landlord and Tenant (the “Tenant Pledge Agreement”), (c) Tenant shall cause the Guarantor to execute and deliver the Guaranty, (d) Tenant and each Subtenant shall execute a Security Agreement and (e) Tenant shall fulfill, and shall cause Guarantor and Subtenant to fulfill, its and their obligations under each such document (the “Collateral Documents”). Notwithstanding the foregoing, at such time as any landlord under this Lease or an Affiliate thereof is a Restricted Landlord, the pledge of equity in Tenant granted pursuant to the Tenant Pledge Agreement shall be deemed to be automatically released and Landlord or its successor or assign, as applicable, shall execute such documents as are reasonably necessary and appropriate to effectuate the same.

11.3 Compliance with Financial Ratios Tenant will, or will cause the Subtenant to, operate the Facilities during the term of this Lease in order to meet the following minimum financial standard:

(a) From and after the quarter ending December 31, 2014 and for each subsequent quarter through the quarter ending December 31, 2018, the Facilities shall have a Lease Coverage Ratio of not less than 1.00 to 1.00.

(b) From and after the quarter ending March 31, 2019 and for each subsequent quarter through the quarter ending December 31, 2023, the Facilities shall have a Lease Coverage Ratio of not less than 1.05 to 1.00.

(c) From and after the quarter ending March 31, 2024 and for each subsequent quarter through the quarter ending December 31, 2028, the Facilities shall have a Lease Coverage Ratio of not less than 1.10 to 1.00.

(d) From the quarter ending March 31, 2029 and for each quarter thereafter, the Facility shall have a Lease Coverage Ratio of 1.15 to 1.00.

Compliance with the Lease Coverage Ratio shall be measured quarterly commencing with the quarter ending December 31, 2014 and shall be based upon a trailing twelve (12) month period of operation then ending. Notwithstanding the foregoing, Tenant shall not be deemed in violation of the terms of this Section 11.3 if the Lease Coverage Ratio as at the end of any quarter on a trailing twelve month basis is less than the amounts set forth above and Tenant provides to Landlord, within thirty (30) days after the end of such quarter, the Shortfall Deposit. During the Term, Landlord shall promptly release the Shortfall Deposit back to Tenant upon receipt of an Officer's Certificate which reflects compliance with the covenant set forth above for two consecutive quarters. Tenant shall provide Landlord evidence of compliance with this Section 11.3 and such backup documentation as required by Landlord within forty-five (45) days of the end of each calendar quarter of each Fiscal Year of Tenant (commencing for the last quarter of calendar year 2014). Upon the expiration or earlier termination of the Term, Landlord shall be authorized to apply any Shortfall Deposit then being held by Landlord to satisfy any monetary obligation which may then be outstanding under the Lease beyond any applicable notice and cure period, with the balance, if any, remitted by Landlord to Tenant. The Shortfall Deposit shall not bear interest, shall not be required to be held by Landlord in trust or as an agent of Tenant and may be commingled with other assets of Landlord; provided, however, if at any time the landlord under this Lease is not an Approved Landlord, the Shortfall Deposit shall be segregated in a separate interest bearing account, and such deposit shall be held by the applicable landlord in trust for the benefit of Tenant.

11.4 [Intentionally omitted.]

11.5 Subordination of Payments to Affiliates. After the occurrence and during the continuance of an Event of Default, Tenant shall not make and shall cause Subtenant not to make any payments or distributions (including, without limitation, salary, bonuses, fees, principal, interest, dividends, liquidating distributions, management fees, cash flow distributions or lease payments) to any shareholder, member or partner of Tenant or Subtenant (as applicable)

or any Affiliate except (1) payments or distributions on account of obligations owed to third parties which are not Affiliates of Tenant or Subtenant for goods or services provided to any Facility in a manner consistent with past practice (taking into account changed operational requirements at each Facility), (2) payments of salaries, wages, benefits and bonuses of employees located at and providing services to any Facility at customary rates consistent with past practice, and (3) payments of (A) salaries, wages, benefits and bonuses of employees that are not located at any Facility but which employees provide accounting and/or other administrative services to any Facility at customary rates consistent with past practice and (B) any other costs and expenses charged by Affiliates of Guarantor or Tenant with respect to the use or operation of the Facilities, provided the aggregate amount of payments pursuant to this Section 11.5 shall not exceed 2% of the aggregate annual rental revenue at all Facilities.

ARTICLE 12

LIENS

12.1 No Liens on Property. Subject to the provisions of Article 13 relating to permitted contests, Tenant shall not create or allow to remain and shall promptly discharge at its expense any lien, encumbrance, attachment, title retention agreement or claim upon any portion of the Property caused by Tenant or its Agents or on Tenant's Accounts or any attachment, levy, claim or encumbrance in respect of Rent, not including, however, (a) this Lease, (b) Permitted Encumbrances, if any, (c) liens for those taxes of Landlord which Tenant is not then currently required to pay hereunder, (d) subleases and liens, if any, permitted by Article 21, (e) liens for Impositions or for sums resulting from noncompliance with Legal Requirements so long as the same are not yet payable or are payable without the addition of any fine or penalty or are in the process of being contested as permitted by Article 13, (f) liens in favor of Landlord, (g) liens of mechanics, laborers, materialmen, suppliers or vendors for sums either disputed or not yet due, provided that, notwithstanding the provisions of Article 13, at Landlord's request, Tenant shall remove any such lien from record title to any interest in the Property (including, without limitation, Tenant's interest under this Lease), at Tenant's sole cost and expense, by depositing with the appropriate public authority a sum of money, or filing in such forum a bond executed as surety by a surety insurer licensed to do business in the State, in the amount and in the manner required by applicable law of the State and otherwise in a manner sufficient to effectively remove such lien from record title to the Property; provided, further (i) the payment of such sums shall not be postponed for more than seven days after the completion of the action giving rise to such lien (but in no event in excess of any period of redemption) and such reserve or other appropriate provisions as shall be required by law or generally accepted accounting principles shall have been made therefor and/or (ii) any such liens are in the process of being contested as permitted by Article 13, (h) any Encumbrances which are the responsibility of Landlord pursuant to the provisions of Article 23 or which arise from the acts or omissions of Landlord and/or its officers, agents or employees and (i) leases or financing agreements with third party vendors/lessors with respect to personal property located at, and used in connection with the operation of the Facilities, including, but not limited to, telephone systems, kitchen equipment and laundry equipment, provided that the aggregate payments due thereunder shall be on market terms, consistent with the terms obtained by comparable operators. Notwithstanding the foregoing, in no event shall Tenant or any Subtenant be permitted to lease any personal property

for use at a Facility if the aggregate annual rental payment for all personal property at such Facility exceeds \$50,000 (adjusted each year by the increase in CPI).

12.2 No Liens on Landlord's Interest. In no event shall the interest of Landlord in the Property be subject to liens for improvements made by Tenant, whether under Article 10 or this Article 12. Tenant shall notify any and all contractors making any improvements, repairs or additions to any portion of the Property that any lien to which such contractor may be entitled pursuant to the laws of the State shall not extend to the interest of Landlord in the Property.

ARTICLE 13

CONTESTS

Tenant, on its own or on Landlord's behalf (or in Landlord's name), but at Tenant's sole cost and expense, may contest, by appropriate legal proceedings conducted in good faith and with due diligence, the amount, validity or application, in whole or in part, of any Imposition, Legal Requirement, Insurance Requirement, lien, attachment, levy, encumbrance, charge or claim not otherwise permitted by Article 12, provided that (a) in the case of an unpaid Imposition, lien, attachment, levy, encumbrance, charge or claim, the commencement and continuation of such proceedings shall suspend the collection thereof from Landlord or Tenant and from the portion of the Property subject to such contest, (b) neither such Property nor any Rent therefrom nor any part thereof nor interest therein would be subject to any risk of being sold, forfeited, attached, foreclosed, or lost as a result of such non-payment or non-compliance, (c) in the case of a Legal Requirement, Landlord would not be in any danger of civil or criminal liability for failure to comply therewith pending the outcome of such proceedings, (d) [Intentionally omitted], (e) in the case of a Legal Requirement or an Imposition, lien, encumbrance or charge, Tenant shall give such security as may be demanded by Landlord to insure ultimate payment of the same and to prevent any sale or forfeiture of the affected portion of the Property or the Rent by reason of such non-payment or non-compliance, including, without limitation, a guaranty in form and substance acceptable to Landlord and executed by a guarantor reasonably acceptable to Landlord (provided Tenant shall only be required to comply with this subsection (e) if the aggregate amount then due and payable with respect to all Legal Requirements, Impositions, liens, encumbrances or charges, directly affecting the Facilities, exceeds \$15,000,000), (f) in the case of an Insurance Requirement, the coverage required by Article 14 shall be maintained, and (g) if such contest be finally resolved against Landlord or Tenant, Tenant shall, as Additional Charges due hereunder, promptly pay the amount required to be paid, together with all interest and penalties accrued thereon, or comply with the applicable Legal Requirement or Insurance Requirement. Notwithstanding any express or implied provision of this Article to the contrary, the provisions of this Article shall not be construed to permit Tenant to contest the payment of Base Rent (except as to contests concerning the method of computation) or any other sums payable by Tenant to Landlord hereunder. Landlord, at Tenant's expense, shall execute and deliver to Tenant such authorizations and other documents as may reasonably be required in any such contest and, if reasonably requested by Tenant or if Landlord so desires, Landlord shall join as a party therein. Tenant shall indemnify, defend and save Landlord harmless against any liability, cost or expense of any kind that may be imposed upon Landlord in connection with any such contest and any loss resulting therefrom.

ARTICLE 14

INSURANCE

14.1 General Insurance Requirements. During the Term, Tenant shall at all times keep the Facilities, and all property located in or on the Facilities, including all Capital Additions, the FF&E and the Personal Property, insured with the kinds and amounts of insurance described below. Each element of the insurance described in this Article shall be maintained with respect to the Facilities and the Personal Property and operations thereon. This insurance shall be written by companies authorized to do insurance business in the State in which the Facilities are located. All liability type policies (except professional liability and workers compensation) must name Landlord as an “additional insured” through an endorsement on the policy. All property, loss of rental and business interruption type policies shall name, through a policy endorsement, Landlord as “loss payee” to the extent of Landlord’s insurable interest therein with respect to the property required to be insured by Tenant. Losses shall be payable to Landlord and/or Tenant as provided in Article 15. In addition, the policies, as appropriate, shall name as an “additional insured” or “loss payee” the holder of any mortgage, deed of trust or other security agreement (“Facility Mortgagee”) securing any indebtedness or any other Encumbrance placed on the Facilities in accordance with the provisions of Article 23 (“Facility Mortgagee”) by way of a standard form of mortgagee’s loss payable endorsement; provided that Landlord delivers the name and address of any such Facility Mortgagee to Tenant at least five (5) business days prior to the desired effective date of such endorsement. If required by any applicable Facility Mortgagee, any loss adjustment in excess of \$500,000 shall require the written consent of the Facility Mortgagee. Notwithstanding anything to the contrary in this Lease (but subject to the immediately following sentence), if requested by Landlord, Tenant shall be obligated to comply with insurance requirements imposed on the Property and set forth in any Encumbrance, provided such requirements are customary in the industry for properties similar to the Facilities in the same general areas in which the Facilities are located, are customarily required by institutional lenders, are commercially reasonable and consistent with industry standards at the applicable time, and such insurance is available at commercially reasonable rates. Landlord agrees to use commercially reasonable efforts and cooperate with Tenant for the purpose of obtaining waivers from any Facility Mortgagee and otherwise securing any Facility Mortgagee’s agreement that such coverage is in compliance with a Facility Mortgagee’s requirements; provided, however, if, despite such efforts, such waivers are not obtained, then the provisions of the immediately preceding sentence will apply. Evidence of insurance shall be deposited with Landlord and, if requested, with the Facility Mortgagee(s). The policies shall insure against the following risks:

14.1.1 Loss or damage by fire, vandalism and malicious mischief, extended coverage and other perils commonly known as “all risk or special perils”, earthquake (including earth movement), sinkhole and windstorm in an amount not less than the insurable value on a replacement cost basis (as defined below in Section 14.2) and including a building ordinance or law coverage endorsement;

14.1.2 Loss or damage by mechanical breakdown, electrical injury and explosion of steam boilers, pressure vessels or similar apparatus, now or hereafter installed in the Facilities, on a “replacement cost basis”;

14.1.3 Flood (when the improvements comprising the Facilities are located in whole or in part within a FEMA-designated 100-year flood plain area);

14.1.4 Loss of rental value in an amount not less than twelve (12) months' Rent payable hereunder or business interruption in an amount not less than twelve (12) months of income and normal operating expenses including payroll and Rent payable hereunder with an endorsement extending the period of indemnity by at least ninety (90) days; and

14.1.5 Bodily injury or property damage under a policy of commercial general liability insurance (including broad form property damage and broad form contractual liability) and medical professional liability, with amounts not less than \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate. Any combination of primary or umbrella/excess insurance may be utilized to provide the total required general and professional liability insurance limits set forth in this Section 14.1.5.

14.2 Replacement Cost. The term "replacement cost" shall mean the actual replacement cost of the insured property from time to time with new materials and workmanship of like kind and quality and in compliance with current building codes. If Tenant has made improvements to the Facilities, Landlord may at Tenant's expense have the replacement cost re-determined at any time after such improvements are made, regardless of when the replacement cost was last determined.

14.3 Additional Insurance. In addition to the insurance described above, Tenant shall maintain, or shall cause Manager and any replacement thereof to maintain, the statutory workers' compensation coverage or comparable coverage (including non-subscriber coverage in Texas (if applicable)), as required by the Legal Requirements for all Persons employed by Tenant, Manager and any replacement thereof, in the Facilities, or, in the alternative, to the extent permitted by Legal Requirements.

14.4 Waiver of Subrogation. All insurance policies covering the Facilities and Tenant's Personal Property including contents, fire and casualty insurance, and including all third party liability and workers compensation insurance to the extent not prohibited by law shall expressly permit waiver of rights of subrogation against the other party, its officers, directors, members, agents and employees. Each party hereby waives any claims it has against the other party, its officers, directors, members, agents and employees, to the extent such claim is covered or should be covered by the required insurance, including amounts under deductibles or self-insured retentions, even if the loss is caused by the sole negligence of such other party, its officers, directors, and members, agents or employees.

14.5 Policy Requirements. All of the policies of insurance referred to in this Article shall be written in form reasonably satisfactory to Landlord and by insurance companies with a policyholder rating of "A-" and a financial rating of "7" in the most recent version of Best's Key Rating Guide. Additionally, except as otherwise provided in this Lease, all of the insurance referred to in this Article shall be on an occurrence or claims-made basis. If Tenant obtains and maintains the general and medical professional liability insurance described in Section 14.1.5 above on a "claims-made" basis, Tenant shall provide continuous liability coverage for claims arising during the Term either by obtaining an endorsement providing for an

extended reporting period reasonably acceptable to Landlord in the event such policy is canceled or not renewed for any reason whatsoever, or by obtaining either (a) "tail" insurance coverage converting the policies to "occurrence" basis policies providing coverage for a period of at least three (3) years beyond the expiration of the Term, or (b) retroactive coverage back to the commencement date (which date shall be at least three (3) years prior to the expiration of the Term) for the policy in effect prior to the expiration of the Term and maintaining such coverage for a period of at least three (3) years beyond the expiration of the Term. All policies of insurance required herein shall be endorsed to be primary to all insurance available to Landlord, with Landlord's insurance (if any) being excess, secondary and non-contributing. Tenant shall pay all of the premiums therefor, and deliver certificates thereof to Landlord prior to their effective date (and with respect to any renewal policy, shall deliver evidence of renewal no more than five (5) days after the expiration of the existing policy), and in the event of the failure of Tenant either to effect such insurance in the names herein called for or to pay the premiums therefor, or to deliver certificates thereof to Landlord, at the times required and if Tenant fails to cure such default within ten (10) days after receipt of written notice from Landlord, Landlord shall be entitled, but shall have no obligation, to effect such insurance and pay the premiums therefor, in which event the cost thereof, together with interest thereon at the Overdue Rate, shall be repayable to Landlord upon demand therefor. Each insurer shall agree, by endorsement on the policy or policies issued by it, or by independent instrument furnished to Landlord, that it will give to Landlord thirty (30) days' written notice before such insurer cancels or does not renew the policy or policies in question. Each policy shall have a deductible or deductibles, if any, which are no greater than those normally maintained for similar facilities in the State of similar size, financial condition, resident mix and number. Each party shall be responsible for funding deductibles or retentions under its own insurance policies. Tenant shall be responsible for funding all claims within self-insured retention, including claims applying to Landlord as an additional insured.

14.6 Blanket Policy. Notwithstanding anything to the contrary contained in this Article 14, Tenant's obligations to carry the insurance provided for herein may be brought within the coverage of a so-called blanket policy or policies of insurance carried and maintained by Tenant or its Affiliates; provided, however, that the coverage afforded Landlord will not be reduced or diminished or otherwise be materially different from that which would exist under a separate policy meeting all other requirements hereof by reason of the use of the blanket policy, and provided further that the requirements of this Article 14 are otherwise satisfied.

14.7 Changed circumstances. Notwithstanding anything to the contrary herein (a) if any insurance required to be maintained by Tenant under this Article 14 ceases to be available, Tenant shall not be in breach of this Lease provided Tenant promptly obtains such alternative insurance as is customary in the industry for properties similar to the Facilities in the same general areas in which the Facilities are located and consistent with industry standards at the applicable time and (b) if any insurance provider of Tenant fails to maintain the ratings required under Section 14.5 during the term of the then existing policy, Tenant shall not be in breach of this Lease provided Tenant promptly obtains replacement insurance from an insurance provider that satisfies the ratings required under Section 14.5 (provided Tenant shall continue to maintain the then existing policy until such time as the replacement policy is issued).

ARTICLE 15

INSURANCE PROCEEDS

15.1 Handling of Insurance Proceeds. Except as otherwise provided herein, all proceeds from any policy of property damage insurance (excluding business interruption insurance), required by Article 14 of this Lease shall be paid to and held in trust by Landlord or a Facility Mortgagee; provided, however, that if the originally named Landlord is not then the Landlord hereunder, such payments shall be paid to and held by a reputable insurance trustee having substantial experience operating in such capacity, which trustee shall be mutually acceptable to Landlord and Tenant and shall hold and disburse such funds in accordance with written instructions mutually acceptable to Landlord and Tenant; and provided, further, that in the event the amount of such proceeds is less than \$1,000,000 (or such lesser amount as is required by a Facility Mortgagee) and there is no monetary Event of Default then outstanding under this Lease, such proceeds shall be released by Landlord to Tenant to be applied in the manner set forth in this Article 15. Provided that no Event of Default then exists, any such payments received by Landlord shall be made available by Landlord, or the trustee for reconstruction or repair, as the case may be, of any damage to or destruction of all or any portion of the Property to which such proceeds relate, and shall be paid out by Landlord, (or such insurance trustee) from time to time in accordance with and subject to the provisions hereof for the cost of such reconstruction or repair, subject to reasonable and customary controls to ensure funds disbursed by Landlord (or such insurance trustee) are in fact used for such purpose. Tenant acknowledges that such insurance proceeds may not be used towards satisfaction of the minimum Capital Expenditures required pursuant to Section 7.1 of this Lease. Any unused portion shall be retained by Landlord upon completion of such repair and restoration to be held in reserve by Landlord and disbursed by Landlord to Tenant for further maintenance or repair of the Property as requested by Tenant and reasonably approved by Landlord; provided, however, any such unused insurance proceeds which remain at the time this Lease expires or is terminated shall be refunded to Tenant upon Tenant's concurrent payment to Landlord of all amounts, if any, then due to Landlord from Tenant under other provisions of this Lease. All salvage resulting from any risk covered by insurance shall belong to Landlord.

15.2 Reconstruction in the Event of Damage or Destruction Covered by Insurance.

(a) Subject to subsection (c) below, if during the Term a Facility is totally or substantially destroyed by a risk covered by the insurance described in Article 14 so that the Facility thereby is rendered unsuitable for its Permitted Use(s) (taking into account all relevant factors, including, but not limited to, the number of useable units and the amount of square footage reasonably available for use by Tenant and the type and amount of revenue lost), Tenant shall use insurance proceeds hereunder to restore the Facility to substantially the same condition as existed immediately before the damage or destruction, and this Lease shall continue in full force and effect. The insurance proceeds shall be paid to Tenant or its designee in accordance with Section 15.1 from time to time as necessary to pay for the costs of such restoration.

(b) If the cost of any such repair or restoration exceeds the amount of proceeds received by Landlord (or the insurance trustee described in Section 15.1) and paid over to Tenant from the insurance required under Article 14, Tenant shall contribute any and all excess amounts necessary to repair or restore the Facility.

(c) Notwithstanding the foregoing, in the event that either (i) more than seventy five percent (75%) of any Facility (by area or value) is substantially destroyed during the final twelve (12) months of the Term as a result of a fully insured (subject to the deductible provision of the insurance coverage) casualty (including but not limited to, the business interruption coverage described in Section 14.1.4) or (ii) regardless of the extent of such damage or destruction (A) the repair or reconstruction of the Facility is prohibited under applicable law, including, but not limited to, licensure law, zoning law and/or building code law or (B) the proceeds of insurance are paid to Landlord or a Facility Mortgagee, and such proceeds are not promptly made available to Tenant by Landlord or a Facility Mortgagee, as applicable, in either event, Tenant may elect, by giving written notice to Landlord within thirty (30) days of the date of such casualty, to terminate this Lease as to the affected Facility effective as of the date such notice of termination is given. If the Lease is so terminated, all insurance proceeds including the business interruption coverage required in Section 14.1.4 above, shall be paid to Landlord and the Base Rent shall be reduced by an amount equal to the Allocated Facility Rent for such Facility. In addition, Tenant shall pay to Landlord an amount equal to any deductible feature of the casualty insurance coverage.

15.3 Reconstruction in the Event of Damage or Destruction Not Covered by Insurance If during the Term a Facility is totally destroyed or materially damaged (i) from a risk not covered by insurance described in Article 14 or (ii) from a risk for which insurance coverage is voided due to any act or omission by Tenant, whether or not the Facility is thereby rendered unsuitable for its Permitted Use(s), Tenant shall restore the Facility to substantially the same condition as existed immediately prior to such damage or destruction, this Lease shall continue in full force and effect, and Tenant shall continue to pay Rent, in the manner and at the times herein specified, including the full amounts of Base Rent and Additional Charges. Notwithstanding the foregoing, in the event that either (i) more than seventy five percent (75%) of the Facility (by area or value) is substantially destroyed during the final twelve (12) months of the Term as a result of a fully insured (subject to the deductible provision of the insurance coverage) casualty (including but not limited to, the business interruption coverage described in Section 14.1.4) or (ii) regardless of the extent of such damage or destruction, the repair or reconstruction of the Facility is prohibited under applicable law, including, but not limited to, licensure law, zoning law and/or building code law, Tenant may elect, by giving written notice to Landlord within thirty (30) days of the date of such casualty, to terminate this Lease as to the affected Facility effective as of the date such notice of termination is given and (A) the Base Rent shall be reduced by an amount equal to the Allocated Facility Rent for such Facility, and (B) all insurance proceeds including the business interruption coverage required in Section 14.1.4 above, shall be paid to Tenant and (D) payment shall be made by Tenant to Landlord in an amount equal to the Fair Market Value of the Facility and fee title to the Facility shall thereupon be transferred to Tenant free and clear of all Encumbrances and exceptions to title except those (I) created by Tenant or (II) in existence as of the date of this Lease.

15.4 Restoration of Capital Additions Paid by Tenant. All insurance proceeds payable solely by reason of any loss of or damage to any Capital Additions fully paid for by Tenant in their entirety shall be paid to Tenant and Tenant shall hold such insurance in trust to pay the cost of repairing or replacing damaged Capital Additions fully paid for by Tenant in their entirety; provided, however, that if the damaged Capital Additions fully paid for by Tenant in their entirety are deemed by Tenant to no longer be useful to Tenant's operations, Tenant shall not be obligated to repair or replace them.

15.5 Facility Mortgagee Requirements. Notwithstanding anything to the contrary in this Lease, (a) Landlord shall only be obligated to make insurance proceeds resulting from any casualty available to Tenant to the extent the same are made available to Landlord pursuant to the terms of any Encumbrance and (b) in the event insurance proceeds are not made available to Tenant, Tenant shall have no obligation to repair or restore the Facilities or any portion thereof.

15.6 Waiver. Tenant hereby waives any rights at law or in equity and any statutory rights of termination which may arise by reason of any damage or destruction of the Property which Landlord is obligated to restore or may restore under any of the provisions of this Lease.

15.7 Shortfall. If (a) a Facility is damaged or destroyed, in whole or in part, by fire or other casualty, (b) Tenant is obligated to repair such Facility pursuant to the terms of this Lease and (c) the amount of insurance proceeds available to Tenant in connection therewith is less than the amount required to complete the repair or restoration of such Facility (the "Casualty Shortfall Amount"), Tenant shall promptly transfer funds, in an amount equal to the Casualty Shortfall Amount, to Landlord or as otherwise directed by Landlord, provided such funds are segregated in a separate interest bearing account, and such funds shall be held in trust for the benefit of Tenant. Promptly following written request by Tenant, Landlord or its designee shall make disbursements of the Casualty Shortfall Amount to Tenant in an amount equal to the costs to be incurred from time to time for the work to repair or restore the applicable Facility, provided such request also contains reasonable evidence documenting the costs to be incurred. Tenant shall have no obligation to repair or restore the applicable Facility unless the Casualty Shortfall Amount is made available to Tenant in accordance with the foregoing.

15.8 Notice. If a Facility is damaged or destroyed, in whole or in part, by fire or other casualty, the cost of which to repair is greater than \$250,000, Tenant shall give prompt written notice of such damage to Landlord.

ARTICLE 16

CONDEMNATION

16.1 Definitions.

(a) "Condemnation" means (a) the exercise of any governmental power, whether by legal proceedings or otherwise, by a Condemnor, the purpose and intent of which is to effect a Taking, or (b) a voluntary sale or transfer by Landlord with Tenant's consent

(provided that such consent shall be required only if no Event of Default has occurred and is continuing at such time) to any Condemnor, either under threat of condemnation or while legal proceedings for condemnation are pending.

(b) “Date of Taking” means the first date the Condemnor has the right to immediate possession of the property being condemned.

(c) “Award” means all compensation, sums and any other value awarded, paid or received on a total or partial condemnation of any portion of the Property and shall specifically exclude any separate award made to Tenant as allowed in Section 16.4 below.

(d) “Condemnor” means any public or quasi-public authority, or private corporation or individual, having the power of condemnation.

16.2 Parties’ Rights and Obligations. If during the Term there is any Taking of all or any part of the Property or of any interest in this Lease by Condemnation, the rights and obligations of the parties shall be determined by this Article. Tenant shall not consent to the settlement of any Award to be made in connection with any Condemnation, without the prior written consent of Landlord and any applicable Facility Mortgagee (such consent not to be unreasonably withheld, conditioned or delayed), if the proposed amount of such Award exceeds \$500,000.

16.3 Total Taking. If title to the fee of the whole of any Facility shall be the subject of any Condemnation by any Condemnor, this Lease shall cease and terminate as of the Date of Taking as to the affected Facility. If title to the fee of less than the whole of any Facility shall be so taken or condemned, which nevertheless renders the Facility unsuitable for its Permitted Use(s) (taking into account all relevant factors, including, but not limited to, the number of useable units, the amount of square footage reasonably available for use by Tenant, and the type and amount of revenue lost), Tenant and Landlord each shall have the option by Notice to the other, to terminate this Lease as of the Date of Taking as to the affected Facility. In either of such events, the Base Rent shall be reduced by an amount equal to the Allocated Facility Rent for such Facility.

16.4 Allocation of Award. In the event of a Taking as described in Section 16.3, Landlord and Tenant shall cooperate with each other in order to maximize the amount of the Award. Tenant shall have the right to seek damages or a separate condemnation award for Tenant’s loss of any Capital Additions paid for by Tenant, loss of business and relocation expenses and any such award shall be the sole property of Tenant. Subject to the rights of any Facility Mortgagee, the Award shall be allocated entirely to Landlord.

16.5 Partial Taking. If title to the fee of less than the whole of any Facility shall be the subject of a Taking or Condemnation, and the Facility is still suitable for its then existing use, or if Tenant or Landlord shall be entitled, but shall not elect, to terminate this Lease with respect to the Facility as provided in Section 16.3 hereof, Tenant at its own cost and expense shall with all reasonable diligence restore the untaken portion of the Facility so that the Facility shall constitute a complete architectural unit of the same general character and condition (as nearly as may be possible under the circumstances) as existing immediately prior to such

Condemnation or Taking. Landlord and Tenant shall cooperate with each other to maximize the amount of any Award. Landlord shall contribute the entire amount of the Award to the cost of restoration. The proceeds of any Award shall be held and distributed in the same manner as provided by Section 15.1 for insurance proceeds. Any remaining balance of such proceeds after such restoration is completed shall be retained by or paid to Landlord.

16.6 Temporary Taking. If the whole or any part of any portion of the Property or of Tenant's interest under this Lease shall be the subject of a Taking or Condemnation by any Condemnor for its temporary use or occupancy, this Lease shall not terminate, and Tenant shall continue to pay, in the manner and at the times herein specified, the full amount of Rent. Except to the extent Tenant may be prevented from so doing pursuant to the terms of any order for the benefit of the Condemnor, Tenant shall continue to perform and observe all of the other terms, covenants, conditions and obligations hereof on the part of Tenant to be performed and observed as though such Taking or Condemnation had not occurred. Upon any such Taking or Condemnation described in this Section, the entire amount of any such Award made for such Taking or Condemnation allocable to the Term of this Lease, whether paid by way of damages, Rent or otherwise, shall be paid to Tenant. If any part of such Award is allocable for a period beyond the term of this Lease, that part shall be paid to Landlord. Tenant covenants that upon the termination of any such period of temporary use or occupancy as set forth in this Section, Tenant will, at its sole cost and expense (subject to any contribution by Landlord as set forth in Section 16.5), restore the Property as nearly as may be reasonably possible to the condition in which the same was immediately prior to such Taking or Condemnation, unless such period of temporary use or occupancy shall extend beyond the expiration of the Term, in which case Tenant shall not be required to make such restoration but shall pay to Landlord from the Award received by Tenant and not applied by Tenant to satisfy its Rent obligations during the period of such Taking, to the costs of such restoration work.

16.7 Facility Mortgagee Requirements. Notwithstanding anything to the contrary in this Lease, (a) Landlord shall only be obligated to make an Award resulting from any Condemnation available to Tenant to the extent the same are made available to Landlord pursuant to the terms of any Encumbrance and (b) in the event any Award is not made available to Tenant, Tenant shall have no obligation to repair or restore the Facilities or any portion thereof.

16.8 Notice. If a Facility is subject to a Condemnation with a proposed Award greater than \$250,000, Tenant shall give prompt written notice of such Condemnation to Landlord and shall deliver to Landlord copies of any and all papers served in connection with such Condemnation.

ARTICLE 17

DEFAULTS AND REMEDIES

17.1 Events of Default. Any one or more of the following events shall be deemed an "Event of Default" hereunder:

(a) Tenant shall fail to pay Rent payable by Tenant under this Lease as and when the same becomes due and payable and such failure continues for more than three (3) business days after Notice thereof from Landlord;

(b) Tenant or Guarantor shall fail to observe or perform any other term, covenant or condition of this Lease or Guaranty and such failure is not cured by Tenant or Guarantor, as the case may be, within a period of thirty (30) days after Notice thereof from Landlord; provided, however, if any such failure is not capable of being cured within such thirty (30) day period but is capable of being cured, Tenant shall have an additional ninety (90) days to cure the failure provided Tenant promptly commences its attempt to cure the failure and diligently proceeds in good faith to cure the same as expeditiously as possible;

(c) Any representation or warranty made by (i) Tenant in this Lease, whether under Article 22 of this Lease or otherwise, shall prove to be false or misleading, as of the date made, in any material respect and the same is not corrected within ten (10) days after notice thereof from Landlord, provided Tenant shall have no right to cure any willful and intentional misstatement or (ii) Guarantor in the Guaranty shall prove to be false or misleading, as of the date made, in any material respect and the same is not corrected within ten (10) days after notice thereof from Landlord, provided Guarantor shall have no right to cure any willful and intentional misstatement;

(d) Tenant or Guarantor shall (i) admit in writing its inability to pay its debts generally as they become due, (ii) file a petition in bankruptcy or a petition to take advantage of any insolvency law, (iii) make a general assignment for the benefit of its creditors, (iv) consent to the appointment of a receiver of itself or of the whole or any substantial part of its property, or (v) file a petition or answer seeking reorganization or arrangement under the Federal bankruptcy laws or any other applicable law or statute of the United States of America or any State thereof;

(e) Tenant or Guarantor shall, on a petition in bankruptcy filed against it, be adjudicated bankrupt or have an order for relief thereunder entered against it or a court of competent jurisdiction shall enter an order or decree appointing, without the consent of Tenant or Guarantor, a receiver of Tenant or Guarantor or of the whole or substantially all of its property, or approving a petition filed against Tenant or Guarantor seeking reorganization or arrangement of Tenant or Guarantor under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof, and such judgment, order or decree shall not be vacated or set aside or stayed within ninety (90) days from the date of the entry thereof;

(f) Tenant or Guarantor shall be liquidated or dissolved (except for an involuntary dissolution due to a failure to file an annual report with the Secretary of State or other applicable officer or department of the State so long as such failure is cured within 30 days of any notice thereof to Tenant or Guarantor, whether from the State or otherwise), or shall begin proceedings toward such liquidation or dissolution, or shall, in any manner, permit the sale or divestiture of substantially all of its assets other than in connection with a merger or consolidation of Tenant or Guarantor into, or a sale of substantially all of Tenant's or Guarantor's assets to, another Person;

(g) the estate or interest of Tenant in the Property or any part thereof shall be levied upon or attached in any proceeding and the same shall not be vacated or discharged within the later of sixty (60) days after commencement thereof or thirty (30) days after Notice thereof from Landlord (unless Tenant shall be contesting such lien or attachment in good faith in accordance with Article 13 hereof);

(h) Tenant closes any Facility or ceases operations on the Property in violation of Section 8.3;

(i) Tenant or Subtenant, as applicable, fails to (i) comply with the terms of Article 14, (ii) comply with Section 11.3 (financial covenant), (iii) comply with Article 21, or (iv) comply with the SPE Requirements if such failure under this clause (i)(iv) results in substantive consolidation with Persons other than each of Tenant, the Subtenants and Guarantor;

(j) Tenant, an Affiliate of Tenant or any Guarantor shall fail to pay when due or within any applicable notice and grace period any amount due to Landlord on any indebtedness, guaranty, endorsement, indemnity agreement, lease or other obligation (excluding amounts under this Lease) now or hereafter entered into, whether contingent or otherwise, (each, a “debt”) or on any security (as “security” is defined for purposes of the federal securities laws), or any event shall occur or any condition shall exist with respect to any debt or security of Tenant in favor of Landlord, the effect of which would (i) cause any or all of such debt or security to become due prior to its stated maturity or its regularly scheduled dates of payment and (ii) have a material adverse effect on Tenant and the Facilities taken as a whole;

(k) An event described in Section 2(c) of the Guaranty occurs (after taking into account all stated notice and cure periods); and

(l) the Guaranty becomes unenforceable and Guarantor fails to provide a replacement guaranty on the same terms within five (5) days thereof.

17.2 Damages.

(a) Upon the occurrence and during the continuance of any Event of Default, Landlord shall have the right (i) to terminate this Lease and Tenant’s right to possession of the Facilities by any lawful means, upon ten (10) days’ Notice of such termination (during which time Tenant shall have the opportunity to cure any such Event of Default) in which case, if Tenant shall fail to cure all Events of Default within the foregoing ten (10) day period, this Lease shall terminate and all of Tenant’s rights hereunder shall cease and Tenant shall immediately surrender possession of the Property to Landlord and, in such event, Landlord shall be entitled to recover from Tenant all damages incurred by reason of such Event of Default determined in the manner set forth in this Section 17.2, (ii) to terminate Tenant’s right to possession of the Facilities without thereby terminating this Lease (provided that (A) Landlord shall only be permitted to take such action if, due to Legal Requirements, Landlord is restricted from terminating the Lease and thereafter suing for damages and (B) if Landlord takes such action, Tenant shall be immediately released from all obligations under or relating to this Lease except Tenant’s monetary obligations to Landlord) and/or relet the same for Tenant’s account, and (iii) to enforce all of Landlord’s rights and remedies under this Lease, including the right to recover

the damages provided for in this Section 17.2. Neither the termination of this Lease or of Tenant's right to possession of the Facilities pursuant to this Section 17.2, the repossession of the Facilities, the failure of Landlord, notwithstanding reasonable good faith efforts, to relet the same, nor the reletting of all or any portion of the Property, shall relieve Tenant of its liability and obligations hereunder (other than its non-monetary obligations), all of which shall survive any such termination, repossession or reletting until Landlord has collected from Tenant the damages due hereunder. Notwithstanding anything to the contrary herein, in the case of an Event of Default described in Section 17.1(b) or (c), that solely relates to one or more single Facilities (the "Terminable Facilities"), Landlord shall only be permitted to exercise the foregoing remedies and terminate this Lease as to the Terminable Facilities; provided, however, following the termination of this Lease as to any two (2) Facilities, upon the occurrence and during the continuance of any subsequent Event of Default, Landlord shall be entitled to either (I) terminate this Lease in its entirety as contemplated above or (II) exercise the foregoing remedies and terminate this Lease solely as to the Terminable Facilities. Following the termination of this Lease as to any Terminable Facility, (x) to the extent Landlord exercises its right to accelerate the payment of Base Rent with respect to such Terminable Facility, thereafter the Base Rent payable shall be reduced by an amount equal to the Allocated Facility Rent for such Terminable Facility (provided that the foregoing Rent reduction shall in no way prevent Landlord from suing for damages in accordance with this Article 17), (y) for the purpose of determining the Lease Coverage Ratio, the Base Rent shall be deemed to be reduced by an amount equal to the Allocated Facility Rent for such Terminable Facility (regardless of whether or not Landlord exercises its right to accelerate the payment of Base Rent with respect to such Terminable Facility) and (y) Tenant shall have no further obligation to perform and observe all of the terms, covenants and conditions of this Lease that it would be otherwise required to undertake as tenant and operator of such Terminable Facility.

(b) Upon any such termination of this Lease or of Tenant's right of possession of any of the Property, Tenant shall, forthwith pay to Landlord the full amount of Landlord's damages suffered by reason of such Event of Default in an amount equal to the sum of:

- (i) the worth at the time of the award of the unpaid Rent due and payable to and including the date of such termination, repossession or reletting;
- (ii) the worth at the time of the award, of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that could have been reasonably avoided;
- (iii) the worth at the time of the award of the amount by which the unpaid Rent for the balance of the Term after the time of the award exceeds the amount of such rental loss that could be reasonably avoided; and
- (iv) any other amount reasonably necessary to compensate Landlord for the reasonable costs incurred in regaining possession and reletting the Property, including, but not limited to, brokerage fees and commissions, construction costs, rent concessions, and all legal costs and expenses.

(c) The “worth at the time of the award” of the amounts referred to in subparagraphs (b)(i) and (b)(ii) above shall be computed by allowing interest at the Overdue Rate. The “worth at the time of award” of the amount referred to in subparagraph (b)(iii) above shall be computed by discounting such amount at the discount rate of Federal Reserve Bank of San Francisco at the time of award plus 1%.

(d) If an Event of Default described in Section 17.1(a) shall occur, or if this Lease shall be terminated in whole or part as provided in Section 17.2(a), Landlord, without notice, may dispossess Tenant as to the Facilities, or Terminable Facilities in the case of a partial termination, as applicable, by summary proceedings or by any suitable action or proceeding at law or otherwise. No receipt of moneys by Landlord from Tenant after the termination of this Lease or after the giving of any notice of the termination of this Lease shall reinstate, continue or extend the Term or affect any notice theretofore given to Tenant, or operate as a waiver of the right of Landlord to enforce the payment of Rent payable by Tenant hereunder or thereafter falling due, or operate as a waiver of the right of Landlord to recover possession of a Facility by proper remedy, except as herein otherwise expressly provided, it being agreed that after the service of notice to terminate this Lease or the commencement of any suit or summary proceedings, or after a final order or judgment for the possession of a Facility, Landlord may demand, receive and collect any moneys due or thereafter falling due with respect to such Facility without in any manner affecting such notice, proceeding, order, suit or judgment, all such moneys collected being deemed payments on account of the use and occupancy of such Facility or, at the election of Landlord, on account of Tenant’s liability hereunder.

17.3 Application of Funds. Any payments normally made to Tenant hereunder which are made to and received by Landlord under any of the provisions of this Lease during the continuance of any Event of Default shall be applied to Tenant’s obligations in the order which Landlord may determine.

17.4 Landlord’s Right to Cure Tenant’s Default. If an Event of Default occurs under this Lease and is not cured within the time provided under this Lease with respect to such Event of Default, Landlord, without waiving or releasing any obligation of Tenant, and without waiving any such Event of Default, may (but shall be under no obligation to) at any time thereafter cure such Event of Default for the account and at the expense of Tenant, and may, to the extent permitted by law and subject to Landlord’s compliance with applicable law, including but not limited to, applicable licensure laws and the laws governing the confidentiality of resident and employee records, enter upon any portion of the Property for such purpose and take all such action thereon as, in Landlord’s sole judgment, may be necessary or appropriate with respect thereto. No such entry by Landlord on any portion of the Property shall be deemed an eviction of Tenant. All sums so paid by Landlord and all costs and expenses (including, without limitation, reasonable attorneys’ fees and expenses, in each case to the extent permitted by law) so incurred, together with a late charge thereon (to the extent permitted by law) at the Overdue Rate from the date on which such sums or expenses are paid or incurred by Landlord until paid, shall be paid by Tenant to Landlord on demand. The obligations of Tenant and rights of Landlord contained in this Article shall survive the expiration or earlier termination of this Lease.

17.5 Waiver. If this Lease is terminated pursuant to the provisions of this Article, Tenant waives, to the extent permitted by applicable law, (a) any right of redemption, re-

entry or repossession, (b) any right to trial by jury in the event of summary proceedings to enforce the remedies set forth in this Article, and (c) the benefit of any laws now or hereafter in force exempting Tenant's property from liability for rent or for debt.

ARTICLE 18

CURE BY TENANT OF LANDLORD DEFAULTS

18.1 Landlord Default. Landlord shall be in default of its obligations under this Lease if Landlord shall fail to observe or perform any term, covenant or condition of this Lease on its part to be performed, and such failure shall continue for a period of thirty (30) days after Notice thereof from Tenant (or such shorter time as may be necessary in order to cure or correct any condition, the presence of which substantially or materially interferes with Tenant's conduct of its usual business for the Permitted Use(s) or to protect the health or welfare of any resident of the Property or to ensure the ongoing compliance of the Property with applicable law), unless such failure cannot be cured with due diligence within a period of thirty (30) days (or the above-described shorter time period), in which case such failure shall not be deemed to continue if Landlord, within such thirty (30) days (or the above-described shorter time period), promptly commences its attempt to cure the failure and diligently attempts to complete the curing thereof. The time within which Landlord shall be obligated to cure any such failure shall also be subject to extension of time due to the occurrence of any Unavoidable Delay. If Landlord fails to commence such cure as provided herein, Tenant may cure such default, and so long as Tenant continues to pay Rent, Tenant shall have the right (subject to Section 6.1), as Tenant's sole remedy (except as otherwise provided in this Section 18.1), by separate and independent action to pursue any claim it may have against Landlord for monetary damages caused by Landlord's failure to cure such default.

18.2 Mortgage Cure. Should Landlord fail to observe or perform any of the covenants or conditions contained in this Lease, before taking any action, Tenant shall comply with the requirements of any subordination agreement to which it may then be a party with respect to the granting of notice and an opportunity to cure to any such Landlord default. All payments made, and all acts performed by such lenders in order to cure shall be effective to prevent a forfeiture of the rights of Landlord under this Lease and a termination of this Lease as if the payments and acts were performed by Landlord instead of by the lenders.

ARTICLE 19

HOLDING OVER

If Tenant for any reason remains in possession of any portion of the Property after the expiration of the Term or earlier termination of the Term, such possession shall be a tenancy at sufferance during which time Tenant shall pay to Landlord as rental each month one hundred twenty-five percent (125%) of the aggregate of (i) one-twelfth of the aggregate Base Rent for the Facilities payable with respect to the next 12 calendar months of the Term, (ii) all Additional Charges accruing during the month with respect to which such payment relates, and (iii) all other sums, if any, payable by Tenant pursuant to the provisions of this Lease with respect to the Facilities. During such period of month-to-month tenancy at sufferance, Tenant shall be

obligated to perform and observe all of the terms, covenants and conditions of this Lease, but shall have no rights hereunder other than the right, to the extent mandated by law applicable to tenancies at sufferance, to continue its occupancy and use of the Facilities. Nothing contained herein shall constitute the consent, express or implied, of Landlord to the holding over of Tenant after the expiration or earlier termination of this Lease. Notwithstanding anything to the contrary herein, the continued occupancy by residents at the Facilities following the expiration or earlier termination of the Term shall not constitute holding over by Tenant which would trigger the foregoing terms of this Article 19.

ARTICLE 20

LIABILITY OF PARTIES

20.1 Indemnification by Tenant. Notwithstanding the existence of any insurance provided for in Article 14, and notwithstanding the policy limits of any such insurance, but subject to the waiver of the right of subrogation set forth in Section 14.4 hereof, Tenant shall indemnify, defend, protect, save and hold Landlord and any successor person who is the owner or operator of the Facilities harmless from and against any and all liabilities, losses, obligations, claims, damages, penalties, fines, causes of action, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) imposed upon, incurred by or asserted against Landlord arising out of, connected with or incidental to the following and arising from events occurring during the Term:

- (a) any Hazardous Substance located in, on or under the Land or the Facilities;
- (b) any accident, injury to or death of persons, or loss of or damage to property, occurring on or about the Facilities including, without limitation, any claims of malpractice, except for any such accident, injury, death, loss or damage proximately caused by Landlord's gross negligence or willful misconduct and not resulting from Tenant's failure to perform and comply with the terms, covenants, conditions and provisions of this Lease;
- (c) any past, present or future use, misuse, non-use, condition, management, maintenance or repair by Tenant or its agents of the Property, and any litigation, proceeding or claim by governmental entities or other third parties relating thereto to which Landlord is made a party;
- (d) any Impositions which are the obligations of Tenant to pay pursuant to the applicable provisions of this Lease if the same are not paid when due or within any cure period provided for herein;
- (e) any failure on the part of Tenant to perform or comply with any of the terms of this Lease when due or within any cure period provided for in this Lease;
- (f) the non-performance of any of the terms and provisions of any and all existing and future subleases of the Facilities to be performed by Tenant thereunder; and

(g) any claims by state or federal governmental agencies for repayment of claims for reimbursement of costs incurred by Tenant in providing care or services to residents under government supported healthcare or government supported residential programs, provided Landlord promptly provides Tenant with written notice thereof and otherwise complies with the terms of this Section 20.1.

Any amounts payable by Tenant under this Section shall be paid within ten (10) days after Tenant's liability therefor is determined by litigation or otherwise. If such amounts are not timely paid, they shall bear a late charge at the Overdue Rate from the date of such determination to the date paid. Tenant, at its expense, shall contest, resist and defend any such claim, action or proceeding asserted or instituted against Landlord, or may, with Landlord's prior written consent, compromise or otherwise dispose of the same as Tenant sees fit. If Tenant shall have fully paid to Landlord any and all amount due under this Section 20.1, Tenant shall be entitled to receive any insurance proceeds relating to such indemnified matter up to the amount paid by Tenant to Landlord. Nothing herein shall be construed as indemnifying Landlord against its own gross negligence or willful misconduct.

Tenant, at its expense, may contest, resist, and defend any such claim, action, or proceeding contemplated by Section 20.1(g), with counsel chosen by Tenant, in its discretion, in which event Tenant shall have the right to control the defense or settlement of such claim, action or proceeding. Landlord shall not, under any circumstances, compromise or otherwise dispose of any suit, action, or proceeding without obtaining Tenant's prior consent. Landlord, at its election and sole cost and expense, shall have the right, but not the obligation, to participate in the defense of any claim.

20.2 Indemnification by Landlord. Landlord shall indemnify, defend, save and hold Tenant harmless from and against any and all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) imposed upon, incurred by or asserted against Tenant arising out of, connected with or incidental to the gross negligence or willful misconduct of Landlord; provided, however, that Tenant's right to indemnification as provided herein shall be subject to the limitation set forth in Article 24.

20.3 Continuing Liability. Tenant's and Landlord's liability for a breach of the provisions of this Article arising during the Term hereof shall survive any termination of this Lease or of Tenant's right to possession of the Property.

ARTICLE 21

ASSIGNMENT AND SUBLETTING; MANAGEMENT

21.1 Subtenant. Landlord consents to Tenant's sublease of each Facility to a Subtenant pursuant to the Facility Sublease. Tenant shall not terminate a Facility Sublease, or amend or modify a Facility Sublease except to a de minimis extent, without the prior written consent of Landlord (such consent not to be unreasonably withheld, conditioned or delayed). Tenant shall give Landlord prompt notice following any amendment, modification or termination of a Facility Sublease. Landlord agrees to accept as performance by Tenant with respect to any

obligation of Tenant under this Lease, if such obligation has been met or satisfied by the Subtenant. If required by Landlord or a Facility Mortgagee, Tenant shall obtain from each Subtenant a Subordination Non-Disturbance and Attornment Agreement in favor of Landlord and Facility Mortgagee, if applicable. Tenant and Subtenant shall also execute a Security Agreement in favor of Landlord to secure the obligations of Tenant to Landlord hereunder and Subtenant to Tenant under the Facility Sublease.

21.2 Assignment. Subject to the terms of Section 21.7 hereof, Landlord's prior written consent shall be required for an assignment of any of Tenant's right, title and interest in and to this Lease to any Person whether or not such proposed assignment relates to all Facilities or to one or more, but fewer than all, the Facilities. Subject to the terms of Section 12.1 and Section 21.7 hereof, Tenant shall not, without Landlord's prior written consent in each instance, allow, cause, permit or suffer, whether by operation of law or otherwise, any assignment, conveyance or transfer of, or any lien, mortgage, pledge, charge, security interest or other encumbrance (including conditional sales or other title retention agreements) upon: (x) all or any portion of the Property (other than obsolete Tenant Personal Property and FF&E which Tenant may sell in its discretion); or (y) any right, title, interest or estate of Tenant in this Lease. Landlord may, in Landlord's sole and absolute discretion, grant, withhold or place conditions upon such consent. If Tenant desires at any time to assign any interest in this Lease, it shall first notify Landlord of its desire to do so and shall submit in writing to Landlord: (i) the name of the proposed assignee; (ii) the terms and provisions of the proposed assignment; and (iii) for as long as Landlord or any successor or assign of Landlord is not a Restricted Landlord, such financial information as Landlord reasonably may request concerning assignee.

21.3 Change of Control. Subject to Section 21.7, Landlord's prior written consent shall be required for a Transfer of any direct or indirect stock, partnership, membership, or other equity interest in, or Transfer of all or substantially all of the assets of, any Tenant, Guarantor or any Tenant Control Party, or the consummation of any other transaction with another Person, that results, in any such case, in a change in Control of Tenant or Guarantor, unless the Applicable Transfer Conditions are met.

21.4 Subletting. Neither Tenant nor Subtenant shall, without the prior written consent of Landlord and, if applicable, the prior written consent of Facility Mortgagee, in each instance, allow, cause, permit or suffer all or any portion of the Property to be leased, subleased or licensed to, or used or occupied by, any other party or parties, other than (a) residents of any Facility (including short-term and temporary residents), (b) Persons permitted to temporarily enter upon the Property from time to time for the sole purpose of rendering services or providing products (e.g., barber or beautician services or therapists) to such residents and (c) Persons pursuant to subleases, sub-subleases, licenses or use agreements, provided in the case of this subsection (c) that (i) the aggregate space subject to all such arrangements at any given Facility is not more than ten percent (10%) of the total square footage of such Facility and (ii) such space is used for a purpose that is not inconsistent with Tenant's use of the balance of the Facility for the Permitted Use and such use is not prohibited by applicable Legal Requirements. Except as otherwise permitted by this Section 21.4, each Subtenant shall at all times be an Affiliate of Tenant.

21.5 Attornment. Tenant shall insert in any sublease to which Landlord may consent (without obligation for Landlord to do so) provisions satisfactory to Landlord which provide for the benefit of Landlord that (a) such sublease is subject and subordinate to all of the terms and provisions of this Lease (b) in the event this Lease shall terminate before the expiration of such sublease, the sublessee thereunder will attorn to Landlord and waive any right the sublessee may have to terminate the sublease or surrender possession under such sublease, and (c) in the event the sublessee receives a Notice from Landlord or Landlord's assignees, if any, stating that Tenant is in default under this Lease, the sublessee shall thereafter be obligated to pay all rentals accruing under such sublease directly to the party giving such Notice, or as such party may otherwise direct. All rentals received from the sublessee by Landlord or Landlord's assignees, if any, as the case may be, shall be credited against the amounts owed to Landlord under this Lease.

21.6 Management. Landlord consents to the management of the Facilities by Manager, Tenant, Subtenant, Guarantor or any Affiliate of any of the foregoing. As a condition to Subtenant or Tenant entering into a management agreement with a manager for all or any of the Facilities, Tenant shall cause Manager to deliver to Landlord a Subordination Non-Disturbance and Attornment Agreement in favor of Landlord and a Facility Mortgagee, if applicable. Except in connection with any Permitted Transfer which involves the Proposed Transferee or an Affiliate thereof managing the Facilities, Tenant agrees that it will not enter into any other management agreement (or similar arrangement) under which the right to manage the operations of the Facility is granted to a third party without the prior written consent of Landlord and, if applicable, a Facility Mortgagee (in each case, not to be unreasonably withheld or delayed). If a Manager ceases to be a Reputable Manager, Tenant shall have a period of forty-five (45) days to either terminate Manager or replace such Manager with a Manager that is a Reputable Manager. Upon any assignment or execution of any such management agreement, the assignee shall agree to assume all of the obligations of the Manager under such management agreement and the Subordination Non-Disturbance and Attornment Agreement, a copy of which assignment shall be delivered to Landlord within two (2) business days of the effective date of such assignment.

21.7 Permitted Transfers. Notwithstanding anything in this Lease to the contrary, and provided that no Event of Default has occurred and is continuing, any of the following may be consummated without the consent of Landlord (each a "Permitted Transfer"):

(a) a Transfer by any Tenant or Subtenant of all or a portion of its right, title and interest in and to this Lease or any Sublease, as applicable, to Guarantor or an Affiliate thereof, subject to the provisions of this Lease and the applicable Subordination and Non-Disturbance Agreements;

(b) provided the Applicable Transfer Conditions are satisfied, a Transfer by any Tenant or Subtenant of all or a portion of its right, title, or interest in and to this Lease to any Person;

(c) provided the Applicable Transfer Conditions are satisfied, a Transfer to any Person of any stock, partnership, membership, or other equity interests in any Tenant,

Guarantor or any Tenant Control Party that would otherwise require Landlord's consent under Section 21.3;

- (d) an initial public offering of Guarantor, Tenant, Subtenant or any direct or indirect equity owner of the foregoing; and/or
- (e) any other Transfer that is not expressly prohibited under Article 21.

ARTICLE 22

INFORMATION FROM TENANT

22.1 Estoppel Certificates.

(a) Tenant Certificates. At any time and from time to time, upon not less than twenty (20) days' Notice by Landlord which notice shall make specific reference to this Section 22.1, Tenant shall furnish to Landlord or to the Facility Mortgagees and to any persons intending to purchase the Facilities or to lease the Facilities at the termination or expiration of this Lease an estoppel certificate (which shall be an Officer's Certificate) certifying that this Lease is unmodified and in full force and effect (or that this Lease is in full force and effect as modified and setting forth the modifications); the date to which the Rent has been paid; whether, to Tenant's actual knowledge and belief, there exists any Event of Default or any situation which, with the giving of notice, passage of time, or both, would constitute an Event of Default hereunder, whether Tenant contends that Landlord is in default hereunder, and if Tenant so contends, the basis for such contention, the date upon which the Term terminates and such other information (which can be provided within twenty (20) days) as Landlord reasonably may request. The failure by Tenant to deliver such estoppel certificate to Landlord within twenty (20) days of Landlord's request therefor shall be conclusively deemed to be Tenant's certification (i) that this Lease is in full force and effect, without modification except as represented by Landlord; (ii) that there are no uncured defaults in Landlord's performance hereunder, (iii) that not more than one month's Rent has been paid in advance; and (iv) that all reports previously given to Landlord are true and correct. Any such certificate furnished pursuant to this Section 22.1 shall be addressed to Landlord and to any prospective purchaser or tenant of the Property and/or any Facility Mortgagee, as Landlord may request, and may be relied upon by the parties to whom such certificate is addressed.

(b) Landlord Certificates. At any time and from time to time, upon not less than twenty (20) days' Notice by Tenant, Landlord shall furnish to Tenant an estoppel certificate (which shall be an Officer's Certificate) certifying that this Lease is unmodified and in full force and effect (or that this Lease is in full force and effect as modified and setting forth the modifications), the date to which the Base Rent has been paid, and whether to Landlord's actual knowledge and belief there exists any Event of Default or any situation which with the giving of notice, passage of time, or both, would constitute an Event of Default hereunder, and if Landlord so contends, the basis for such contention, the date upon which the Term terminates, and such other information (which can be provided within twenty (20) days) as Tenant reasonably may request. In the event Landlord should fail to provide an estoppel certificate within the time allowed after Tenant's request therefore duly made, such failure to respond shall be deemed to

constitute Landlord's certification that (i) this Lease is in full force and effect, without modification except as represented by Tenant in its request to Landlord, (ii) that there are no uncured defaults in Tenant's performance and (iii) that not more than one month's rent has been paid in advance. Any such certificate furnished pursuant to this Section 22.1(b) may be relied upon by Tenant and any assignee (so long as such assignee is approved and consented to by Landlord in accordance with Article 21) or lender of Tenant to whom such certificate is addressed.

22.2 Financial Information. Tenant shall furnish within the time periods specified with respect thereto, the following statements to Landlord:

(a) Annual Financials/Tenant. As soon as available and in any event within fifty (50) days after the end of each Fiscal Year of Tenant, a copy of an annual unaudited report for such Fiscal Year of Tenant, including therein the balance sheet statement of earnings and statement of cash flow for such Fiscal Year, in each case certified in a manner reasonably acceptable to Landlord by independent certified public accountants of recognized standing and reasonably acceptable to Landlord. If an Event of Default is continuing, Landlord may require that such annual report be audited by the aforementioned accountants;

(b) Quarterly Financials/Tenant. As soon as available and in any event within thirty (30) days of the end of each calendar quarter of each Fiscal Year of Tenant, a balance sheet, statement of earnings and statement of cash flow of Tenant for such quarter and for the Fiscal Year to date setting forth in comparative form and details the figures for the corresponding period of the previous Fiscal Year, certified by an officer of Tenant, and a Certificate of Compliance in the form attached hereto as Exhibit J and incorporated herein by this referenced signed by an officer of Tenant (the "Quarterly Compliance Certificate");

(c) Monthly Facility Information. As soon as available after the end of each month but in any event no later than thirty (30) days after the end of the preceding month, (i) an itemized balance sheet and operating statement for each Facility's operations by month and year to date showing all revenues and operating costs of the Facility, (ii) a schedule in form reasonably satisfactory to the Landlord but excluding such information as Tenant reasonably determines is required to be deleted in order for Tenant and Landlord to comply with their obligations under Section 22.3 of this Lease, setting forth by unit number the name, charges and source of payment of or for each resident and showing whether any amounts are past due from the resident and (iii) a monthly occupancy summary showing percentage occupancy and pay source;

(d) Capital Expenditure Compliance Certificate. Within fifty (50) days after the end of each Fiscal Year, a certificate of compliance certified by an officer of Tenant stating: (i) the amount of Capital Expenditures made at each Facility during the prior year, (ii) whether the Cumulative Minimum Portfolio Capex Target Amount and Minimum Facility Capex Amount was met for the prior year, and (iii) if the Cumulative Minimum Portfolio Capex Target Amount and Minimum Facility Capex Amount has not been met, stating the amount to be deposited into the Cap Ex Account. At Landlord's written request, Tenant shall provide to Landlord copies of invoices or other reasonable supporting documentation for the Capital Expenditures reflected in each such annual certificate of compliance.

(e) Notice to Authorities. Concurrently with any material notice from Tenant to any Authority, copies of such notice;

(f) Other Information. Such other information about Tenant, Subtenant, Manager and its/their operations at the Facility as Landlord (provided Landlord is not a Restricted Landlord) or any Facility Mortgagee may reasonably request from time to time including, without limitation, such information as may be required to satisfy requirements of the Securities and Exchange Commission.

22.3 Confidentiality of Protected Health Information. For purposes of this Section of this Lease, “protected health information”, or PHI, shall have the meaning defined by the Standards for Privacy of Individually Identifiable Health Information, 45 C.F.R. Part 160 and Subparts A and E of Part 164 (the “Privacy Standards”), as promulgated by the Department of Health and Human Services (“HHS”) pursuant to the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”). Tenant agrees to reasonably safeguard PHI from any intentional or unintentional disclosure in violation of the Privacy Standards by implementing appropriate administrative, technical and physical safeguards to protect the privacy of PHI. Tenant further agrees to implement as required by law appropriate administrative, technical and physical safeguards to limit incidental disclosures of PHI, including disclosures to Landlord, its subcontractors and agents. The parties agree that neither the Landlord nor its contractors, subcontractors or agents shall need access to, nor shall they use or disclose, any PHI of Tenant. However, in the event PHI is disclosed by Tenant or its agents to Landlord, its contractors, subcontractors or agents, regardless as to whether the disclosure is inadvertent or otherwise, Landlord agrees to take reasonable steps to maintain, and to require its contractors, subcontractors and agents to maintain, the privacy and confidentiality of such PHI. The parties agree that the foregoing does not create, and is not intended to create, a “business associate” relationship between the parties as that term is defined by the Privacy Standards.

ARTICLE 23

FACILITY MORTGAGES

(a) Without the consent of Tenant, Landlord may, subject to the terms and conditions set forth below in this Article, from time to time, directly or indirectly, create or otherwise cause to exist any mortgage, deed of trust or lien (“Encumbrance”) upon the Property, or any portion thereof or interest therein, whether to secure any borrowing or other means of financing or refinancing. Except as otherwise expressly stated herein, any such Encumbrance shall provide that it is subject to the rights of Tenant under this Lease; provided, however, that Tenant agrees that its interest under this Lease is subordinate to any mortgage or deed of trust that may hereafter from time to time be recorded on the Property, and to any and all advances made or to be made thereunder, and to renewals, replacements and extensions thereof. Any such subordination, however, shall be subject to the condition precedent that the mortgagee under such mortgage or the beneficiary under such deed of trust enter into a written non-disturbance and attornment agreement with Tenant, in form and content reasonably satisfactory to such lender and Tenant, or in a form customarily used by institutional lenders, whereunder it is agreed that in the event of a sale or foreclosure under such mortgage or deed of trust, the purchaser of the Facilities (including the mortgagee or beneficiary under such mortgage or deed of trust), shall

acquire or hold the Facilities subject to this Lease and Tenant's rights hereunder so long as no Event of Default exists. Tenant hereby agrees to recognize such purchaser as the landlord under this Lease and agrees to attorn to such purchaser and, if instructed to do so by such purchaser, to make rental payments directly to it. Such subordination agreement may also include an acknowledgment by Tenant that any purported cancellation of this Lease, reduction in its effective rate of rent, shortening of its term or extension of its term at a reduced effective rate of rent, shall not be binding upon any encumbrancer or any other person, firm or corporation acquiring the Property at any sale or other proceedings, or pursuant to the exercise of any rights, powers or remedies under any Encumbrance, without such encumbrancer's prior written consent.

(b) To the extent required by a Facility Mortgagee and provided that Landlord is not a Restricted Landlord, Tenant agrees to reasonably cooperate with Landlord with respect to Landlord securing any indebtedness or any other Encumbrance placed on the Facilities in accordance with the provisions of this Article 23, which cooperation shall include, without limitation, upon Landlord's request, (i) Tenant agreeing to be bound by certain terms of such financing provided such terms do not materially increase the monetary obligations of Tenant and are customarily required by institutional lenders at the time (and Tenant shall agree to be bound so long as any increase in a monetary obligation beyond a de minimis extent is, at Tenant's election, either satisfied directly by Landlord or promptly reimbursed to Tenant by Landlord), (ii) Tenant's payment of Rent and Additional Charges to a lockbox or other account designated by the Facility Mortgagee, (iii) establishment of a lockbox mechanism (for the benefit of a Facility Mortgagee) to collect subrent from Subtenants, (iv) modifications to the SPE requirements in Schedule 17.1 in line with customary lending market practices at the time, and application of such requirements to Subtenants, (v) Tenant to give each Facility Mortgagee notice of all material defaults of Landlord under this Lease, and to provide such Facility Mortgagee with a reasonable opportunity to cure such default, not to exceed thirty (30) days, before the Tenant exercises any rights or remedies in respect thereof and (vi) maintenance and submission of financial records and accounts that relate exclusively to the operation of the Facilities and other information regarding operator, Tenant and Subtenant, and the Facilities themselves. Notwithstanding the foregoing, Tenant shall not be required to comply with, or agree to, (A) any decrease of rights, except to a de minimis extent, (B) financial covenants in addition to those contained in either Section 11.3, (C) any revisions to the financial covenants in Section 11.3, or (D) any obligation that would materially adversely affect the use or operation of a Facility. The parties hereto acknowledge that (x) an increase in the monetary obligations of Tenant shall not in and of itself constitute a decrease in Tenant's rights and (y) Tenant's compliance with any matter set forth in clauses (ii) – (iv) immediately above, in each case, shall not in and of itself constitute a decrease in Tenant's rights.

ARTICLE 24

LIMITATION OF LIABILITY

24.1 Landlord's Liability. Tenant specifically agrees that neither Landlord, nor any officer, shareholder, employee or agent of Landlord, shall be held to any personal liability, jointly or severally, for any obligation of, or claims against Landlord. Notwithstanding any other provisions of this Lease which may be to the contrary, Tenant agrees to look solely to Landlord's equity interest in the Property for recovery of any judgment under this Lease. The provisions of

this Section shall not limit any right that Tenant might otherwise have under this Lease for specific performance or other injunctive relief against Landlord. In no event shall Landlord (original or successor) or any Affiliate of Landlord be required to respond in monetary damages from Landlord's assets other than Landlord's equity interest in any portion of the Property. Furthermore, in no event shall Landlord or any Affiliate of Landlord (original or successor) ever be liable to Tenant for any indirect or consequential damages suffered by Tenant from whatever cause.

24.2 Tenant's Liability. Landlord specifically agrees that no officer, shareholder, employee or agent of Tenant shall be held to any personal liability, jointly or severally, for any obligation of, or claims against Tenant. Furthermore, in no event shall Tenant or any Affiliate of Tenant (original or successor) ever be liable to Landlord for any indirect or consequential damages suffered by Landlord from whatever cause.

ARTICLE 25

MISCELLANEOUS

25.1 Landlord's Right to Inspect. Landlord and its authorized representatives may, at any time and from time to time, upon reasonable notice to Tenant, inspect the Facilities during usual business hours subject to any security, health, safety or resident confidentiality requirements of Tenant or any governmental agency, or created by any Insurance Requirement or Legal Requirement relating to the Facilities; provided, however, if an Event of Default has not occurred and is continuing, (a) Landlord or its representatives shall have scheduled an appointment with a person designated in writing to Landlord by Tenant (the "Designated Representative"), (b) such Designated Representative shall accompany Landlord or its representative (if so required by Tenant), and (c) Landlord shall provide not less than five (5) days' prior written notice to Tenant (which notice may be via email to NCT.portfolio@holidaytouch.com).

25.2 No Waiver. No failure by Landlord or Tenant to insist upon the strict performance of any term hereof or to exercise any right, power or remedy provided hereunder, and no acceptance of full or partial payment of Rent during the continuance of any such breach, shall constitute a waiver of any such breach or of any such term. To the extent permitted by applicable law, no waiver of any breach shall affect or alter this Lease, which shall continue in full force and effect with respect to any other then existing or subsequent breach.

25.3 Remedies Cumulative. To the extent permitted by law, each legal, equitable or contractual right, power and remedy of Landlord or Tenant now or hereafter provided either in this Lease or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power and remedy. The exercise or beginning of the exercise by Landlord or Tenant of any one or more of such rights, powers and remedies shall not preclude the simultaneous or subsequent exercise by Landlord or Tenant of any or all of such other rights, powers and remedies. The provisions of this Section are subject in all respects to the provisions of Article 24.

25.4 Acceptance of Surrender. No surrender to Landlord of this Lease or of all or any portion of or interest in the Facilities shall be valid or effective unless agreed to and accepted in writing by Landlord, and no act by Landlord or any representative or agent of Landlord, other than such a written acceptance by Landlord, shall constitute an acceptance of any such surrender by Tenant.

25.5 No Merger of Title. There shall be no merger of this Lease or of the leasehold estate created hereby if the same person, firm, corporation or other entity acquires, owns or holds, directly or indirectly, this Lease or the leasehold estate created hereby or any interest in this Lease or such leasehold estate, and the fee estate in the Property.

25.6 Conveyance by Landlord. If Landlord or any successor owner of the Property conveys the Property in accordance with the terms hereof (other than as security for a debt), and the grantee or transferee of the Property expressly assumes all obligations of Landlord hereunder arising or accruing from and after the date of such conveyance or transfer, Landlord or such successor owner, as the case may be, thereupon shall be released from all liabilities and obligations of Landlord under this Lease arising after such conveyance or transfer.

25.7 Quiet Enjoyment. So long as Tenant pays all Rent as the same becomes due and fully complies with all of the terms of this Lease and fully performs its obligations hereunder when due or within any cure period provided for herein, Tenant shall peaceably and quietly have, hold and enjoy the Property for the Term hereof, free of any claim or other action by Landlord or anyone claiming by, through or under Landlord, but subject to the Permitted Encumbrances and/or any liens and encumbrances of record hereafter consented to by Tenant.

25.8 Notices. All notices, demands, requests, consents, approvals and other communications (“Notice” or “Notices”) hereunder shall be in writing and shall be deemed to have been duly given when delivered in person or received by telegraphic or other electronic means (including e-mail, telecopy and telex) or, if mailed, five days after being deposited in the United States mail, certified or registered mail, postage prepaid, or if sent via Federal Express or similar courier service via overnight delivery, the next business day following receipt, addressed to the respective parties as follows (or to such other address as a party may hereafter designate):

If to Tenant: c/o Fortress Investment Group LLC
1345 Avenue of the Americas
New York, New York 10105
Attn: Cameron MacDougall
Tel: (212) 479-1522
Email: cmacdougall@fortress.com

and a copy to: c/o - Holiday Retirement
5885 Meadows Rd., Suite 500
Lake Oswego, OR 97035
Attn: Chief Legal Officer
Email: legal@holidaytouch.com

and a copy to: Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York, New York 10036
Attn: Neil Rock
Tel: (212) 735-3787
Fax: (917) 777-3787
Email: neil.rock@skadden.com

If to Landlord: NIC 12 Maple Downs Owner LLC, on behalf of all
Landlords
c/o Fortress Investment Group LLC
1345 Avenue of the Americas, 46th Floor
New York, NY 10105
Telephone: (212) 798-6100
Attention: Jonathan Brown

and a copy to: Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York NY 10006
Attention: Donald A. Stern
Telephone: (212) 225-2640
Email: dstern@cgsh.com

25.9 Survival of Terms: Applicable Law. Anything contained in this Lease to the contrary notwithstanding, all claims against, and liabilities of, Tenant or Landlord arising prior to any date of termination of this Lease shall survive such termination. If any term or provision of this Lease or any application thereof shall be invalid or unenforceable for any reason whatsoever, the remainder of this Lease and any other application of such term or provisions shall not be affected thereby. If any late charge or any interest rate provided for in any provision of this Lease based upon a rate in excess of the maximum rate permitted by applicable law, such charges shall be fixed at the maximum permissible rate. Subject to any limitations on assignment contained in this Lease, all the terms and provisions of this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. The headings in this Lease are for convenience of reference only and shall not limit or otherwise affect the meaning hereof. The Recitals to this Lease are incorporated herein by this reference. This Lease shall be governed by and construed in accordance with the laws of the State of Texas.

25.10 Exculpation of Officers and Agents. This Lease is made on behalf of Landlord and Tenant by an officer of each, not individually, but solely in his capacity in such office as authorized by the managers or directors of each, pursuant to their respective bylaws. The obligations of this Lease are not binding upon, nor shall resort be had to the private property of, any of the managers, directors, shareholders, officers, members, employees or agents of Landlord or Tenant.

25.11 Licenses Following Termination: Tenant's Cooperation

(a) To the extent not then prohibited by applicable Legal Requirements, unless otherwise directed by Landlord, upon the expiration or termination of the Term, Tenant shall use reasonable good faith efforts to (i) transfer to Landlord or Landlord's nominee (or to cooperate with Landlord or Landlord's nominee in connection with the processing by Landlord or Landlord's nominee of any applications for) all Licenses then in effect which relate to the operation of the Facilities and/or cooperate with Landlord or its nominee in their efforts to secure licenses for which Landlord or its nominee wishes to apply and which may be required by Landlord or Landlord's nominee relating to the ownership and operation of the Facilities (provided, however, that the costs and expenses of any such transfer or the processing of any such application shall be paid by Landlord or Landlord's nominee), and (ii) file all final cost reports, if any, relating to Tenant's operation of the Facilities.

(b) Tenant acknowledges and agrees that to the extent and only to the extent permitted by law, title to (i) any zoning or building approvals, or other governmental approvals (the "Approvals") which, by their nature, pertain to the Facilities, its ownership and its use and occupancy and (ii) all licenses and permits which, by their nature, pertain specifically to the Facilities, its ownership and its use and occupancy shall, in every respect, be and remain with the Facilities or Landlord, as the case may be, and are not and shall not be the property of Tenant. Tenant shall take no action and shall have no right, power or authority to encumber same except in favor of Landlord and then only to the extent permitted by applicable law or to sell, assign or transfer same to any third person other than Landlord or its nominee in accordance with the provisions of Section 25.11(a), either during the Term or upon any termination of this Lease, or to use, in any manner which would impair or adversely affect the use of such Approvals with respect to the Facilities, such Approvals at any other location.

(c) Upon the expiration or earlier termination of the Term, Tenant shall execute in favor of the Landlord the Assignment of Resident Agreements, to the extent and only to the extent permitted by law, and the Assignment of Contracts and Operating Leases. In addition, Tenant shall cooperate with Landlord in order to ensure a smooth transfer without interruption of the operation of the Facilities from Tenant to Landlord or Landlord's nominee. Such cooperation shall include, without limitation, turning over (i) all Records and other information with respect to residents of the Facilities which are in the possession of Tenant or any Affiliate of Tenant (subject to applicable Legal Requirements governing confidentiality of resident records, Tenant agreeing, however, that Tenant's cooperation under this subparagraph (c) shall include cooperation in facilitating requests to the residents of the Facilities to consent to the transfer of such records), and (ii) a cash amount equal to all prepaid income, rents, and revenues of any kind with respect to the Facilities, including, but not limited to, security deposits, rents and other sums paid by residents covering any period from and after the date of such expiration or termination, but reduced to the extent and amount any such prepaid items must be, and are, refunded to the payor(s) by Tenant.

(d) Upon the expiration or earlier termination of this Lease, Tenant shall reasonably cooperate with Landlord or its designee to facilitate and effectuate the transitioning of the operations of the Facilities to Landlord or its designee.

25.12 Memorandum of Lease. Landlord and Tenant shall, concurrently with the execution of this Lease, enter into a short form memorandum of this Lease for the Facilities in

form suitable for recording under the laws of the State. Tenant shall be responsible for all costs and expenses of recording such memorandum of this Lease.

25.13 Entire Agreement; Modifications. This Lease contains the entire agreement between Landlord and Tenant regarding the subject matter hereof and supersedes any and all other prior oral or written agreements, communications, covenants, representations or warranties between the parties regarding the subject matter hereof. No provision of this Lease may be waived, amended, supplemented or otherwise modified except by an agreement in writing signed by the parties hereto or their respective successors in interest.

25.14 Attorneys' Fees. During the Term each party shall pay all reasonable legal fees and other out-of-pocket costs of the other incurred in connection with any event which would after due notice and the passage of time would constitute an Event of Default if not cured; and in the event either party brings an action to enforce any of the terms hereof or in connection herewith, the prevailing party in such action shall be entitled to and the losing party agrees to pay the reasonable attorneys' fees and expenses, including attorneys' fees and expenses of appellate proceedings, of the prevailing party. Tenant shall be responsible for Landlord's reasonable attorneys' fees and expenses in connection with the administration and enforcement of this Lease, including without limitation, any renewals, modifications or extensions of this Lease, and the review of any documents related to Landlord consents. Tenant shall be responsible for Landlord's reasonable attorneys' fees and expenses in the event Tenant requests that Landlord amend the Lease, grant an easement over the Property or execute and deliver an estoppel certificate.

25.15 Time is of the Essence. Time is hereby expressly made of the essence with respect to each and every term and provision of this Lease, including, but in no way limiting the generality of the foregoing, with respect to each and every time constraint and deadline imposed by the terms of this Lease. The parties intend that they be strictly bound by the provisions concerning the timing performance of their respective obligations contained in this Lease. Further, if any attempt is made by either party to perform an obligation required by it to be performed or comply with a provision of this Lease required by it to be complied with, in any manner, other than in strict compliance with the time constraints applicable thereto, even if such purported attempt is but one day late, then such purported attempt at performance or compliance shall be deemed (i) a violation of this "Time is of the Essence" clause, (ii) in contravention of the intent of the parties thereto and (iii) null and void and of no force and effect.

25.16 Submission to Jurisdiction. Landlord and Tenant each hereby irrevocably:

(i) submits, in any legal proceeding related to this Lease, to the non-exclusive in personam jurisdiction of Texas or any United States court of competent jurisdiction sitting in any State and agree to suit being brought in any such court;

(ii) waives any objection that it may now or hereafter have to the venue of such proceeding in any such court located in any county in which the Facilities is located, or the State of Texas or that such proceeding was brought in any inconvenient court; and

(iii) agrees that nothing herein shall affect the right of either party to bring any legal proceedings (including a proceeding for enforcement of a judgment entered by any of the aforementioned courts) against the other party in any other court or jurisdiction in accordance with applicable law.

25.17 Waiver of Jury Trial. EACH OF LANDLORD AND TENANT HEREBY SEVERALLY, VOLUNTARILY, KNOWINGLY AND INTELLIGENTLY WAIVES ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF OR IN CONNECTION WITH, OR IN ANY WAY RELATED TO, DIRECTLY OR INDIRECTLY, THIS LEASE, AND/OR ANY RELATIONSHIP, COURSE OF CONDUCT OR DEALINGS OR NEGOTIATIONS PERTAINING TO ANY OF THE FOREGOING. EACH OF LANDLORD AND TENANT SEVERALLY ACKNOWLEDGES THAT THIS WAIVER OF JURY TRIAL IS A MATERIAL INDUCEMENT TO LANDLORD AND TENANT TO ENTER INTO THIS LEASE, AND THAT EACH OF LANDLORD AND TENANT HAS BEEN REPRESENTED BY INDEPENDENT LEGAL COUNSEL, SELECTED BY SUCH PARTY'S OWN FREE WILL, AND HAS HAD AN OPPORTUNITY TO CONSULT WITH SUCH INDEPENDENT LEGAL COUNSEL CONCERNING THE LEGAL EFFECT OF THIS WAIVER.

25.18 Use of Counterparts. This Lease may be executed in two or more counterparts and each counterpart shall be deemed to be an original. Facsimile or e-mailed signatures shall be sufficient to evidence any party's agreement to this Lease and to bind such party hereto.

25.19 Calculation of Time Periods. Unless otherwise specified, in computing any period of time described herein, the day of the act or event on which the designated period of time begins to run shall not be included and the last day of the period so computed shall be included, unless such last day is a Saturday, Sunday or legal holiday, in which event the period shall run until the 5:00 PM Central Time on the next day which is not a Saturday, Sunday or a legal holiday.

25.20 General REIT Provisions. Tenant understands that, in order for Landlord's Affiliate, NCT, or any successor Affiliate that is a real estate investment trust for U.S. federal income tax purposes (a "REIT Affiliate"), to qualify as a real estate investment trust, certain requirements under the Code (the "REIT Requirements") must be satisfied, including the provisions of Section 856 of the Code. Accordingly, Tenant agrees, and agrees to cause its Affiliates, permitted subtenants, if any (other than pursuant to a residency agreement), and any other parties subject to its control by ownership or contract, to reasonably cooperate with Landlord to ensure that the REIT Requirements are satisfied, including providing Landlord or any REIT Affiliate with information about the direct ownership of Tenant and Guarantor. Tenant agrees, and agrees to cause its Affiliates, upon request by Landlord or any REIT Affiliate, which request shall be made concurrently with or prior to the granting of any required consent by Landlord to an action by Tenant hereunder, if applicable, to take all action reasonably necessary to ensure compliance with the REIT Requirements. Landlord shall fully reimburse Tenant and its Affiliates for any and all reasonable out-of-pocket costs, expenses or liabilities arising out of, connected with or in any manner related to such request by Landlord or such action; provided, however, if such request is made, or action taken, as a result of (i) an act of Tenant, Guarantor or

an Affiliate of either (other than a Qualified Fund LP or its direct or indirect owners), (ii) a change in direct or indirect ownership of Tenant, Guarantor or an Affiliate of either (other than a Qualified Fund LP or its direct or indirect owners), (iii) any matter requiring the consent of Landlord hereunder, (iv) the occurrence or continuance of an Event of Default, or (v) any matter under the control of Tenant, Guarantor or an Affiliate of either (other than a Qualified Fund LP or its direct or indirect owners), Landlord shall not be responsible to reimburse Tenant and its Affiliates for any such out-of-pocket costs, expenses or liabilities and Tenant shall fully reimburse Landlord for any and all reasonable attorneys' fees incurred in connection with such matters.

25.21 Lease Consolidation. Notwithstanding anything to the contrary in this Lease or any other lease to which Landlord or any Affiliate thereof is a party, in the event Landlord or any Affiliate thereof is entitled pursuant to any other lease (the "Other Lease"), to cause such lease to be combined or consolidated with this Lease (the "Combined Lease Right"), then (a) the Combined Lease Right shall be deemed waived by Landlord and its Affiliate, as applicable, (b) the Combined Lease Right shall not be enforceable against Tenant, Guarantor, any Affiliate thereof, or any of their respective successors and assigns or any Person that is a party to the Other Lease, as tenant or tenants, and (c) Landlord shall not, and shall cause its Affiliate to refrain from, exercising the Combined Lease Right.

25.22 Designated Parties. Landlord hereby designates NIC 12 MAPLE DOWNS OWNER LLC to act for and on behalf of all Landlords with respect to matters related to this Lease, including, without limitation, for the purpose of obtaining consents.

25.23 State-Specific Provisions. The provisions in Schedule 25.23 are hereby incorporated by reference, and will be applicable in respect of Facilities in the respective states indicated in such Schedule.

25.24 Compliance with SPE Requirements. Tenant and each Subtenant shall comply with the special purpose entity requirements ("SPE Requirements") set forth on Schedule 25.24.

25.25 Ground Leases.

(a) With respect to the Ground Leased Facilities, this Lease shall constitute a sublease (or sub-sublease) of the Ground Leased Facilities. In addition to the terms and conditions required under this Lease, Tenant shall be obligated to perform all of the obligations of Landlord under each of the Ground Leases as if they were obligations of Tenant under this Lease.

(b) Notwithstanding any other provision of this Lease, Landlord shall not modify, change, terminate, amend or replace any Ground Lease without first obtaining the prior written consent of Tenant.

(c) With respect to the Ground Leased Facilities only, in the event of any inconsistency between the terms of this Lease and any Ground Lease, the provisions of the Ground Lease shall be controlling.

ARTICLE 26

NON COMPETITION PROVISIONS

Tenant covenants and agrees that, for a period commencing on the Restricted Period Effective Date (as hereinafter defined) and expiring on the Restricted Period Termination Date (the "Restricted Period"), no Tenant Control Party will directly or indirectly: (a) develop, construct, finance or invest in the development, redevelopment, or construction of any Competing Facility (as hereinafter defined); (b) participate in the development, redevelopment, construction or financing of, any Competing Facility; (c) act as an officer, director, member, employee, principal, agent, representative, consultant, investor, owner, developer, partner, manager, or joint venturer in or with respect to the development, redevelopment, or construction of any Competing Facility; or (d) permit his, her, or its name to be used by, or in connection with, the development, redevelopment, or construction of any Competing Facility. For purposes of this Article 26 a "Competing Facility" shall be an independent living facility developed, redeveloped or constructed after the date of this Lease, that (a) competes in any direct or indirect way with, or is comparable in any way to, any Facility and (b) is located within a 10-mile radius of any Facility leased by the applicable Tenant Control Party, excluding (i) any independent living facility in respect of which construction or development or redevelopment has commenced as of the date of this Lease and (ii) any independent living facility constructed or developed or redeveloped, or the construction or development or redevelopment of which commenced, by or on behalf of any Successor Entity (as hereinafter defined) after the date of this Lease, but on or prior to the date such Person enters into a definitive agreement that, if consummated, would result in such Person becoming a Successor Entity. "Restricted Period Effective Date" shall mean, with respect to any Tenant, Guarantor or any Successor Entity, the date such Person became a party to this Lease or a Guaranty. "Restricted Period Termination Date" shall mean, with respect to any Tenant, Guarantor or any Successor Entity, the earlier of (i) the date such Person ceases to be a party to this Lease or a Guaranty following a Transfer that does not breach the terms of this Lease and (ii) the termination or expiration of this Lease. "Successor Entity" means any Person that is a successor to Tenant, Subtenant or Guarantor. The provisions of this Article 26 shall survive the expiration or termination of this Lease. Tenant understands and acknowledges that the violation of this covenant not to compete by a Tenant Control Party, would cause irreparable harm to Landlord and Landlord would be entitled to seek an injunction from any court of competent jurisdiction enjoining and restraining each Tenant Control Party, from any act prohibited by this Article 26. Tenant and Landlord recognize and acknowledge that the area and time limitations contained in this Article 26 are reasonable. In addition, Tenant and Landlord recognize and acknowledge that the area and time limitations are properly required for the protection of the business interests of Landlord due to the status and reputation of Tenant in the industry. The parties agree that nothing in this Article 26 shall be construed as prohibiting Landlord from pursuing any other remedies available to it for any breach or threatened breach of this covenant not to compete, including the recovery of damages from Tenant or any other Person acting in concert with Tenant. Tenant agrees that, in the event that Tenant, or any subsidiary thereof, breaches this covenant not to compete, Tenant will pay reasonable attorney's fees and expenses incurred by Landlord in enforcing this covenant not to compete.

It is further agreed that if at any time it shall be determined that this covenant not to compete is unreasonable as to time or area, or both, by any court of competent jurisdiction,

Landlord shall be entitled to enforce this covenant for such period of time and within such area as such court may determine to be reasonable.

ARTICLE 27

CONFIDENTIALITY

27.1 Obligation of Confidence. Except as otherwise provided in this Article 27, each of Tenant and Landlord shall keep confidential all Confidential Information provided to it or its agents, employees, or representatives by the other and shall not, without other party's prior consent, disclose such information in whole or in part to any Person.

27.2 Permitted Disclosures. Notwithstanding anything to the contrary contained herein:

(a) Tenant and Landlord, as applicable (the "Disclosing Party") may disclose (i) such information to its respective (A) Affiliates, (B) counsel, (C) accountants, (D) lenders (including any lender to a direct or indirect parent entity of Landlord or Tenant), together with any bona fide investors, transferees, participants (including potential investors, transferees and participants) in the loans made to Tenant, Landlord or their parent entities, as applicable, (E) underwriters, (F) tax advisors and (G) consultants, as necessary to conduct the business of such Disclosing Party (or any of the foregoing Persons) in the ordinary course and consistent with past practices, in each case, provided the Disclosing Party notifies the recipient of the confidential nature of such information, or (ii) any information which has otherwise become publicly available through no fault of the recipient party.

(b) Each of Tenant and Landlord (or any of their respective Affiliates) shall be able to disclose such Confidential Information as is, in the good faith judgment of such Person's counsel, accountants or advisors, required or reasonably advisable to be disclosed by operation of law, rule, regulation or legal process, a governmental agency such as the Internal Revenue Service or Securities and Exchange Commission, or a stock exchange such as the New York Stock Exchange, court order or requirement of any Governmental Authority (including, without limitation, in connection with the preparation for, or consummation of, a public offering of debt or equity by Landlord or an Affiliate thereof).

(c) Each of Tenant (if Tenant is a Publicly Traded Company (as defined in the Guaranty)) and Landlord (or any of their respective Affiliates) shall be entitled to disclose such Confidential Information as is, in the good faith judgment of the disclosing party's counsel, accountants or advisors, required or reasonably advisable to be disclosed in connection with such party's (or any of its Affiliates') quarterly earnings results or financing activities, including the name of the non-disclosing party and the Facilities, the amount invested by Landlord in the Facilities and the rent payable under this Lease.

(d) Landlord (or any of its Affiliates) shall be entitled to disclose such Confidential Information as is commonly disclosed by other publicly traded landlords under leases of facilities similar to the Facilities, including the name of the Tenants and the Facilities, the amount invested by Landlord in the Facilities and the rent payable under this Lease.

(e) The Disclosing Party shall be responsible for any breach of this Article 27 by such party's officers, directors, agents, and employees but shall not be liable to the non-disclosing party (the "Non-Disclosing Party") for any breach by any counsel, accountants, underwriters, advisors or consultants if the Disclosing Party enters into a confidential relationship or confidentiality arrangements with such Person and assigns to the Non-Disclosing Party the Disclosing Party's rights under such confidentiality agreement, confidentiality relationship, or other obligations.

27.3 Confidential Information Defined. The term "Confidential Information" means terms and provisions of this Lease and all and any data, reports, forecasts, records, agreements, and other information furnished by a Non-Disclosing Party or by any of its representatives or advisors to the Disclosing Party that is material and proprietary, but shall not apply to any Confidential Information that (a) was known to the Disclosing Party prior to the Non-Disclosing Party's disclosure of such Confidential Information to the Disclosing Party (unless the Disclosing Party's knowledge was obtained confidentially or from a source that to the Disclosing Party's knowledge was not permitted to disclose such Confidential Information to the Disclosing Party) or (b) becomes available to the Disclosing Party on a non-confidential basis from a source (other than the Non-Disclosing Party or any of its employees, agents, representatives, or advisors) who to the knowledge of the Disclosing Party is not prohibited from disclosing such Confidential Information to the Disclosing Party by any legal, contractual, or fiduciary obligation.

27.4 Injunctive Relief. Each of Landlord and Tenant acknowledges that remedies at law may be inadequate to protect against breach of the provisions of this Section 27, and hereby in advance agrees that the Non-Disclosing Party shall not be obligated to establish actual damages or the inadequacy of monetary damages in seeking an injunction. Such injunctive relief will not be deemed to be the exclusive remedy for a breach by a Disclosing Party of the provisions of this Section 27, but will be in addition to all other rights and remedies available at law or in equity to the Non-Disclosing Party.

27.5 Suspension Period. Each of Landlord and Tenant shall have the right to temporarily suspend the other party's obligation to provide it with Confidential Information pursuant to the terms of this Lease or otherwise for a specified period of time or for a period of time terminating upon the occurrence of a specified event, including notice from the Non-Disclosing Party (the "Suspension Period"). During the Suspension Period, the applicable party shall, if requested by the Non-Disclosing Party, deliver such Confidential Information to a third party in a confidential relationship with the Non-Disclosing Party. Upon expiration or termination of the Suspension Period, the applicable party will deliver to the Non-Disclosing Party within three business days all Confidential Information that the Disclosing Party otherwise would have been required to deliver during the Suspension Period and shall immediately, once again, be subject to all of the information delivery requirements set forth in this Lease.

ARTICLE 28

SEVERED LEASE

28.1 Severed Lease. Landlord shall have the right, at any time and from time to time during the Term, by written notice to Tenant, to require Tenant to execute an amendment to this Lease whereby one or more Facilities (individually, a “Transferred Facility” or collectively, “Transferred Facilities”) are separated and removed from this Lease (a “Lease Severance”), and simultaneously to execute a substitute lease with respect to such Transferred Facility(ies), in which case:

(a) Severed Lease Terms. Landlord and Tenant shall execute a new lease (the “Severed Lease”) for such Transferred Facility(ies), effective as of the date specified in Section 28.3 below (the “Property Transfer Date”), in the same form and substance as this Lease, but with the following changes thereto:

(i) Minimum Rent. The initial Minimum Rent for such Transferred Facility(ies) shall be an amount equal to the Allocated Facility Rent for the Transferred Facility(ies). Any rental escalations required under this Lease shall be made under the Severed Lease on the same date and in the same manner as is required under this Lease, in the full amount required as if such Transferred Facility(ies) had been under the Severed Lease.

(ii) Liabilities and Obligations. The Severed Lease and this Lease (as amended) shall provide that the tenant under this Lease following the Lease Severance (A) shall continue to be responsible for the payment, performance and satisfaction of all duties, obligations and liabilities arising under this Lease, insofar as they relate to the Transferred Facility(ies), that were not paid, performed and satisfied in full prior to the Property Transfer Date and (B) shall not be responsible for the payment, performance or satisfaction of any duties, obligations and liabilities, insofar as they relate to the Transferred Facility(ies), arising after the Property Transfer Date.

(b) Deletion of Provisions. At the election of Landlord, Section 25.20 of the Severed Lease pertaining to the REIT status of NCT shall be deleted.

(c) Secured Amount; Capital Expenditures Reserve. Such Severed Lease shall contemplate both a security deposit and tax and insurance escrows and capital expenditures reserve in the same manner and fashion as required by this Lease with respect to the particular Facility. Such security deposit or capital expenditure reserve amounts under the Severed Lease shall initially be funded by Landlord out of the Cap Ex Account, tax and insurance escrow and the Security Deposit, as applicable, previously provided by Tenant. The Security Deposit under the Severed Lease shall be equal to an amount determined by multiplying (i) the Security Deposit under this Lease at the applicable time by (ii) a fraction determined by dividing the Allocated Facility Rent attributable to such Facility by the aggregate Base Rent.

(d) Replacement Guaranties. Contemporaneously with the execution of any Severed Lease, Guarantor shall execute a new guaranty for each of this Lease and each

Severed Lease, pursuant to which Guarantor shall separately guaranty Tenant's obligations under this Lease (as amended) and each Severed Lease on the same terms and to the same extent as Tenant's obligations under this Lease are guaranteed by Guarantor pursuant to the then existing Guaranty, and thereupon, the then existing Guaranty with respect to this Lease shall be automatically be deemed terminated and of no further force or effect.

(e) Collateral. Each tenant under a Severed Lease will execute any documentation reasonably necessary for Landlord to maintain its security interest in the collateral of such tenant as is currently secured under this Lease.

28.2 Amendments to this Lease. Upon execution of such Severed Lease, and effective as of the Property Transfer Date, this Lease shall be deemed to be amended as follows:

(a) the Transferred Facility(ies) shall be excluded from the Facilities hereunder;

(b) Base Rent hereunder shall be reduced by an amount equal to the Allocated Facility Rent for the Transferred Facility(ies); and

(c) the Exhibits and Schedules attached hereto and any Security Deposit shall be amended and reduced, respectively, to delete and eliminate the Transferred Facility(ies) therefrom and reduce the Secured Deposit under this Lease as a result of the elimination of the Transferred Facility(ies) in accordance with the computation provided in Sections 28.1(c) above.

The foregoing amendments shall occur automatically and without the necessity of any further action by Landlord or Tenant, but, at either Landlord's or Tenant's election, the same shall be reflected in a formal amendment to this Lease, which amendment shall be promptly executed by Landlord and Tenant.

28.3 Effective Date. Any Severed Lease shall be effective on the date which is the earlier of: (i) the date the Severed Lease is fully executed and delivered by the parties thereto and (ii) the date specified in the written notice from Landlord to Tenant requiring a Severed Lease as described above, which date shall be no sooner than ten (10) days, nor later than sixty (60) days, after the date such notice is issued.

28.4 Other Undertakings. Landlord and Tenant shall take such actions and execute and deliver such documents, including without limitation the Severed Lease and an amendment to this Lease, as are reasonably necessary and appropriate to effectuate fully the provisions and intent of this Article 28.

28.5 Miscellaneous. Notwithstanding anything contained herein which may be construed to the contrary (a) Tenant's compliance with Section 11.3 (Lease Coverage Ratio) shall be measured on a combined basis across this Lease and all other Severed Leases as if Landlord had not caused this Lease to be severed and (b) except as amended in accordance with the foregoing, this Lease (as amended following the creation of a Severed Lease) and any Severed Lease shall each be on the same terms as provided herein, regardless of whether the provisions thereof are expressed to relate to multiple Facilities.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease to become effective as of December ___, 2013.

TENANT:

By: NCT Master Tenant I LLC, a Delaware limited liability company

By: /s/ Christopher J. Bouchard

Name: Christopher J. Bouchard

Title: Secretary

STATE OF OREGON :
 :
 : ss
COUNTY OF CLACKAMAS :

On this, the 18th day of December, 2013, before me, the undersigned officer, personally appeared Christopher J. Bouchard, who acknowledged himself to be the Secretary of NCT Master Tenant I LLC, a Delaware limited liability company (" Company"), and being duly sworn according to law deposes and says that he, as such officer, being authorized to do so, executed the foregoing Instrument for the purposes therein contained, by signing the name of the Company by himself as Secretary of NCT Master Tenant I LLC.

IN WITNESS WHEREOF, I hereunto set my hand and official seal the day and year first above written.

/s/ Leah Renae Kuor

Notary Public for Oregon

My Commission Expires: 4/23/2014

Signature Pages to the NCT I Master Lease



LANDLORD:

NIC 12 ARLINGTON PLAZA OWNER LLC
NIC 12 BLAIR HOUSE OWNER LLC
NIC 12 BLUE WATER LODGE OWNER LLC
NIC 12 BRIARCREST ESTATES OWNER LLC
NIC 12 CHATEAU RIDGELAND OWNER LLC
NIC 12 CHERRY LAUREL OWNER LLC
NIC 12 COLONIAL HARBOR OWNER LLC
NIC 12 COUNTRY SQUIRE OWNER LLC
NIC 12 COURTYARD AT LAKEWOODOWNER LLC
NIC 12 DESOTO BEACH CLUB OWNER LLC
NIC 12 EL DORADO OWNER LLC
NIC 12 ESSEX HOUSE OWNER LLC
NIC 12 FLEMING POINT OWNER LLC
NIC 12 GRASSLANDS ESTATES OWNER LLC
NIC 12 GREELEY PLACE OWNER LLC
NIC 12 GRIZZLY PEAK OWNER LLC
NIC 12 JACKSON OAKS OWNER LLC
NIC 12 MAPLE DOWNS OWNER LLC
NIC 12 PARKWOOD ESTATES OWNER LLC
NIC 12 PIONEER VALLEY LODGE OWNER LLC
NIC 12 REGENCY RESIDENCE OWNER LLC
NIC 12 SIMI HILLS OWNER LLC
NIC 12 STONEYBROOK LODGE OWNER LLC
NIC 12 SUMMERFIELD ESTATES OWNER LLC
NIC 12 VENTURA PLACE OWNER LLC, each a
Delaware limited liability company

By: /s/ Andrew White

Name: Andrew White

Title: Chief Executive Officer, President and Secretary

Signature Page to NCT I Master Lease

STATE OF NEW YORK :
 : ss
COUNTY OF NEW YORK :

On this, the 20th day of December, 2013, before me, the undersigned officer, personally appeared Andrew White, who acknowledged himself to be the Chief Executive Officer, President and Secretary of each of the above-signed entities listed under the heading "Landlord" (collectively, "Landlord"), each a Delaware limited liability company, and being duly sworn according to law deposes and says that he, as such officer for each Landlord, being authorized to do so, executed the foregoing Instrument for the purposes therein contained, by signing the name of each Landlord by himself as Chief Executive Officer, President and Secretary of each Landlord.

IN WITNESS WHEREOF, I hereunto set my hand and official seal the day and year first above written.

/s/ Diana Kosik
Notary Public

Notary Page to NCT I Master Lease

SCHEDULE 1.1

(A) ALLOCATED FACILITY RENT

Facility	Allocated Facility Rent (6.5% of Allocated Purchase Price)
ARLINGTON PLAZA	\$725,003
BLAIR HOUSE	\$1,051,652
BLUE WATER LODGE	\$1,089,848
BRIARCREST ESTATES	\$1,231,003
CHATEAU RIDGELAND	\$588,842
CHERRY LAUREL	\$1,548,100
COLONIAL HARBOR	\$1,589,318
COUNTRY SQUIRE	\$1,220,536
COURTYARD AT LAKEWOOD, THE	\$1,056,776
DESOTO BEACH CLUB	\$1,587,800
EL DORADO, THE	\$997,917
ESSEX HOUSE	\$1,802,864
FLEMING POINT	\$1,452,984
GRASSLANDS ESTATES	\$1,327,331
GREELEY PLACE	\$945,549
GRIZZLY PEAK	\$1,219,358
JACKSON OAKS	\$1,777,507
MAPLE DOWNS	\$1,983,967
PARKWOOD ESTATES	\$1,326,292
PIONEER VALLEY LODGE	\$1,358,909
REGENCY RESIDENCE	\$1,057,618
SIMI HILLS	\$1,778,923
STONEBROOK LODGE	\$1,432,809
SUMMERFIELD ESTATES	\$387,002
VENTURA PLACE	\$1,625,279
	\$32,163,186

SCHEDULE 1.1(S)

SUBTENANTS

NCT 1 Tenant
NH Arlington Plaza LLC
NH Blair House LLC
NH Blue Water Lodge LLC
NH Briarcrest Estates LLC
NH Chateau Ridgeland LLC
NH Cherry Laurel LLC
NH Colonial Harbor LLC
NH Country Squire LLC
NH Courtyard At Lakewood LLC
NH Desoto Beach Club LLC
NHH El Dorado LLC
NH Essex House LLC
NH Fleming Point LLC
NH Grasslands Estates LLC
NH Greeley Place LLC
NH Grizzly Peak LLC
NH Jackson Oaks LLC
NH Maple Downs LLC
NH Parkwood Estates LLC
NH Pioneer Valley Lodge LLC
NH Regency Residence LLC
NH Simi Hills LP
NH Stoneybrook Lodge LLC
NH Summerfield Estates LLC
NH Ventura Place LLC

SCHEDULE 7.1(a)

CAPEX PER UNIT

YEAR	AMOUNT
2014	\$500.00
2015	\$1,010.00
2016	\$1,530.20
2017	\$2,060.80
2018	\$2,602.02
2019	\$3,154.06
2020	\$3,717.14
2021	\$4,291.48
2022	\$4,877.31
2023	\$5,474.86
2024	\$6,084.36
2025	\$6,706.04
2026	\$7,340.17
2027	\$7,986.97
2028	\$8,646.71
2029	\$9,319.64
2030	\$10,006.04

SCHEDULE 25.23

STATE-SPECIFIC PROVISIONS

THE PROVISIONS OF THIS SCHEDULE SHALL APPLY AND GOVERN (A) ONLY TO THE EXTENT THAT THE SUBSTANTIVE LAW OF THE APPLICABLE STATE INDICATED BELOW SHALL APPLY TO THIS LEASE AND ITS ENFORCEMENT, WHETHER OR NOT CONSISTENT WITH THE CHOICE OF LAW AND CHOICE OF FORUM PROVISIONS IN SECTIONS 25.9 AND 25.16 OF THE LEASE; OR (B) IF LANDLORD AVAILS ITSELF OF THE LAW AND/OR FORUMS OF SUCH APPLICABLE STATE IN ENFORCING ITS RIGHTS HEREUNDER.

Subject to the foregoing, if any portion of the Lease should conflict with the applicable terms of this Schedule, then the terms of this Schedule shall control. Defined terms not otherwise defined in this Schedule shall have the meanings given to such terms in the Lease. All references to the "Lease" in the Lease or in this Schedule shall mean, collectively, the Lease as modified by this Schedule.

None of the provisions of this Schedule relating to the rights and obligations of the parties under the laws of any State shall be construed in any respect (by implication or otherwise) to affect (a) the intention of the parties that this Lease be governed by, and construed in accordance with, the law specified in Section 25.9 or (b) any of the rights or obligations of the parties not governed by the laws of such State.

Section 1.1 Louisiana Provisions.

Section 1.1.1 Terms. The following terms have the following additional meanings for purposes of this Lease in addition to those meanings otherwise provided therein:

"Fixtures" means and includes "component parts" of buildings and other structures as provided under and subject to the pertinent provisions of the Louisiana Civil Code and Louisiana Revised Statutes. Fixtures are immovable property under Louisiana law and are not Personal Property.

"Joint and several" liability additionally includes "solidary" or "in solido" liability under and subject to the pertinent provisions of the Louisiana Civil Code and Louisiana Revised Statutes.

"Personal Property" means and includes property that is and remains a "movable" under and subject to the pertinent provisions of the Louisiana Civil Code and Louisiana Revised Statutes. Personal Property does not include integral or component parts of immovables under Louisiana Civil Code articles 463, 465 and 466, or property that has been declared to be an immovable under Louisiana Civil Code article 467.

"Real property" and "real estate" mean and include "immovable property" under and subject to the pertinent provisions of the Louisiana Civil Code and Louisiana Revised Statutes.

“Tangible personal property” means and includes “corporeal movable property” under and subject to the pertinent provisions of the Louisiana Civil Code and Louisiana Revised Statutes.

Section 1.1.2 LOUISIANA CIVIL CODE ART. 2699. IN ACCORDANCE WITH THE PROVISIONS OF LOUISIANA CIVIL CODE ART. 2699, TENANT WAIVES THE WARRANTIES AGAINST VICES AND DEFECTS UNDER LOUISIANA CIVIL CODE ARTICLES 2696 AND 2697. TENANT ACKNOWLEDGES THAT THIS WAIVER HAS SPECIFICALLY BEEN BROUGHT TO ITS ATTENTION.

Section 1.1.3 La. Rev. Stat. Ann. § 9:3221. Tenant assumes full responsibility and liability for the condition of the Facilities in accordance with the provisions of La. Rev. Stat. Ann. § 9:3221.

Section 1.1.4 Section 17.2. In addition to Landlord’s remedies under Section 17.2 of the Lease, Landlord shall have the further option to enforce this Lease against Tenant and in connection therewith to declare all of the unpaid installments of rent at once due and exigible and the whole thereof shall become and be immediately due and payable, anything herein to the contrary notwithstanding, and proceed to enforce its legal remedies hereunder. Attorneys’ fees and all other charges that may be assessed against the Tenant hereunder shall constitute Rental and be secured by Landlord’s lien and privilege.

Section 1.2 Nevada Provisions. Pursuant to Nevada Revised Statutes (“NRS”) 108.234, Landlord hereby informs Tenant that Tenant must comply with the requirements of NRS 108.2403 and NRS 108.2407. Tenant shall take all actions necessary under Nevada law to ensure that no liens encumbering Landlord’s interest in the Facilities arise as a result of Tenant’s construction of any Improvements or Alterations, which actions shall include, without limitation, the recording of a notice of posted security in the Official Records of Clark County, Nevada, in accordance with NRS 108.2403, and either (i) establishing a construction disbursement account pursuant to NRS 108.2403(1)(b)(1), or (ii) furnishing and recording, in accordance with NRS 108.2403(1)(b)(2), a surety bond for the prime contract for the improvements or any alterations at the Facilities that meets the requirements of NRS 108.2415. Tenant may not begin any improvements or alterations in the Facilities until Tenant has delivered evidence satisfactory to Landlord that Tenant has complied with the terms of this Section. Failure by Tenant to comply with the terms of this Section shall permit Landlord to declare a Default hereunder. Notwithstanding the foregoing, Tenant’s ability to construct any improvement or any alteration is limited by the other provisions of the Lease. Further, Landlord shall have the right to post and maintain any notices of non-responsibility.

Section 1.3 Michigan Provisions. The Property is not an environmentally contaminated “facility” under MCL 324.20101(o).

Section 1.4 Florida Provisions.

Section 1.4.1 In accordance with the applicable provisions of Chapter 713 of the Florida Statutes, Tenant has no authority to and shall not create any liens for labor or material on or against the Property or any interest therein, and no such liens shall extend to the interest of

Landlord in the Land, the Facilities or any other portion of the Property under any circumstances. Tenant agrees to notify all materialmen, suppliers, contractors, mechanics, or laborers involved with demolition, construction, installation, alteration or repair of any improvements on, within or about the Land, the Facility or other Property at Tenant's request, that such party must look only to Tenant or Tenant's other property interests for payment. All such materialmen, suppliers, contractors, mechanics and laborers may be put on notice that they must look only to Tenant and to Tenant's interest in the Property for such work or improvements as provided in this Section by the recordation, at Landlord's option, of a notice in accordance with Florida Statutes 713.10 in the Public Records of the county in which the Property is located, or the inclusion of notice of this provision in the recorded short form memorandum of this Lease contemplated by Section 25.12.

Section 1.4.2 Prior to commencement by Tenant of any work on the Property, Tenant will record or file a notice of commencement ("Notice of Commencement") in the land records of the county in which the Property is located identifying Tenant as the party for whom such work is being performed, stating such other matters as may be required by law and requiring the service of copies of all notices, liens or claims of lien with respect to the work covered by the Notice of Commencement to Landlord. The Notice of Commencement shall clearly reflect that the interest of Tenant in the Property is that of a leasehold estate. A copy of the Notice of Commencement will be furnished to Landlord after filing of such Notice of Commencement.

Section 1.4.3 In the event of the termination of the Lease or possession of the Leased Premises, Landlord shall have the right to accelerate Rent as permitted by Florida law.

Section 1.4.4 The lien and security interest granted by the applicable section in the lease is in addition to Landlord's statutory lien under Chapter 83 of the Florida Statutes and is cumulative thereto.

Section 1.4.5 Radon Gas. Radon is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon that exceed federal and state guidelines have been found in buildings in Florida. Additional information regarding radon and radon testing may be obtained from your county health department.

Section 1.5 Texas Provisions.

Section 1.5.1 TENANT HEREBY WAIVES ALL RIGHTS TO PROTEST THE APPRAISED VALUE OF THE PROPERTY OR TO APPEAL THE SAME AND ALL RIGHTS TO RECEIVE NOTICES OF REAPPRAISALS AS SET FORTH IN SECTIONS 41.413 AND 42.015 OF THE TEXAS TAX CODE.

Section 1.5.2 Landlord and Tenant acknowledge, agree and confirm to each other that they are knowledgeable and experienced in commercial lease transactions; and Landlord and Tenant agree that the provisions of this Lease for determining Tenant's Rent, including Base Rent and Additional Charges, are commercially reasonable and acceptable to the parties for determining such charges, even though such calculations may not state precisely the formulas for determining the same. ACCORDINGLY, TENANT HEREBY VOLUNTARILY AND

KNOWINGLY WAIVES ALL RIGHTS AND BENEFITS TO WHICH TENANT MAY BE ENTITLED UNDER SECTION 93.012 OF THE TEXAS PROPERTY CODE.

Section 1.5.3 TENANT HEREBY WAIVES ITS STATUTORY LIEN UNDER SECTION 91.004 OF THE TEXAS PROPERTY CODE.

Section 1.5.4 Waiver of Consumer Rights. LANDLORD AND TENANT EACH ACKNOWLEDGE, ON ITS OWN BEHALF AND ON BEHALF OF ITS SUCCESSORS AND ASSIGNS, THAT THE TEXAS DECEPTIVE TRADE PRACTICES—CONSUMER PROTECTION ACT, SECTION 17.41 ET SEQ. OF THE TEXAS BUSINESS AND COMMERCE CODE (“ DTPA”), IS NOT APPLICABLE TO THIS LEASE. ACCORDINGLY, THE RIGHTS AND REMEDIES OF LANDLORD AND TENANT WITH RESPECT TO ALL ACTS OR PRACTICES OF THE OTHER, PAST, PRESENT OR FUTURE, IN CONNECTION WITH THIS LEASE SHALL BE GOVERNED BY LEGAL PRINCIPLES OTHER THAN THE DTPA. LANDLORD AND TENANT EACH HEREBY WAIVES ITS RIGHTS UNDER THE DTPA, A LAW THAT GIVES CONSUMERS SPECIAL RIGHTS AND PROTECTIONS. AFTER CONSULTATION WITH AN ATTORNEY OF ITS OWN SELECTION, LANDLORD AND TENANT, RESPECTIVELY, VOLUNTARILY CONSENT TO THIS WAIVER.

Section 1.5.5 THIS LEASE AND ALL THE OTHER DOCUMENTS EXECUTED IN CONNECTION HERewith EMBODY THE FINAL, ENTIRE AGREEMENT OF LANDLORD AND TENANT AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF LANDLORD AND TENANT. THERE ARE NO ORAL AGREEMENTS BETWEEN LANDLORD AND TENANT.

Section 1.6 Connecticut Provisions. TENANT, FOR ITSELF AND ALL PERSONS CLAIMING THROUGH OR UNDER IT, HEREBY ACKNOWLEDGES THAT THIS LEASE CONSTITUTES A COMMERCIAL TRANSACTION, AS SUCH TERM IS USED AND DEFINED IN SECTION 52-278 OF THE CONNECTICUT GENERAL STATUTES, AND HEREBY EXPRESSLY WAIVES ANY AND ALL RIGHTS WHICH ARE OR MAY BE CONFERRED UPON TENANT BY SAID STATUTORY PROVISION TO ANY NOTICE OR HEARING PRIOR TO A PREJUDGMENT REMEDY.

Section 1.7 California Provisions.

Section 1.7.1 Remedies. In addition to the remedies otherwise provided elsewhere in this Lease, Landlord shall have the following remedies upon an Event of Default:

(a) Terminate Tenant’s right to possession of the Properties by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Properties to Landlord. In such event Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant’s default, including (i) the cost of recovering

possession of the Properties, expenses of reletting, including necessary renovation and alteration of the Properties, reasonable attorneys' fees and costs, and any real estate commissions actually paid; (ii) the worth at the time of award of the unpaid Rent that had been earned at the time of termination; (iii) the worth at the time award of the amount by which the unpaid Rent that would have been earned after termination until the time of award exceeds the amount of such rental loss that the Tenant proves could have been reasonably avoided; (iv) the worth at the time of award, by the court having jurisdiction thereof, of the amount by which the unpaid Rent for the balance of the term after the time of such award exceeds the amount of such rental loss of the same period that Tenant proves could be reasonably avoided; (v) that portion of any leasing commission paid by Landlord applicable to the unexpired term of this Lease; and (vi) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under the lease or which in the ordinary course of things would be likely to result therefrom. As used herein, the "worth at the time of award" shall be computed by allowing interest at the maximum rate permitted by law, but not higher than 13%. As used in herein, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

(b) Maintain Tenant's right to possession in which case this Lease shall continue in full force and effect whether or not Tenant shall have abandoned the Properties. In such event, Landlord shall be entitled to enforce all of its rights and remedies under this Lease, including the right to recover the Rent as it becomes due hereunder.

(c) Exercise the remedy described in California Civil Code Section 1951.4 (Landlord may continue Lease in effect after Tenant's breach and abandonment and recover Rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations).

Section 1.8 Kentucky Provisions. With respect to any Leased Property located in the State of Kentucky, Landlord and Tenant acknowledge and agree that agree that Article 19 shall operate in lieu of any applicable holdover provision prescribed under Kentucky law.

Section 1.9 Mississippi Provisions. Tenant waives the benefits of Miss. Code Ann. § 89-7-3, if any, to abate rent after destruction other than as expressly provided in this Lease.

Section 1.10 Virginia Provisions. The parties agree that this Lease shall be deemed a "deed of lease" for the purposes of Section 55.2 of the Code of Virginia (1950), as amended.

SCHEDULE 25.24

SINGLE PURPOSE ENTITY REQUIREMENTS

Tenant hereby covenants, as of the date hereof and until the expiration or earlier termination of this Lease, that Tenant:

- (1) has not guaranteed and will not guarantee, has not pledged and will not pledge its assets as security for, and has not and will not otherwise become liable on or in connection with, any obligation of any other Person;
- (2) does not own and will not own any asset other than (a) its leasehold interest in the Property, and (b) incidental personal property necessary for the operation of such Property;
- (3) is not engaged and will not engage, either directly or indirectly, in any business other than the ownership, management, and operation of the aforesaid Property;
- (4) has not made and will not make any loans or advances to any Person (including any Affiliate);
- (5) will conduct and operate the Business in its own name and as presently conducted and operated;
- (6) will maintain financial statements, books and records, and bank accounts separate from those of its Affiliates provided, however, that Tenant may be included in consolidated financial statements of another Person, provided that such consolidated financial statements contain a note indicating that Tenant is a separate legal entity, that Tenant's assets and liabilities are neither available to pay the debts of the consolidated entity nor constitute obligations of the consolidated entity and that the consolidated entity is not liable for any of the liabilities of such Tenant (except insofar as it is a Guarantor hereunder);
- (7) will be, and at all times will hold itself out to the public as, a legal entity separate and distinct from any other entity (including any Affiliate);
- (8) will maintain adequate capital for the normal obligations reasonably foreseeable in a business of its size and character and in light of its contemplated business operations, provided that the foregoing shall not require the direct or indirect owners Tenant to make capital contributions to Tenant;
- (9) will not commingle the funds and other assets of Tenant with those of any Affiliate or any other Person, except with Subtenants;
- (10) has and will maintain its assets in such a manner that it is not costly or difficult to segregate, ascertain, or identify its individual assets from those of any Affiliate or any other Person;
- (11) does not and will not hold itself out to be responsible for the debts or obligations of any other Person;

(12) will not hold title to Tenant's assets other than in Tenant's name;

(13) will correct any known misunderstanding regarding its separate identity and existence;

(14) will participate in the fair and reasonable allocation of any and all overhead expenses and other common expenses for Facilities, goods, or services provided to multiple entities;

(15) has not and will not institute proceedings to be adjudicated bankrupt or insolvent; or consent to the institution of bankruptcy or insolvency proceedings against it; or file a petition seeking, or consenting to, reorganization or relief under any applicable Legal Requirements relating to bankruptcy; or consent to the appointment of a receiver, liquidator, assignee, trustee, or sequestrator (or other similar official) of Tenant or a substantial part of Tenant's property; or make any assignment for the benefit of creditors; or admit in writing its inability to pay its debts generally as they become due; or take any action in furtherance of any of the foregoing.

Notwithstanding anything herein to the contrary, subject to Section 11.5, Tenant may, from time to time, (a) make lawful distributions in accordance with applicable Legal Requirements or loans on an arm's length basis to its Affiliates subject to the provisions of Item (8) above, or (b) obtain loans on an arm's length basis or lawful capital contributions in accordance with applicable Legal Requirements from its Affiliates to the extent necessary to satisfy its obligations as they become due; provided, however, that all such transactions are accurately reflected in the books and records of Tenant and each of its applicable Affiliates and are otherwise permitted under this Lease.

EXHIBIT A

ASSIGNMENT AND ASSUMPTION OF CONTRACTS AND OPERATING LEASES

THIS ASSIGNMENT AND ASSUMPTION OF CONTRACTS AND OPERATING LEASES (this “Assignment”) is made and entered into as of the [•] day of [•] (the “Effective Date”) by and between the undersigned tenant, a (“Tenant”), and [•], a [•] (“Landlord”).

RECITALS:

WHEREAS, Landlord and Tenant entered into a Lease dated [•], 2013 (the “Agreement”) for the lease of certain improved real property having a legal description as set forth on Exhibit A attached hereto and incorporated herein by this reference and known generally as Name of Facilities, together with certain personal property located upon and used in connection with such improved real property, all as more particularly described in the Agreement (collectively the “Project”); and,

WHEREAS, the Agreement requires that upon the termination thereof, Tenant shall deliver to Landlord this Assignment pursuant to which Tenant will convey to Landlord all of Tenant’s right, title and interest in the Contracts and Operating Leases; and

WHEREAS, the Agreement has been terminated effective as of the date first above written.

NOW, THEREFORE, in consideration of the foregoing premises, for the consideration as set forth in the Agreement, and for other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do covenant and agree as follows:

1 . Defined Terms. Capitalized terms not otherwise defined in this Assignment, including without limitation these recitals and the exhibits, shall have the meanings set forth in the Agreement.

2 . Contracts and Operating Leases. Tenant hereby grants, bargains, sells, assigns, transfers and conveys unto Landlord to the extent assignable all of Tenant’s right, title and interest in and to all of the Contracts and Operating Leases set forth on Exhibit B attached hereto and incorporated herein by reference (herein the “Assigned Rights”).

3 . Cancellation and Indemnification. Tenant agrees to cancel any and all Contracts and Operating Leases except those listed in Exhibit B hereto (the “Assumed Contracts and Operating Leases”) and those listed on Exhibit C hereto (the “Master Contracts and Operating Leases”) and to indemnify and hold Landlord harmless against any claims and losses under such cancelled Contracts and Operating Leases, it being the intention of the parties that Landlord will not assume Tenant’s obligations under any Contract or Operating Lease except those listed in Exhibit B, if any. With respect to the Master Contracts and Operating Leases, Tenant shall not be required to terminate the same but shall be required to remove the Project from any continuing benefits or obligations thereunder from and after the Effective Date.

4. Assumption. Landlord accepts the assignment of all of the Assigned Rights and Landlord does hereby assume and undertake to abide by the same according to their respective terms and conditions insofar as they pertain to the Project as such obligations arise on or after the Effective Date and are not related to causes occurring prior to the Effective Date. Landlord hereby agrees to indemnify and hold Tenant harmless from any and all expenses, charges, claims and liabilities, including costs and attorneys' fees relating to the Assigned Rights arising as a result of any action or omission of Landlord from and after the Effective Date not related to causes occurring prior to the Effective Date. Tenant agrees to indemnify and hold Landlord harmless from any and all expenses, charges, claims and liabilities, including costs and attorneys' fees, associated with the Assigned Rights or related thereto arising as a result of any action or omission of Tenant prior to the Effective Date.

5. Limitation. To the extent that any of the assignments or assumptions under this Agreement are now or are hereafter deemed to be in violation of the terms of any of the Operating Contracts and Operating Leases, such assignment and assumption shall be deemed to be retracted and null and void.

6. Counterparts. This Assignment may be executed in counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute but one and the same instrument.

7. Entirety. This Assignment represents the entire and final agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior discussions or writings with respect thereto.

IN WITNESS WHEREOF, the parties have caused this Assignment to be executed as of the Effective Date.

TENANT:

[TENANT]

By: _____

Print Name: _____

Title: _____

LANDLORD:

[LANDLORD]

By: _____

Print Name: _____

Title: _____

EXHIBIT A

Legal Description

EXHIBIT B

Contracts and Operating Leases

EXHIBIT C

Master Contracts and Operating Leases

EXHIBIT B

ASSIGNMENT AND ASSUMPTION OF RESIDENT AGREEMENTS

THIS ASSIGNMENT AND ASSUMPTION OF RESIDENT AGREEMENTS (this “Assignment”) is made and entered into as of the [•] day of [•] (the “Effective Date”) by and between the undersigned tenant, a [•] (“Tenant”), and [•], a [•] (“Landlord”).

RECITALS

WHEREAS, Tenant and Landlord entered into a Lease dated [•], 2013 (the “Agreement”) for the lease of certain improved real property having a legal description as set forth on Exhibit A attached hereto and incorporated herein by this reference and known generally as Name of Facilities, together with certain personal property located upon and used in connection with such improved real property, all as more particularly described in the Agreement (collectively the “Project”); and,

WHEREAS, the Agreement requires that, upon the termination thereof, Tenant shall deliver to Landlord this Assignment pursuant to which Tenant will convey to Landlord all of Tenant’s right, title and interest in the Resident Agreements, including without limitation all security deposits, trust accounts and tenant applications held in connection therewith (collectively the “Resident Agreements”); and

WHEREAS, the Agreement has been terminated effective as of the date first above written.

NOW, THEREFORE, in consideration of the foregoing premises, for the consideration as set forth in the Agreement, and for other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do covenant and agree as follows:

1 . Defined Terms. Capitalized terms not otherwise defined in this Assignment, including without limitation these recitals and the exhibits, shall have the meanings set forth in the Agreement.

2 . Resident Agreements. Tenant hereby grants, bargains, sells, assigns, transfers and conveys unto Landlord all of Tenant’s right, title and interest in and to all of the Resident Agreements to the extent assignable, including without limitation the Resident Agreements set forth on Exhibit B attached hereto and incorporated herein by reference. The information set forth on Exhibit C attached hereto and incorporated herein by this reference regarding each of the Resident Agreements, including without limitation information regarding security deposits, custodial and trust accounts, prepaid amounts and delinquent amounts, is true and correct as of the Effective Date.

3 . Payments Under Resident Agreements. Tenant hereby grants, bargains, sells, assigns, transfers and conveys unto Landlord all of its right, title and interest in and to (a) payments under the Resident Agreements, and (b) third party payments received in lieu of payments required under Resident Agreements, which payments under either (a) or (b) are for

services, goods or rentals accruing from and after the Effective Date. Any payments received by Landlord for services, goods or rentals accruing prior to the Effective Date that are received by Landlord shall be promptly remitted by Landlord to Tenant. Landlord agrees to indemnify and hold Tenant harmless from any and all expenses, charges, claims and liabilities, including costs and reasonable attorneys' fees, associated with the Assignment and Assumption or related thereto arising as a result of any action or omission of Landlord on or after the Effective Date.

4 . Assumption. Landlord accepts the assignment of all of the Resident Agreements set forth in Exhibit B, together with deposits, and amounts held in custodial and trust accounts as shown on Exhibit C, and Landlord does hereby assume and undertake to abide by the same according to their respective terms and conditions insofar as they pertain to the Project (the "Assignment and Assumption"), as such obligations arise on or after the Effective Date and are not related to causes occurring prior to the Effective Date. Landlord hereby agrees to indemnify and hold Tenant harmless from any and all expenses, charges, claims and liabilities, including costs and reasonable attorneys' fees, associated with the Assignment and Assumption or related thereto arising as a result of any action or omission of Landlord from and after the Effective Date not related to causes occurring prior to the Effective Date. Tenant agrees to indemnify and hold Landlord harmless from any and all expenses, charges, claims and liabilities, including costs and reasonable attorneys' fees, associated with the Assignment and Assumption or related thereto arising as a result of any action or omission of Tenant prior to the Effective Date.

5 . Limitation. To the extent that any of the assignments or assumptions under this Agreement are now or are hereafter deemed to be in violation of any applicable law or regulation, such assignment and assumption shall be deemed to be retracted and null and void.

6 . Counterparts. This Assignment may be executed in counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute but one and the same instrument.

7 . Entirety. This Assignment represents the entire and final agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior discussions or writings with respect thereto.

IN WITNESS WHEREOF, the parties have caused this Assignment to be executed as of the Effective Date.

TENANT:

[TENANT]

By: _____

Print Name: _____

Title: _____

LANDLORD:

[LANDLORD]

By: _____

Print Name: _____

Title: _____

EXHIBIT A

Legal Description

EXHIBIT B

Resident Agreements

EXHIBIT C

Information Regarding Security Deposits,
Trust Accounts, Prepaid Amounts and Delinquency Reports

EXHIBIT C

BILL OF SALE

This BILL OF SALE (this "Bill of Sale") is executed as of the [•] day of [•] by the undersigned tenant, a [•] ("Tenant"), to [•], a [•] ("Landlord").

RECITALS

WHEREAS, Tenant and Landlord entered into a Lease dated [•], 2013 (the "Agreement") for the lease of certain improved real property having a legal description as set forth on Exhibit A attached hereto and incorporated herein by this reference and known generally as Name of Facilities, together with certain personal property located upon and used in connection with such improved real property, all as more particularly described in the Agreement; and,

WHEREAS, the Agreement requires that upon the termination thereof, Tenant shall deliver to Landlord a Bill of Sale pursuant to which Tenant will convey to Landlord all of Tenant's right, title and interest in the Transferred Tenant's Personal Property, the Inventory and the Records; and

WHEREAS, the Agreement has been terminated effective as of the date first above written.

NOW, THEREFORE, in consideration of the foregoing premises, the consideration set forth in the Agreement, and for other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, Tenant hereby agrees as follows:

1 . Defined Terms. Capitalized terms not otherwise defined in this Bill of Sale, including without limitation these recitals and the exhibits, shall have the meanings set forth in the Agreement.

2 . Conveyance. Tenant hereby sells, assigns, conveys, transfers and delivers to Landlord the following described assets and property (the "Property"): (a) the Transferred Tenant's Personal Property; (b) the Inventory; and (c) the Records, all to the extent of Tenant's interest therein. A non-exhaustive list of the Property is set forth on Exhibit B attached hereto and incorporated herein by this reference. The sale and assignment of the Records shall be subject to all applicable rules and regulations governing confidentiality of resident records.

IN WITNESS WHEREOF, Tenant has caused this Bill of Sale to be executed as of the date first above written.

TENANT:

[TENANT]

By: _____

Print Name: _____

Title: _____

EXHIBIT A

Real Property Description

EXHIBIT B

Property Description

EXHIBIT D

LEGAL DESCRIPTION OF LAND PARCELS

[See attached]

Simi Hills

Real property in the County of Ventura, State of California, described as follows:

PARCEL A:

LOT 77 OF TRACT NO. 5124, IN THE CITY OF SIMI VALLEY, COUNTY OF VENTURA, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 139, PAGES 62 THROUGH 73 OF MISCELLANEOUS RECORDS (MAPS), IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

PARCEL B:

AN EASEMENT FOR INGRESS, EGRESS, ACCESS, USE AND ENJOYMENT OF THE COMMON DRIVEWAY OVER AND ACROSS THAT PORTION OF LOT 76 OF TRACT NO. 5124, AS PER MAP RECORDED IN BOOK 139, PAGE 62 THROUGH 73 OF MISCELLANEOUS RECORDS (MAPS), AS SET FORTH IN THAT CERTAIN DECLARATION, RECORDED MARCH 23, 2000 AS INSTRUMENT NO. 00-50229 OF OFFICIAL RECORDS.

PARCEL C:

AN EASEMENT FOR ELEVEN (11) UNCOVERED VEHICULAR PARKING SPACES OVER THAT PORTION OF LOT 76 OF TRACT NO. 5124, AS PER MAP RECORDED IN BOOK 139, PAGES 62 THROUGH 73 OF MISCELLANEOUS RECORDS (MAPS), AS SET FORTH IN THAT CERTAIN DECLARATION, RECORDED JULY 7, 2000 AS INSTRUMENT NO. 00-106363 OF OFFICIAL RECORDS.

PARCEL D:

AN EASEMENT FOR DRAINAGE OVER AND ACROSS THAT PORTION OF LOT 76 OF TRACT NO. 5124, IN THE CITY OF SIMI VALLEY, AS PER MAP RECORDED IN BOOK 139, PAGES 62 THROUGH 73 OF MISCELLANEOUS RECORDS (MAPS), IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, AS SET FORTH IN THAT CERTAIN EASEMENT AGREEMENT DATED JUNE 28, 2000, RECORDED JULY 7, 2000 AS INSTRUMENT NO. 00-106365 OF OFFICIAL RECORDS.

Courtyard at Lakewood

Real property in the County of Jefferson, State of Colorado, described as follows:

Block 46, Lakewood,

Together with the West 5 feet of vacated street adjoining said Block 46 on the East.

Together with the East 1/2 of vacated Teller Street adjoining Block 46 on the West vested in the owner of said Block 46 by Vacation recorded January 11, 1927 in Book 293 at Page 152, and including the vacated alley of said Block 46;

Except that portion conveyed to the City of Lakewood in Warranty Deed recorded October 31, 1986 at Reception No. 86134439, and

Except that portion conveyed to The Regional Transportation District in Warranty Deed recorded March 22, 2010 at Reception No. 2010024580,

County of Jefferson, State of Colorado.

Greeley Place

Real property in the County of Weld, State of Colorado, described as follows:

**Lots 9 through 16, inclusive, Block 26,
City of Greeley,
County of Weld,
State of Colorado.**

Parkwood Estates

Real property in the County of Larimer, State of Colorado, described as follows:

Parcel I:

Tract 1, NAZARENE CHURCH P.U.D., a Planned Unit Development, according to the plat recorded May 23, 1986 at Reception No. 86026706 and Affidavit recorded August 19, 1986 at Reception No. 86046343, in the City of Fort Collins, County of Larimer, State of Colorado.

Parcel II:

Easement for parking and access as created in Access and Parking Easement Agreement recorded December 4, 1986 at Reception No. 86070760, County of Larimer, State of Colorado.

Regency Residence

LEGAL DESCRIPTION: Real property in the County of Pasco, State of Florida, described as follows:

A PORTION OF TRACTS 15 AND 16 OF PORT RICHEY LAND COMPANY SUBDIVISION IN SECTION 21, TOWNSHIP 25 SOUTH, RANGE 16 EAST, AS SHOWN ON THE PLAT RECORDED IN PLAT BOOK 1, PAGES 60 AND 61 OF THE PUBLIC RECORDS OF PASCO COUNTY, FLORIDA; AND ALSO A PORTION OF TRACT D EMBASSY HILLS UNIT ONE AS SHOWN ON THE PLAT RECORDED IN PLAT BOOK 11, PAGES 86, 87 AND 88 OF THE PUBLIC RECORDS OF PASCO COUNTY, FLORIDA ALL BEING FURTHER DESCRIBED AS FOLLOWS:

COMMENCE AT THE SOUTHEAST CORNER OF THE SOUTHWEST 1/4 OF THE NORTHEAST 1/4 SECTION 21, TOWNSHIP 25 SOUTH, RANGE 16 EAST, PASCO COUNTY, FLORIDA, FOR A POINT OF BEGINNING; THENCE RUN ALONG THE NORTH BOUNDARY LINE OF SAID TRACT "D" S.89°44'30"E., A DISTANCE OF 29.16 FEET TO THE NORTHEAST CORNER OF SAID TRACT "D"; THENCE ALONG THE EAST BOUNDARY LINE OF SAID TRACT "D" THE FOLLOWING COURSES AND DISTANCES: S.00°16'30"W., 85.00 FEET; N.89°44'30"W., 15.00 FEET; S.00°16'30"W., 377.50 FEET TO THE SOUTH BOUNDARY LINE OF SAID TRACT "D"; THENCE ALONG THE SAID SOUTH BOUNDARY LINE OF SAID TRACT "D"; N.89°44'30"W., A DISTANCE OF 275.00 FEET; THENCE N.00°16'30"E., A DISTANCE OF 300.00 FEET; THENCE N.89°44'30"W., A DISTANCE OF 455.15 FEET, TO A POINT ON THE EAST BOUNDARY OF A 50 FOOT DRAINAGE EASEMENT AS RECORDED IN OFFICIAL RECORD BOOK 1096, PAGE 330 OF THE PUBLIC RECORDS OF PASCO COUNTY, FLORIDA; THENCE ALONG SAID EAST BOUNDARY N.00°10'26"W., A DISTANCE OF 135.00 FEET; THENCE RUN S.89°44'33"E., A DISTANCE OF 163.46 FEET; THENCE RUN N.28°40'59"E., A DISTANCE OF 130.76 FEET; THENCE RUN S.89°44'33"E., A DISTANCE OF 28.43 FEET; THENCE RUN N.48°15'30"E., A DISTANCE OF 275.00 FEET; THENCE RUN N.35°15'30"E., A DISTANCE OF 285.00 FEET; THENCE RUN N.29°49'00"E., A DISTANCE OF 195.43 FEET TO A POINT ON THE EAST BOUNDARY LINE OF THE SOUTHWEST 1/4 OF THE NORTHEAST 1/4 OF SAID SECTION 21, THENCE ALONG EAST BOUNDARY LINE; S.00°22'14"W., A DISTANCE OF 674.84 FEET TO THE POINT OF BEGINNING.

LESS AND EXCEPT THAT PORTION DEEDED TO PASCO COUNTY BY INSTRUMENT RECORDED IN OFFICIAL RECORDS BOOK 1518, PAGE 1997 OF THE PUBLIC RECORDS OF PASCO COUNTY, FLORIDA, BEING DESCRIBED AS FOLLOWS:

THAT PORTION OF TRACT "D" OF EMBASSY HILLS UNIT ONE, AS RECORDED IN PLAT BOOK 11, PAGE 86 OF THE PUBLIC RECORDS OF PASCO COUNTY, FLORIDA BEING FURTHER DESCRIBED AS FOLLOWS:

BEGINNING AT THE SOUTHEAST CORNER OF SAID TRACT "D"; THENCE ALONG THE SOUTH LINE OF SAID TRACT; N.89°44'30"W., 275.00 FEET; THENCE LEAVING SAID SOUTH LINE; N.00°16'30"E., 12.00 FEET; THENCE ALONG A LINE 12.00 FEET NORTH OF AND PARALLEL WITH SAID SOUTH LINE; S.89°44'30"E., 275.00 FEET TO THE EAST LINE OF SAID TRACT; THENCE ALONG SAID EAST LINE; S.00°16'30"W., 12.00 FEET TO THE POINT OF BEGINNING.

Desoto Beach Club

LEGAL DESCRIPTION: Real property in the County of Sarasota, State of Florida, described as follows:

PARCEL 1:

LOTS 15 AND 16 OF THE SUBDIVISION OF THE EAST 1/2 OF THE NE 1/4 OF SECTION 2, TOWNSHIP 36 SOUTH, RANGE 18 EAST, KNOWN AS SARASOTA GARDENS, AS PER PLAT THEREOF RECORDED IN PLAT BOOK 2, PAGE 107, TOGETHER WITH THAT PORTION OF UNNAMED ROAD LYING BETWEEN SAID LOTS 15 AND 16 VACATED BY RESOLUTION RECORDED IN OFFICIAL RECORDS INSTRUMENT NO. 1999118500, LESS THAT PORTION TAKEN FOR HONORE AVENUE IN OFFICIAL RECORDS BOOK 2969, PAGE 1331, ALL OF THE PUBLIC RECORDS OF SARASOTA COUNTY, FLORIDA.

ALSO DESCRIBED AS FOLLOWS:

BEGIN AT THE SOUTHWEST CORNER OF LOT 15, SARASOTA GARDENS SUBDIVISION, AS RECORDED IN PLAT BOOK 2, PAGE 107, OF THE PUBLIC RECORDS OF SARASOTA COUNTY, FLORIDA, SAID CORNER BEING THE INTERSECTION OF THE NORTH RIGHT OF WAY LINE OF DESOTO ROAD (A PUBLIC R/W, WIDTH VARIES) AND THE EAST RIGHT OF WAY LINE OF AN UNNAMED ROAD (A 50' WIDE PUBLIC R/W); THENCE, LEAVING SAID NORTH RIGHT OF WAY LINE AND ALONG THE WEST LINE OF SAID LOT 15, ALSO BEING THE EAST RIGHT OF WAY LINE OF SAID UNNAMED ROAD, N 00°13'53" W, 640.79 FEET TO THE NORTHWEST CORNER OF SAID LOT 15; THENCE ALONG THE NORTH LINES OF SAID LOTS 15 AND 16, SARASOTA GARDENS, N 89°26'16" E, 617.92 FEET TO ITS INTERSECTION WITH THE WEST RIGHT OF WAY LINE OF HONORE AVENUE (PUBLIC R/W, WIDTH VARIES), AS PER A RIGHT OF WAY TAKING (PARCEL 104-A), AS RECORDED IN OFFICIAL RECORDS BOOK 2969, PAGE 1331, OF THE PUBLIC RECORDS OF SARASOTA COUNTY, FLORIDA; THENCE LEAVING SAID NORTH LINE OF LOT 16 AND ALONG THE SAID WEST RIGHT OF WAY LINE OF HONORE AVENUE, S 00°31'48" E, 606.74 FEET TO THE BEGINNING OF A CURVE TO THE RIGHT; THENCE IN A SOUTHWESTERLY DIRECTION, ALONG THE ARC OF SAID CURVE, HAVING A RADIUS OF 35.00 FEET AND A CENTRAL ANGLE OF 90°33'14", 55.32 FEET TO A POINT LYING ON THE AFOREMENTIONED NORTH RIGHT OF WAY LINE OF DESOTO ROAD; THENCE ALONG SAID NORTH RIGHT OF WAY LINE N 89°20'21" W, 581.99 FEET TO THE POINT OF BEGINNING.

PARCEL 2:

AN EASEMENT FOR VEHICULAR AND PEDESTRIAN INGRESS AND EGRESS ACCESS TO AND FROM THAT CERTAIN PUBLIC RIGHT-OF-WAY KNOWN AS HONORE AVENUE AS CONTAINED IN THAT CERTAIN ACCESS EASEMENT AGREEMENT RECORDED JULY 2 , 2004 AS INSTRUMENT NO. 2004129541.

Cherry Laurel

LEGAL DESCRIPTION: Real property in the County of Leon, State of Florida, described as follows:

BEGIN AT THE SOUTHEAST CORNER OF THE SOUTHWEST 1/4 OF THE SOUTHWEST 1/4 OF SECTION 28, TOWNSHIP 1 NORTH, RANGE 1 EAST, RUN THENCE WEST 197.5 FEET TO A POINT; THENCE RUN NORTH ALONG THE EAST BOUNDARY LINE OF A PUBLIC ROAD A DISTANCE OF 1925.6 FEET TO A POINT WHICH IS THE POINT OF BEGINNING; THENCE RUN NORTH 470 FEET; THENCE NORTH 67°20' EAST 517.47 FEET TO A POINT; THENCE SOUTH 669.4 FEET TO A POINT; THENCE RUN WEST 477.5 FEET TO THE POINT OF BEGINNING.

LESS AND EXCEPT ANY PORTION OF THE ABOVE DESCRIBED PROPERTY LYING WITHIN THE RIGHT OF WAY OF U.S. HIGHWAY 90 (ALSO KNOWN AS EAST TENNESSEE STREET AND ALSO KNOWN AS MAHAN DRIVE).

BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

COMMENCE AT A TERRA COTTA CONCRETE MONUMENT MARKING THE SOUTHEAST CORNER OF THE SOUTHWEST 1/4 OF THE SOUTHWEST 1/4 OF SECTION 28, TOWNSHIP 1 NORTH, RANGE 1 EAST, LEON COUNTY, FLORIDA, AND RUN NORTH 89°09'56" WEST 197.64 FEET TO THE EASTERLY RIGHT-OF-WAY BOUNDARY OF CONCORD AVENUE; THENCE RUN NORTH 00°52'42" EAST ALONG SAID RIGHT-OF-WAY BOUNDARY 1926.34 FEET TO AN IRON PIPE MARKING THE POINT OF BEGINNING. FROM SAID POINT OF BEGINNING CONTINUE NORTH 00°52'42" EAST ALONG SAID RIGHT-OF-WAY BOUNDARY 402.63 FEET TO A RE-ROD (MARKED #4261) LYING ON THE INTERSECTION WITH THE SOUTHERLY RIGHT-OF-WAY BOUNDARY OF U.S. HIGHWAY NO. 90; THENCE RUN NORTH 67°16'09" EAST ALONG SAID SOUTHERLY RIGHT-OF-WAY BOUNDARY 226.29 FEET TO A REROD; THENCE RUN NORTH 00°02'51" WEST 27.10 FEET TO A RE-ROD (MARKED #4261); THENCE RUN NORTH 67°16'09" EAST ALONG SAID RIGHT-OF-WAY BOUNDARY 283.24 FEET TO A RE-ROD (MARKED #4261); THENCE LEAVING SAID RIGHT-OF-WAY BOUNDARY, RUN SOUTH 00°04'31" EAST 626.46 FEET TO AN ANGLE IRON; THENCE RUN SOUTH 89°59'14" WEST 476.93 FEET TO THE POINT OF BEGINNING.

Blair House

LEGAL DESCRIPTION: Real property in the County of Mclean, State of Illinois, described as follows:

LOT 1 IN BLAIR HOUSE SUBDIVISION, NORMAL, ILLINOIS, BEING A PART OF THE NORTH HALF OF SECTION 27 AND THE WEST HALF OF THE NORTHWEST QUARTER OF SECTION 26, ALL IN TOWNSHIP 24 NORTH, RANGE 2 EAST OF THE THIRD PRINCIPAL MERIDIAN AS SHOWN BY THE PLAT THEREOF RECORDED APRIL 14, 1988 AS DOCUMENT NUMBER 885514, SITUATED IN MCLEAN COUNTY, ILLINOIS.

Grasslands Estates

LEGAL DESCRIPTION: Real property in the County of Sedgwick, State of Kansas, described as follows:

LOT 1, WICHITA RETIREMENT RESIDENCE ADDITION, AN ADDITION IN THE CITY OF WICHITA, SEDGWICK COUNTY, KANSAS.

Jackson Oaks

LEGAL DESCRIPTION: Real property in the County of Mccracken, State of Kentucky, described as follows:

Being Tract 3 as shown on the Plat of Lake Forest Plaza of record in Plat Section "K", Page 1941, McCracken County Clerk's Office.

Being the same property conveyed to Paducah Retirement Residence LLC, an Oregon limited liability company, by deed dated January 17, 2003, of record in Deed Book 999, Page 705, McCracken County Court Clerk's Office.

Summerfield Estates

Real property in the County of Caddo, State of Louisiana, described as follows:

Lot 4, South Shreveport Medical Plaza, a subdivision of the City of Shreveport, Caddo Parish, Louisiana, as per plat thereof recorded in Conveyance Book 2050, Page 311 and as corrected by instrument recorded in Book 2481, Page 465 of the Records of Caddo Parish, Louisiana.

Blue Water Lodge

LEGAL DESCRIPTION: Real property in the County of Saint Clair, State of Michigan, described as follows:

Land in the Township of Fort Gratiot, St. Clair County, Michigan, described as follows: Being part of the Southwest quarter of Section 15, Town 7 North, Range 17 East, described as: Commencing at the South quarter corner of Section 15; thence North 89 degrees 32 minutes 36 seconds West 913.33 feet along the South line of said Section 16 to the point of beginning; thence North 01 degrees 06 minutes 55 seconds East 769.96 feet to the Southerly line of "Bardamar Estates", according to the plat thereof as recorded in Liber 82 of Plats, page 3, St. Clair County Register of Deeds Office; thence North 89 degrees 27 minutes 30 seconds West 410.00 feet along the said Southerly line of "Bardamar Estate"; thence South 01 degrees 06 minutes 55 seconds West 770.57 feet to the South line to Section 15; thence South 89 degrees 32 minutes 36 seconds East 410.00 feet along the said South line of Section 15 to the point of beginning. Containing 7.250 acres.

Briarcrest Estates

LEGAL DESCRIPTION: Real property in the County of ST. LOUIS, State of Missouri, described as follows:

A tract of land in the Southwest Fractional Quarter of Section 24, Township 45 North, Range 4 East, St. Louis County, Missouri and being more particularly described as follows: Beginning at a point in the Northern line of Clayton Road (60 feet wide) said point being on the Western line of the above mentioned Section 24, and also being the Southeast corner of property now or formerly of The Young Men's Christian Association (YMCA), as recorded in Book 6227, Page 94 of the St. Louis County, Missouri Records; thence leaving the North line of said Clayton Road, along the Western line of said Section 24, also being the Eastern line of said YMCA property North 08 degrees 44 minutes 07 seconds West, a distance of 541.31 feet to a point, said point being the Northeastern most corner of said YMCA property, and being the Southwestern corner of property now or formerly of Earl M. and Judith D. Taylor, as recorded in Book 7617, Page 1392 of the St. Louis County, Missouri Records, said point also being the Southern most corner of U.S. Survey 412; thence leaving the Southern most corner of said U.S. Survey 412, and the Southwestern corner of said Taylor property, along the Southern line of said U.S. Survey 412, also being the Southern line of said Taylor property North 48 degrees 41 minutes 0 seconds East, a distance of 73.35 feet to a point, said point being the Northwestern corner of property now or formerly of the Ballwin colored cemetery; thence leaving the South line of said Taylor property and the Southern line of said U.S. Survey 412, along the Western line of said Ballwin Colored Cemetery South 41 degrees 25 minutes 59 seconds East, a distance of 460.17 feet to a point, said point being on the Western line of a 15 foot wide roadway; thence leaving the Western line of said Ballwin Colored Cemetery along the Western line of said 15 foot wide roadway South 08 degrees 44 minutes 27 seconds East, a distance of 165.65 feet to a point in the Northern line of aforementioned Clayton Road; thence leaving the Western line of said 15 foot wide roadway along the Northern line of said Clayton Road along a curve to the right having a radius of 925.36 feet and an arc length of 309.27 feet a chord of which bears South 76 degrees 00 minutes 32 seconds West, a chord distance of 307.83 feet to a point; thence continuing along the Northern line of said Clayton Road South 85 degrees 35 minutes 00 seconds West, a distance of 3.89 feet back to the point of beginning, less and excepting that portion thereof conveyed to The State of Missouri, acting by and through the Missouri Highway and Transportation Commission by General Warranty Deed recorded in Book 8961, Page 1161.

Country Squire

LEGAL DESCRIPTION: Real property in the County of Buchanan, State of Missouri, described as follows:

PART OF TRACT "C", COUNTRY SQUIRE FIFTH PLAT, A SUBDIVISION IN ST. JOSEPH, BUCHANAN COUNTY, MISSOURI, DESCRIBED AS FOLLOWS:

COMMENCING AT THE NORTHWEST CORNER OF SAID TRACT "C" OF COUNTRY SQUIRE FIFTH PLAT, AN ADDITION TO ST. JOSEPH, BUCHANAN COUNTY, MISSOURI; THENCE S 90°00'00" E ALONG THE NORTH LINE OF SAID TRACT "C", 329.47 FEET TO THE NORTHEAST CORNER OF SAID TRACT "C", SAID POINT BEING ON THE WESTERLY RIGHT-OF-WAY LINE OF BUCKINGHAM STREET; THENCE S 00°00'00" W ALONG THE EASTERLY LINE OF TRACT "C" AND THE WESTERLY RIGHT-OF-WAY LINE OF BUCKINGHAM STREET, 159.33 FEET; THENCE CONTINUING ALONG SAID RIGHT-OF-WAY LINE ALONG A CURVE TO THE LEFT, HAVING A RADIUS OF 1185.76 FEET FOR AN ARC LENGTH OF 227.59 FEET CHORD BEARING S 05°29'55" E; THENCE S 80°30'44" W, 306.33 FEET TO A POINT ON THE EASTERLY RIGHT-OF-WAY LINE OF INTERSTATE 29 AND THE WEST LINE OF TRACT "C"; THENCE N 06°25'30" W ALONG SAID RIGHT-OF-WAY LINE, 438.77 FEET TO THE POINT OF BEGINNING.

Chateau Ridgeland

Real property in the County of Madison, State of Mississippi, described as follows:

A parcel of land being located and situated in the Southeast Quarter (SE) of Section 31, Township 7 North, Range 2 East, Madison County, Mississippi, and being a part of Lot 1 of Block 35 and a part of Lot 8 of Block 33 of Highland Colony, a subdivision, the map or plat of which is recorded in the Office of the Chancery Clerk of Madison County, at Canton, Mississippi and being more particularly described as follows:

Commencing at an iron pin which marks the intersection of the West line of Lot 7 of the said Block 35 with the North right-of-way line of county line road as it existed in 1982 and run thence South 89° 59' 45" East a distance of 737.79 feet along the said North right-of-way line of county line road to an iron pin; thence turn left through a deflection angle of 89° 59' and run North 0° 01' 15" East a distance of 743.48 feet; (said point also being the Northwest corner of that certain parcel conveyed to Putt-Putt of Jackson, Inc. by deed recorded in Deed Book 174 at Page 398 and the Southwest corner of that certain parcel conveyed by Special Warranty Deed to the Regent, a Texas Limited Partnership, surveyed by T.E. McDonald, Inc., Jackson, Mississippi, R. L. S. No. 1661, recorded in Deed Book 204, Page 228, reference to which is hereby made); thence run South 89° 59' 45" East for a distance of 225.26 feet to an iron pin set in concrete and the Point of Beginning for the parcel herein described; thence run North 00° 10' 59" West for a distance of 300.00 feet to an iron pin set in concrete, thence run South 89° 59' 45" East for a distance of 329.34 feet to an iron pin set in concrete in the West right-of-way of Pear Orchard Road; thence run South 00° 10' 59" East for a distance of 300.00 feet to an iron pin set in concrete in the West right-of-way of a Pear Orchard Road; thence run North 89° 10' 59" West for a distance of 329.34 feet to the Point of Beginning, containing 98,800 square feet or 2.27 acres, more or less.

Grizzly Peak

LEGAL DESCRIPTION: Real property in the County of Missoula, State of Montana, described as follows:

A tract of land located in the SE1/4SE1/4 of Section 7 and the NE1/4NE1/4 of Section 18, Township 13 North, Range 19 West, P.M.M., Missoula County, Montana, more particularly described as Tract 2 of Certificate of Survey No. 4589.

Less tract 2A of Certificate of Survey No. 4700 conveyed by Warranty Deed recorded in Book 520 of Micro Records at Page 1554.

Commonly known as: 3600 American Way, Missoula, MT 59808

Maple Downs

LEGAL DESCRIPTION: Real property in the County of Onondaga, State of New York, described as follows:

ALL THAT TRACT OR PARCEL OF LAND, SITUATE IN THE TOWN OF MANLIUS, COUNTY OF ONONDAGA AND STATE OF NEW YORK, BEING PART OF LOT 74 IN SAID TOWN AND BEING MORE SPECIFICALLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE CENTERLINE OF EAST GENESEE STREET AT THE NORTHWEST CORNER OF A PARCEL OF LAND CONVEYED TO ELEANOR EVANS ESTABROOK AND RECORDED MARCH 14, 1913 IN THE ONONDAGA COUNTY CLERK'S OFFICE IN BOOK OF DEEDS 429 AT PAGE 71;

RUNNING THENCE SOUTH 82° 48' 35" EAST ALONG THE CENTERLINE OF EAST GENESEE STREET A DISTANCE OF 250.00 FEET TO A POINT;

THENCE SOUTH 07° 11' 25" WEST A DISTANCE OF 305.00 FEET TO A POINT;

THENCE SOUTH 82° 48' 35" EAST A DISTANCE OF 275.00 FEET TO A POINT;

THENCE NORTH 07° 11' 25" EAST A DISTANCE OF 305.00 FEET TO A POINT IN THE CENTERLINE OF EAST GENESEE STREET;

THENCE SOUTH 82° 48' 35" EAST ALONG THE CENTERLINE OF EAST GENESEE STREET A DISTANCE OF 274.89 FEET TO A POINT WHICH IS 1057.06 FEET (1059.06' RECORD) MEASURED ALONG SAID CENTERLINE FROM ITS INTERSECTION WITH MOTT ROAD;

THENCE SOUTH 07° 26' 10" WEST A DISTANCE OF 205.82 FEET TO A POINT;

THENCE SOUTH 55° 20' 41" WEST A DISTANCE OF 723.56 FEET TO A POINT;

THENCE NORTH 82° 33' 35" WEST A DISTANCE OF 265.00 FEET TO A POINT IN THE WESTERLY LINE OF THE AFORESAID PARCEL OF LAND CONVEYED TO ELEANOR EVANS ESTABROOK, WHICH POINT IS NORTHERLY 1790.64 FEET MEASURED ALONG SAID WESTERLY LINE FROM ITS INTERSECTION WITH THE NORTHERLY LINE OF MOTT ROAD;

THENCE NORTH 07° 36' 25" EAST A DISTANCE OF 687.38 FEET ALONG THE WESTERLY LINE OF SAID PARCEL OF LAND CONVEYED TO ELEANOR EVANS ESTABROOK TO THE POINT OF BEGINNING.

EXCEPTING THEREFROM ALL THAT LAND LYING IN THE BED OF EAST GENESEE STREET.

Fleming Point

LEGAL DESCRIPTION: Real property in the County of Monroe, State of New York, described as follows:

ALL THAT TRACT OR PARCEL OF LAND, SITUATED IN TOWN LOT 18, SECOND DIVISION, TOWNSHIP 2, SHORT RANGE, MILL SEAT TRACT OF THE PHELPS GORHAM PURCHASE, TOWN OF GREECE, COUNTY OF MONROE, STATE OF NEW YORK, AND MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE NORTH RIGHT OF WAY OF LATTA ROAD (49.5' WIDE), SAID POINT BEING 260.00 FEET WEST OF GREENLEAF ROAD,

RUNNING THENCE; WESTERLY ALONG THE NORTH RIGHT OF WAY OF LATTA ROAD ON A BEARING OF NORTH 89° - 15' - 35" WEST A DISTANCE OF 324.94' TO AN ANGLE POINT,

THENCE WESTERLY ALONG A LINE BEARING NORTH 88° - 42' - 19" WEST A DISTANCE OF 46.11' TO A POINT,

THENCE NORTHERLY ALONG A LINE BEARING OF NORTH 01° - 17' - 41" EAST A DISTANCE OF 150.00' TO A POINT,

THENCE WESTERLY ALONG A LINE BEARING NORTH 88° - 42' - 19" WEST A DISTANCE OF 364.02' TO A POINT,

THENCE NORTHERLY ALONG A LINE BEARING NORTH 16° - 50' - 36" WEST A DISTANCE OF 92.86' TO A POINT,

THENCE; NORTHERLY ALONG A LINE BEARING NORTH 04° - 23' - 42" WEST A DISTANCE OF 417.29' TO A POINT,

THENCE; EASTERLY ALONG A LINE BEARING SOUTH 77° - 50' - 54" EAST A DISTANCE OF 394.58' TO A POINT,

THENCE; SOUTHEASTERLY ALONG A LINE BEARING SOUTH 39° - 17' - 35" EAST A DISTANCE OF 272.47' TO A POINT,

THENCE; EASTERLY ALONG A LINE BEARING NORTH 50° - 42' - 25" EAST A DISTANCE OF 150.00' TO A POINT ON THE SOUTH RIGHT OF WAY OF DOHRCREST DRIVE,

THENCE; SOUTHEASTERLY ALONG SOUTH RIGHT OF WAY OF DOHRCREST DRIVE ON A BEARING OF SOUTH 39° - 17' - 35" WEST A DISTANCE OF 154.56' TO A POINT,

THENCE; SOUTHEASTERLY ALONG SOUTH RIGHT OF WAY OF DOHRCREST DRIVE ON A CURVE TO THE RIGHT HAVING A RADIUS OF 108.10', LENGTH OF 76.56' AND A DELTA ANGLE OF 40° - 36' - 33" TO A POINT,

THENCE; SOUTHERLY ALONG A LINE BEARING SOUTH 01° - 16' - 58" WEST A DISTANCE OF 279.01' TO THE POINT OF BEGINNING AS SHOWN ON A MAP FILED IN THE MONROE COUNTY CLERK'S OFFICE IN LIBER 317 OF MAPS, PAGE 43.

EXCEPTING THEREFROM THE FOLLOWING AS CONVEYED TO THE WEGMAN GROUP LLC BY DEED RECORDED IN LIBER 10584 CP 302:

ALL THAT TRACT OR PARCEL OF LAND SITUATED IN THE TOWN LOT 18, SECOND DIVISION, TOWNSHIP 2, SHORT RANGE, TOWN OF GREECE, COUNTY OF MONROE, STATE OF NEW YORK AND MORE PARTICULARLY DESCRIBED AS FOLLOWS.

CONTINUED...

TITLE NO. NCS-634972-43-OR1
SCHEDULE "A" CONTINUED

BEGINNING AT A POINT ON THE NORTH RIGHT OF WAY OF LATTA ROAD, SAID POINT BEING 260.00 FEET WEST OF THE WEST RIGHT OF WAY OF GREENLEAF ROAD, AS DEPICTED ON THE THAYER RE- SUBDIVISION FILED IN THE MONROE COUNTY CLERKS OFFICE IN LIBER 317 OF MAPS, PAGE 43, RUNNING THENCE,

1. WESTERLY, ALONG NORTH RIGHT OF WAY OF LATTA ROAD BEARING OF NORTH 89° 15' 35" WEST A DISTANCE OF 173.00' TO A POINT, THENCE;
 2. NORTHERLY, ALONG A LINE BEARING OF NORTH 00° 44' 25" EAST A DISTANCE OF 425.14' TO A POINT, THENCE,
 3. NORTHEASTERLY, ALONG A LINE BEARING OF NORTH 50° 42' 25" EAST A DISTANCE OF 66.46' TO A POINT ON THE WEST RIGHT OF WAY OF DOHRCREST DRIVE, THENCE,
 4. SOUTHEASTERLY, ALONG THE WEST RIGHT OF WAY OF DOHRCREST DRIVE BEARING SOUTH 39° 17' 35" EAST WITH A DISTANCE OF 154.56' TO A POINT OF CURVATURE, THENCE,
 5. ALONG A CURVE TO THE RIGHT HAVING A RADIUS OF 108.10' AND A LENGTH OF 76.56' TO A POINT OF TANGENCY, THENCE;
 6. SOUTHERLY ALONG A LINE BEARING SOUTH 01° 16' 58" WEST A DISTANCE OF 279.01' TO THE TRUE POINT OF BEGINNING, AND INTENDING TO DESCRIBE PARCEL OF LAND KNOWN AS LOT R- A A2 OF THE THAYER RESUBDIVISION
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AS SHOWN ON A MAP THEREOF FILED IN MONROE COUNTY CLERKS OFFICE IN LIBER 332 OF MAPS, PAGE 64.

Stoneybrook Lodge

Real property in the County of Benton, State of Oregon, described as follows:

LOT 47, STONEYBROOK VILLAGE RETIREMENT COMMUNITY, (PLAT BOOK 9, PAGE 0076) BENTON COUNTY, OREGON.

**EXCEPT THEREFROM: COMMENCING AT A 5/8 INCH IRON ROD AT THE MOST WESTERLY NORTHWEST CORNER OF LOT 47, STONEYBROOK VILLAGE RETIREMENT COMMUNITY, BENTON COUNTY, OREGON;
THENCE ALONG THE NORTH LINE OF SAID LOT 47 NORTH 89°54'41" EAST, 63.69 FEET TO A 5/8 INCH IRON ROD AT THE TRUE POINT OF BEGINNING;
THENCE CONTINUING ALONG SAID NORTH LINE OF LOT 47 NORTH 89°54'41" EAST, 13.20 FEET TO A 5/8 INCH IRON ROD AND SOUTH 45°29'44" EAST, 55.25 FEET TO A 5/8 INCH IRON ROD;
THENCE NORTH 84°41'12" WEST, 14.66 FEET TO A 5/8 INCH IRON ROD;
THENCE NORTH 45°29'44" WEST, 53.28 FEET TO THE TRUE POINT OF BEGINNING.**

THE LEGAL DESCRIPTION WAS CREATED PRIOR TO JANUARY 01, 2008.

Essex House

LEGAL DESCRIPTION: Real property in the County of Cumberland, State of Pennsylvania, described as follows:

ALL THAT CERTAIN parcel or tract of ground situate in Lemoyne Borough, Cumberland County, Pennsylvania, known as Lot 5, of a Preliminary/Final Subdivision Plan, of Lemoyne Retirement Community, as recorded in the Office of the Recorder of Deeds for Cumberland County, Pennsylvania, recorded August 18, 2001 in Plan Book 83, Page 123, more particularly bounded and described as follows to wit:

BEGINNING at a rebar on the northeastern corner of Lot 5; thence along lands now or formerly of Glenn L. Miller and Robert Lloyd Kulp South 66 degrees 03 minutes 47 seconds West a distance of 401.62 feet to a point; thence along lands now or formerly of Michael A. Serluco North 28 degrees 31 minutes 29 seconds West a distance of 261.39 feet to a rebar; thence continuing along the lands now or formerly of Michael A. Serluco South 61 degrees 33 minutes 36 seconds West a distance of 22.65 feet to a point; thence along lands now or formerly of Agincourt Limited Partnership North 45 degrees 26 minutes 30 seconds West a distance of 410.11 feet to a point at the corner of Lot 4; thence continuing along the dividing line between Lot 1 through 4 and Lot 5 North 64 degrees 30 minutes 58 seconds East a distance of 448.64 feet to a point; thence along lands now or formerly of Robert W. Farver and lands now or formerly of Anna M. Priar South 42 degrees 40 minutes 54 seconds East a distance of 349.79 feet to a rebar at the corner of lands now or formerly of Anna W. Priar and Walnut Street; thence continuing along same a distance of 61.90 feet to a point; thence along lands now or formerly of Van E. and Patsy K. Milbrand South 61 degrees 33 minutes 36 seconds West a distance of 5.99 feet to a point; thence continuing along lands now or formerly of Van E. and Patsy K. Milbrand South 28 degrees 26 minutes 24 seconds East a distance of 262.92 feet to a rebar, the place of **BEGINNING**.

CONTAINING 275,387.18 square feet; 6.3220 acres.

BEING THE SAME PREMISES conveyed unto Lemoyne Retirement Residence LP, by its deed from Lemoyne Retirement Residence LP, dated September 28, 2001 and recorded October 11, 2001 in the Cumberland County Recorder of Deeds in Book 248, Page 3673.

Arlington Plaza

Real property in the County of Tarrant, State of Texas, described as follows:

Being Lot 5-R, of CORDY J. ELLIS SUBDIVISION, an Addition to the City of Arlington, Tarrant County, Texas, according to the Map thereof recorded in Volume 388-189, Page 6, of the Map Records of Tarrant County, Texas.

Real property in the County of Dallas, State of Texas, described as follows:

Real property in the County of Dallas, State of Texas, described as follows:

BEING a tract or parcel of land lying and situated in the John Edmonds Survey, Abstract No 429, in the City of Richardson, Dallas County, Texas and being all of Lot 1, Block One of Richardson Retirement Residence Addition, according to the map thereof recorded in Volume 95178, Page 3215, Deed Records, Dallas County, Texas and being part of a called 3.7105 acre tract of land as described in a deed to Michael D. Thompson and Sidney M. Cole, as recorded in Volume 95018, Page 5883, Deed Records, Dallas County, Texas and being more particularly described as Follows:

COMMENCING at a 1/2" iron rod found for reference at the North end of a 10' x 10' cutback located at the intersection of the North right-of-way line of Arapaho Road (100' public ROW.) and the West right-of-way line of Floyd Road (60' public ROW.);

THENCE, South 44 degrees 43 minutes 40 seconds West, along said cutback line, a distance of 14.13 feet to a point for reference in the North right-of-way line of said Arapaho Road;

THENCE, South 89 degrees 43 minutes 40 seconds West along the North right-of-way line of said Arapaho Road, a distance of 243.15 feet to a 1/2", iron rod with cap stamped "RPLS 5633" set at the Southeast corner of said Lot 1 and being the point of beginning of herein described tract;

THENCE South 89 degrees 43 minutes 40 seconds West, continuing along the North right-of-way line of said Arapaho Road, a distance of 403.38 feet to a "X" found for corner at the Southwest corner of said Lot 1 and the Southeast corner of Lot 2 of Bushman McCharge Subdivision as recorded in Volume 84237, Page 4377, Map Records Dallas County, Texas;

THENCE, North 00 degrees 08 minutes 00 seconds West, along the common line of said Lots 1 and 2, a distance of 395.69 feet to a "X" set for corner in the South right-of-way line of a 15' alley;

THENCE, North 89 degrees 43 minutes 39 seconds East, along the South right-of-way line of said alley, a distance of 403.38 feet to a P.K. nail set for corner in the East: line of said Lot 1 and the West line of a tract of land described in a deed to Eleven Eleven Floyd Place, a joint venture as recorded in Volume 72083, Page 0111 Deed Records, Dallas County, Texas;

THENCE, South 00 degrees 08 minutes 00 seconds East, along the East line of said Lot 1, passing at 195.00 feet the Southwest corner of said Eleven Eleven Floyd place tract and the Northeast corner of Lot 1, Block 1, of Arapaho Professional Center, an Addition to the City of Richardson, Dallas County, Texas as recorded in Volume 84205, Page 2070, Deed Records, Dallas County, Texas in all a distance of 395.69 feet to the Point of Beginning and containing 3.664 acres (159,613 square feet) of land (being the same property described in a

commitment for title insurance issued by First American Title Insurance Company, with a G.F. Number of 05R23575 ND7, with an effective dated of October 02, 2005.)

Ventura Place

Real property in the County of Lubbock, State of Texas, described as follows:

Tract A, Lubbock Retirement Residence, LP, an addition to the City of Lubbock, Lubbock County, Texas, according to the map, plat and/or dedication deed thereof, recorded in Volume 5300, Page 11, Official Real Property Records, Lubbock County, Texas and being further described by metes and bounds as follows:

Beginning at a 1/2" iron rod found with cap in the East right-of-way line of Gary Avenue which bears N 89°58'50" W, a distance of 1242.41 feet and South a distance of 760.79 feet from the Northeast corner of the Northwest Quarter of Section 7, Block E-2, Lubbock County, Texas;

Thence S 86°29'15" E, a distance of 668.39 feet to a 1/2" iron rod found with cap;

Thence South a distance of 505.14 feet to a 1/2" iron rod with cap found in the North right-of-way line of 54th Street;

Thence N 86°29'15" W, along said North right-of-way, a distance of 629.90 feet to a 1/23" iron rod with cap set for a point of curvature;

Thence northwesterly around a curve to the right, said curve having a radius of 15.94 feet, a central angle of 86°29'15", tangent lengths of 14.99 feet and a chord distance of 21.84 feet to a 1/2" iron rod with cap set for a point of tangency in the East right-of-way line of Gary Avenue;

Thence North, along said East right-of-way line, a distance of 34.22 feet to a 3/4" iron pipe found at a point of curvature;

Thence northwesterly, continuing along said East right-of-way line, around a curve to the left, said curve having a radius of 3049.41 feet, a central angle of 3°45'20", tangent lengths of 99.98 feet and a chord distance of 199.84 feet to a 1/2" iron rod found with cap at a point of tangency;

Thence N 03°45'20" W, continuing along said East right-of-way line, a distance of 258.18 feet to the Point of Beginning.

Note: The Company is prohibited from insuring the area or quantity of the land described herein. Any statement in the above legal description of the area or quantity of land is not a representation that such area or quantity is correct, but is made only for informational and/or identification purposes and does not override Item 2 of Schedule B hereof.

Pioneer Valley Lodge

LEGAL DESCRIPTION: Real property in the County of Cache, State of Utah, described as follows:

Lot 6 of the North Logan Retirement Residence Subdivision as filed for record on June 7, 2000, as Filing No. 739844, in the office of the Recorder of Cache County, Utah.

Colonial Harbor

LEGAL DESCRIPTION: Real property in the County of York, State of Virginia, described as follows:

All that certain piece or parcel of land, with all improvements thereon and appurtenances thereunto belonging, lying and being in Nelson (formerly Grafton) Magisterial District, York County, Virginia, containing 8.2375 acres, and more particularly shown and designated as "Lot 2- A 8.2375 Acres 358,824 Sq. Ft." on that certain plat entitled "Subdivision of Parcel 2, Property of Memorial Highway Associates, Ltd., Nelson Magisterial District, County of York, Virginia", prepared by Davis & Associates, P.C., Surveyors-Planners, dated January 24, 2003, a copy of which said plat is recorded in the Clerk's Office, Circuit Court of York County, Virginia, as Instrument Number 040012996, and to which reference is made for a more particular description.

Together with non-exclusive easements storm water drainage facilities for storm water runoff and detention facilities as contained in Storm Water Pond Easement, Drainage Easement, Access Easement and Maintenance Agreement by and between William E. Colson and Daniel R. Baty and Pamela Baty and Memorial Highway Associates, Ltd., a Virginia general partnership, dated June 22, 2004, recorded June 24, 2004, as Instrument No. LR040013205, Page 432, in the Clerk's Office, Circuit Court, County of York, Virginia.

Together with non-exclusive easement for ingress, egress and passage by vehicles and by pedestrians over and across that portion of the Access Easement located on the Memorial Property as contained in Access Easement and Maintenance Agreement by and between Memorial Highway Associates, Ltd., a Virginia general partnership and William E. Colson, Daniel R. Baty and Pamela Baty, dated June 22, 2004, recorded June 24, 2004, as Instrument No. LR040013204, Page 422, in the Clerk's Office, Circuit Court, County of York, Virginia.

EXHIBIT E

PERMITTED ENCUMBRANCES

[See attached]

Simi Hills

1. An easement for water pump station and incidental purposes, recorded March 12, 1990 as Instrument No. 90-36009 of Official Records.
In Favor of: Blakeley Swartz, a California general partnership and The Ronald Reagan Presidential Foundation, a California non-profit corporation
Affects: As described therein
 2. The terms and provisions contained in the document entitled "Resolution No. SVPC 32-98" recorded November 3, 1998 as Instrument No. 98-190077 and November 3, 1998 as Instrument No. 98-190078, both of Official Records.
 3. An easement shown or dedicated on the map filed or recorded October 25, 1999 in Tract No. 5124 in Book 139, Pages 62 through 73 of Miscellaneous Records (Maps)

For: Public service and traffic signal and incidental purposes.
 4. Abutter's rights of ingress and egress to or from Madera Road, have been dedicated or relinquished on the map of Tract No. 5124 on file in Book 139, Pages 62 through 73, of Miscellaneous Records (Maps).
 5. An easement for pipelines and incidental purposes, recorded December 28, 1999 as Instrument No. 99-237901 of Official Records.

In Favor of: Southern California Gas Company, a California corporation
Affects: As described therein
 6. The terms and provisions contained in the document entitled "Declaration Establishing Shared Use and Maintenance Affecting Lots 76 and 77 of Tract No. 5124 (Common Driveway, Parkway and Median Landscaping and Fuel Modification)" recorded March 23, 2000 as Instrument No. 0050229 of Official Records.
 7. The terms and provisions contained in the document entitled "Declaration-Joint Declaration Establishing Shared Maintenance Affecting Tract No. 5124 (Detention Basin)" recorded March 23, 2000 as Instrument No. 00-50230 of Official Records.
 8. The terms, provisions and easement(s) contained in the document entitled "Declaration of Parking Easement" recorded July 7, 2000 as Instrument No. 00-106363 of Official Records.
 9. The terms, provisions and easement(s) contained in the document entitled "Easement Agreement" recorded July 7, 2000 as Instrument No. 00-106365 of Official Records.
 10. The terms and provisions contained in the document entitled "Covenant and Agreement Regarding Stormwater Treatment Device Maintenance" recorded August 31, 2004 as Instrument No. 2004-0239119 of Official Records.
-

11. The terms, provisions and easement(s) contained in the document entitled "Reciprocal Easement Agreement" recorded December 22, 2004 as Instrument No. 04-0339195 of Official Records.
 12. The terms and provisions contained in the document entitled "Certificate of Administrative Approval" recorded March 23, 2005 as Instrument No. 050323-0070883 of Official Records.
 13. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Thienes Engineering, Inc. on January 26, 2004, last revised December 13, 2004, designated Job Number 2457C:
(A) Fence crosses the boundary line onto the right-of-way on the Southern part of the subject property; (B) Pump house on the south side of subject property is onto Schedule B item #6A.
 14. The rights of tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof.
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Courtyard at Lakewood

1. Terms, conditions, provisions, obligations, easements and agreements as set forth in the Multi Dwelling Unit Easement and Maintenance Agreement recorded July 23, 1985 at Reception No. 85068230.
 2. Terms, conditions, provisions, obligations, easements and agreements as set forth in the Permanent Easement recorded October 31, 1986 at Reception No. 86134436.
 3. Easements, notes, covenants, restrictions and rights-of-way as shown on the map of Congregate Care Facility O.D.P, recorded December 12, 1986 at Reception No. 86154248, and on the map of Congregate Care Facility 12th and Teller Modification recorded January 7, 1988 at Reception No. 88001836.

NOTE: Affidavit of Modification in connection therewith recorded August 19, 1988 at Reception No. 88081385.
 4. An easement for utilities and incidental purposes granted to Public Service Company of Colorado, as set forth in an instrument recorded January 11, 1988 at Reception No. 88002855.
 5. An easement for utilities and incidental purposes granted to Public Service Company of Colorado, as set forth in an instrument recorded July 15, 1988 at Reception No. 88068869.
 6. Terms, conditions, provisions, obligations and agreements as set forth in the Fire Lane Agreement recorded May 18, 1995 at Reception No. F0057375.
 7. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Power Surveying Co. Inc. for Bock & Clark's National Surveyors Network on November 5, 2013, last revised December 10, 2013, designated Job Number 201302464/ Site 12:
(A) West side of building is into 8' utility easement #10 of the Schedule B by 3.7 feet.
-

Greeley Place

1. Ordinance No. 57, 1998, Changing the Official Zoning Map, recorded September 22, 1998 at Reception No. 2641717.
 2. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by R & R Engineers-Surveyors, Inc. for Bock & Clark's National Surveyors Network on November 6, 2013, last revised December 13, 2013, designated Job Number 201302464/Site 13:
 - (A) Business sign encroaches into the right-of-way for 11th Avenue by 0.4 feet and into the right-of-way for 6th Street by 1.0 feet.
 - (B) Business sign encroaches into the right-of-way for 10th Avenue by 6.7 feet.
-

Parkwood Estates

1. Terms, conditions, provisions, obligations and agreements as set forth in the Site and Landscape Covenant recorded May 23, 1986 at Reception No. 86026708.
 2. Terms, conditions, provisions, obligations, easements and agreements as set forth in the Access and Parking Easement Agreement recorded December 4, 1986 at Reception No. 86070760.
 3. Terms, conditions, provisions, obligations, easements and agreements as set forth in the Grant of Easement recorded May 16, 2000 at Reception No. 2000031819.
 4. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Inter-Mountain Engineering Ltd. for Bock & Clark Surveyors Network on October 28, 2013, last revised December 16, 2013, designated Job Number 13-9016:
Overhang encroachments onto easement for utilities, access and drainage.
-

Regency Residence

1. Embassy Hills, Unit One Restrictions recorded in Book 638, Page 221, as affected by Book 967, Page 1654; Book 971, Page 1376 and Book 1305, Page 1187, but deleting any covenant, condition or restriction indicating a preference, limitation or discrimination based on race, color, religion, sex, handicap, familial status or national origin to the extent such covenants, conditions or restrictions violate 42 USC 3604(c).
2. The terms, provisions and conditions contained in that certain Franchise Agreement for Street Lightning, Sewer Service and Water Service recorded in Book 638, Page 230, as affected by Bill of Sale recorded in Book 986, Page 662; which documents contain a provision for the Utility Company to have easements and the right to repair, maintain or replace such laterals, lines or meter and the Utility Company shall have the right to file a lien having the same effect as a Mechanic's Lien in accordance with the statutes of the State of Florida.
3. Telephone Distribution Easement granted to General Telephone Company recorded in Book 1508, Page 1596.
4. Electric Utility Service Easement granted to Withlacoochee River Electric Cooperative, a Cooperative corporation recorded in Book 1530, Page 1993.
5. Drainage Easement recorded in Book 1518, Page 1954.
6. The terms, provisions and conditions contained in that certain Declaration of Easements recorded in Book 1450, Page 393.
7. An easement shown or dedicated on the Plat of Embassy Hills, Unit 1, recorded in Plat Book 11, Page 86, as to the portion of the lands lying within Tract D
For: drainage and utility easement along westerly line of Tract D.
8. The terms, provisions and conditions contained in that certain Certificate of Establishing Water Basin Boundaries of the Southwest Florida Water Management District recorded in Book 190, Page 91.
9. The terms, provisions and conditions contained in that certain West Coast Regional Water Supply Authority Agreement recorded in Book 773, Page 57.
10. The terms, provisions and conditions contained in that certain Grant of Easement and Memorandum of Agreement recorded in Book 4677, Page 320.
11. The terms, provisions and conditions contained in that certain Easement and Memorandum of Agreement recorded in Book 8775, Page 1510.
12. The rights of the following tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof.

<attach Rent Roll>

13. The terms, provisions and conditions contained in that certain Land Use Restriction Agreement recorded in Book 1462, Page 1909, as affected by Certificate Relating To Land Use Restriction Agreement recorded in Book 1646, Page 103; Agreement recorded in Book 1646, Page 105; Assignment Agreement recorded in Book 1462, Page 1956; The above Agreement is subject to a Qualified Termination of Land Use Restriction Agreement recorded in Book 3440, Page 111.

Note: The original Land Use Restriction Agreement does not affect, at the dated of the issuance of this Commitment, the land described in Schedule A herein. However, pursuant to the Qualified Termination of Land Use Restriction, should a "related person" of Outlook Income Fund 9, a California limited partnership, a "related person" being defined within the meaning of Treasury Regulation Section 1.103.10(E), obtain an ownership interest in the land described in Schedule A herein for tax purposes, then the original Land Use Restriction Agreement shall reattach and again become a burden on the land described in Schedule A herein.

14. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Bock & Clark's National Surveyors Network on October 30, 2013, last revised December 12, 2013, designated Job Number 201302464-18:
- (A) 15 foot side setback along easterly and westerly boundaries.
 - (B) 20 foot front setback along southerly boundary
 - (C) wood fence encroachment along southerly boundary.
 - (D) PER PHASE I ENVIRONMENTAL SITE ASSESSMENT PREPARED BY EMGCORP., PROJECT NO. 107672.13R - 018.051, WITH A REPORT DATE OF NOVEMBER 2, 2013, "Wetlands are indicated within the northwestern portion of the Project in association with a stormwater retention area. Any development of wetland areas, or of areas that might disturb wetlands, should be coordinated with applicable federal, state, and local agencies."
-

Desoto Beach Club

1. Easement for detention pond and stormwater flowage in favor of the Sarasota County, Florida as contained in Order of Taking, recorded in Official Records Book 2486, Page 95, as affected by; Amended Stipulated Final Judgment, recorded in Official Records Book 2969, Page 1331 and Amended Order of Taking as to Parcel 104, recorded in Official Records Book 2969, Page 1384.
 2. Terms and provisions contained in Notice of Stipulations and Limitations Encumbering Real Property Pursuant to the Sarasota County Zoning Code, recorded in Official Records Book 2906, Page 1057.
 3. Access Easement Agreement, recorded as Instrument No. 2004129541.
 4. Easement granted to Florida Power & Light Company by instrument recorded as Instrument No. 2005177846.
 5. Exclusive Permanent Lift Station Easement, recorded as Instrument No. 2006030721.
 6. Ingress/Egress, Utility and Drainage Easement for Water, Wastewater, and Reclaimed Water Facilities, recorded as Instrument No. 2006030722.
 7. Flowage Easement, recorded as Instrument No. 2006030723.
 8. Permanent Non-Exclusive Waterline Easement, recorded as Instrument No. 2006030724.
 9. The terms, provisions and conditions contained in that certain Memorandum of Agreement recorded as Instrument No. 2009045911.
 10. Riparian and/or littoral rights are not insured.
 11. The rights of the following tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof:
attach Rent Roll
 12. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by George F. Young, Inc. on October 25, 2013, last revised December 19, 2013, designated Job Number 0373003106:
(A) There is a Sarasota County sanitary lift station located at the SW corner of the property.
-

Cherry Laurel

The lien of real estate taxes for relevant period (2013) and subsequent periods, not yet due and payable.

1. The terms, provisions and conditions contained in that certain Reciprocal Stormwater Management Agreement recorded in Book R2374, Page 2247.
 2. Communication Systems Right of Way and Easement Agreement recorded in Book R2762, Page 352.
 3. The rights of the following tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof.
 4. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Thurman Roddenberry and Associates for Bock & Clark's National Surveyors Network on November 05, 2013, last revised November 21, 2013, designated Job Number 201302464-20:
No survey matters
-

Blair House

1. Easement for public utilities and storm sewer as disclosed by the plat of subdivision recorded April 14, 1988 as document 88-5514.
(Affects the South, West and East 10 feet and 20 foot wide utility easement across the North end of the East side of the land)
 2. Memorandum of Agreement recorded July 6, 2009 as document 2009-00021448 made by and between Blair House Retirement Residence Limited Partnership and Comcast of Illinois/Indiana/Ohio, LLC, and the terms and provisions contained therein.
 3. Rights of any interested parties in and to the coal, oil, gas and other minerals underlying the surface of the land and all easements in favor of the estate of said coal, oil, gas and other minerals.
 4. The rights of the following tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof:
-

Grasslands Estates

1. Easements, restrictions, setback lines and drainage plans as per plat, PC 108-7.
 2. The terms and provisions contained in the document entitled "P.U.D. Certificate" filed as Film 1999, Page 1448, by which notice is given that subject property is subject to the Wichita Retirement Residence P.U.D.-10.
 3. An easement for utility, recorded as Film 2019, Page 1611.
In favor of: The City of Wichita, Kansas
Affects: a portion of subject property
 4. The rights of the following tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof: (Attach Rent Roll)
 5. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Abbott Land Survey for Bock and Clark Corporation on November 11, 2013, last revised December 12, 2013, designated Job Number 201302464-74: None
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Jackson Oaks

1. Subject to restrictions of record in Deed Book 712, Page 245, in the McCracken County Court Clerk's Office. A copy is attached for your review.
 2. Subject to protective covenants of record in Deed Book 883, Page 681, in the McCracken County Court Clerk's Office. A copy is attached for your review.
 3. Subject to conditions, covenants, easements, restrictions and minimum building lines as shown on Plat Section "K", Page 1941, in the McCracken County Court Clerk's Office. A copy is attached for your review.
 4. Subject to an easement from Rolling Hills of Paducah, Inc. to Lone Oak Water District dated February 13, 1987 and recorded in Deed Book 698, Page 216, in the McCracken County Court Clerk's Office. Said easement is 10-15 feet wide and located along Bleich Road. A copy is attached for your review.
 5. The lien of real estate taxes for the year 2013 and subsequent periods not yet due and payable.
 6. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Bock and Clark Corporation on November 5, 2013 being last revised December 16, 2013, designated Job Number 201302464-31:
(A) Vinyl fence in the southwesterly corner of subject property extends outside boundary line into right of way by 1.4'; (B) Guy wires on the north side of subject property fall outside easement; (C) Guy wire near the southwest corner of subject property does not fall within an easement.
 7. The rights of the following Tenants as Tenants only, with no rights to purchase under unrecorded leases executed prior to the date hereof. To Follow.
-

Summerfield Estates

1. Any mineral or mineral rights leased, granted or retained by current or prior owners.
 2. Right of Way granted to Southwestern Electric Power Company, dated August 17, 1966, recorded August 22, 1966 in Book 1122, Page 49 under Registry No. 413374 of the Conveyance Records of Caddo Parish, Louisiana.
 3. Restriction and Mineral reservation contained in instrument recorded May 17, 1971 under Registry No. 528040 in Donation Book F, Page 13 of the Donation Records of Caddo Parish, Louisiana.
 4. Right of Way Easement granted to South Central Bell Telephone Company, dated March 22, 1979, recorded May 10, 1979 in Book 1727, Page 346 under Registry No. 793491 of the Conveyance Records of Caddo Parish, Louisiana.
 5. Right of Way granted to City of Shreveport for water and/or sewer main across the westerly 15 feet of the property recorded May 13, 1986 under Registry No. 01090204 in Book 2334, Page 498 of the Conveyance Records of Caddo Parish, Louisiana.
 6. Right of Way granted to Southwestern Electric Power Company, recorded November 6, 1987 under Registry No. 01165275, Book 2470, Page 509 of the Conveyance Records of Caddo Parish, Louisiana.
 7. Memorandum of Agreement by and between Shreveport Retirement Residence II and Comcast of Louisiana/Mississippi/Texas, LLC, recorded October 11, 2010 under Registry No. 2317069, Book 4415, Page 602, of the Conveyance Records of Caddo Parish, Louisiana.
 8. Any circumstance arising out of the existence of a gravel filled swale as shown on Map of Survey prepared by Aillet, Fenner, Jolly & McClelland dated December 22, 2000 and last revised January 12, 2001.
 9. Polling Place Lease Agreement between Shreveport Retirement Residence II LLC, as Lessor and the Parish of Caddo, as Lessee, recorded March 20, 2013 under Registry No. 2446526 in Book 4644, Page 371 of the Conveyance Records of Caddo Parish, Louisiana.
 10. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Collins and Associates for Bock & Clark's National Surveyors Network on October 31, 2013, last revised December 13, 2013, designated Job Number 201302484-32:
(A) Flowerbed crosses the east boundary line of the subject property onto the adjoining property by 5.9'.
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Blue Water Lodge

1. Easement granted to the County of St. Clair disclosed by instrument recorded in Liber 977, Page 353, Saint Clair County Records.
 2. Easement granted to The Detroit Edison Company, a Michigan corporation disclosed by instrument recorded in Liber 2122, Page 814, Saint Clair County Records.
 3. The terms, provisions and conditions contained in that certain Memorandum of Agreement recorded May 11, 2009 in Liber 3943, Page 741.
 4. Easement granted to the Carrigan and Grace Drain Drainage District disclosed by instrument recorded in Liber 4343, Page 594, Saint Clair County Records.
 5. The terms, provisions and conditions contained in that certain Declaration of Taking recorded January 17, 1973 in Liber 993, Page 968.
 6. Interest of others in oil, gas and mineral rights, if any, recorded in the public records or unrecorded.
 7. The rights of the following tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof:
<attach Rent Roll>
 8. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by LSG Engineers & Surveyors for Bock & Clark's National Surveyors Network on October 29, 2013, last revised December 12, 2013, designated Job Number 201302464-034:
Carrigan Drain 100 foot right of way along portions of northerly and northwesterly boundaries.
 9. The acreage stated in the legal description of the land is for description purposes only. The quantity of the land is not insured.
-

Country Squire

1. A 15-foot utility easement as per plat, Plat Book 8, Page 69.
 2. Terms and conditions of perpetual right of way and easement, for the transmission of electrical energy upon, under, along and across subject property, granted to St. Joseph Light & Power Company by instrument filed for record January 4, 1990 in Book 1767 at Page 94 in said Recorder's Office. Note: A "notice of final description for grant of right of way" was filed for record March 13, 1990 in Book 1773 at Page 180 in said Recorder's Office.
 3. Matters as disclosed by Survey dated September 9, 1999, prepared by Bartlett's West Engineers, Inc., as Job No. 2321 (W.O.8610.152):
Lack of abutters' rights of direct access to Interstate Route 29 which adjoins subject property on the West;
Encroachment of building onto the twenty three foot variance setback line near the Southwest corner;
Encroachment of garage onto the building setback line across the North end of subject property;
Encroachment of garage onto the building setback line across the West end of subject property;
Encroachment of garage onto fifteen foot wide utility easement across the North end of subject property.
 4. The rights of the following tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof.
 5. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Whitehead Consultants, Inc. for Bock & Clark's National Surveyor's Network on November 21, 2013 last revised December 20, 2013, designated Job Number 201302464-36:
A) Easterly portion of sign lies east of the east deed line, by no more than 6'.
B) Existing fence, owner unknown, lies west of the west deed line, by no more than 1.7'.
-

Chateau Ridgeland

1. Any mineral or mineral rights leased, granted or retained by the current or prior owners.
 2. Right of way to the City of Ridgeland, Mississippi recorded in Book 189, Page 222.
 3. No coverage is provided as to the amount of acreage or square footage of the land.
 4. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Wise Land Surveying, Inc. for Bock & Clark's National Surveyors Network on October 25, 2013, last revised December 17, 2013 designated Job Number 201302464, Site 38:
(A) Sidewalk on the west side of the subject property crosses the boundary line into the adjoining property by 1.0 feet to 3.0 feet.
-

Grizzly Peak

1. Any right, title or interest in any minerals, mineral rights or related matters, including but not limited to oil, gas, coal and other hydrocarbons, sand, gravel or other common variety materials, whether or not shown by the public records.
 2. County road rights-of-way not recorded and indexed as a conveyance of record in the office of the Clerk and Recorder pursuant to Title 70, Chapter 21, M.C.A., including, but not limited to any right of the Public and the County of Missoula to use and occupy those certain roads and trails as depicted on County Surveyor's maps on file in the office of the County Surveyor of Missoula County.
 3. Easement recorded in Book 'N' of Miscellaneous at Page 473.
 4. Easement recorded in Book 'N' of Miscellaneous at Page 475.
 5. Easement recorded in Book 240 of Deeds at Pages 233 and 236.
 6. Easement recorded in Book 355 of Micro Records at Page 961.
 7. Provisions contained in that Certificate, executed by the State of Montana, Department of Health and Environmental Services, File No. 2994, as recorded in Book 474 of Micro Records at Page 658, records of Missoula County, Montana.
 8. Easement recorded in Book 527 of Micro Records at Page 1436.
 9. Easement recorded in Book 569 of Micro Records at Page 833.
 10. Easement recorded in Book 569 of Micro Records at Page 837.
 11. Easement recorded in Book 569 of Micro Records at Page 846.
 12. Easement recorded in Book 569 of Micro Records at Page 848.
 13. Easement upon its terms and provisions as recorded in Book 605 of Micro Records at Page 540.
 14. Easement recorded in Book 696 of Micro Records at Page 1227.
 15. The rights of the following tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date thereof: (Attach Rent Roll)
 16. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by WGM Group, Inc. for Bock & Clark's National Surveyors Network on November 9, 2013, last revised _____, designated Job Number 201302464-39:

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Maple Downs

1. The rights of the following tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof: <Attach Rent Roll>
 2. Sanitary Sewer Easement recorded 7/31/2002 in Liber 4737 of Deeds, page 544.
 3. Sanitary Sewer Easement reserved in a deed recorded 7/31/2002 in Liber 4737 of Deeds, page 548.
 4. Water Easement Agreement recorded 10/9/2002 in Liber 4747 of Deeds, page 813.
 5. Underground Line Easement Agreement recorded 10/22/2002 in Liber 4749 of Deeds, page 556.
 6. Policy does not insure any title to land lying in the bed of East Genesee Street.
 7. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Genzel Land Surveying P.C. for Bock & Clark's National Surveyors Network on November 10, 2013, last revised December 11, 2013, designated Job Number 201302464/Site No. 44:
(A) 3.31 foot chain link fence encroachment onto neighboring property on northeast boundary line.
-

Fleming Point

1. The rights of the following tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof: (Attach Rent Roll)
 2. Easement for drainage to Town of Greece in Liber 3530 of Deeds, page 412 on 12/31/1963.
 3. Utility easements granted to Rochester Gas & Electric Corporation and Rochester Telephone Corporation by instrument recorded in Liber 3766 of Deeds, at page 282 on 9/16/1966.
 4. Easement for sidewalk to Town of Greece by instrument recorded in Liber 4031 of Deeds, at page 456 on 12/30/1969 and Liber 4034 of Deeds at page 236 on 1/15/1970.
 5. Easement for sidewalk and snow storage to Town of Greece by instrument recorded in Liber 6007 of Deeds, at page 81 on 7/15/1981.
 6. Terms and conditions of Agreement dated 3/21/1966 between Samuel G. Thayer, Spoleta Development Corp. and Town of Greece recorded 3/25/1966 in Liber 3721 of Deeds, page 551.
 7. Utility easements granted to Rochester Gas and Electric Corporation, Frontier Telephone of Rochester, Inc. and Time-Warner Entertainment Company by instrument recorded in Liber 9916 of Deeds, at page 280 on 2/10/2004.
 8. Utility easements granted to Rochester Gas and Electric Corporation, Frontier Telephone of Rochester, Inc. and Time-Warner Entertainment Company by instrument recorded in Liber 10175 of Deeds, at page 399 on 8/25/2005.
 9. Reciprocal Easement Agreement for Ingress/Egress and Cross-Access made by and between GREECE RETIREMENT RESIDENCE LLC and The Wegman Group, LLC dated 2/21/2008 and recorded 2/22/2008 in Liber 10584 Cp 306.
 10. Policy excepts the rights of others in and to the natural and unobstructed flow of the Fleming Creek crossing the premises described in Schedule A herein.
 11. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Bock & Clark National Surveyors Network on November 06, 2013, last revised December 18, 2013, designated Job Number 201302464 / Site No. 45:
(A) Concrete walk on the south side extends past boundary line onto subject property;
(B) Overhead Utility Line on the north side of subject property does not fall within an easement.
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Stoneybrook Lodge

1. Easements for public utilities purposes as shown on the recorded plat of Stoneybrook Village Retirement Community.
 2. Easements for public storm drainage and waterline purposes as shown on the recorded plat of Stoneybrook Village Retirement Community.
 3. Easements for public waterline purposes as shown on the recorded plat of Stoneybrook Village Retirement Community.
 4. Restrictions shown on the recorded plat/partition as follows: As set forth on said plat, this subdivision is subject to the conditions of approval per City of Corvallis Case File No. PD-97-7, S-97-5 Stoneybrook Village Retirement Community.
 5. Easement, including terms and provisions contained therein:

Recording Information:	May 10, 2000 as Fee No. M-283674, Microfilm Records
In Favor of:	TCI Cablevision of Oregon, Inc.,
For:	Multi-Channel Television Programming
 6. Covenants, conditions, restrictions and easements in the document recorded October 21, 2003 as Fee No. 2003-355215 of Microfilm Records, but deleting any covenant, condition or restriction indicating a preference, limitation or discrimination based on race, color, religion, sex, handicap, familial status, national origin, sexual orientation, marital status, ancestry, source of income or disability, to the extent such covenants, conditions or restrictions violate Title 42, Section 3604(c), of the United States Codes. Lawful restrictions under state and federal law on the age of occupants in senior housing or housing for older persons shall not be construed as restrictions based on familial status.
 7. Provisions of the Articles of Incorporation and By-Laws of the **Stoneybrook Village Owners Association**, and any tax, fee, assessments or charges as may be levied by said association.

Recorded:	February 13, 2006
Recording No.:	Fee No. 2006-399787, Microfilm Records

The terms and provisions contained in the document entitled "Amended and Restated ByLaws of Stoneybrook Village Owners Association" recorded October 06, 2011 as Fee No. 2011-483477 of Official Records.
 8. Covenants, conditions, restrictions and easements in the document recorded October 06, 2011 as Fee No. 2011-483476 of Official Records, but deleting any covenant, condition or restriction indicating a preference, limitation or discrimination based on race, color, religion, sex, handicap, familial status, national origin, sexual orientation, marital status, ancestry, source of income or disability, to the extent such covenants, conditions or restrictions violate Title 42, Section 3604(c), of the United States Codes. Lawful
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restrictions under state and federal law on the age of occupants in senior housing or housing for older persons shall not be construed as restrictions based on familial status.

Said document amends and restates document recorded August 13, 1998 as Fee number M-251291-98.

Document(s) declaring modifications thereof recorded October 31, 2002 as Fee No. M-328171-02, Microfilm Records

Document(s) declaring modifications thereof recorded April 28, 2003 as Fee No. 2003-340202, Microfilm Records

Document(s) declaring modifications thereof recorded January 29, 2008 as Fee No. 2008-432875, Microfilm Records of Official Records.

9. Provisions of the Articles of Incorporation and By-Laws of the **Stoneybrook Village Owner's Association, a nonprofit membership corporation established under the laws of the State of Oregon**, and any tax, fee, assessments or charges as may be levied by said association.

Recorded: October 06, 2011
Recording No.: 2011-483476

Said document amends and restates document recorded August 13, 1998 as Fee No. M-251291-98 of Microfilm Records.

Document(s) declaring modifications thereof recorded October 31, 2002 as Fee No. M-328171-02, Microfilm Records

Document(s) declaring modifications thereof recorded April 28, 2003 as Fee No. 2003-340202, Microfilm Records

Document(s) declaring modifications thereof recorded January 29, 2008 as Fee No. 2008-432875, Microfilm Records of Official Records.

The terms and provisions contained in the document entitled "Amended and Restated ByLaws of Stoneybrook Village Owners Association" recorded October 06, 2011 as Fee No. 2011-483477 of Official Records.

10. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Bock & Clark's National Surveyor's Network on November 12, 2013, last revised December 12, 2013, designated Job Number 201302464-052:
(A) Trash enclosure with a 6' chain link fence in the southeast corner of subject property extends past boundary line to the south by 4.8'
11. The rights of tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof.
-

Essex House

1. Subject to all matters shown on the Plan as recorded in the Recorder's Office of Cumberland County, Pennsylvania in Plan Book 83 Page 123.
 2. Rights granted to PPL Electric Utilities Corporation as set forth in Misc. Book 684 Page 158.
 3. Easement Agreement as set forth in Misc. Book 692 Page 2038 and Misc. Book 702 Page 4503.
 4. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Bock & Clark's National Surveying Network on November 06, 2013 and last revised December 12, 2013, designated Job Number 201302464-56:
(A) Roadway crosses parcel by 41.6 feet in the northly portion of the property.
 5. Rights of the following tenants, as tenants only, with no purchase rights under unrecorded leases executed prior to the date hereof:
 6. The acreage stated in the legal description of the land is for description purposes only. The quantity of the land is not insured.
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Arlington Plaza

- a. The following easements and/or building lines, as shown on plat recorded in Volume 388-189, Page 6, Map Records, Tarrant County, Texas:
- 7.5' Utility easement and
25' building line.
- b. Easement granted by Arlington Retirement Residence Limited Partnership to Texas Utilities Electric Company, filed 11/03/1986, recorded in Volume 8736, Page 1523, Real Property Records, Tarrant County, Texas.
- c. Easement granted by Dera Arrington to Texas Electric Service Company, filed 02/02/1937, recorded in Volume 1328, Page 241, Real Property Records, Tarrant County, Texas.
- d. Easement granted by W. A. Cheney and wife, Tennie L. Cheney to Texas Electric Service Company, filed 05/30/1972, recorded in Volume 5249, Page 801, Real Property Records, Tarrant County, Texas.
- e. Easement for the installation, operation and maintenance of an underground cable television system granted to Time Warner Cable Inc. Through Its West Region-North Texas, by instrument filed 01/04/2013, recorded in cc# D213004370, Real Property Records, Tarrant County, Texas.
- f. Mineral lease, together with all rights privileges and immunities incident thereto, to Vantage Fort Worth Energy LLC, as Lessee, from Harvest Arlington Retirement Residence, a Delaware limited liability company, as Lessor, as evidenced by Memorandum of Oil and Gas Lease, filed 11/18/2010, recorded in cc# D2100286133, Real Property Records, Tarrant County, Texas. Title to said interest not checked subsequent to the date thereof.
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El Dorado

- a. All leases, grants, exceptions or reservations of coal, lignite, oil, gas and other minerals, together with all rights, privileges, and immunities relating thereto, appearing in the Public Records whether listed in Schedule B or not. There may be leases, grants, exceptions or reservations of mineral interest that are not listed.
 - b. Easement granted by Arapaho Associates, Inc. to the City of Richardson, filed 04/19/1984, recorded in Volume 84080, Page 1601, Real Property Records, Dallas County, Texas.
 - c. Terms, provisions, conditions, and easements, contained in License and Memorandum of Agreement, filed 01/08/2013, recorded in cc# 201300005761, Real Property Records, Dallas County, Texas.
 - d. The following easements and/or building lines, as shown on plat recorded in Volume 95178, Page 3215, Map Records, Dallas County, Texas:
 - None
 - e. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Bock & Clark's National Surveyors Network on October 30, 2013, last revised November 8, 2013, designated Job Number 201302464-65: (A) Concrete sidewalk crosses the Southern part of the boundary line onto the subject property; (B) Northern part of the property building is over 50. building line.
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Ventura Place

- a. The West 20 feet of captioned property for underground utility easement as set forth on plat recorded 5300, Page 11, Official Real Property Records, Lubbock County, Texas.
 - b. The North 6 feet of captioned property for underground utility easement as set forth on plat recorded 5300, Page 11, Official Real Property Records, Lubbock County, Texas.
 - c. The South 5 feet of the North 11 feet of captioned property for underground utility easement as set forth on plat recorded 5300, Page 11, Official Real Property Records, Lubbock County, Texas.
 - d. Two 6 x 6 foot switching enclosure easements located in the Northwest corner of captioned property as set forth on plat recorded 5300, Page 11, Official Real Property Records, Lubbock County, Texas.
 - e. Two 6 x 6 foot switching enclosure easements located in the Northeast corner of captioned property as set forth on plat recorded 5300, Page 11, Official Real Property Records, Lubbock County, Texas.
 - f. Blanket transformer pad and underground utility easement as set forth on plat recorded 5300, Page 11, Official Real Property Records, Lubbock County, Texas.
 - g. Underground utility easement as set forth in instrument dated September 24, 1997, recorded in Volume 5601, Page 311, Official Real Property Records, Lubbock County, Texas, executed by Lubbock Retirement Residence Limited Partnership, an Oregon limited partnership to the City of Lubbock.
 - h. Rights incident to the ownership and lessees of the minerals reserved in Volume 684, Page 181, Deed Records, Lubbock County, Texas. Title to said interest not checked subsequent to date of aforesaid instrument.

"Endorsement coverage under renew".
 - i. Rights incident to the ownership and lessees of the Remainder of the minerals reserved in Volume 3388, Page 260, Official Real Property Records, Lubbock County, Texas. Title to said interest not checked subsequent to date of aforesaid instrument.
 - j. All leases, grants, exceptions or reservations of coal, lignite, oil, gas, or other minerals, together with all rights, privileges, and immunities relating thereto, appearing in the Public Records whether listed in Schedule B or not. There may be leases, grants, exceptions or reservations of mineral interest that are not listed.
 - k. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by LGF Land Surveying, LLC, for Bock & Clark's National Surveyors Network on November 10, 2013, last revised December 12, 2013, designated Job Number 201302464-69:
No survey matters
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Pioneer Valley Lodge

1. Any water rights or claims or title to water in or under the land.
 2. An unrecorded Management and Consulting Agreement, dated June 1, 2000.
 3. Building setback lines, public utility easements, irrigation ditch easement, ingress-egress easement and other easements and restrictions as shown on the official plat for the North Logan Retirement Residence Subdivision as Filed for record on June 7, 2000, as Entry No. 739844.
 4. The following matters disclosed by an ALTA/ACSM survey made by Red Plains Surveying Company, signed by James M. Powers, RN# 5659228-2201 on July 17, 2006, designated Network Project No. 20060002-38:
 - A. The fact that the 14 foot asphalt drive encroaches over the Westerly lot line.
 - B. The fact that the 1 story building in the Southwest corner of the land encroaches over the 30 foot setback line.
 - C. The fact that a generator encroaches over the Westerly lot line.
 - D. The fact that a transformer and two telephone pedestals encroach over the Westerly lot line.
 - E. Any unrecorded easements or lesser rights of drainage and water runoff in and to the Detention Pond in the Northwest corner of the land.
 5. Rights of tenants, as tenants only, with no purchase rights under unrecorded leases executed prior to the date hereof:
 6. Subject to the plat of the North Logan Retirement Residence Subdivision, and any subsequent amendments, as shown in the office of the Cache County Recorder.
 7. Said property is located within the boundaries of North Logan City without Cemetery and Cache County and is subject to the charges and assessments levied thereunder. No such assessment is due and payable as of the date of this Policy.
 8. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Red Plains Surveying Company for Bock & Clark's National Surveyors Network on November 9, 2013, last revised December 13, 2013, designated Job Number 201302464-70:
(A) The Asphalt Driveway is over on the west property line onto the adjoiner's property by a maximum of 3.3; (B) Generator is over the west property line onto the adjoiner's property by a maximum of 11.6 without benefit of easement; (C) Electric Transformer is over the west property line onto the adjoiner's property by a maximum of 2.3 without
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benefit of easement; (D) Building located on the West Property line encroaches a maximum of 20.9' into the rear setback per zoning.

Colonial Harbor

1. Taxes subsequent to the first half of 2013 and any and all supplemental taxes, a lien not yet due and payable.
 2. The right of the following tenants as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof ***Rent roll to follow.***
 3. Easements granted in Deed from Seventeen Eighty One, Incorporated, a Virginia corporation to the Commonwealth of Virginia, dated September 12, 1973, recorded April 11, 1974, in Deed Book 265, Page 391.
 4. Easement granted to Virginia Electric and Power Company, dated May 14, 1985, recorded June 20, 1985 in Deed Book 418, Page 719.
 5. Easement granted to The City of Newport News, dated July 18, 1985, recorded September 9, 1985 in Deed Book 424, Page 62.
 6. Easement granted to the County of York, Virginia, dated January 4, 1988, recorded February 26, 1988 in Deed Book 511, Page 8.
 7. Easement granted to the County of York, Virginia, dated June 14, 1989, recorded July 7, 1989 in Deed Book 554, Page 316.
 8. Easements, including but not limited to access drives, contained in Shopping Center Easement Agreement between Memorial Highway Associates and McDonald's Corporation dated June 7, 1989, recorded July 7, 1989, in Deed Book 554, Page 328.
 9. Easement granted to the Commonwealth of Virginia, dated May 30, 2002, recorded July 16, 2002, as Instrument Number 020014030.
 10. Such state of facts as are disclosed on Subdivision plat recorded in Plat Book 11, Page 89 and Subdivision Plat recorded as Instrument No. 040012996.
 11. Terms, conditions and provisions as contained in Storm Water Pond Easement, Drainage Easement, Access Easement and Maintenance Agreement by and between William E. Colson and Daniel R. Baty and Pamela Baty and Memorial Highway Associates, Ltd., a Virginia general partnership, dated June 22, 2004, recorded June 24, 2004, as Instrument No. 040013205.
 12. Terms, conditions and provisions as contained in Access Easement located on the Memorial Property as contained in Access Easement and Maintenance Agreement by and between Memorial Highway Associates, Ltd., a Virginia general partnership and William E. Colson, Daniel R. Baty and Pamela Baty, dated June 22, 2004, recorded June 24, 2004, as Instrument No. 040013204.
 13. Deed of Easement granted to the County of York, Virginia, dated June 10, 2004, recorded June 22, 2004, as Instrument No. 040012997.
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14. Declaration of Restrictions of Yorktown Retirement Residence LLC, dated November 30, 2004, recorded December 1, 2004 as Instrument No. 040024975.
 15. Easement granted to Virginia Electric and Power Company, dated December 21, 2004, recorded January 7, 2005 as Instrument No. 050000369.
 16. Easement granted to the City of Newport News, dated May 24, 2005, recorded September 16, 2005 as Instrument No. 050022862.
 17. County of York Stormwater Management/BMP Maintenance Agreement, dated April 8, 2009, recorded May 6, 2009, as Instrument No. 090009064.
 18. Certificate of Assumed Name recorded March 30, 2004, as Instrument No. GM040000157.
 19. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Nobles and Associates for Bock & Clark's National Surveyors Network on November 2, 2013, last revised December 10, 2013 designated Job Number 201302464-71:
No survey matters
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Briarcrest Estates

1. General and/or Special Taxes by the City of Chesterfield, if any.
None now due and payable.
 2. Stormwater control and retention basin easement granted to St. Louis County, Missouri according to instrument recorded in Book 8406, Page 2068.
 3. Utility and Sidewalk Easement granted to St. Louis County, Missouri, according to instrument recorded in Book 8406, Page 2070.
 4. Storm Sewer Easement granted to St. Louis County, Missouri according to instrument recorded in Book 8406, Page 2072.
 5. Terms, conditions, provisions and limitations, according to Conditional Use Permit Number-570, approved by the City of Chesterfield on July 16, 1987 in Book 8416, Page 695 of the St. Louis County Recorder's office.
 6. Sanitary Sewer Easement granted to The Metropolitan St. Louis Sewer District, according to instrument recorded in Book 8446, Page 970.
 7. Storm Water Sewer Maintenance Agreement executed by St. Louis Retirement Residence Limited Partnership in favor of the City of Chesterfield and The Metropolitan St. Louis Sewer District according to instrument recorded in Book 8515, Page 687.
 8. Storm Water Sewer Maintenance Agreement executed by St. Louis Retirement Residence Limited Partnership in favor of The Metropolitan St. Louis Sewer District according to instrument recorded in Book 8839, Page 25.
 9. Sewer Easement granted to The Metropolitan St. Louis Sewer District according to instrument recorded in Book 8839, Page 28.
 10. Easement for Water Pipe granted to St. Louis County Water Company according to instrument recorded in Book 9345, Page 2345 and Book 9345, Page 2352.
 11. Sewer Easement granted to The Metropolitan St. Louis Sewer District according to instrument recorded in Book 16857, Page 1941.
 12. Easement(s) granted to Charter Communications Entertainment I, LLC recorded in Book 18269, Page 1296.
 13. Charges and assessments by Trustees of said Subdivision, sewer service charges, sewer lateral charges, roadway maintenance assessments and/or public water supply district charges and assessments, if any.
 14. The rights of the following tenants, as tenants only, with no purchase rights, under unrecorded leases executed prior to the date hereof: <attach rent roll>
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15. Any facts, rights, interests or claims that may exist or arise by reason of the following matters disclosed by an ALTA/ACSM survey made by Sherrill Associates, Inc. for Bock & Clark's National Surveyors Network on November 12, 2013, last revised December 19, 2013, designated Job Number 201302464-35:
(A) West side of building crosses 40' conditional use setback by 1.30'.
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EXHIBIT G

GUARANTY

[See attached]

GUARANTY OF LEASE

GUARANTY OF LEASE (this "**Guaranty**") made as of December __, 2013, by Holiday AL Holdings LP, a Delaware limited partnership ("**Guarantor**"), to each of the undersigned entities listed under the heading "Landlord" on the signature pages hereto (individually and collectively, "Landlord"), each a Delaware limited liability company ("**Landlord**").

RECITALS

A. Landlord has been requested by NCT Master Tenant I LLC (together with its permitted successors and assigns, "**Tenant**"), to enter into a Master Lease dated as of the date hereof (as amended from time to time, the "**Lease**"), whereby Landlord would lease to Tenant, and Tenant would rent from Landlord, certain premises at the locations set forth on Schedule 2 attached hereto, as more particularly described in the Lease (the "**Premises**").

B. Guarantor is the indirect parent of Tenant, and will derive substantial economic benefit from the execution and delivery of the Lease.

C. Guarantor acknowledges that Landlord would not enter into the Lease unless this Guaranty accompanied the execution and delivery of the Lease.

D. Guarantor hereby acknowledges receipt of a copy of the Lease.

NOW, THEREFORE, in consideration of the execution and delivery of the Lease and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor covenants and agrees as follows:

1. **DEFINITIONS.** Defined terms used in this Guaranty and not otherwise defined herein have the meanings assigned to them in the Lease.

2. **COVENANTS OF GUARANTOR.**

(a) Guarantor absolutely, unconditionally and irrevocably guarantees, as a primary obligor and not merely as a surety: (i) the full and prompt payment of all Base Rent and Additional Charges and all other rent, sums and charges of every type and nature payable by Tenant under the Lease, whether due by acceleration or otherwise, including costs and expenses of collection (collectively, the "**Monetary Obligations**"), and (ii) the full, timely and complete performance of all covenants, terms, conditions, obligations, indemnities and agreements to be performed by Tenant under the Lease, including any indemnities or other obligations of Tenant that survive the expiration or earlier termination of the Lease (all of the obligations described in clauses (i) and (ii), are collectively referred to herein as the "**Obligations**"). If Tenant defaults under the Lease, Guarantor will, without notice or demand, promptly pay and perform all of the outstanding Obligations, and pay to Landlord, when and as due, all Monetary Obligations due and payable by Tenant under the Lease, together with all damages, costs and expenses to which Landlord is entitled pursuant to any or all of the Lease, this Guaranty and applicable Legal Requirements; provided, however, that Landlord shall not commence any litigation against

Guarantor with respect to such Obligations unless and until an Event of Default has occurred and is continuing.

(b) Guarantor agrees with Landlord that (i) any action, suit or proceeding of any kind or nature whatsoever (an “**Action**”) commenced by Landlord against Guarantor to collect Base Rent and Additional Charges and any other rent, sums and charges due under the Lease for any month or months shall not prejudice in any way Landlord’s rights to collect any such amounts due for any subsequent month or months throughout the Lease Term in any subsequent Action, (ii) Landlord may, at its option, without prior notice or demand, join Guarantor in any Action against Tenant in connection with or based upon either or both of the Lease and any of the Obligations, (iii) Landlord may seek and obtain recovery against Guarantor in an Action against Tenant or in any independent Action against Guarantor without Landlord first asserting, prosecuting, or exhausting any remedy or claim against Tenant or against any security of Tenant held by Landlord under the Lease, (iv) Landlord may (but shall not be required to) exercise its rights against each of Guarantor and Tenant concurrently, and (v) Guarantor will be conclusively bound by a judgment entered in any Action in favor of Landlord against Tenant, as if Guarantor were a party to such Action, irrespective of whether or not Guarantor is entered as a party or participates in such Action.

(c) The occurrence of any of the following events shall constitute an Event of Default by Tenant under the Lease, and there shall be no cure period therefor except as otherwise provided:

(i) Guarantor fails to observe or perform any term, covenant, or other obligation of Guarantor set forth in Section 9 and such failure is not cured within ten (10) days after receipt of notice of such failure from Landlord; provided, however, that any such failure shall not be deemed an Event of Default if Guarantor commences to cure same within ten (10) days after Guarantor receives notice thereof from Landlord, diligently prosecutes such cure and, in any event, cures such failure within thirty (30) days after receipt of notice of such failure from Landlord; and

(ii) Guarantor’s failure to observe or comply with the provisions of Section 10.

(d) Guarantor agrees that, in the event of the rejection or disaffirmance of the Lease by Tenant or Tenant’s trustee in bankruptcy, pursuant to bankruptcy law or any other law affecting creditors’ rights, Guarantor will, if Landlord so requests, assume all obligations and liabilities of Tenant under the Lease, to the same extent as if Guarantor was a party to such document and there had been no such rejection or disaffirmance; and Guarantor will confirm such assumption, in writing, at the request of Landlord upon or after such rejection or disaffirmance. Guarantor, upon such assumption, shall have all rights of Tenant under the Lease to the fullest extent permitted by law.

(e) If Landlord proposes to grant a mortgage on, or refinance any mortgage encumbering the Premises or any portion thereof, Guarantor shall cooperate in the process, and shall permit Landlord and the proposed mortgagee to meet with Guarantor or, if applicable, officers of Guarantor and to discuss Guarantor’s business and finances. On request of Landlord,

Guarantor agrees to provide any such prospective mortgagee the information to which Landlord is entitled hereunder, provided that if any such information is not publicly available, such nonpublic information shall be made available on a confidential basis. Guarantor agrees to execute, acknowledge and deliver documents reasonably requested by the prospective mortgagee (such as a consent to the financing, without encumbering Guarantor's or Tenant's assets, a consent to a collateral assignment of the Lease and of this Guaranty, estoppel certificate, and a subordination, non-disturbance and attornment agreement), in a form reasonably acceptable to Guarantor and customary for tenants and their guarantors to sign in connection with mortgage loans to landlords, so long as such documents are in form then customary among institutional lenders.

3. **GUARANTOR'S OBLIGATIONS UNCONDITIONAL**

(a) This Guaranty is an absolute and unconditional guaranty of payment and of performance, and not of collection, and shall be enforceable against Guarantor without the necessity of the commencement by Landlord of any Action against Tenant, and without the necessity of any notice of nonpayment, nonperformance or nonobservance, or any notice of acceptance of this Guaranty, or of any other notice or demand to which Guarantor might otherwise be entitled, all of which Guarantor hereby expressly waives in advance, other than as expressly required under the Lease. The obligations of Guarantor hereunder are independent of, and to the extent expressly set forth in this Guaranty may exceed, the obligations of Tenant.

(b) This Guaranty shall apply notwithstanding any extension or renewal of the Lease, or any holdover following the expiration or termination of the Lease Term or any renewal or extension of the Lease Term.

(c) This Guaranty is a continuing guarantee and will remain in full force and effect notwithstanding, and, except as set forth in Section 2(c), the liability of Guarantor hereunder shall be absolute and unconditional irrespective of any or all of the following: (i) any renewals, extensions, modifications, alterations or amendments of the Lease (regardless of whether Guarantor consented to or had notice of same); (ii) any releases or discharges of Tenant other than the full release and complete discharge of all of the Obligations; (iii) Landlord's failure or delay to assert any claim or demand or to enforce any of its rights against Tenant; (iv) any extension of time that may be granted by Landlord to Tenant; (v) any assignment or transfer of all or any part of Tenant's interest under the Lease (whether by Tenant, by operation of law, or otherwise); (vi) any subletting, concession, franchising, licensing or permitting of the Premises or any portion thereof; (vii) any changed or different use of the Premises (or any portion thereof); (viii) any other dealings or matters occurring between Landlord and Tenant; (ix) the taking by Landlord of any additional guarantees, or the receipt by Landlord of any collateral, from Tenant or any other persons or entities; (x) the release by Landlord of any other guarantor; (xi) Landlord's release of any security provided under the Lease; (xii) Landlord's failure to perfect any landlord's lien or other lien or security interest available under applicable Legal Requirements; (xiii) any assumption by any person of any or all of Tenant's obligations under the Lease, or Tenant's assignment of any or all of its rights and interests under the Lease, (xiv) the power or authority or lack thereof of Tenant to execute, acknowledge or deliver the Lease; (xv) the existence, non-existence or lapse at any time of Tenant as a legal entity or the existence, non-existence or termination of any corporate, ownership, business or other relationship between

Tenant and Guarantor; (xvi) any sale or assignment by Landlord of either or both of this Guaranty and the Lease (including, but not limited to, any direct or collateral assignment by Landlord to any mortgagee) in accordance with the terms of the Lease; (xvii) the solvency or lack of solvency of Tenant at any time or from time to time; or (xviii) any other cause, whether similar or dissimilar to any of the foregoing, that might constitute a legal or equitable discharge of Guarantor (whether or not Guarantor shall have knowledge or notice thereof) other than payment and performance in full of the Obligations. Without in any way limiting the generality of the foregoing, Guarantor specifically agrees that (A) if Tenant's obligations under the Lease are modified or amended with the express written consent of Landlord, this Guaranty shall extend to such obligations as so amended or modified without notice to, consideration to, or the consent of, Guarantor, and (B) this Guaranty shall be applicable to any obligations of Tenant arising in connection with a termination of the Lease, whether voluntary or otherwise. Guarantor hereby consents, prospectively, to Landlord's taking or entering into any or all of the foregoing actions or omissions. For purposes of this Guaranty and the obligations and liabilities of Guarantor hereunder, "Tenant" shall be deemed to include any and all successors and assignees of the tenant under the Lease, as fully as if any of the same were the named Tenant under the Lease.

(d) Guarantor hereby expressly agrees that the validity of this Guaranty and the obligations of Guarantor hereunder shall in no way be terminated, affected, diminished or impaired by reason of the assertion or the failure to assert by Landlord against Tenant, of any of the rights or remedies reserved to Landlord pursuant to the provisions of the Lease or by relief of Tenant from any of Tenant's obligations under the Lease or otherwise by (i) the release or discharge of Tenant in any state or federal creditors' proceedings, receivership, bankruptcy or other proceeding; (ii) the impairment, limitation or modification of the liability of Tenant or the estate of Tenant in bankruptcy, or of any remedy for the enforcement of Tenant's liability under the Lease, resulting from the operation of any present or future provision of the United States Bankruptcy Code (11 U.S.C. § 101 et seq., as amended), or from other statute, or from the order of any court; or (iii) the rejection, disaffirmance or other termination of the Lease in any such proceeding. This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time the payment of any amount due under the Lease or this Guaranty is rescinded or must otherwise be returned by Landlord for any reason, including, without limitation, the insolvency, bankruptcy, liquidation or reorganization of Tenant, Guarantor or otherwise, all as though such payment had not been made, and, in such event, Guarantor shall pay to Landlord an amount equal to any such payment that has been rescinded or returned.

4. **WAIVERS OF GUARANTOR**

(a) Without limitation of the foregoing, Guarantor waives (i) notice of acceptance of this Guaranty, protest, demand and dishonor, presentment, and demands of any kind now or hereafter provided for by any statute or rule of law, (ii) notice of any actions taken by Landlord or Tenant under the Lease or any other agreement or instrument relating thereto, (iii) notice of any and all defaults by Tenant in the payment of Base Rent and Additional Charges or other rent, charges or amounts, or of any other defaults by Tenant under the Lease, (iv) all other notices, demands and protests, and all other formalities of every kind in connection with the enforcement of the Obligations, omission of or delay in which, but for the provisions of this Section 4, might constitute grounds for relieving Guarantor of its obligations hereunder, and (v)

any requirement that Landlord protect, secure, perfect, insure or proceed against any security interest or lien, or any property subject thereto, or exhaust any right or take any action against Tenant or any other person or entity (including any additional guarantor or Guarantor) or against any collateral.

(b) GUARANTOR HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY ANY PERSON OR ENTITY WITH RESPECT TO ANY MATTER WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH: THIS GUARANTY; THE LEASE; ANY LIABILITY OR OBLIGATION OF TENANT IN ANY MANNER RELATED TO THE PREMISES OR ANY PORTION THEREOF; ANY CLAIM OF INJURY OR DAMAGE IN ANY WAY RELATED TO THE LEASE AND/OR THE PREMISES (OR ANY PORTION THEREOF); ANY ACT OR OMISSION OF TENANT, ITS AGENTS OR EMPLOYEES; OR ANY ASPECT OF THE USE OR OCCUPANCY OF, OR THE CONDUCT OF BUSINESS IN, ON OR FROM THE PREMISES (OR ANY PORTION THEREOF). GUARANTOR SHALL NOT IMPOSE ANY COUNTERCLAIM OR COUNTERCLAIMS OR CLAIMS FOR SETOFF, RECOUPMENT OR DEDUCTION OF RENT IN ANY ACTION BROUGHT BY LANDLORD AGAINST GUARANTOR UNDER THIS GUARANTY, EXCEPT TO THE EXTENT PERMITTED BY THE LEASE. GUARANTOR SHALL NOT BE ENTITLED TO MAKE, AND HEREBY WAIVES, ANY AND ALL DEFENSES AGAINST ANY CLAIM ASSERTED BY LANDLORD OR IN ANY SUIT OR ACTION INSTITUTED BY LANDLORD TO ENFORCE THIS GUARANTY OR THE LEASE EXCEPT THE PERFORMANCE OF THE OBLIGATIONS. IN ADDITION, GUARANTOR HEREBY WAIVES, BOTH WITH RESPECT TO THE LEASE AND WITH RESPECT TO THIS GUARANTY, ANY AND ALL RIGHTS WHICH ARE WAIVED BY TENANT UNDER THE LEASE, IN THE SAME MANNER AS IF ALL SUCH WAIVERS WERE FULLY RESTATED HEREIN. THE LIABILITY OF GUARANTOR UNDER THIS GUARANTY IS PRIMARY AND UNCONDITIONAL.

(c) Guarantor expressly waives any and all rights to defenses arising by reason of (i) any "one-action" or "anti-deficiency" law or any other law that may prevent Landlord from bringing any action, including a claim for deficiency, against Guarantor before or after Landlord's commencement or completion of any action against Tenant; (ii) ANY ELECTION OF REMEDIES BY LANDLORD (INCLUDING, WITHOUT LIMITATION, ANY TERMINATION OF THE LEASE) THAT DESTROYS OR OTHERWISE ADVERSELY AFFECTS GUARANTOR'S SUBROGATION RIGHTS OR GUARANTOR'S RIGHTS TO PROCEED AGAINST TENANT FOR REIMBURSEMENT; (iii) any disability, insolvency, bankruptcy, lack of authority or power, death, insanity, minority, dissolution, or other defense of Tenant, of any other guarantor (or any other Guarantor), or of any other person or entity, or by reason of the cessation of Tenant's liability from any cause whatsoever, other than full and final payment in legal tender and performance of the Obligations; (iv) any right to claim discharge of any or all of the Obligations on the basis of unjustified impairment of any collateral for the Obligations; (v) any change in the relationship between Guarantor and Tenant or any termination of such relationship; (vi) any irregularity, defect or unauthorized action by any or all of Landlord, Tenant, any other guarantor (or Guarantor) or surety, or any of their respective officers, directors or other agents in executing and delivering any instrument or agreements relating to the Obligations or in carrying out or attempting to carry out the terms of any such agreements; (vii)

any assignment, endorsement or transfer, in whole or in part, of the Obligations, whether made with or without notice to or consent of Guarantor; (viii) if the recovery from Tenant or any other Person (including without limitation any other guarantor) becomes barred by any statute of limitations or is otherwise prevented; (ix) the benefits of any and all statutes, laws, rules or regulations applicable in the State of Texas which may require the prior or concurrent joinder of any other party to any action on this Guaranty; (x) any release or other reduction of the Obligations arising as a result of the expansion, release, substitution, deletion, addition, or replacement (whether or not in accordance with the terms of the Lease) of the Premises or any portion thereof; or (xi) any neglect, delay, omission, failure or refusal of Landlord to take or prosecute any action for the collection or enforcement of any of the Obligations or to foreclose or take or prosecute any action in connection with any lien or right of security (including perfection thereof) existing or to exist in connection with, or as security for, any of the Obligations, it being the intention hereof that Guarantor shall remain liable as a principal on the Obligations notwithstanding any act, omission or event that might, but for the provisions hereof, otherwise operate as a legal or equitable discharge of Guarantor. Guarantor hereby waives all defenses of a surety to which it may be entitled by statute or otherwise.

5. **SUBORDINATION; SUBROGATION.**

(a) Guarantor subordinates to the Obligations (i) any present and future debts and obligations of Tenant to Guarantor (the "**Indebtedness**"), including: (A) fees, reimbursement of expenses and other payments pursuant to any independent contractor arrangement; (B) principal and interest pursuant to any Indebtedness; (C) distributions payable to any partners, members or shareholders of Guarantor or Affiliates of Guarantor, solely to the extent such distributions are payable by using distributions received from Tenant; (D) lease payments pursuant to any leasing arrangement; (E) any management fees; and (F) all rights, liens and security interests of Guarantor, whether now or hereafter arising, in any assets of the Tenant, and (ii) any liens or security interests securing payment of the Indebtedness. Notwithstanding the foregoing, payments of Indebtedness may be made (I) at any time provided no Event of Default is continuing and (II) during the continuance of an Event of Default, to the extent permitted pursuant to the Lease. Guarantor shall have no right to possession of any assets of Tenant or to foreclose upon any such asset, whether by judicial action or otherwise, unless and until the Obligations have been paid and performed in full. Guarantor agrees that Landlord shall be subrogated to Guarantor with respect to Guarantor's claims against Tenant and Guarantor's rights, liens and security interest, if any, in any of Tenant's assets and proceeds thereof until all of the Obligations have been paid and performed in full.

(b) After the occurrence and during the continuance of an Event of Default and until such Event of Default is cured or during the continuance of any bankruptcy or insolvency proceeding by or against Tenant and until such proceeding is dismissed, Guarantor shall not: (i) make any distributions or other payments to any partners, parent entities, or Affiliates of Guarantor (other than to Tenant), solely to the extent such distributions are payable by using distributions received from Tenant; or (ii) ask for, sue for, demand, take or receive any payment, by setoff or in any other manner, including the receipt of a negotiable instrument, for all or any part of the Indebtedness owed by Tenant, or any successor or assign of Tenant, including a receiver, trustee or debtor in possession (the term "Tenant" shall include any such successor or assign of Tenant) until the Obligations have been paid in full; however, if Guarantor

receives such a payment, Guarantor shall immediately deliver the payment to Landlord for credit against the then outstanding and matured balance of the Obligations. Notwithstanding anything in this Section 5 to the contrary, after an Event of Default has occurred and is outstanding, Guarantor may, in its sole discretion, make cash contributions to Tenant.

(c) Guarantor shall not be subrogated, and hereby waives and disclaims any claim or right against Tenant by way of subrogation, exoneration, contribution, reimbursement, indemnity or otherwise, to any of the rights of Landlord under the Lease or otherwise, or in the Premises (or any portion thereof), which may arise by any of the provisions of this Guaranty or by reason of the performance by Guarantor of any of its Obligations hereunder. Guarantor shall look solely to Tenant for any recoupment of any payments made or costs or expenses incurred by Guarantor pursuant to this Guaranty. If any amount shall be paid to Guarantor on account of such subrogation rights at any time when all of the Obligations shall not have been paid and performed in full, Guarantor shall immediately deliver the payment to Landlord for credit against the then outstanding balance of the matured Obligations.

6. **REPRESENTATIONS AND WARRANTIES OF GUARANTOR** Guarantor represents and warrants that:

(a) Guarantor is a Delaware limited partnership; has all requisite power and authority to enter into and perform its obligations under this Guaranty; and this Guaranty is valid and binding upon and enforceable against Guarantor without the requirement of further action or condition.

(b) The execution, delivery and performance by Guarantor of this Guaranty does not and will not (i) contravene any applicable Legal Requirements, the organizational documents of Guarantor, if applicable, any order, writ, injunction, decree applicable to Guarantor, or any contractual restriction binding on or affecting Guarantor or any of its properties or assets, or (ii) result in or require the creation of any lien, security interest or other charge or encumbrance upon or with respect to any of its properties or assets.

(c) No approval, consent, exemption, authorization or other action by, or notice to, or filing with, any governmental authority is necessary or required in connection with the execution, delivery or performance by, or enforcement against, Guarantor of this Guaranty or any other instrument or agreement required hereunder.

(d) There is no action, suit or proceeding pending or threatened against or otherwise affecting Guarantor before any court or other governmental authority or any arbitrator that would, or could reasonably be expected to materially adversely affect Guarantor's ability to perform its obligations under this Guaranty.

(e) Guarantor's principal place of business as of the date hereof is 5885 Meadows Rd., Suite 500, Lake Oswego, OR 97035.

(f) Tenant is directly or indirectly owned and controlled by Guarantor.

(g) Guarantor has derived or expects to derive financial and other advantages and benefits directly or indirectly, from the making of the Lease and the payment and

performance of the Obligations. Guarantor hereby acknowledges that Landlord will be relying upon Guarantor's guarantee, representations, warranties and covenants contained herein.

(h) All reports, statements (financial or otherwise), certificates and other data furnished by or on behalf of Guarantor to Landlord in connection with this Guaranty or the Lease are: true and correct, in all material respects, as of the applicable date or period provided therein; and fairly represent the financial condition of Guarantor as of the respective date thereof.

7. **NOTICES.** Any consents, notices, demands, requests, approvals or other communications given under this Guaranty shall be in writing and shall be given as provided in the Lease, as follows or to such other addresses as either Landlord or Guarantor may designate by notice given to the other in accordance with the provisions of this Section 7:

If to Guarantor:

c/o – Holiday Retirement
5885 Meadows Rd., Suite 500
Lake Oswego, OR 97035
Attn: General Counsel

With a copy to:

c/o Fortress Investment Group LLC
1345 Avenue of the Americas
New York, New York 10105
Attn: Cameron MacDougall
Tel: (212) 479-1522
Email: cmacdougall@fortress.com

With a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York, New York 10036
Attn: Neil Rock
Tel: (212) 735-3787
Fax: (917) 777-3787
Email: neil.rock@skadden.com

If to Landlord:

c/o Fortress Investment Group LLC
1345 Avenue of the Americas, 46th Floor
New York, NY 10105
Telephone: (212) 798-6100
Attention: Jonathan Brown

With a copy to:

Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York NY 10006
Attention: Donald A. Stern
Telephone: (212) 225-2640
Email: dstern@cgsh.com

With a copy to:

8. **CONSENT TO JURISDICTION.** Guarantor hereby (a) consents and submits to the jurisdiction of the courts of the State of Texas and the federal courts sitting in the State of Texas with respect to any dispute arising, directly or indirectly, out of this Guaranty, (b) waives any objections which the undersigned may have to the laying of venue in any such suit, action or proceeding in either such court, (c) agrees to join Landlord in any petition for removal to either such court, and (d) irrevocably designates and appoints Tenant as its authorized agent to accept and acknowledge on its behalf service of process with respect to any disputes arising, directly or

indirectly, out of this Guaranty. The undersigned hereby acknowledges and agrees that Landlord may obtain personal jurisdiction and perfect service of process through Tenant as the undersigned agent, or by any other means now or hereafter permitted by applicable law. Nothing above shall limit Landlord's choice of forum for purposes of enforcing this Guaranty.

9. **CERTAIN ADDITIONAL COVENANTS.**

(a) **Financial Deliveries.**

(i) Guarantor shall deliver the information described in Schedule 3 to Landlord.

(ii) Upon the delivery of any financial information by or on behalf of Guarantor pursuant to this Section 9 from time to time during the Lease Term, Guarantor shall be deemed (unless Guarantor specifically states otherwise in writing) to automatically represent and warrant to Landlord that the financial information delivered to Landlord is true, accurate and complete in all material respects, presents fairly the results of operations of Guarantor for the respective periods covered thereby and reflects accurately the books and records of account of Guarantor as of such dates and for such periods in all material respects.

(b) **Disclosure.** Guarantor agrees that any financial statements of Guarantor and, if applicable, its Consolidated Subsidiaries required to be delivered to Landlord may (subject to the restrictions in Article 27 of the Lease which shall be deemed to extend to information provided by, and relating to, Guarantor), without the prior consent of, or notice to, Guarantor, be included and disclosed, to the extent required by applicable law, regulation or stock exchange rule, in offering memoranda or prospectuses, or similar publications in connection with syndications, private placements or public offerings of Landlord's (or the entities directly or indirectly controlling Landlord) securities or interests, and in any registration statement, report or other document permitted or required to be filed under applicable federal and state laws, including those of any successor to Landlord. Guarantor agrees to provide such other reasonable financial and other information necessary to facilitate a private placement or a public offering or to satisfy the SEC or regulatory disclosure requirements. Guarantor agrees to use commercially reasonable efforts to cause its independent auditors, at Landlord's cost, to consent, in a timely manner, to the inclusion of their audit report issued with respect to such financial statements in any registration statement or other filing under federal and state laws and to provide the underwriters participating in any offering of securities or interests of Landlord (or the entities directly or indirectly controlling Landlord) with a standard accountant's "comfort" letter with regard to the financial information of Guarantor and, if applicable, its Consolidated Subsidiaries included or incorporated by reference into any prospectus or other offering document.

(c) **Review Right.** Landlord shall have the right, from time to time during normal business hours after not less than five (5) Business Days prior written notice to Guarantor, itself or through any attorney, accountant or other agent or representative retained by Landlord ("**Landlord's Representatives**"), to examine and audit all financial and other records and pertinent corporate documents of Guarantor at the office of Guarantor or such other Person that maintains such records and documents. Guarantor hereby agrees to reasonably cooperate with

any such examination or audit; provided, however, the cost of such examination or audit shall be borne by Landlord.

(d) **Assignment; Sale of Assets; Change in Control.** Without the prior consent of Landlord, which consent may be withheld or granted in Landlord's sole discretion, Guarantor shall not assign (whether directly or indirectly), in whole or in part, this Guaranty or any obligation hereunder or, through one or more step transactions or tiered transactions, do, or permit to be done, any Transfer except as expressly allowed by the Lease. Upon the consummation of (i) a Transfer that is not prohibited by the terms of the Lease and (ii) the contemporaneous delivery of a substitute guaranty with respect to the transferred Obligations as contemplated by the terms of the Lease, the Guarantor with respect to the tenant Transferring the interests shall be immediately released from (A) the performance or observance of all or any portion of any of the agreements, covenants, terms or conditions contained in this Guaranty as they relate to the applicable interest or interests being Transferred, as applicable, and (B) its obligation to comply with the covenants contained in Section 10 of this Guaranty (provided, in the case of this subsection (B), one or more Guarantors that satisfy the financial covenants in Section 10 (as applicable), guarantee the obligations of the tenants following the Transfer of the Lease, with respect to all of the Premises), in each case, without the need for any further action on behalf of the parties hereto. In connection with any such release, upon written request by Guarantor, Landlord shall deliver to Guarantor such evidence as is reasonably requested to evidence such release.

(e) **Payment Method; Default Interest.** Guarantor shall make any payments due hereunder in immediately available funds by wire transfer to Landlord's bank account as notified by Landlord, unless Landlord agrees to another method of payment of immediately available funds. If Guarantor does not pay an amount due hereunder on its due date, Guarantor shall pay, on demand, interest at the Overdue Rate on the amount due for a period ending on the full payment of such amount, including the day of repayment, whether before or after any judgment or award, to the extent permitted under applicable law.

10. **FINANCIAL COVENANTS.** Until the payment and performance in full of the Obligations:

(a) Subject to Section 10(b), (i) Guarantor shall maintain, at a minimum, the Net Worth or Market Capitalization (as applicable) and Fixed Charge Coverage Ratio and, at a maximum, the Leverage Ratio (each as defined on Exhibit A attached hereto) set forth on Schedule 1(a) attached hereto. The Net Worth, Fixed Charge Coverage Ratio and Leverage Ratio of Guarantor shall be measured as of the last day of each calendar quarter and such calculations shall be delivered to Landlord in accordance with Section 9 and Schedule 3. Guarantor hereby represents and warrants that its Net Worth and Fixed Charge Coverage Ratio meet or exceed the levels reflected in Schedule 1(a), and its Leverage Ratio is less than or equal to the levels reflected on Schedule 1(a).

(b) Unless and until a Material Event shall occur, if Guarantor becomes or is a Publicly Traded Company with a Market Capitalization (each as defined on Exhibit A attached hereto) in excess of Five Hundred Million Dollars (\$500,000,000) at the time such Guarantor becomes a party to this Guaranty, then Section 10(a) and Section 10(c) shall not apply and

Guarantor shall maintain, at a minimum, the Fixed Charge Coverage Ratio set forth on Schedule 1(b) attached hereto. The Fixed Charge Coverage Ratio shall be measured as of the last day of each calendar quarter and such calculation of Fixed Charge Coverage Ratio shall be delivered to Landlord in accordance with Section 9 and Schedule 3. Upon the occurrence of a Material Event, (i) if Guarantor is a Publicly Traded Company with a Market Capitalization in excess of Five Hundred Million Dollars (\$500,000,000), as measured immediately after such Material Event, then this Section 10(b) shall continue to apply; or (ii) if Guarantor is not a Publicly Traded Company with a Market Capitalization in excess of Five Hundred Million Dollars (\$500,000,000), as measured immediately after such Material Event, then Section 10(a) shall immediately apply to such Guarantor.

(c) At no time shall Guarantor guaranty (or enter into a keepwell or similar instrument), permit any assets of Guarantor to serve as security or collateral for, or otherwise provide any form of credit support for, any indebtedness or other obligations of any person or entity which is not a wholly-owned and controlled, direct or indirect subsidiary of Guarantor.

11. MISCELLANEOUS.

(a) Guarantor further agrees that Landlord may, without notice, assign this Guaranty in whole or in part. If Landlord disposes of its interest in the Lease, "**Landlord**," as used in this Guaranty, shall mean Landlord's successors and assigns.

(b) Guarantor promises to pay all costs of collection or enforcement incurred by Landlord in exercising any remedies provided for in the Lease or this Guaranty whether at law or in equity. If any legal action or proceeding is commenced to interpret or enforce the terms of, or obligations arising out of, this Guaranty, or to recover damages for the breach thereof, the party prevailing in any such action or proceedings shall be entitled to recover from the non-prevailing party all attorneys' fees and reasonable costs and expenses incurred by the prevailing party. As used herein, "attorneys' fees" shall mean the fees and expenses of counsel to the parties hereto, which may include printing, photocopying, duplicating and other expenses, air freight charges, and fees billed for law clerks, paralegals, librarians and others not admitted to the bar but performing services under the supervision of an attorney. The term "attorneys' fees" shall also include, without limitation, all such fees and expenses incurred with respect to appeals, arbitrations and bankruptcy proceedings.

(c) Guarantor shall, from time to time within ten (10) days after receipt of Landlord's request, but not more than two (2) times in any given fiscal year, execute, acknowledge and deliver to Landlord a statement certifying that this Guaranty is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating such modifications). Such certificate may be relied upon by any prospective purchaser, lessor or lender of all or a portion of the Premises (or any portion thereof).

(d) If any portion of this Guaranty shall be deemed invalid, unenforceable or illegal for any reason, such invalidity, unenforceability or illegality shall not affect the balance of this Guaranty, which shall remain in full force and effect to the maximum permitted extent.

(e) The provisions, covenants and guaranties of this Guaranty shall be binding upon Guarantor and its heirs, successors, legal representatives and assigns, and shall inure to the benefit of Landlord and its successors and assigns, and shall not be deemed waived or modified unless such waiver or modification is specifically set forth in writing, executed by Landlord or its successors and assigns, and delivered to Guarantor.

(f) Whenever the words “include”, “includes”, or “including” are used in this Guaranty, they shall be deemed to be followed by the words “without limitation”, and, whenever the circumstances or the context requires, the singular shall be construed as the plural, the masculine shall be construed as the feminine and/or the neuter and vice versa. This Guaranty shall be interpreted and enforced without the aid of any canon, custom or rule of law requiring or suggesting construction against the party drafting or causing the drafting of the provision in question.

(g) Each of the rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law or in the Lease or this Guaranty.

(h) The provisions of this Guaranty shall be governed by and interpreted solely in accordance with the internal laws of the State of Texas, without giving effect to the principles of conflicts of law.

(i) The execution of this Guaranty prior to execution of the Lease shall not invalidate this Guaranty or lessen the Obligations of Guarantor hereunder.

(j) The Recitals set forth above are hereby incorporated by this reference and made a part of this Guaranty. Guarantor hereby represents and warrants that the Recitals are true and correct.

(k) Guarantor hereby acknowledges and agrees to be bound by the restrictive covenants set forth in Article 26 to the Lease.

(l) Notwithstanding anything to the contrary herein, if Landlord exercises its rights under Article 28 of the Lease and requires Tenant to execute a Severed Lease, contemporaneously with the execution of any Severed Lease, Guarantor shall execute a new guaranty for each of the Lease and each Severed Lease, pursuant to which Guarantor shall separately guaranty Tenant’s obligations under the Lease (as amended) and each Severed Lease on the same terms and to the same extent as Tenant’s obligations under the Lease are guaranteed by Guarantor pursuant to this Guaranty, and thereupon, this Guaranty shall be automatically be deemed terminated and of no further force or effect

[Signature Page Follows]

IN WITNESS WHEREOF, Guarantor and Landlord have executed this Guaranty as of the day and year first above written.

GUARANTOR:

Holiday AL Holdings LP,
a Delaware limited partnership

By: Holiday AL Holdings GP LLC,
its General Partner

By: _____

Name: Scott Shanaberger

Title: Chief Financial Officer

Executed by Landlord for the purpose of Section 11(l):

LANDLORD:

NIC 12 ARLINGTON PLAZA OWNER LLC
NIC 12 BLAIR HOUSE OWNER LLC
NIC 12 BLUE WATER LODGE OWNER LLC
NIC 12 BRIARCREST ESTATES OWNER LLC
NIC 12 CHATEAU RIDGELAND OWNER LLC
NIC 12 CHERRY LAUREL OWNER LLC
NIC 12 COLONIAL HARBOR OWNER LLC
NIC 12 COUNTRY SQUIRE OWNER LLC
NIC 12 COURTYARD AT LAKEWOOD OWNER LLC
NIC 12 DESOTO BEACH CLUB OWNER LLC
NIC 12 EL DORADO OWNER LLC
NIC 12 ESSEX HOUSE OWNER LLC
NIC 12 FLEMING POINT OWNER LLC
NIC 12 GRASSLANDS ESTATES OWNER LLC
NIC 12 GREELEY PLACE OWNER LLC
NIC 12 GRIZZLY PEAK OWNER LLC
NIC 12 JACKSON OAKS OWNER LLC
NIC 12 MAPLE DOWNS OWNER LLC
NIC 12 PARKWOOD ESTATES OWNER LLC
NIC 12 PIONEER VALLEY LODGE OWNER LLC
NIC 12 REGENCY RESIDENCE OWNER LLC
NIC 12 SIMI HILLS OWNER LLC
NIC 12 STONEYBROOK LODGE OWNER LLC
NIC 12 SUMMERFIELD ESTATES OWNER LLC
NIC 12 VENTURA PLACE OWNER LLC, each a
Delaware limited liability company

By: _____
Name: Andrew White
Title: Chief Executive Officer,
President and Secretary

EXHIBIT A

CERTAIN DEFINED TERMS

As used in Section 10 of this Guaranty, the following terms shall have the meanings set forth below:

“**Acquisition**” means, by any Person, the purchase or acquisition by such Person of any Capital Stock in another Person or any asset of another Person, whether or not involving a merger or consolidation with such other Person.

“**Annualized**” means, with respect to an amount, (a) such amount, divided by (b) the number of calendar quarters in such period, multiplied by (c) four.

“**Capital Lease**” means, as applied to any Person, any lease of any property (whether real, personal or mixed) by that Person as lessee which, in accordance with GAAP and in the reasonable judgment of such Person, is required to be accounted for as a capital lease on the balance sheet of that Person.

“**Capital Stock**” shall mean, with respect to any entity, any capital stock (including preferred stock), shares, interests, participation or other ownership interests (however designated) of such entity and any rights (other than debt securities convertible into or exchangeable for capital stock), warrants or options to purchase any thereof; provided, however, that leases of real property that provide for contingent rent based on the financial performance of the tenant shall not be deemed to be Capital Stock.

“**Consolidated EBITDAR**” means, for any period, for Guarantor and, if applicable, its Consolidated Subsidiaries determined on a consolidated basis, Consolidated Net Income for such period, plus without duplication, to the extent deducted in determining Consolidated Net Income, the sum for such period of (i) amortization and depreciation expense, (ii) provision for income taxes (including provision for deferred taxes not payable currently), (iii) Consolidated Interest Expense, (iv) Rent Expense, (v) non-cash charges as are reasonably acceptable to Landlord, and (vi) non-recurring income and expenses as are reasonably acceptable to Landlord; but, excluding, for purposes hereof, to the extent included in determining Consolidated Net Income for such period, the amount of interest income as determined for such period in conformity with GAAP.

“**Consolidated Fixed Charges**” means, for Guarantor and its Consolidated Subsidiaries determined on a consolidated basis, for a particular period, the following determined in accordance with GAAP: the sum of the scheduled and mandatory amortization of Debt (but without double counting) during such period plus Consolidated Interest Expense and Rent Expense for such period.

“**Consolidated Interest Expense**” means, for a given period, all interest expense for Guarantor and its Consolidated Subsidiaries during such period determined on a consolidated basis for such period in accordance with GAAP, including the interest component under Capital Leases (and also including, to the extent required under GAAP, the implied interest component under a securitization), any accrued but unpaid interest, capitalized interest, and all current

payments due under Interest Rate Protection Agreements by Guarantor and its Consolidated Subsidiaries determined on a consolidated basis (net of payments to such parties by any counter party thereunder, but excluding the amortization of any deferred financing fees.

“Consolidated Net Income” means, for any given period, the net income or loss of Guarantor and its Consolidated Subsidiaries during such period (including net income or net loss attributable to non-controlling interests) determined on a consolidated basis for such period in accordance with GAAP; provided that there shall be excluded from such determination of net income or loss (i) adjustments for straight-line rent accounting, (ii) the income or loss of any Person (other than the Consolidated Subsidiaries) in which Guarantor or any of its Consolidated Subsidiaries has an equity investment or comparable interest, except to the extent of the amount of dividends or other distributions actually received by Guarantor or any Consolidated Subsidiary in cash on a non-contingent basis, without any obligation to return such dividend or distribution by the Guarantor or any Consolidated Subsidiary, (iii) income or loss of a Person accrued prior to the date it becomes a Consolidated Subsidiary or is merged or consolidated with or such Person’s assets are acquired by Guarantor or any of its Consolidated Subsidiaries and (iv) any after tax gains or losses attributable to sales of non-current assets out of the ordinary course of business and write-downs of non-current assets in anticipation of losses to the extent they have decreased net income.

“Consolidated Subsidiary” shall mean, with respect to Guarantor, any subsidiary or other entity the accounts of which would be consolidated with those of Guarantor in its consolidated financial statements if such statements were prepared as of such date.

“Cumulative Straight-line Rent” shall mean the sum of all non-cash straight-line rent adjustments made by Guarantor or its Consolidated Subsidiaries, whether made before or after the date hereof, but only to the extent such adjustments remain directly reflected as an asset or as a liability on the balance sheet of Guarantor as of the applicable date of calculation.

“Debt” means, for Guarantor or any of its Consolidated Subsidiaries, without duplication, any indebtedness of Guarantor or any of its Consolidated Subsidiaries, whether or not contingent, in respect of: (i) borrowed money as evidenced by bonds, notes, debentures or similar instruments; (ii) indebtedness for borrowed money secured by any encumbrance existing on property owned by Guarantor or its Consolidated Subsidiaries, to the extent of the lesser of (x) the amount of indebtedness so secured or (y) the fair market value of the property subject to such encumbrance; (iii) all reimbursement obligations in connection with any letters of credit or amounts representing the balance deferred and unpaid of the purchase price of any property or services, except any such balance that constitutes an accrued expense, trade payable, conditional sale obligation or obligation under any title retention agreement; (iv) all net obligations of such Person under any Interest Rate Protection Agreement valued in accordance with GAAP; (v) all obligations in respect of any preferred equity to the extent payments are being made thereon; (vi) indebtedness of any partnership or joint venture or other similar entity in which such Person is a general partner or joint venturer and, as such, has personal liability for such obligations, but only if and to the extent there is recourse to such Person for payment thereof; (vii) any obligations of Guarantor and its Consolidated Subsidiaries with respect to redemption, repayment or other repurchase of any Equity Interest or the principal amount of any subordinated Debt (regardless of whether interest or principal is then-currently payable with respect thereto); (viii) any lease of

property by Guarantor or any of its Consolidated Subsidiaries as lessee which is reflected as a capital lease obligation on the consolidated balance sheet of Guarantor or its Consolidated Subsidiaries; to the extent, in the case of items of indebtedness under clauses (i) through (viii) above, that any such items would appear as a liability on Guarantor's or its Consolidated Subsidiaries' consolidated balance sheet in accordance with GAAP; or (ix) the liquidation preference of any Equity Interest of Guarantor or any shares of preferred stock of any of its Consolidated Subsidiaries to the extent payments are being made thereon.

"Equity Interest" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"Fixed Charge Coverage Ratio" means, for Guarantor for the trailing twelve (12) consecutive month period ending as of any date of determination, (i) the Consolidated EBITDAR for such period, divided by (ii) the sum of the Consolidated Fixed Charges for such period. For purposes of computing the Fixed Charge Coverage Ratio, Consolidated EBITDAR and Consolidated Fixed Charges shall be normalized on a Pro Forma Basis for any acquisitions and/or divestitures and/or refinancings and/or debt repayments occurring during each fiscal quarter.

"Interest Rate Protection Agreements" means any interest rate swap agreement, interest rate cap agreement, synthetic cap, collar or floor or other financial agreement or arrangement designed to protect Guarantor or any Consolidated Subsidiary against fluctuations in interest rates or to reduce the effect of any such fluctuations.

"Leverage Ratio" shall mean as of any date of determination, for Guarantor and its Consolidated Subsidiaries determined on a consolidated basis, the ratio of (a) the sum of (i) Debt (excluding reimbursement obligations in connection with any undrawn letters of credit to the extent included in Debt) and (ii) Rent Expense for the Trailing Four Quarter Period ending on such date multiplied by ten (10), to (b) Consolidated EBITDAR for the Trailing Four Quarter Period ending on such date. For purposes of calculating the foregoing ratio, asset dispositions, refinancings, debt repayments or Acquisitions which have occurred during such period shall be included on a Pro Forma Basis.

"Market Capitalization" means the Market Price of Guarantor's Publicly Traded Capital Stock currently outstanding multiplied by the number of such shares. For purposes of this definition, the number of shares of Guarantor's Publicly Traded Capital Stock currently outstanding shall not include any shares held (a) by any subsidiary of Guarantor; or (b) by Guarantor as treasury stock or otherwise.

"Market Price" means, on any date, the closing sale price per share of Guarantor's Publicly Traded Capital Stock on such date on the New York Stock Exchange or another registered national stock exchange on which Guarantor's Publicly Traded Capital Stock is then listed, or if there is no such price on such date, then the closing sale price on such exchange or quotation system on the date nearest preceding such date.

“**Material Event**” means (a) any transaction or series, step or tiered transactions, including, but not limited to the Transfer of any stock, partnership, membership or other direct or indirect equity interests of Guarantor or any Person or group of Persons Controlling Guarantor, that involve or effectively result in (without regard, for example, to the form or direction of transaction or name or form of any successor entity/ies) (1) a change in Control of Guarantor or in such Controlling Person or Persons; or (2) the Transfer of any of the assets of Guarantor or its Consolidated Subsidiaries if the Net Worth of Guarantor immediately following such transaction is not at least equal to Seventy-Five Percent (75%) of the Net Worth of Guarantor immediately prior to such transaction; or (b) any transaction or series, step or tiered transactions that results in the Guarantor no longer being a Publicly Traded Company.

“**Net Worth**” means, as of the date of this Agreement (if applicable, on a Pro Forma Basis reflecting the repayment of \$235,000,000 of the Outstanding Debt (as defined in the Purchase Agreement) on such date) and any subsequent date of determination, for Guarantor and, if applicable, its Consolidated Subsidiaries determined on a consolidated basis, an amount equal to the book value of Guarantor’s assets as of such date, *plus* (a) (i) accumulated depreciation and (ii) the Cumulative Straight-line Rent (to the extent reflected as a liability on the balance sheet of Guarantor as of the applicable date of calculation), *minus* (b) (i) the liabilities of Guarantor as of such date, (ii) the total intangible assets (excluding resident lease intangibles) of Guarantor as of such date, and (iii) the Cumulative Straight-line Rent (to the extent reflected as an asset on the balance sheet of Guarantor as of the applicable date of calculation), each as determined in accordance with GAAP.

“**Pro Forma Basis**” means, for purposes of determining compliance with any financial covenant hereunder, that the subject transaction shall be deemed to have occurred as of the first day of the applicable period ending on the last day of the applicable period for which financial performance is being measured. Further, for purposes of making calculations on a “Pro Forma Basis” hereunder, (i) in the case of an asset disposition or repayment of debt, (A) income statement items (whether positive or negative) attributable to the property, entities or business units that are the subject of such asset disposition shall be excluded to the extent relating to any period prior to the actual date of the subject transaction, and (B) Debt paid or retired in connection with the subject transaction shall be deemed to have been paid and retired as of the first day of the applicable period; and (ii) in the case of an Acquisition, (A) income statement items (whether positive or negative) attributable to the property, entities or business units that are the subject of such Acquisition shall be included to the extent relating to any period prior to the actual date of the subject transaction, and (B) Debt incurred in connection with the subject transaction shall be deemed to have been incurred as of the first day of the applicable period (and interest expense shall be imputed for the applicable period utilizing the actual interest rates thereunder or, if actual rates are not ascertainable, assuming prevailing interest rates included in the income statements shall be eliminated).

“**Publicly Traded Capital Stock**” means Capital Stock which is (i) registered under the Securities Exchange Act of 1934, as amended, and (ii) listed on the New York Stock Exchange or traded on the NASDAQ Stock Market.

“**Publicly Traded Company**” means a company with Publicly Traded Capital Stock. “**Quarter**” means calendar quarter.

“**Rent Expense**” means rent expense computed under and in accordance with GAAP, exclusive of any non-cash adjustment under GAAP for the straight lining of rent.

“**Trailing Four Quarter Period**” shall mean with respect to a date, the period of four consecutive Quarters ended on such date or the end of the Quarter most immediately preceding such date.

Exhibit A

SCHEDULE 1(a)

FINANCIAL COVENANTS

Fixed Charge Coverage Ratio: 1.10x

Leverage Ratio: 10x

Net Worth: \$150,000,000

Schedule 1

SCHEDULE 1(b)

FINANCIAL COVENANTS

Fixed Charge Coverage Ratio: 1.05x

Schedule 1

SCHEDULE 2**LOCATIONS**

Facility	Address	City	State
Arlington Plaza	6801 W Poly Webb Road	Arlington	TX
Blair House	1200 East College Avenue	Normal	IL
Blue Water Lodge	2840 Keewahdin Road	Fort Gratiot	MI
Briarcrest Estates	14525 Clayton Road	Ballwin	MO
Chateau Ridgeland	745 S Pear Orchard Road	Ridgeland	MS
Cherry Laurel	1009 Concord Road	Tallahassee	FL
Colonial Harbor	2405 Ft. Eustis Blvd.	Yorktown	VA
Country Squire	1602 Buckingham Street	St. Joseph	MO
Courtyard at Lakewood	7100 W 13th Avenue	Lakewood	CO
Desoto Beach Club	5201 Desoto Rd.	Sarasota	FL
El Dorado	714 W Arapaho Road	Richardson	TX
Essex House	20 N. 12th St.	Lemoyme	PA
Fleming Point	720 Latta Rd.	Greece	NY
Grasslands Estates	10665 W. 13th St. N	Wichita	KS
Greeley Place	1051 6th Street	Greeley	CO
Grizzly Peak	3600 American Way	Missoula	MT
Jackson Oaks	2500 Marshall Avenue	Paducah	KY
Maple Downs	7220 Genesee St. E.	Fayetteville	NY
Parkwood Estates	2201 South Lemay Avenue	Fort Collins	CO
Pioneer Valley Lodge	2351 N 400 E	North Logan	UT
Regency Residence	6711 Embassy Boulevard	Port Richey	FL
Simi Hills	950 Sunset Garden Lane	Simi Valley	CA
Stoneybrook Lodge	4700 SW Hollyhock Circle	Corvallis	OR
Summerfield Estates	9133 Baird Road	Shreveport	LA
Ventura Place	3026 54th Street	Lubbock	TX

SCHEDULE 3

FINANCIAL INFORMATION

(1) FINANCIAL REPORTS: No later than 50 days after the Commencement Date, Guarantor shall deliver to Landlord audited financial statements with footnotes including footnotes with respect to the Guarantor for the period prior to the Commencement Date certified in a manner reasonably acceptable to Landlord by independent certified public accountants of recognized standing.

(2) QUARTERLY FINANCIAL REPORTS: No later than 30 days after the end of each calendar quarter (or 50 days with respect to the last calendar quarter of each year), Guarantor shall deliver to Landlord unaudited financial statements prepared for the applicable quarter with respect to Guarantor, including:

- (a) a balance sheet and operating statement as of the end of such quarter;
- (b) related statements of income;
- (c) calculation of Net Worth, Fixed Charge Coverage Ratio and Leverage Ratio;
- (d) an Officer's Certificate executed and delivered by the Chief Executive Officer or Chief Financial Officer of Guarantor, certifying that the foregoing are true and correct and were prepared in accordance with GAAP, applied on a consistent basis, subject to changes resulting from audit and normal year-end audit adjustments; and
- (e) such other information regarding Guarantor or Tenant as may be reasonably required to be disclosed by (i) operation of law, rule, regulation or legal process, (ii) the adoption of any accounting standards or principles, (iii) any change in any of the foregoing, (iv) any change in the interpretation or administration thereof by any governmental authority, accounting standards or oversight board or comparable agency or authority charged with the interpretation or administration thereof, or (v) compliance with any request or directive (whether or not having the force of law) of any such regulatory authority or agency, to a governmental authority or agency such as the Internal Revenue Service or the Securities and Exchange Commission, or a stock exchange such as the New York Stock Exchange, in each case in form and substance reasonably acceptable to the Landlord.

(3) ANNUAL FINANCIAL REPORTS : No later than 50 days after the end of each calendar year, Guarantor shall deliver to Landlord audited financial statements including footnotes prepared for the applicable calendar year with respect to Guarantor, including:

- (a) a balance sheet and operating statement as of the end of such calendar year;
 - (b) related statements of income;
-

- (c) calculation of Net Worth, Fixed Charge Coverage Ratio and Leverage Ratio;
 - (d) an Officer's Certificate executed and delivered by the Chief Executive Officer or Chief Financial Officer of Guarantor, certifying that the foregoing are true and correct and were prepared in accordance with GAAP, applied on a consistent basis, subject to changes resulting from audit and normal year-end audit adjustments; and
 - (e) such other information regarding Guarantor or Tenant as may be reasonably required to be disclosed by (i) operation of law, rule, regulation or legal process, (ii) the adoption of any accounting standards or principles, (iii) any change in any of the foregoing, (iv) any change in the interpretation or administration thereof by any governmental authority, accounting standards or oversight board or comparable agency or authority charged with the interpretation or administration thereof, or (v) compliance with any request or directive (whether or not having the force of law) of any such regulatory authority or agency, to a governmental authority or agency such as the Internal Revenue Service or the Securities and Exchange Commission, or a stock exchange such as the New York Stock Exchange, in each case in form and substance reasonably acceptable to the Landlord.
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EXHIBIT J

QUARTERLY COMPLIANCE CERTIFICATE

Newcastle Investment Corp. (herein "**NCT**")
c/o Fortress Investment Group LLC
1345 Avenue of the Americas, 46th Floor
New York, NY 10105

Re: Lease among [_____] (the "**Landlord**"), and [_____] (the "**Tenant**") dated as of [●], 2013 (as it may be amended and/or restated from time to time, the "**Lease**")

Tenant hereby certifies that for the 12 months ended [●]:

1. Capitalized terms not otherwise defined in this Certificate shall have the meanings set forth in the Lease. All capitalized terms shall be equally applicable to the singular and plural forms thereof and to any gender form thereof.
2. No Event of Default or non-curable default under the Lease, has occurred or exists, except: [_____]
3. The Lease Coverage Ratio for the preceding twelve (12) months (or such shorter period, annualized, if the Lease has been in effect for less than a period of twelve (12) months) through the end of such period was:[**INSERT RATIO COMMENCING DECEMBER 31, 2014.**]

TOTAL NET OPERATING INCOME \$ _____

TOTAL BASE RENT \$ _____

LEASE COVERAGE RATIO:

Actual	_____
Required	_____

4. [Intentionally omitted.]
5. Occupancy Information: Year-to-Date as of ____ / ____ / ____

Attach current rent roll for each Facility

6. Annual Information Requirements for each Facility:

(a) Insurance: Date Last Paid (enclosed Certificate of Insurance when renewed)

(b) Property Taxes: Date Last Paid (enclosed receipt when paid)

(c) Copy of Annual License/Certification Survey (if applicable):

7. All information provided herein and in the attached financial statement is true and correct.

Date: _____ Certified by: _____ Title: _____

EXHIBIT L

FAIR MARKET VALUE

The Fair Market Value of the Facilities shall be such amount as may be agreed upon by Landlord and Tenant; provided, however, in the event Landlord and Tenant are unable to agree after negotiating in good faith for a period of sixty (60) days upon the Fair Market Value of the Facilities, then the Fair Market Value of the Facilities shall be determined by an independent appraisal firm, in which one or more of the members, officers or principals of such firm are Members of the Appraisal Institute (or any successor organization thereto), as may be selected by Landlord (the "Appraiser"). Landlord shall give Tenant notice of the identity of such Appraiser. Landlord shall cause such Appraiser to determine the Fair Market Value as of the relevant date (giving effect to the impact, if any, of inflation from the date of the Appraiser's decision to the relevant date) and, absent Tenant's selection of a second appraiser within the time permitted and otherwise pursuant to the provisions of this Section, the determination of such Appraiser shall be final and binding upon the parties. A written report of such Appraiser shall be delivered and addressed to each of Landlord and Tenant. To the extent consistent with sound appraisal practice as then existing at the time of any such appraisal, an appraisal of Fair Market Value for purposes of this Lease shall take into account and shall give appropriate consideration to the sales comparison approach and the income approach (the cost approach shall not be considered), and neither method or approach shall be deemed conclusive. This provision for determination by appraisal shall be specifically enforceable to the extent such remedy is available under applicable law, and any determination hereunder shall be final and binding upon the parties except as otherwise provided by applicable law. Landlord and Tenant shall each pay one-half (1/2) of the fees and expenses of the Appraiser and one-half (1/2) of all other costs and expenses incurred in connection with such appraisal. If Tenant does not accept the choice of the Appraiser selected by Landlord as provided above, then the following shall apply:

(i) Within fifteen (15) days after Tenant's receipt of Landlord's selected Appraiser, Tenant shall by notice to Landlord appoint a second Appraiser meeting the requirements set forth above to act on its behalf. In such event, the Appraisers thus appointed shall, within sixty (60) days after the date of Landlord's notice of its originally selected Appraiser, proceed to determine the Fair Market Value as of the relevant date (giving effect to the impact, if any, of inflation from the date of their decision to the relevant date); provided, however, that if Tenant fails to appoint its Appraiser within the time permitted, or if two Appraisers shall have been so appointed but only one such Appraiser shall have made such determination within such sixty (60) day period, then the determination of such sole Appraiser shall be final and binding upon the parties.

(ii) If the two Appraisers shall have been appointed and shall have made their determinations within the respective requisite periods set forth above and if the difference between the amounts so determined shall not exceed ten percent (10%) of the lesser of such amounts, then the Fair Market Value of the Facilities shall be an amount equal to average of the two appraisals. If the difference between the amounts so determined shall exceed ten percent (10%) of the lesser of such amounts, then such two Appraisers shall have twenty (20) days to appoint a third Appraiser meeting the above requirements, but if such Appraisers fail to do so, then either party may request the American Arbitration Association (the "AAA") or any successor organization thereto to appoint an Appraiser meeting the above requirements within

twenty (20) days of such request, and both parties shall be bound by any appointment so made within such twenty (20) day period. If no such Appraiser shall have been appointed within such twenty (20) days or within one hundred five (105) days of the original request for a determination of Fair Market Value, whichever is earlier, either Landlord or Tenant may apply to any court having jurisdiction to have such appointment made by such court. Any Appraiser appointed by the original Appraisers, by the AAA or by such court shall be instructed to determine the Fair Market Value of the Facilities within thirty (30) days after appointment of such Appraiser in accordance with the methodologies and approaches set forth herein.

(iii) Following the determination by the third Appraiser described above (if applicable), the determination of the Appraiser which differs most in terms of dollar amount from the determinations of the other two Appraisers shall be excluded, and the average of the remaining two determinations shall be final and binding upon Landlord and Tenant as the Fair Market Value of the Facilities. This provision for determination by appraisal shall be specifically enforceable to the extent such remedy is available under applicable law, and any determination hereunder shall be final and binding upon the parties except as otherwise provided by applicable law.

(iv) If the foregoing two (2) or three (3) Appraiser system is utilized, then Landlord and Tenant shall each pay the fees and expenses of the Appraiser appointed by it and each shall pay one-half (1/2) of the fees and expenses of any third Appraiser.

EXHIBIT M

INITIAL IMPROVEMENTS

[See attached]

Newcastle Independent Living Deferred Maintenance Items

Number	Property Name	Address	City	State	Description	Completion Time	Estimated Cost	Reserve Amount				
(1)	Arlington Plaza	6801 West Poly Webb Road	Arlington	TX	ADA Modifications	12 months	\$ 1,420	\$ 1,562				
					Sub-Terranean Parking Garage	6 months	\$ 1,000	\$ 1,100				
					Roof Covering	6 months	\$ 750	\$ 825				
					Exterior Walls	6 months	\$ 3,700	\$ 4,070				
					Windows & Frames	6 months	\$ 9,600	\$ 10,560				
					Kitchen Walk-in Cooler	6 months	\$ 5,000	\$ 5,500				
					Water Distribution	6 months	\$ 1,500	\$ 1,650				
					Water Heater	6 months	\$ 2,600	\$ 2,860				
					Approximately two square feet of mold was identified on the first floor stairway ceiling; two square feet on first floor hallway ceiling; and four square feet on the basement garage ceiling. Although the mold is not considered an environmental issue, the source of moisture should be identified and mitigated.					12 months	\$ —	\$ —
					Additional long-term sampling should be completed in the units that exceeded the EPA action level.					12 months	\$ 2,220	\$ 2,442
(2)	Blair House	1200 East College Avenue	Normal	IL	ADA Modifications	12 months	\$ 950	\$ —				
(3)	Blue Water Lodge	2840 Keewahdin Road	Fort Gratiot	MI	Windows & Frames	6 months	\$ 7,500	\$ 8,250				
(4)	Briarcrest Estates	14525 Clayton Road	Ballwin	MO	ADA Modifications	12 months	\$ 2,320	\$ 2,552				
					Pedestrian Paving	6 months	\$ 4,000	\$ 4,400				
(5)	Chateau Ridgeland	745 S Pear Orchard Road	Ridgeland	MS	Retaining Walls, unit masonry/ concrete	6 months	\$ 75,000	\$ 82,500				
					Carpports	6 months	\$ 1,500	\$ 1,650				
					Exterior Walls, brick or block	6 months	\$ 8,000	\$ 8,800				
					ADA Modifications	12 months	\$ 6,220	\$ 6,842				
					Roadways/ Parking Lots	12 months	\$ 3,894	\$ 4,283				
(6)	Cherry Laurel	1009 Concord Road	Tallahassee	FL	Exterior Walls	6 months	\$ 3,250	\$ 3,575				
(7)	Colonial Harbor	2405 Fort Eustis Boulevard	Yorktown	VA	ADA Modifications	12 months	\$ 400	\$ 440				
(8)	Country Squire	1602 Buckingham Street	St Joseph	MO	ADA Modifications	12 months	\$ 220	\$ 242				
					Landscaping Irrigation	12 months	\$ 5,000	\$ 5,500				
(9)	Courtyard At Lakewood	7100 West 13th Avenue	Lakewood	CO	ADA Modifications	12 months	\$ 200	\$ 220				
					Pedestrian Paving	6 months	\$ 4,000	\$ 4,400				
					Roof Covering	12 months	\$ 75,000	\$ 82,500				
					ADA Modifications	12 months	\$ 660	\$ 726				
					Pedestrian Paving	6 months	\$ 1,800	\$ 1,980				
					Waterproof Membranes at Drains Inlet	6 months	\$ 2,750	\$ 3,025				
					Structural Deck Coating	12 months	\$ 60,650	\$ 66,715				
					Settlement at South Drive	6 months	\$ 2,500	\$ 2,750				
					Refinish Ceiling	6 months	\$ 8,000	\$ 8,800				
					Windows & Frames	6 months	\$ 21,900	\$ 24,090				
(10)	Desoto Beach Club	5201 Desoto Road	Sarasota	FL	Patio Slabs	6 months	\$ 3,150	\$ 3,465				
(11)	El Dorado	714 West Arapaho Road	Richardson	TX	Unit Fencing	6 months	\$ 1,050	\$ 1,155				
					ADA Modifications	12 months	\$ 220	\$ 242				
(11)	El Dorado	714 West Arapaho Road	Richardson	TX	ADA Modifications	12 months	\$ 320	\$ 352				
One interior radon sample exceeded the EPA recommended action level. Additional long-term sampling should be completed in the unit that exceeded the EPA action level.					12 months	\$ 925	\$ —					
(12)	Essex House	20 North 12th Street	Lemoyne	PA	Water Treatment, Softening Systems	6 months	\$ 2,500	\$ 2,750				
(13)	Fleming Point	720 Latta Road	Greece	NY	ADA Modifications	12 months	\$ 385	\$ 424				
					Roadways/ Parking Lots, Asphaltic concrete	6 months	\$ 2,500	\$ 2,750				

Number	Property Name	Address	City	State	Description	Completion Time	Estimated Cost	Reserve Amount
					Roadways/ Parking Lots, Curb, Gutter & Pedestrian	6 months	\$ 750	\$ 825
					Based on the date of construction of the ancillary office space, continued implementation of the current asbestos O&M Program is recommended.	12 months	\$ —	\$ —
					Based on the date of construction of the ancillary office space, a Lead Paint O&M Program is recommended.	12 months	\$ 495	\$ —
(14)	Grasslands Estates	10665 West 13th Street North	Wichita	KS	Roof Covering, Built up Membrane	6 months	\$ 8,050	\$ 8,855
					Roof Covering, Asphalt Shingles	6 months	\$ 4,000	\$ 4,400
					Exterior Walls	6 months	\$ 2,500	\$ 2,750
(15)	Greeley Place	1051 6th Street	Greeley	CO	Emergency Generator	6 months	\$ 6,000	\$ 6,600
					ADA Modifications	12 months	\$ 1,645	\$ 1,810
					Roadways/ Parking Lots, Drainage Swales	12 months	\$ 3,000	\$ 3,300
					Smoke & Fire Detection System	6 months	\$ 5,200	\$ 5,720
(16)	Grizzly Peak	3600 American Way	Missoula	MT	Ansul System	6 months	\$ 6,000	\$ 6,600
					ADA Modifications	12 months	\$ 165	\$ 182
(17)	Jackson Oaks	2500 Marshall Avenue	Paducah	KY	Pedestrian Paving	6 months	\$ 2,400	\$ 2,640
					ADA Modifications	12 months	\$ 760	\$ 836
(18)	Maple Downs	7220 Genesee Street East	Fayetteville	NY	Roadways/ Parking Lots, Asphaltic concrete	12 months	\$ 18,000	\$ 19,800
					ADA Modifications	12 months	\$ 320	\$ 352
					Roadways/ Parking Lots, Asphaltic concrete	6 months	\$ 400	\$ 440
					Roadways/ Parking Lots, Curb & gutter	6 months	\$ 1,500	\$ 1,650
					Pedestrian Paving	6 months	\$ 2,000	\$ 2,200
					Based on the date of construction of the ancillary training center, an Asbestos O&M Program is recommended.	12 months	\$ 495	\$ —
					Based on the date of construction of the ancillary training center, a Lead Paint O&M Program is recommended.	12 months	\$ 495	\$ —
(19)	Parkwood Estates	2201 South Lemay Avenue	Fort Collins	CO	ADA Modifications	12 months	\$ 3,730	\$ 4,103
					Roadways/ Parking Lots, Asphaltic concrete	12 months	\$ 10,290	\$ 11,319
					Roadways/ Parking Lots, Curb & gutter	12 months	\$ 31,500	\$ 34,650
					Pedestrian Paving	6 months	\$ 2,600	\$ 2,860
					Exterior Walls Damage Repair	6 months	\$ 5,000	\$ 5,500
					Exterior Walls Paint	6 months	\$ 15,000	\$ 16,500
					Exterior Wall Sealant	6 months	\$ 3,000	\$ 3,300
					Windows & Frames	6 months	\$ 66,000	\$ 72,600
					Kitchen Ansul System	6 months	\$ 6,000	\$ 6,600
					Fire alarm Devices	6 months	\$ 5,600	\$ 6,160
(20)	Pioneer Valley Lodge	2351 North 400 East	North Logan	UT	ADA Modifications	12 months	\$ 220	\$ 242
					Roadways/ Parking, Repair	6 months	\$ 750	\$ 825
					Roadways/ Parking, Fill Cracks	6 months	\$ 2,500	\$ 2,750
(21)	Regency Residence	6711 Embassy Boulevard	Port Richey	FL	Domestic Water Heater, Gas Fired	6 months	\$ 5,100	\$ 5,610
					Site Lighting	6 months	\$ 9,000	\$ 9,900
(22)	Simi Hills	950 Sunset Garden Lane	Simi Valley	CA	Elevator, Controller or Dispatcher	12 months	\$ 25,000	\$ 27,500
					Balconies Replacement	12 months	\$ 13,500	\$ 14,850
					Fencing Replacement	12 months	\$ 13,500	\$ 14,850
					Utility-owned transformer is leaking on concrete base and should be reported to the electric utility provider. No costs are associated with this action. The utility provider is responsible for cleanup.	12 months	\$ —	\$ —
(23)	Stoneybrook Lodge	4700 Southwest Hollyhock Circle	Corvallis	OR	NA	—	\$ —	\$ —
(24)	Summerfield Estates	9133 Baird Road	Shreveport	LA	ADA Modifications	12 months	\$ 2,740	\$ 3,014
					Roadways/ Parking Lots, concrete	6 months	\$ 900	\$ 990
					Pedestrian Paving	6 months	\$ 1,200	\$ 1,320
					Interior Walls/ Floors	6 months	\$ 7,500	\$ 8,250

Number	Property Name	Address	City	State	Description	Completion Time	Estimated Cost	Reserve Amount
					Roof Covering, Single Ply Membrane	6 months	\$ 10,500	\$ 11,550
					Roof Covering, Asphalt Shingles	6 months	\$ 61,736	\$ 67,910
					Windows & Frames	6 months	\$ 2,400	\$ 2,640
(25)	Ventura Place	3026 54th Street	Lubbock	TX	ADA Modifications	12 months	\$ 385	\$ 424
					Mold Indoor Air Quality Assessment	6 months	\$ 2,500	\$ 2,750
					Roadways/ Parking Lots, Asphaltic concrete	6 months	\$ 3,500	\$ 3,850
					Pedestrian Paving	6 months	\$ 6,000	\$ 6,600
					Roof Covering, Asphalt Shingles	6 months	\$ 158,100	\$ 173,910
					Exterior Walls, Repair	6 months	\$ 5,000	\$ 5,500
					Exterior Walls, Paints	6 months	\$ 48,300	\$ 53,130
					Exterior Walls, Follow up Study	6 months	\$ 3,500	\$ 3,850
					Soffits	6 months	\$ 15,000	\$ 16,500
					Balconies, Wood decks	6 months	\$ 30,000	\$ 33,000
					Water softening Equipment	6 months	\$ 23,580	\$ 25,938
					Two interior radon samples exceeded the EPA recommended action level.	12 months	\$ 925	\$ —
					Additional long-term sampling should be completed in the units that exceeded the EPA action level.			
					Approximately two square feet of mold was identified on the wall around the freezer and approximately four square feet was identified on the wall around the elevator equipment. Although the mold is not considered an environmental issue, the source of moisture should be identified and mitigated.	12 months	\$ —	\$ —
Total							\$ 1,000,785	\$ 1,096,150

EXHIBIT N

SUBORDINATION AGREEMENTS

[See attached]

**MANAGER'S CONSENT AND SUBORDINATION
OF MANAGEMENT AGREEMENT**

THIS MANAGER'S CONSENT AND SUBORDINATION OF MANAGEMENT AGREEMENT (this agreement, as it may be amended, renewed, supplemented, extended or replaced with the agreement of Landlord described hereinafter, the "Agreement"), dated as of December __, 2013, is made by Holiday AL Management Sub, LLC, a Delaware limited liability company (together with its successors and assigns, "Manager").

PRELIMINARY STATEMENTS

Each Landlord identified on Exhibit A (together with its successors and assigns, including any Person that acquires ownership of the Landlord's interest in the Property as a result of, or following, a foreclosure on the Mortgage Loan or Mezzanine Loan, or a conveyance in lieu of foreclosure, "Landlord"), has entered into that certain Master Lease dated as of December __, 2013 (as it may be amended, renewed, supplemented, extended or replaced, the "Master Lease") with NCT Master Tenant I, a Delaware limited liability company, as tenant (together with their respective successors and assigns, "Tenant") with regard to certain properties more particularly described on Exhibit A (individually, a "Property" and collectively, the "Properties");

Tenant has subsequently subleased each Property to the applicable subtenant (individually, a "Subtenant" and collectively, the "Subtenants") more particularly described on Exhibit A.

GS Commercial Real Estate LP (together with its successors and assigns, "Mortgage Lender") has provided a mortgage loan secured, in part, by the Properties (the "Mortgage Loan") pursuant to that certain Loan Agreement, dated as of December __, 2013, between the Mortgage Lender, Landlord and the other parties named therein (the "Mortgage Loan Agreement"); and

GS Commercial Real Estate LP (together with its successors and assigns, "Mezzanine Lender") has provided a mezzanine loan secured by a pledge of the direct equity interests in Landlord (the "Mezzanine Loan") pursuant to that certain Mezzanine Loan Agreement, dated as of December __, 2013, between the Mezzanine Lender and Landlord's equityholder (the "Mezzanine Loan Agreement"); and

Landlord, Mortgage Lender and Mezzanine Lender require, as contemplated by the Master Lease, Mortgage Loan and Mezzanine Loan that Manager execute and deliver this Agreement.

AGREEMENTS

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order for Tenant to comply with the Master Lease and to induce Landlord to accept Manager as the manager of the Property, Manager hereby agrees for the benefit of Landlord as follows:

1. Definitions. All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Master Lease.
2. Manager's Representations. Manager warrants and represents to Landlord, Mortgage Lender and Mezzanine Lender, as of the date hereof, the following:
 - 2.1. Manager has agreed to act as manager of the Property pursuant those certain management agreements entered into on the date hereof with respect to each Property between such applicable Subtenant and Manager (such agreement, as it may be amended, renewed, supplemented, extended or replaced, each a "Management Agreement" and collectively, the "Management Agreements"). Manager has delivered true, correct and complete copies of the Management Agreements to Landlord.
 - 2.2. The entire agreement between Manager and Subtenants for the management of the Properties is evidenced by the Management Agreements.
 - 2.3. Each Management Agreement constitutes the valid and binding agreement of Manager, enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditor's rights and to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or law), and Manager has full authority under all state and local laws and regulations to perform all of its obligations under each Management Agreement.
 - 2.4. Each Subtenant is not in default, in any material respect, in the performance of any of its obligations under its Management Agreement.
3. Manager's Agreements. Notwithstanding any terms of the Management Agreements to the contrary, Manager hereby consents to and covenants and agrees with Landlord, Mortgage Lender and Mezzanine Lender as follows:
 - 3 . 1 . Subordination of Management Agreement. The rights of Manager to receive any management fees, incentive fees or other compensation, reimbursement of costs and expenses or other payments in consideration for its management services for each Property and/or other performance by a Subtenant under its Management Agreements shall be and remain subordinate in all respects to Landlord's rights to receive Tenant's and Subtenant's payments, and Tenant's performance of its other obligations, under the Master Lease. The Management Agreement and any and all liens, rights and interests (whether choate or inchoate and including, without limitation, all mechanic's and materialmen's liens under applicable law) owed, claimed or held by Manager in and to the Properties are and shall be in all respects subordinate and inferior to the Mortgage Loan, the Mezzanine Loan, and the liens, rights and interests of Landlord owed, claimed or held by Landlord under the Master Lease, including, without limitation, (i) any and all liens and security interests created or to be created for the benefit of Mortgage Lender and securing the payment and performance of Landlord's obligations under the Mortgage Loan, (ii) any and all liens and security interests created or to be created for the benefit of Mezzanine Lender and securing the payment and performance of the mezzanine

borrower's obligations under the Mezzanine Loan, and (iii) any and all liens and security interests created or to be created for the benefit of Landlord and securing the payment and performance of Tenant's obligations under the Master Lease. Notwithstanding the foregoing, provided and on the condition that no Event of Default is continuing and no Event of Default (as defined in the Master Lease) exists of which Manager has been given written notice by Landlord or of which Manager otherwise has actual knowledge, Manager shall be entitled to receive from Tenant any accrued and unpaid amounts owed under the Management Agreements. In the event Manager receives any payment under the Management Agreements other than as permitted in the preceding sentence or as permitted during the continuance of an Event of Default (as defined in the Master Lease), Manager shall remit such payment to Landlord for application by Landlord on account of obligations of Tenant arising under the Master Lease.

3.2. Landlord's Rights Upon Event of Default. During the continuance of an Event of Default and following any termination of the Master Lease as a result thereof, Manager shall, at the request of Landlord, continue performance, on behalf of Landlord, of all of Manager's obligations under the terms of the Management Agreements with respect to the Properties. Alternatively, during the continuance of an Event of Default and following any termination of the Master Lease as a result thereof, Landlord shall have the right, subject to any consent rights of Mortgage Lender and Mezzanine Lender pursuant to the terms of the Mortgage Loan Agreement and/or the Mezzanine Loan Agreement, respectively (which consent shall be granted or withheld in accordance with the terms of the Mortgage Loan Agreement and the Mezzanine Loan Agreement, as applicable), to terminate the Management Agreement or Management Agreements related to the affected Property or Properties, as applicable, by giving Manager thirty (30) days prior written notice of such termination, in which event such Management Agreement(s) shall terminate effective thirty (30) days after receipt of such notice and neither Landlord nor such Subtenant shall be bound nor obligated to perform the covenants and obligations of such Subtenant under such Management Agreement(s). This Section 3.2 shall survive any termination of the Master Lease and any termination of such Management Agreement(s) that results from a termination of the Master Lease.

3.2.1. Affiliated Manager. If (i) Landlord elects to continue the Management Agreement as provided in Section 3.2 above, and (ii) Manager is an Affiliate of Tenant or Guarantor, then during the continuance of an Event of Default Manager shall continue to perform its obligations pursuant to the Management Agreements but, (i) Manager shall not be entitled to receive management fees, incentive fees or other compensation or other payments in consideration for its management services for the Property, and (ii) shall only be entitled to receive reimbursement from Tenant for Manager's reasonable out-of-pocket costs and expenses in managing the Property, provided that, each Subtenant shall have the right to terminate the applicable Management Agreement upon thirty (30) days prior written notice.

3.2.2. Unaffiliated Manager. If Manager is not the Tenant, Guarantor or an Affiliate of any of the foregoing, as long as Manager is performing its obligations pursuant to the Management Agreement, Manager shall be entitled to receive (i)

management fees, incentive fees or other compensation, reimbursement of costs and expenses or other payments in consideration for its management services for the Property and (ii) also be entitled to receive reimbursement from Tenant for Manager's reasonable out-of-pocket costs and expenses in managing the Property.

3.2.3. Limitation on Landlord's Obligations. Without limiting Manager's rights against Subtenants, Manager agrees not to look to Landlord, Mortgage Lender or Mezzanine Lender for payment of any accrued but unpaid management fees, incentive fees or other compensation, reimbursement of costs and expenses or other payments in consideration of its management services relating to the Property and/or other performance by Manager under the Management Agreements accruing prior to the date notice is delivered to Manager of any foreclosure or conveyance in lieu of foreclosure on the Mortgage Loan or Mezzanine Loan Landlord in accordance with Section 5 thereof.

3.2.4. Without the consent of Landlord, Mortgage Lender and Mezzanine Lender (which consent shall be granted or withheld in accordance with the terms of the Mortgage Loan Agreement and the Mezzanine Loan Agreement, as applicable), the Management Agreement shall not be amended to increase the aggregate management fee above 5.0% of gross revenue. Landlord shall not be bound by any amendment to the Management Agreement adverse to Landlord heretofore entered into without prior written consent of the Mortgage Lender and Mezzanine Lender.

3.3. Further Assurances. Manager further agrees to (i) execute such affidavits and certificates as Landlord, Mortgage Lender or Mezzanine Lender shall reasonably require to evidence further the agreements herein contained, (ii) on reasonable written request from Landlord, Mortgage Lender or Mezzanine Lender, furnish Landlord, Mortgage Lender or Mezzanine Lender, as applicable, with copies of such information as Tenant is entitled to receive under the Management Agreement, and (iii) reasonably cooperate with representatives of Landlord, Mortgage Lender or Mezzanine Lender in any inspection of all or any portion of the Property.

3.4. No Joint Venture. Landlord has no obligation to Manager with respect to the Master Lease or the Subleases and Manager shall not be a third party beneficiary with respect to any of Landlord's obligations to Tenant set forth in the Master Lease. The relationship of Landlord to Tenant is one of a landlord to a tenant, and Landlord is not a joint venturer or partner of Tenant or Subtenant.

3.5. Landlord Not Obligated Under Management Agreement. Manager further agrees that nothing herein shall impose upon Landlord, Mortgage Lender or Mezzanine Lender any obligation for payment or performance under the Management Agreements in favor of Manager, unless such party notifies Manager in writing after an Event of Default that such party has elected to assert a Subtenant's rights under its Management Agreement with respect to the applicable Property and assume such Subtenant's obligations thereunder first accruing or arising from and after (subject to adjustment of

fees with respect to the period after the date the notice is given to Manager), and solely with respect to the period commencing upon, the effective date of such notice.

3.6. Landlord's Reliance. Manager has executed this Agreement in order for Tenant and Subtenant to comply with the Master Lease and to induce Landlord, Mortgage Lender and Mezzanine Lender to accept Manager as the manager of the Properties and with full knowledge that Landlord, Mortgage Lender and Mezzanine Lender shall rely upon the representations, warranties and agreements herein contained, and that, but for this instrument and the representations, warranties and agreements herein contained, Landlord, Mortgage Lender and Mezzanine Lender would not take such action.

3.7. Successors and Assigns. Manager agrees that this Agreement and Manager's obligations hereunder shall be binding upon Manager and its successors and assigns and shall inure to the benefit of Landlord, Mortgage Lender and Mezzanine Lender and their respective successors and assigns.

3.8. No Amendment, Termination, or Assignment This Agreement shall not be amended, modified, terminated or assigned by Manager without the prior written consent of Landlord, Mortgage Lender and Mezzanine Lender, each acting in its sole discretion (which consent shall be granted or withheld in accordance with the terms of the Mortgage Loan Agreement and the Mezzanine Loan Agreement, as applicable). Except (i) in connection with any Permitted Transfer which involves the Proposed Transferee or an Affiliate thereof managing the Properties or (ii) pursuant to any other transaction permitted pursuant to the terms of the Mortgage Loan Agreement and the Mezzanine Loan Agreement, Tenant and each Subtenant agrees that it will not enter into any other management agreement (or similar arrangement) under which the right to manage the operations of the Properties is granted to a third party without the prior written reasonable consent of Landlord and, if required pursuant to the terms of the Mortgage Loan Agreement and/or the Mezzanine Loan Agreement, the consent of the Mortgage Lender and the Mezzanine Lender, respectively, as applicable (which consent shall be granted or withheld in accordance with the terms of such agreement). Upon any permitted assignment hereunder, the assignee shall agree to assume all of the obligations of Manager under the applicable Management Agreement and under this Agreement arising with respect to the period after the date of the assignment, and provide a copy of such assignment within two (2) Business Days of the effective date of such assignment. Further notwithstanding the foregoing and unless expressly prohibited pursuant to Section 3.2.2 above, a Manager that is not the Tenant, Subtenants, Guarantor or an Affiliate of Tenant, Subtenants or Guarantor shall have the right to terminate the Management Agreement for default by Subtenants provided Manager gives Landlord, Mortgage Lender and Mezzanine Lender forty-five (45) days' prior written notice of such termination. In the event Landlord, Mortgage Lender or Mezzanine Lender (or Tenant) shall cure such default within forty-five (45) days of its receipt of the foregoing default notice (or, in the case of a default that cannot be cured without possession of the Tenant's leasehold interest in the Property, within such longer time period as may be reasonably required for the curing party to obtain possession of the Tenant's leasehold interest in the Property so long as payment of all fees and reimbursement of costs and expenses pursuant to the terms of such Management Agreement shall be made to such Manager in accordance with the terms of

such Management Agreement during such cure period), then any termination notice related to such cause shall be of no further force or effect.

3.9. Additional Duties. Manager agrees that, without limitation of other duties under each Management Agreement, such duties shall include (i) reasonably cooperating with, and assisting, Mortgage Lender, Mezzanine Lender, Landlord, Tenant and the applicable Subtenant, as applicable, in connection with any operational transfer of the Property, and (ii) extending such Management Agreement as necessary, upon the request of Mortgage Lender, Mezzanine Lender, Landlord, Tenant or applicable Subtenant, as applicable, solely to the extent required to provide the aforesaid cooperation and assistance.

3.10. Tenant Personal Property. Notwithstanding anything to the contrary set forth in the Management Agreements, Manager represents and warrants to Landlord that it does not own any right, title or interest in any Tenant Personal Property, and covenants agrees that in no event shall Manager suffer or permit any Tenant Personal Property to be conveyed, assigned or otherwise transferred by Tenant to Manager.

3.11. [Intentionally omitted.]

3.12. Master Lease Controlling. Notwithstanding anything to the contrary set forth in the Management Agreements, Manager shall at all times manage the Properties on behalf of Subtenants in accordance with and subject to the terms, conditions, requirements and restrictions of the Master Lease. In the event of any conflict between the terms, conditions, requirements and restrictions of the Master Lease and the terms, conditions, requirements and restrictions of the Management Agreements, the terms, conditions, requirements and restrictions of the Master Lease shall be controlling for all purposes.

4. Termination. This Agreement shall terminate upon the termination of the Master Lease as it applies to a Property and/or, subject to compliance with the terms of this Agreement, upon the termination of a Management Agreement, provided, however, that no such termination shall impair the enforceability of any provisions of this Agreement or the remaining Management Agreements that survive termination and/or any obligations under this Agreement or the Management Agreements that have accrued prior to such termination.
5. Notices. All notices, demands, requests, consents, approvals and other communications hereunder shall be in writing and delivered (i) by mail (registered or certified mail, return receipt requested), in which case such notice shall be deemed received three (3) business days after its deposit or (ii) by reputable nationally recognized overnight courier service, in which case such notice shall be deemed received the next business day, addressed to the respective parties, as follows:

If to Manager:

Holiday AL Management Sub LLC
5885 Meadows Road
Suite 500
Lake Oswego, OR 97035
Attn: Chief Legal Officer

If to Landlord:

c/o Fortress Investment Group LLC
1345 Avenue of the Americas, 46th Floor
New York, NY 10105
Telephone: (212) 798-6100
Attention: Jonathan Brown

with a copy to:

Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, NY 10006
Attention: Donald A. Stern
Telephone: (212) 225-2640
Email: dstern@cgsh.com

If to Mortgage Lender:

GS Commercial Real Estate LP
6011 Connection Drive, Suite 550
Irving, Texas 75039
Attention: General Counsel

with copies to:

GS Commercial Real Estate LP
200 West Street
New York, New York 10282
Attention: Daniel Bennett and J. Theodore Borter

and

Cleary Gottlieb Steen & Hamilton
One Liberty Plaza
New York, New York 10006
Attention: Michael Weinberger, Esq.

If to Mezzanine Lender:

GS Commercial Real Estate LP
6011 Connection Drive, Suite 550
Irving, Texas 75039
Attention: General Counsel

with copies to:

GS Commercial Real Estate LP
200 West Street
New York, New York 10282
Attention: Daniel Bennett and J. Theodore Borter

and

Cleary Gottlieb Steen & Hamilton
One Liberty Plaza
New York, New York 10006
Attention: Michael Weinberger, Esq.

or to such other address as either party may hereunder designate in writing.

SIGNATURE PAGE TO FOLLOW.

IN WITNESS WHEREOF, Manager has caused this Agreement to be duly executed by its duly authorized representative, as of the day and year first above written.

MANAGER:

Holiday AL Management Sub LLC, a Delaware
limited liability company

By:

Name: Scott Shanaberger
Title: Chief Financial Officer

Signature Page to NCT I Subordination of Management Agreements

SUBORDINATION, NON DISTURBANCE,
RECOGNITION AND ATTORNMENT AGREEMENT

THIS AGREEMENT, made as of the __ day of December, 2013 between each Landlord list on Exhibit A (individually, "Landlord" and collectively, "Landlords") and each subtenant listed on Exhibit B, as applicable (individually, a "Subtenant" and collectively, "Subtenants").

W I T N E S S E T H:

WHEREAS, Landlords are the lessor under that certain lease dated as of the date hereof (such lease, as the same may be amended, modified, extended, renewed, supplemented or replaced, collectively, the "Master Lease") demising certain premises defined therein (collectively, the "Premises") to NCT MASTER TENANT I, LLC ("Tenant");

WHEREAS, each Subtenant is the subtenant under that certain sublease (each of "Sublease") dated as of the date hereof between Tenant and the applicable Subtenant covering the property listed on Exhibit B;

WHEREAS, each Subtenant has requested that each Landlord agree not to terminate the Sublease nor disturb such Subtenants occupancy under its Sublease in the event of the termination of the Master Lease due to Tenant's default thereunder or the exercise of any of Landlords' rights under the Master Lease; and

WHEREAS, each Landlord is willing to enter into such an agreement on the terms and conditions contained herein.

NOW, THEREFORE, Landlords and Subtenants agree as follows:

1. Subordination. Each Subtenant agrees that its Sublease and all of the terms, covenants and provisions thereof and all rights, remedies and options of such Subtenant thereunder are and shall at all times continue to be fully subject and subordinate in all respects to the Master Lease. This provision shall be self-operative and no further instrument shall be required to confirm or perfect such subordination. However, at the request of Landlord, a Subtenant shall execute and deliver such other documents and take such other action as Landlord reasonably requests to perfect, confirm or effectuate such subordination.

2. Non-Disturbance. Each Landlord agrees that so long as a Subtenant is not in default in its obligations for the payment of rent, additional rent, or other charges due under its Sublease, or in the performance or observance of any of the other terms, covenants and conditions on its part to be performed or observed under its Sublease, in each case beyond any applicable notice and cure period and such Sublease is otherwise in full force and effect and neither the rights, possession or enjoyment of such Subtenant under its Sublease shall be affected, terminated or disturbed by a Landlord, its successors or assigns, subject, however, to the terms and the provisions of paragraphs 3 and 5 hereof; and

3. No Changes to Sublease. Each Sublease constitutes an inducement to each Landlord to enter into this Agreement. Consequently, a Subtenant shall not, without obtaining the prior written consent of such Landlord (which consent shall not be unreasonably withheld or delayed), (i) enter into any agreement amending or modifying its Sublease (except to a de minimis extent), (ii) breach the obligations under the provisions of Article 21 of the Master Lease.

4. Attornment. If the interest of Tenant under a Sublease is transferred (or surrendered or terminated) to Landlords by reason of Tenant's default under the Master Lease or by reason of assignment of the Master Lease (or any similar device) in lieu of transfer (or surrender or termination) following Tenant's default, such Subtenant will be bound to such Landlord under all of the terms, covenants and conditions of its Sublease (except as expressly set forth in paragraph 3 and as otherwise expressly provided below) for the balance of the term thereof and of any extensions or renewals thereof that are effected in accordance with its Sublease, with the same effect as if such Landlord were the sublandlord under its Sublease, such attornment to be effective as of the time such Landlord succeeds to the interest of Tenant under such Sublease, without the execution of any further agreement. However, each Subtenant agrees, at its own expense, to execute and deliver, at any time and from time to time upon request of such Landlord, any agreement that may reasonably be necessary or appropriate to evidence such attornment. Failure of a Subtenant to so execute any such agreement shall not vitiate such attornment. Each Subtenant waives the provisions of any statute or rule of law now or hereafter in effect that may give it any right or election to terminate or otherwise adversely affect its Sublease or the obligations of such Subtenant thereunder by reason of any proceeding in connection with Tenant's default under such Sublease. Notwithstanding anything in a Sublease to the contrary, from and after the date each Subtenant shall be required to attorn to such Landlord hereunder, the rent payable under such Sublease shall to the extent necessary shall be increased as provided in Section 4.1 of the Master Lease.

5. Notice of Default. Each Subtenant will notify Landlord of any default of Tenant or other circumstance that would entitle such Subtenant to cancel its Sublease or to abate the rent or additional rent or any other amounts payable thereunder, and agrees that notwithstanding any provision of its Sublease, no such cancellation thereof or abatement shall be effective unless such Subtenant shall have sent such applicable Landlord a notice in the manner herein provided and such applicable Landlord shall have failed to cure the default giving rise to such right to abatement or cancellation within the time period that Tenant is entitled to under such Sublease or, if such default (which shall be a non-monetary default) cannot be cured within such time period, unless such Landlord shall have failed promptly to commence such cure or thereafter diligently to prosecute such cure to completion. No cure of Tenant's default by such Landlord shall be deemed an assumption of Tenant's other obligations under such Sublease and no right of such Landlord hereunder to receive any notice or to cure any default shall be deemed to impose any obligation on such Landlord to cure (or attempt to cure) any such default.

6. Notices. All notices, consents, approvals, demands and other communications ("notices") hereunder shall be in writing and shall be deemed to have been sufficiently given or served for all purposes when delivered in person, sent by Federal Express or overnight courier or sent by registered or certified mail, return receipt requested, to any party hereto at its address above stated or at such other address and to such other persons (but not more than two) of which

it shall have notified the party giving such notice in writing. A copy of all notices to any Landlord shall simultaneously be sent to its counsel, Donald A. Stern, Cleary Gottlieb Steen & Hamilton LLP, One Liberty Plaza, New York NY 10006, telephone: (212) 225-2640. Any notice sent by registered or certified mail shall be deemed to have been served forty-eight (48) hours after the date it is mailed in accordance with the foregoing provisions. Any notice sent by Federal Express or overnight courier shall be deemed to have been served the next business day. Any notice sent by personal delivery shall be deemed to have been served on the date of such delivery. Any notice shall be deemed effective and deemed given by any Landlord or any Subtenant, as the case may be, if signed and sent by its respective counsel.

7. Satisfaction. Each Subtenant agrees that this Agreement satisfies any condition or requirement in its Sublease relating to the granting of a non-disturbance agreement by a Landlord.

8. Miscellaneous. This Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of the parties hereto and may not be modified or terminated orally. In the event of the assignment or transfer of the interest of a Landlord, all obligations and liabilities of such Landlord under this Agreement shall terminate, and thereupon all such obligations and liabilities shall be the responsibility of the party to whom such Landlord's interest is assigned or transferred. This Agreement and the rights and obligations of the parties hereunder shall be governed by and construed in accordance with the law of the State of New York. This Agreement may be signed in counterparts. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Master Lease.

[end of agreement; signatures follow on the next page]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

LANDLORDS:

NIC 12 Arlington Plaza Owner LLC
NIC 12 Blair House Owner LLC
NIC 12 Blue Water Lodge Owner LLC
NIC 12 Briarcrest Estates Owner LLC
NIC 12 Chateau Ridgeland Owner LLC
NIC 12 Cherry Laurel Owner LLC
NIC 12 Colonial Harbor Owner LLC
NIC 12 Country Squire Owner LLC
NIC 12 Courtyard At Lakewood Owner LLC
NIC 12 Desoto Beach Club Owner LLC
NIC 12 El Dorado Owner LLC
NIC 12 Essex House Owner LLC
NIC 12 Fleming Point Owner LLC
NIC 12 Grasslands Estates Owner LLC
NIC 12 Greeley Place Owner LLC
NIC 12 Grizzly Peak Owner LLC
NIC 12 Jackson Oaks Owner LLC
NIC 12 Maple Downs Owner LLC
NIC 12 Parkwood Estates Owner LLC
NIC 12 Pioneer Valley Lodge Owner LLC
NIC 12 Regency Residence Owner LLC
NIC 12 Simi Hills Owner LLC
NIC 12 Stonybrook Lodge Owner LLC
NIC 12 Summerfield Estates Owner LLC
NIC 12 Ventura Place Owner LLC

By: _____
Name:
Title:

Signature Page to NCT I Subordination of Sublease

STATE OF NEW YORK
COUNTY OF NEW YORK

} SS.:

On the ___ day of _____ in the year 20 ____, before me, the undersigned, a Notary Public in and for said state, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Notary Public

Signature Page to NCT I Subordination of Sublease

SUBTENANT:

NH Arlington Plaza LLC
NH Blair House LLC
NH Blue Water Lodge LLC
NH Briarcrest Estates LLC
NH Chateau Ridgeland LLC
NH Cherry Laurel LLC
NH Country Squire LLC
NH Colonial Harbor LLC
NH Courtyard At Lakewood LLC
NH Desoto Beach Club LLC
NHH El Dorado LLC
NH Essex House LLC
NH Fleming Point LLC
NH Grasslands Estates LLC
NH Greeley Place LLC
NH Grizzly Peak LLC
NH Jackson Oaks LLC
NH Maple Downs LLC
NH Parkwood Estates LLC
NH Pioneer Valley Lodge LLC
NH Regency Residence LLC
NH Stonybrook Lodge LLC
NH Summerfield Estates LLC
NH Ventura Place LLC

By: NCT Master Tenant I LLC, a Delaware
limited liability company

By: Holiday AL Mezzanine I LLC, a
Delaware limited liability company

By: Holiday AL Holdings LP, its
Member

By: Holiday AL Holdings GP LLC,
its General Partner

Signature Page to NCT I Subordination of Sublease

By: _____
Name: Christopher J. Bouchard
Title: Secretary

NH Simi Hills LP

By: NH Simi Hills GP LLC, a Delaware limited liability company

By: NCT Master Tenant I LLC, a Delaware limited liability company

By: Holiday AL Mezzanine I LLC, a Delaware limited liability company

By: Holiday AL Holdings LP, its Member

By: Holiday AL Holdings GP LLC, its General Partner

By: _____
Name: Christopher J. Bouchard
Title: Secretary

Signature Page to NCT I Subordination of Sublease

State of OREGON)
) ss.
County of CLACKAMAS)

On this ____ day of December, 2013, personally appeared before me Christopher Bouchard who stated that he is the Secretary of Holiday AL Holdings GP LLC, a limited liability company, and that the instrument was signed in behalf of the said limited liability company by authority of its board of directors and acknowledged said instrument to be its voluntary act and deed.

Before me:

Leah Renae Kuor
Notary Public for Oregon
My Commission Expires: April 23, 2014

This area for official notarial seal

Signature Page to NCT I Subordination of Sublease

Exhibit A

1. NIC 12 Arlington Plaza Owner LLC
 2. NIC 12 Blair House Owner LLC
 3. NIC 12 Blue Water Lodge Owner LLC
 4. NIC 12 Briarcrest Estates Owner LLC
 5. NIC 12 Chateau Ridgeland Owner LLC
 6. NIC 12 Cherry Laurel Owner LLC
 7. NIC 12 Colonial Harbor Owner LLC
 8. NIC 12 Country Squire Owner LLC
 9. NIC 12 Courtyard At Lakewood Owner LLC
 10. NIC 12 Desoto Beach Club Owner LLC
 11. NIC 12 El Dorado Owner LLC
 12. NIC 12 Essex House Owner LLC
 13. NIC 12 Fleming Point Owner LLC
 14. NIC 12 Grasslands Estates Owner LLC
 15. NIC 12 Greeley Place Owner LLC
 16. NIC 12 Grizzly Peak Owner LLC
 17. NIC 12 Jackson Oaks Owner LLC
 18. NIC 12 Maple Downs Owner LLC
 19. NIC 12 Parkwood Estates Owner LLC
 20. NIC 12 Pioneer Valley Lodge Owner LLC
 21. NIC 12 Regency Residence Owner LLC
 22. NIC 12 Simi Hills Owner LLC
 23. NIC 12 Stoneybrook Lodge Owner LLC
 24. NIC 12 Summerfield Estates Owner LLC
 25. NIC 12 Ventura Place Owner LLC
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Exhibit B

1. NH Arlington Plaza LLC
 2. NH Blair House LLC
 3. NH Blue Water Lodge LLC
 4. NH Briarcrest Estates LLC
 5. NH Chateau Ridgeland LLC
 6. NH Cherry Laurel LLC
 7. NH Country Squire LLC
 8. NH Colonial Harbor LLC
 9. NH Courtyard At Lakewood LLC
 10. NH Desoto Beach Club LLC
 11. NHH El Dorado LLC
 12. NH Essex House LLC
 13. NH Fleming Point LLC
 14. NH Grasslands Estates LLC
 15. NH Greeley Place LLC
 16. NH Grizzly Peak LLC
 17. NH Jackson Oaks LLC
 18. NH Maple Downs LLC
 19. NH Parkwood Estates LLC
 20. NH Pioneer Valley Lodge LLC
 21. NH Regency Residence LLC
 22. NH Simi Hills LP
 23. NH Stoneybrook Lodge LLC
 24. NH Summerfield Estates LLC
 25. NH Ventura Place LLC
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Exhibit A

Property	Subtenant	Tenant	Landlord
Simi Hills	NH Simi Hills LP	NCT Master Tenant I LLC	NIC 12 Simi Hills Owner LLC
Courtyard at Lakewood	NH Courtyard at Lakewood LLC	NCT Master Tenant I LLC	NIC 12 Courtyard at Lakewood Owner LLC
Greeley Place	NH Greeley Place LLC	NCT Master Tenant I LLC	NIC 12 Greeley Place Owner LLC
Parkwood Estates	NH Parkwood Estates LLC	NCT Master Tenant I LLC	NIC 12 Parkwood Estates Owner LLC
Regency Residence	NH Regency Residence LLC	NCT Master Tenant I LLC	NIC 12 Regency Residence Owner LLC
Desoto Beach Club	NH Desoto Beach Club LLC	NCT Master Tenant I LLC	NIC 12 Desoto Beach Club Owner LLC
Cherry Laurel	NH Cherry Laurel LLC	NCT Master Tenant I LLC	NIC 12 Cherry Laurel Owner LLC
Blair House	NH Blair House LLC	NCT Master Tenant I LLC	NIC 12 Blair House Owner LLC
Briarcrest Estates	NH Briarcrest Estates LLC	NCT Master Tenant I LLC	NIC 12 Briarcrest Estates Owner LLC
Grasslands Estates	NH Grasslands Estates LLC	NCT Master Tenant I LLC	NIC 12 Grasslands Estates Owner LLC
Jackson Oaks	NH Jackson Oaks LLC	NCT Master Tenant I LLC	NIC 12 Jackson Oaks Owner LLC
Summerfield Estates	NH Summerfield Estates LLC	NCT Master Tenant I LLC	NIC 12 Summerfield Estates Owner LLC
Blue Water Lodge	NH Blue Water Lodge LLC	NCT Master Tenant I LLC	NIC 12 Blue Water Lodge Owner LLC
Country Squire	NH Country Squire LLC	NCT Master Tenant I LLC	NIC 12 Country Squire Owner LLC
Chateau Ridgeland	NH Chateau Ridgeland LLC	NCT Master Tenant I LLC	NIC 12 Chateau Ridgeland Owner LLC
Grizzly Peak	NH Grizzly Peak LLC	NCT Master Tenant I LLC	NIC 12 Grizzly Peak Owner LLC
Maple Downs	NH Maple Downs LLC	NCT Master Tenant I LLC	NIC 12 Maple Downs Owner LLC
Fleming Point	NH Fleming Point LLC	NCT Master Tenant I LLC	NIC 12 Fleming Point Owner LLC
Stoneybrook Lodge	NH Stoneybrook Lodge LLC	NCT Master Tenant I LLC	NIC 12 Stoneybrook Lodge Owner LLC
Essex House	NH Essex House LLC	NCT Master Tenant I LLC	NIC 12 Essex House Owner LLC
Arlington Plaza	NH Arlington Plaza LLC	NCT Master Tenant I LLC	NIC 12 Arlington Plaza Owner LLC
El Dorado	NH El Dorado LLC	NCT Master Tenant	NIC 12 El Dorado

		I LLC	Owner LLC
Ventura Place	NH Ventura Place LLC	NCT Master Tenant I LLC	NIC 12 Ventura Place Owner LLC
Pioneer Valley Lodge	NH Pioneer Valley Lodge LLC	NCT Master Tenant I LLC	NIC 12 Pioneer Valley Lodge Owner LLC
Colonial Harbor	NH Colonial Harbor LLC	NCT Master Tenant I LLC	NIC 12 Colonial Harbor Owner LLC

EXHIBIT O**FACILITIES**

Facility Name	Address	City	State	Zip
Simi Hills	950 Sunset Garden Lane	Simi Valley	CA	93065
Courtyard at Lakewood	7100 W 13th Avenue	Lakewood	CO	80215
Greeley Place	1051 6th Street	Greeley	CO	80631
Parkwood Estates	2201 South Lemay Avenue	Fort Collins	CO	80525
Regency Residence	6711 Embassy Boulevard	Port Richey	FL	34668
Desoto Beach Club	5201 Desoto Rd.	Sarasota	FL	34235
Cherry Laurel	1009 Concord Road	Tallahassee	FL	32308
Blair House	1200 East College Avenue	Normal	IL	61761
Briarcrest Estates	14525 Clayton Road	Ballwin	MO	63011
Grasslands Estates	10665 W. 13th St. N	Wichita	KS	67212
Jackson Oaks	2500 Marshall Avenue	Paducah	KY	42003
Summerfield Estates	9133 Baird Road	Shreveport	LA	71118
Blue Water Lodge	2840 Keewahdin Road	Fort Gratiot	MI	48059
Country Squire	1602 Buckingham Street	St. Joseph	MO	64506
Chateau Ridgeland	745 S Pear Orchard Road	Ridgeland	MS	39157
Grizzly Peak	3600 American Way	Missoula	MT	59808
Maple Downs	7220 Genesee St. E.	Fayetteville	NY	13066
Fleming Point	720 Latta Rd.	Greece	NY	14612
Stoneybrook Lodge	4700 SW Hollyhock Circle	Corvallis	OR	97333
Essex House	20 N. 12th St.	Lemoyne	PA	17043
Arlington Plaza	6801 W Poly Webb Road	Arlington	TX	76016
El Dorado	714 W Arapaho Road	Richardson	TX	75080
Ventura Place	3026 54th Street	Lubbock	TX	79413
Pioneer Valley Lodge	2351 N 400 E	North Logan	UT	84341
Colonial Harbor	2405 Ft. Eustis Blvd.	Yorktown	VA	23692

GUARANTY OF LEASE

GUARANTY OF LEASE (this "**Guaranty**") made as of December 23, 2013, by Holiday AL Holdings LP, a Delaware limited partnership ("**Guarantor**"), to each of the undersigned entities listed under the heading "Landlord" on the signature pages hereto (individually and collectively, "**Landlord**"), each a Delaware limited liability company ("**Landlord**").

RECITALS

A. Landlord has been requested by NCT Master Tenant I LLC (together with its permitted successors and assigns, "**Tenant**"), to enter into a Master Lease dated as of the date hereof (as amended from time to time, the "**Lease**"), whereby Landlord would lease to Tenant, and Tenant would rent from Landlord, certain premises at the locations set forth on Schedule 2 attached hereto, as more particularly described in the Lease (the "**Premises**").

B. Guarantor is the indirect parent of Tenant, and will derive substantial economic benefit from the execution and delivery of the Lease.

C. Guarantor acknowledges that Landlord would not enter into the Lease unless this Guaranty accompanied the execution and delivery of the Lease.

D. Guarantor hereby acknowledges receipt of a copy of the Lease.

NOW, THEREFORE, in consideration of the execution and delivery of the Lease and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor covenants and agrees as follows:

1. **DEFINITIONS.** Defined terms used in this Guaranty and not otherwise defined herein have the meanings assigned to them in the Lease.

2. **COVENANTS OF GUARANTOR.**

(a) Guarantor absolutely, unconditionally and irrevocably guarantees, as a primary obligor and not merely as a surety: (i) the full and prompt payment of all Base Rent and Additional Charges and all other rent, sums and charges of every type and nature payable by Tenant under the Lease, whether due by acceleration or otherwise, including costs and expenses of collection (collectively, the "**Monetary Obligations**"), and (ii) the full, timely and complete performance of all covenants, terms, conditions, obligations, indemnities and agreements to be performed by Tenant under the Lease, including any indemnities or other obligations of Tenant that survive the expiration or earlier termination of the Lease (all of the obligations described in clauses (i) and (ii), are collectively referred to herein as the "**Obligations**"). If Tenant defaults under the Lease, Guarantor will, without notice or demand, promptly pay and perform all of the outstanding Obligations, and pay to Landlord, when and as due, all Monetary Obligations due and payable by Tenant under the Lease, together with all damages, costs and expenses to which Landlord is entitled pursuant to any or all of the Lease, this Guaranty and applicable Legal Requirements; provided, however, that Landlord shall not commence any litigation against

Guarantor with respect to such Obligations unless and until an Event of Default has occurred and is continuing.

(b) Guarantor agrees with Landlord that (i) any action, suit or proceeding of any kind or nature whatsoever (an “**Action**”) commenced by Landlord against Guarantor to collect Base Rent and Additional Charges and any other rent, sums and charges due under the Lease for any month or months shall not prejudice in any way Landlord’s rights to collect any such amounts due for any subsequent month or months throughout the Lease Term in any subsequent Action, (ii) Landlord may, at its option, without prior notice or demand, join Guarantor in any Action against Tenant in connection with or based upon either or both of the Lease and any of the Obligations, (iii) Landlord may seek and obtain recovery against Guarantor in an Action against Tenant or in any independent Action against Guarantor without Landlord first asserting, prosecuting, or exhausting any remedy or claim against Tenant or against any security of Tenant held by Landlord under the Lease, (iv) Landlord may (but shall not be required to) exercise its rights against each of Guarantor and Tenant concurrently, and (v) Guarantor will be conclusively bound by a judgment entered in any Action in favor of Landlord against Tenant, as if Guarantor were a party to such Action, irrespective of whether or not Guarantor is entered as a party or participates in such Action.

(c) The occurrence of any of the following events shall constitute an Event of Default by Tenant under the Lease, and there shall be no cure period therefor except as otherwise provided:

(i) Guarantor fails to observe or perform any term, covenant, or other obligation of Guarantor set forth in Section 9 and such failure is not cured within ten (10) days after receipt of notice of such failure from Landlord; provided, however, that any such failure shall not be deemed an Event of Default if Guarantor commences to cure same within ten (10) days after Guarantor receives notice thereof from Landlord, diligently prosecutes such cure and, in any event, cures such failure within thirty (30) days after receipt of notice of such failure from Landlord; and

(ii) Guarantor’s failure to observe or comply with the provisions of Section 10.

(d) Guarantor agrees that, in the event of the rejection or disaffirmance of the Lease by Tenant or Tenant’s trustee in bankruptcy, pursuant to bankruptcy law or any other law affecting creditors’ rights, Guarantor will, if Landlord so requests, assume all obligations and liabilities of Tenant under the Lease, to the same extent as if Guarantor was a party to such document and there had been no such rejection or disaffirmance; and Guarantor will confirm such assumption, in writing, at the request of Landlord upon or after such rejection or disaffirmance. Guarantor, upon such assumption, shall have all rights of Tenant under the Lease to the fullest extent permitted by law.

(e) If Landlord proposes to grant a mortgage on, or refinance any mortgage encumbering the Premises or any portion thereof, Guarantor shall cooperate in the process, and shall permit Landlord and the proposed mortgagee to meet with Guarantor or, if applicable, officers of Guarantor and to discuss Guarantor’s business and finances. On request of Landlord,

Guarantor agrees to provide any such prospective mortgagee the information to which Landlord is entitled hereunder, provided that if any such information is not publicly available, such nonpublic information shall be made available on a confidential basis. Guarantor agrees to execute, acknowledge and deliver documents reasonably requested by the prospective mortgagee (such as a consent to the financing, without encumbering Guarantor's or Tenant's assets, a consent to a collateral assignment of the Lease and of this Guaranty, estoppel certificate, and a subordination, non-disturbance and attornment agreement), in a form reasonably acceptable to Guarantor and customary for tenants and their guarantors to sign in connection with mortgage loans to landlords, so long as such documents are in form then customary among institutional lenders.

3. **GUARANTOR'S OBLIGATIONS UNCONDITIONAL.**

(a) This Guaranty is an absolute and unconditional guaranty of payment and of performance, and not of collection, and shall be enforceable against Guarantor without the necessity of the commencement by Landlord of any Action against Tenant, and without the necessity of any notice of nonpayment, nonperformance or nonobservance, or any notice of acceptance of this Guaranty, or of any other notice or demand to which Guarantor might otherwise be entitled, all of which Guarantor hereby expressly waives in advance, other than as expressly required under the Lease. The obligations of Guarantor hereunder are independent of, and to the extent expressly set forth in this Guaranty may exceed, the obligations of Tenant.

(b) This Guaranty shall apply notwithstanding any extension or renewal of the Lease, or any holdover following the expiration or termination of the Lease Term or any renewal or extension of the Lease Term.

(c) This Guaranty is a continuing guarantee and will remain in full force and effect notwithstanding, and, except as set forth in Section 2(c), the liability of Guarantor hereunder shall be absolute and unconditional irrespective of any or all of the following: (i) any renewals, extensions, modifications, alterations or amendments of the Lease (regardless of whether Guarantor consented to or had notice of same); (ii) any releases or discharges of Tenant other than the full release and complete discharge of all of the Obligations; (iii) Landlord's failure or delay to assert any claim or demand or to enforce any of its rights against Tenant; (iv) any extension of time that may be granted by Landlord to Tenant; (v) any assignment or transfer of all of any part of Tenant's interest under the Lease (whether by Tenant, by operation of law, or otherwise); (vi) any subletting, concession, franchising, licensing or permitting of the Premises or any portion thereof; (vii) any changed or different use of the Premises (or any portion thereof); (viii) any other dealings or matters occurring between Landlord and Tenant; (ix) the taking by Landlord of any additional guarantees, or the receipt by Landlord of any collateral, from Tenant or any other persons or entities; (x) the release by Landlord of any other guarantor; (xi) Landlord's release of any security provided under the Lease; (xii) Landlord's failure to perfect any landlord's lien or other lien or security interest available under applicable Legal Requirements; (xiii) any assumption by any person of any or all of Tenant's obligations under the Lease, or Tenant's assignment of any or all of its rights and interests under the Lease, (xiv) the power or authority or lack thereof of Tenant to execute, acknowledge or deliver the Lease; (xv) the existence, non-existence or lapse at any time of Tenant as a legal entity or the existence, non-existence or termination of any corporate, ownership, business or other relationship between

Tenant and Guarantor; (xvi) any sale or assignment by Landlord of either or both of this Guaranty and the Lease (including, but not limited to, any direct or collateral assignment by Landlord to any mortgagee) in accordance with the terms of the Lease; (xvii) the solvency or lack of solvency of Tenant at any time or from time to time; or (xviii) any other cause, whether similar or dissimilar to any of the foregoing, that might constitute a legal or equitable discharge of Guarantor (whether or not Guarantor shall have knowledge or notice thereof) other than payment and performance in full of the Obligations. Without in any way limiting the generality of the foregoing, Guarantor specifically agrees that (A) if Tenant's obligations under the Lease are modified or amended with the express written consent of Landlord, this Guaranty shall extend to such obligations as so amended or modified without notice to, consideration to, or the consent of, Guarantor, and (B) this Guaranty shall be applicable to any obligations of Tenant arising in connection with a termination of the Lease, whether voluntary or otherwise. Guarantor hereby consents, prospectively, to Landlord's taking or entering into any or all of the foregoing actions or omissions. For purposes of this Guaranty and the obligations and liabilities of Guarantor hereunder, "**Tenant**" shall be deemed to include any and all successors and assignees of the tenant under the Lease, as fully as if any of the same were the named Tenant under the Lease.

(d) Guarantor hereby expressly agrees that the validity of this Guaranty and the obligations of Guarantor hereunder shall in no way be terminated, affected, diminished or impaired by reason of the assertion or the failure to assert by Landlord against Tenant, of any of the rights or remedies reserved to Landlord pursuant to the provisions of the Lease or by relief of Tenant from any of Tenant's obligations under the Lease or otherwise by (i) the release or discharge of Tenant in any state or federal creditors' proceedings, receivership, bankruptcy or other proceeding; (ii) the impairment, limitation or modification of the liability of Tenant or the estate of Tenant in bankruptcy, or of any remedy for the enforcement of Tenant's liability under the Lease, resulting from the operation of any present or future provision of the United States Bankruptcy Code (11 U.S.C. § 101 et seq., as amended), or from other statute, or from the order of any court; or (iii) the rejection, disaffirmance or other termination of the Lease in any such proceeding. This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time the payment of any amount due under the Lease or this Guaranty is rescinded or must otherwise be returned by Landlord for any reason, including, without limitation, the insolvency, bankruptcy, liquidation or reorganization of Tenant, Guarantor or otherwise, all as though such payment had not been made, and, in such event, Guarantor shall pay to Landlord an amount equal to any such payment that has been rescinded or returned.

4. **WAIVERS OF GUARANTOR.**

(a) Without limitation of the foregoing, Guarantor waives (i) notice of acceptance of this Guaranty, protest, demand and dishonor, presentment, and demands of any kind now or hereafter provided for by any statute or rule of law, (ii) notice of any actions taken by Landlord or Tenant under the Lease or any other agreement or instrument relating thereto, (iii) notice of any and all defaults by Tenant in the payment of Base Rent and Additional Charges or other rent, charges or amounts, or of any other defaults by Tenant under the Lease, (iv) all other notices, demands and protests, and all other formalities of every kind in connection with the enforcement of the Obligations, omission of or delay in which, but for the provisions of this Section 4, might constitute grounds for relieving Guarantor of its obligations hereunder, and (v)

any requirement that Landlord protect, secure, perfect, insure or proceed against any security interest or lien, or any property subject thereto, or exhaust any right or take any action against Tenant or any other person or entity (including any additional guarantor or Guarantor) or against any collateral.

(b) GUARANTOR HEREBY WAIVES TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY ANY PERSON OR ENTITY WITH RESPECT TO ANY MATTER WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH: THIS GUARANTY; THE LEASE; ANY LIABILITY OR OBLIGATION OF TENANT IN ANY MANNER RELATED TO THE PREMISES OR ANY PORTION THEREOF; ANY CLAIM OF INJURY OR DAMAGE IN ANY WAY RELATED TO THE LEASE AND/OR THE PREMISES (OR ANY PORTION THEREOF); ANY ACT OR OMISSION OF TENANT, ITS AGENTS OR EMPLOYEES; OR ANY ASPECT OF THE USE OR OCCUPANCY OF, OR THE CONDUCT OF BUSINESS IN, ON OR FROM THE PREMISES (OR ANY PORTION THEREOF). GUARANTOR SHALL NOT IMPOSE ANY COUNTERCLAIM OR COUNTERCLAIMS OR CLAIMS FOR SETOFF, RECOUPMENT OR DEDUCTION OF RENT IN ANY ACTION BROUGHT BY LANDLORD AGAINST GUARANTOR UNDER THIS GUARANTY, EXCEPT TO THE EXTENT PERMITTED BY THE LEASE. GUARANTOR SHALL NOT BE ENTITLED TO MAKE, AND HEREBY WAIVES, ANY AND ALL DEFENSES AGAINST ANY CLAIM ASSERTED BY LANDLORD OR IN ANY SUIT OR ACTION INSTITUTED BY LANDLORD TO ENFORCE THIS GUARANTY OR THE LEASE EXCEPT THE PERFORMANCE OF THE OBLIGATIONS. IN ADDITION, GUARANTOR HEREBY WAIVES, BOTH WITH RESPECT TO THE LEASE AND WITH RESPECT TO THIS GUARANTY, ANY AND ALL RIGHTS WHICH ARE WAIVED BY TENANT UNDER THE LEASE, IN THE SAME MANNER AS IF ALL SUCH WAIVERS WERE FULLY RESTATED HEREIN. THE LIABILITY OF GUARANTOR UNDER THIS GUARANTY IS PRIMARY AND UNCONDITIONAL.

(c) Guarantor expressly waives any and all rights to defenses arising by reason of (i) any "one-action" or "anti-deficiency" law or any other law that may prevent Landlord from bringing any action, including a claim for deficiency, against Guarantor before or after Landlord's commencement or completion of any action against Tenant; (ii) ANY ELECTION OF REMEDIES BY LANDLORD (INCLUDING, WITHOUT LIMITATION, ANY TERMINATION OF THE LEASE) THAT DESTROYS OR OTHERWISE ADVERSELY AFFECTS GUARANTOR'S SUBROGATION RIGHTS OR GUARANTOR'S RIGHTS TO PROCEED AGAINST TENANT FOR REIMBURSEMENT; (iii) any disability, insolvency, bankruptcy, lack of authority or power, death, insanity, minority, dissolution, or other defense of Tenant, of any other guarantor (or any other Guarantor), or of any other person or entity, or by reason of the cessation of Tenant's liability from any cause whatsoever, other than full and final payment in legal tender and performance of the Obligations; (iv) any right to claim discharge of any or all of the Obligations on the basis of unjustified impairment of any collateral for the Obligations; (v) any change in the relationship between Guarantor and Tenant or any termination of such relationship; (vi) any irregularity, defect or unauthorized action by any or all of Landlord, Tenant, any other guarantor (or Guarantor) or surety, or any of their respective officers, directors or other agents in executing and delivering any instrument or agreements relating to the Obligations or in carrying out or attempting to carry out the terms of any such agreements; (vii)

any assignment, endorsement or transfer, in whole or in part, of the Obligations, whether made with or without notice to or consent of Guarantor; (viii) if the recovery from Tenant or any other Person (including without limitation any other guarantor) becomes barred by any statute of limitations or is otherwise prevented; (ix) the benefits of any and all statutes, laws, rules or regulations applicable in the State of Texas which may require the prior or concurrent joinder of any other party to any action on this Guaranty; (x) any release or other reduction of the Obligations arising as a result of the expansion, release, substitution, deletion, addition, or replacement (whether or not in accordance with the terms of the Lease) of the Premises or any portion thereof; or (xi) any neglect, delay, omission, failure or refusal of Landlord to take or prosecute any action for the collection or enforcement of any of the Obligations or to foreclose or take or prosecute any action in connection with any lien or right of security (including perfection thereof) existing or to exist in connection with, or as security for, any of the Obligations, it being the intention hereof that Guarantor shall remain liable as a principal on the Obligations notwithstanding any act, omission or event that might, but for the provisions hereof, otherwise operate as a legal or equitable discharge of Guarantor. Guarantor hereby waives all defenses of a surety to which it may be entitled by statute or otherwise.

5. **SUBORDINATION; SUBROGATION.**

(a) Guarantor subordinates to the Obligations (i) any present and future debts and obligations of Tenant to Guarantor (the “**Indebtedness**”), including: (A) fees, reimbursement of expenses and other payments pursuant to any independent contractor arrangement; (B) principal and interest pursuant to any Indebtedness; (C) distributions payable to any partners, members or shareholders of Guarantor or Affiliates of Guarantor, solely to the extent such distributions are payable by using distributions received from Tenant; (D) lease payments pursuant to any leasing arrangement; (E) any management fees; and (F) all rights, liens and security interests of Guarantor, whether now or hereafter arising, in any assets of the Tenant, and (ii) any liens or security interests securing payment of the Indebtedness. Notwithstanding the foregoing, payments of Indebtedness may be made (I) at any time provided no Event of Default is continuing and (II) during the continuance of an Event of Default, to the extent permitted pursuant to the Lease. Guarantor shall have no right to possession of any assets of Tenant or to foreclose upon any such asset, whether by judicial action or otherwise, unless and until the Obligations have been paid and performed in full. Guarantor agrees that Landlord shall be subrogated to Guarantor with respect to Guarantor’s claims against Tenant and Guarantor’s rights, liens and security interest, if any, in any of Tenant’s assets and proceeds thereof until all of the Obligations have been paid and performed in full.

(b) After the occurrence and during the continuance of an Event of Default and until such Event of Default is cured or during the continuance of any bankruptcy or insolvency proceeding by or against Tenant and until such proceeding is dismissed, Guarantor shall not: (i) make any distributions or other payments to any partners, parent entities, or Affiliates of Guarantor (other than to Tenant), solely to the extent such distributions are payable by using distributions received from Tenant; or (ii) ask for, sue for, demand, take or receive any payment, by setoff or in any other manner, including the receipt of a negotiable instrument, for all or any part of the Indebtedness owed by Tenant, or any successor or assign of Tenant, including a receiver, trustee or debtor in possession (the term “**Tenant**” shall include any such successor or assign of Tenant) until the Obligations have been paid in full; however, if Guarantor

receives such a payment, Guarantor shall immediately deliver the payment to Landlord for credit against the then outstanding and matured balance of the Obligations. Notwithstanding anything in this Section 5 to the contrary, after an Event of Default has occurred and is outstanding, Guarantor may, in its sole discretion, make cash contributions to Tenant.

(c) Guarantor shall not be subrogated, and hereby waives and disclaims any claim or right against Tenant by way of subrogation, exoneration, contribution, reimbursement, indemnity or otherwise, to any of the rights of Landlord under the Lease or otherwise, or in the Premises (or any portion thereof), which may arise by any of the provisions of this Guaranty or by reason of the performance by Guarantor of any of its Obligations hereunder. Guarantor shall look solely to Tenant for any recoupment of any payments made or costs or expenses incurred by Guarantor pursuant to this Guaranty. If any amount shall be paid to Guarantor on account of such subrogation rights at any time when all of the Obligations shall not have been paid and performed in full, Guarantor shall immediately deliver the payment to Landlord for credit against the then outstanding balance of the matured Obligations.

6. **REPRESENTATIONS AND WARRANTIES OF GUARANTOR.** Guarantor represents and warrants that:

(a) Guarantor is a Delaware limited partnership; has all requisite power and authority to enter into and perform its obligations under this Guaranty; and this Guaranty is valid and binding upon and enforceable against Guarantor without the requirement of further action or condition.

(b) The execution, delivery and performance by Guarantor of this Guaranty does not and will not (i) contravene any applicable Legal Requirements, the organizational documents of Guarantor, if applicable, any order, writ, injunction, decree applicable to Guarantor, or any contractual restriction binding on or affecting Guarantor or any of its properties or assets, or (ii) result in or require the creation of any lien, security interest or other charge or encumbrance upon or with respect to any of its properties or assets.

(c) No approval, consent, exemption, authorization or other action by, or notice to, or filing with, any governmental authority is necessary or required in connection with the execution, delivery or performance by, or enforcement against, Guarantor of this Guaranty or any other instrument or agreement required hereunder.

(d) There is no action, suit or proceeding pending or threatened against or otherwise affecting Guarantor before any court or other governmental authority or any arbitrator that would, or could reasonably be expected to materially adversely affect Guarantor's ability to perform its obligations under this Guaranty.

(e) Guarantor's principal place of business as of the date hereof is __5885 Meadows Rd., Suite 500, Lake Oswego, OR 97035.

(f) Tenant is directly or indirectly owned and controlled by Guarantor.

(g) Guarantor has derived or expects to derive financial and other advantages and benefits directly or indirectly, from the making of the Lease and the payment and

performance of the Obligations. Guarantor hereby acknowledges that Landlord will be relying upon Guarantor's guarantee, representations, warranties and covenants contained herein.

(h) All reports, statements (financial or otherwise), certificates and other data furnished by or on behalf of Guarantor to Landlord in connection with this Guaranty or the Lease are: true and correct, in all material respects, as of the applicable date or period provided therein; and fairly represent the financial condition of Guarantor as of the respective date thereof.

7. **NOTICES.** Any consents, notices, demands, requests, approvals or other communications given under this Guaranty shall be in writing and shall be given as provided in the Lease, as follows or to such other addresses as either Landlord or Guarantor may designate by notice given to the other in accordance with the provisions of this Section 7:

If to Guarantor:

c/o – Holiday Retirement
5885 Meadows Rd., Suite 500
Lake Oswego, OR 97035
Attn: General Counsel

With a copy to:

c/o Fortress Investment Group LLC
1345 Avenue of the Americas
New York, New York 10105
Attn: Cameron MacDougall
Tel: (212) 479-1522
Email: cmacdougall@fortress.com

With a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York, New York 10036
Attn: Neil Rock
Tel: (212) 735-3787
Fax: (917) 777-3787
Email: neil.rock@skadden.com

If to Landlord:

c/o Fortress Investment Group LLC
1345 Avenue of the Americas, 46th Floor
New York, NY 10105
Telephone: (212) 798-6100
Attention: Jonathan Brown

With a copy to:

Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York NY 10006
Attention: Donald A. Stern
Telephone: (212) 225-2640
Email: dstern@cgsh.com

8. **CONSENT TO JURISDICTION.** Guarantor hereby (a) consents and submits to the jurisdiction of the courts of the State of Texas and the federal courts sitting in the State of Texas with respect to any dispute arising, directly or indirectly, out of this Guaranty, (b) waives any objections which the undersigned may have to the laying of venue in any such suit, action or proceeding in either such court, (c) agrees to join Landlord in any petition for removal to either such court, and (d) irrevocably designates and appoints Tenant as its authorized agent to accept

and acknowledge on its behalf service of process with respect to any disputes arising, directly or indirectly, out of this Guaranty. The undersigned hereby acknowledges and agrees that Landlord may obtain personal jurisdiction and perfect service of process through Tenant as the undersigned agent, or by any other means now or hereafter permitted by applicable law. Nothing above shall limit Landlord's choice of forum for purposes of enforcing this Guaranty.

9. **CERTAIN ADDITIONAL COVENANTS.**

(a) **Financial Deliveries.**

(i) Guarantor shall deliver the information described in Schedule 3 to Landlord.

(ii) Upon the delivery of any financial information by or on behalf of Guarantor pursuant to this Section 9 from time to time during the Lease Term, Guarantor shall be deemed (unless Guarantor specifically states otherwise in writing) to automatically represent and warrant to Landlord that the financial information delivered to Landlord is true, accurate and complete in all material respects, presents fairly the results of operations of Guarantor for the respective periods covered thereby and reflects accurately the books and records of account of Guarantor as of such dates and for such periods in all material respects.

(b) **Disclosure.** Guarantor agrees that any financial statements of Guarantor and, if applicable, its Consolidated Subsidiaries required to be delivered to Landlord may (subject to the restrictions in Article 27 of the Lease which shall be deemed to extend to information provided by, and relating to, Guarantor), without the prior consent of, or notice to, Guarantor, be included and disclosed, to the extent required by applicable law, regulation or stock exchange rule, in offering memoranda or prospectuses, or similar publications in connection with syndications, private placements or public offerings of Landlord's (or the entities directly or indirectly controlling Landlord) securities or interests, and in any registration statement, report or other document permitted or required to be filed under applicable federal and state laws, including those of any successor to Landlord. Guarantor agrees to provide such other reasonable financial and other information necessary to facilitate a private placement or a public offering or to satisfy the SEC or regulatory disclosure requirements. Guarantor agrees to use commercially reasonable efforts to cause its independent auditors, at Landlord's cost, to consent, in a timely manner, to the inclusion of their audit report issued with respect to such financial statements in any registration statement or other filing under federal and state laws and to provide the underwriters participating in any offering of securities or interests of Landlord (or the entities directly or indirectly controlling Landlord) with a standard accountant's "comfort" letter with regard to the financial information of Guarantor and, if applicable, its Consolidated Subsidiaries included or incorporated by reference into any prospectus or other offering document.

(c) **Review Right.** Landlord shall have the right, from time to time during normal business hours after not less than five (5) Business Days prior written notice to Guarantor, itself or through any attorney, accountant or other agent or representative retained by Landlord ("**Landlord's Representatives**"), to examine and audit all financial and other records and pertinent corporate documents of Guarantor at the office of Guarantor or such other Person that

maintains such records and documents. Guarantor hereby agrees to reasonably cooperate with any such examination or audit; provided, however, the cost of such examination or audit shall be borne by Landlord.

(d) **Assignment; Sale of Assets; Change in Control.** Without the prior consent of Landlord, which consent may be withheld or granted in Landlord's sole discretion, Guarantor shall not assign (whether directly or indirectly), in whole or in part, this Guaranty or any obligation hereunder or, through one or more step transactions or tiered transactions, do, or permit to be done, any Transfer except as expressly allowed by the Lease. Upon the consummation of (i) a Transfer that is not prohibited by the terms of the Lease and (ii) the contemporaneous delivery of a substitute guaranty with respect to the transferred Obligations as contemplated by the terms of the Lease, the Guarantor with respect to the tenant Transferring the interests shall be immediately released from (A) the performance or observance of all or any portion of any of the agreements, covenants, terms or conditions contained in this Guaranty as they relate to the applicable interest or interests being Transferred, as applicable, and (B) its obligation to comply with the covenants contained in Section 10 of this Guaranty (provided, in the case of this subsection (B), one or more Guarantors that satisfy the financial covenants in Section 10 (as applicable), guarantee the obligations of the tenants following the Transfer of the Lease, with respect to all of the Premises), in each case, without the need for any further action on behalf of the parties hereto. In connection with any such release, upon written request by Guarantor, Landlord shall deliver to Guarantor such evidence as is reasonably requested to evidence such release.

(e) **Payment Method; Default Interest.** Guarantor shall make any payments due hereunder in immediately available funds by wire transfer to Landlord's bank account as notified by Landlord, unless Landlord agrees to another method of payment of immediately available funds. If Guarantor does not pay an amount due hereunder on its due date, Guarantor shall pay, on demand, interest at the Overdue Rate on the amount due for a period ending on the full payment of such amount, including the day of repayment, whether before or after any judgment or award, to the extent permitted under applicable law.

10. **FINANCIAL COVENANTS.** Until the payment and performance in full of the Obligations:

(a) Subject to Section 10(b), (i) Guarantor shall maintain, at a minimum, the Net Worth or Market Capitalization (as applicable) and Fixed Charge Coverage Ratio and, at a maximum, the Leverage Ratio (each as defined on Exhibit A attached hereto) set forth on Schedule 1(a) attached hereto. The Net Worth, Fixed Charge Coverage Ratio and Leverage Ratio of Guarantor shall be measured as of the last day of each calendar quarter and such calculations shall be delivered to Landlord in accordance with Section 9 and Schedule 3. Guarantor hereby represents and warrants that its Net Worth and Fixed Charge Coverage Ratio meet or exceed the levels reflected in Schedule 1(a), and its Leverage Ratio is less than or equal to the levels reflected on Schedule 1(a).

(b) Unless and until a Material Event shall occur, if Guarantor becomes or is a Publicly Traded Company with a Market Capitalization (each as defined on Exhibit A attached hereto) in excess of Five Hundred Million Dollars (\$500,000,000) at the time such Guarantor

becomes a party to this Guaranty, then Section 10(a) and Section 10(c) shall not apply and Guarantor shall maintain, at a minimum, the Fixed Charge Coverage Ratio set forth on Schedule 1(b) attached hereto. The Fixed Charge Coverage Ratio shall be measured as of the last day of each calendar quarter and such calculation of Fixed Charge Coverage Ratio shall be delivered to Landlord in accordance with Section 9 and Schedule 3. Upon the occurrence of a Material Event, (i) if Guarantor is a Publicly Traded Company with a Market Capitalization in excess of Five Hundred Million Dollars (\$500,000,000), as measured immediately after such Material Event, then this Section 10(b) shall continue to apply; or (ii) if Guarantor is not a Publicly Traded Company with a Market Capitalization in excess of Five Hundred Million Dollars (\$500,000,000), as measured immediately after such Material Event, then Section 10(a) shall immediately apply to such Guarantor.

(c) At no time shall Guarantor guaranty (or enter into a keepwell or similar instrument), permit any assets of Guarantor to serve as security or collateral for, or otherwise provide any form of credit support for, any indebtedness or other obligations of any person or entity which is not a wholly-owned and controlled, direct or indirect subsidiary of Guarantor.

11. **MISCELLANEOUS.**

(a) Guarantor further agrees that Landlord may, without notice, assign this Guaranty in whole or in part. If Landlord disposes of its interest in the Lease, "**Landlord**," as used in this Guaranty, shall mean Landlord's successors and assigns.

(b) Guarantor promises to pay all costs of collection or enforcement incurred by Landlord in exercising any remedies provided for in the Lease or this Guaranty whether at law or in equity. If any legal action or proceeding is commenced to interpret or enforce the terms of, or obligations arising out of, this Guaranty, or to recover damages for the breach thereof, the party prevailing in any such action or proceedings shall be entitled to recover from the non-prevailing party all attorneys' fees and reasonable costs and expenses incurred by the prevailing party. As used herein, "attorneys' fees" shall mean the fees and expenses of counsel to the parties hereto, which may include printing, photocopying, duplicating and other expenses, air freight charges, and fees billed for law clerks, paralegals, librarians and others not admitted to the bar but performing services under the supervision of an attorney. The term "attorneys' fees" shall also include, without limitation, all such fees and expenses incurred with respect to appeals, arbitrations and bankruptcy proceedings.

(c) Guarantor shall, from time to time within ten (10) days after receipt of Landlord's request, but not more than two (2) times in any given fiscal year, execute, acknowledge and deliver to Landlord a statement certifying that this Guaranty is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating such modifications). Such certificate may be relied upon by any prospective purchaser, lessor or lender of all or a portion of the Premises (or any portion thereof).

(d) If any portion of this Guaranty shall be deemed invalid, unenforceable or illegal for any reason, such invalidity, unenforceability or illegality shall not affect the balance of this Guaranty, which shall remain in full force and effect to the maximum permitted extent.

(e) The provisions, covenants and guaranties of this Guaranty shall be binding upon Guarantor and its heirs, successors, legal representatives and assigns, and shall inure to the benefit of Landlord and its successors and assigns, and shall not be deemed waived or modified unless such waiver or modification is specifically set forth in writing, executed by Landlord or its successors and assigns, and delivered to Guarantor.

(f) Whenever the words “include”, “includes”, or “including” are used in this Guaranty, they shall be deemed to be followed by the words “without limitation”, and, whenever the circumstances or the context requires, the singular shall be construed as the plural, the masculine shall be construed as the feminine and/or the neuter and vice versa. This Guaranty shall be interpreted and enforced without the aid of any canon, custom or rule of law requiring or suggesting construction against the party drafting or causing the drafting of the provision in question.

(g) Each of the rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law or in the Lease or this Guaranty.

(h) The provisions of this Guaranty shall be governed by and interpreted solely in accordance with the internal laws of the State of Texas, without giving effect to the principles of conflicts of law.

(i) The execution of this Guaranty prior to execution of the Lease shall not invalidate this Guaranty or lessen the Obligations of Guarantor hereunder.

(j) The Recitals set forth above are hereby incorporated by this reference and made a part of this Guaranty. Guarantor hereby represents and warrants that the Recitals are true and correct.

(k) Guarantor hereby acknowledges and agrees to be bound by the restrictive covenants set forth in Article 26 to the Lease.

(l) Notwithstanding anything to the contrary herein, if Landlord exercises its rights under Article 28 of the Lease and requires Tenant to execute a Severed Lease, contemporaneously with the execution of any Severed Lease, Guarantor shall execute a new guaranty for each of the Lease and each Severed Lease, pursuant to which Guarantor shall separately guaranty Tenant’s obligations under the Lease (as amended) and each Severed Lease on the same terms and to the same extent as Tenant’s obligations under the Lease are guaranteed by Guarantor pursuant to this Guaranty, and thereupon, this Guaranty shall be automatically be deemed terminated and of no further force or effect

[Signature Page Follows]

IN WITNESS WHEREOF, Guarantor and Landlord have executed this Guaranty as of the day and year first above written.

GUARANTOR:

Holiday AL Holdings LP, a Delaware
limited partnership

By: Holiday AL Holdings GP LLC, its
General Partner

By: /s/ Scott Shanaberger

Name: Scott Shanaberger

Title: Chief Financial Officer

Signature Pages to the NCT I Master Lease Guaranty

Executed by Landlord for the purpose of Section 11(1):

LANDLORD:

NIC 12 ARLINGTON PLAZA OWNER LLC
NIC 12 BLAIR HOUSE OWNER LLC
NIC 12 BLUE WATER LODGE OWNER LLC
NIC 12 BRIARCREST ESTATES OWNER LLC
NIC 12 CHATEAU RIDGELAND OWNER LLC
NIC 12 CHERRY LAUREL OWNER LLC
NIC 12 COLONIAL HARBOR OWNER LLC
NIC 12 COUNTRY SQUIRE OWNER LLC
NIC 12 COURTYARD AT LAKEWOOD OWNER LLC
NIC 12 DESOTO BEACH CLUB OWNER LLC
NIC 12 EL DORADO OWNER LLC
NIC 12 ESSEX HOUSE OWNER LLC
NIC 12 FLEMING POINT OWNER LLC
NIC 12 GRASSLANDS ESTATES OWNER LLC
NIC 12 GREELEY PLACE OWNER LLC
NIC 12 GRIZZLY PEAK OWNER LLC
NIC 12 JACKSON OAKS OWNER LLC
NIC 12 MAPLE DOWNS OWNER LLC
NIC 12 PARKWOOD ESTATES OWNER LLC
NIC 12 PIONEER VALLEY LODGE OWNER LLC
NIC 12 REGENCY RESIDENCE OWNER LLC
NIC 12 SIMI HILLS OWNER LLC
NIC 12 STONEYBROOK LODGE OWNER LLC
NIC 12 SUMMERFIELD ESTATES OWNER LLC
NIC 12 VENTURA PLACE OWNER LLC,
each a Delaware limited liability company

By: /s/ Andrew White

Name: Andrew White
Title: Chief Executive Officer,
President and Secretary

Signature Pages to the NCT I Master Lease Guaranty

EXHIBIT A

CERTAIN DEFINED TERMS

As used in Section 10 of this Guaranty, the following terms shall have the meanings set forth below:

“**Acquisition**” means, by any Person, the purchase or acquisition by such Person of any Capital Stock in another Person or any asset of another Person, whether or not involving a merger or consolidation with such other Person.

“**Annualized**” means, with respect to an amount, (a) such amount, divided by (b) the number of calendar quarters in such period, multiplied by (c) four.

“**Capital Lease**” means, as applied to any Person, any lease of any property (whether real, personal or mixed) by that Person as lessee which, in accordance with GAAP and in the reasonable judgment of such Person, is required to be accounted for as a capital lease on the balance sheet of that Person.

“**Capital Stock**” shall mean, with respect to any entity, any capital stock (including preferred stock), shares, interests, participation or other ownership interests (however designated) of such entity and any rights (other than debt securities convertible into or exchangeable for capital stock), warrants or options to purchase any thereof; provided, however, that leases of real property that provide for contingent rent based on the financial performance of the tenant shall not be deemed to be Capital Stock.

“**Consolidated EBITDAR**” means, for any period, for Guarantor and, if applicable, its Consolidated Subsidiaries determined on a consolidated basis, Consolidated Net Income for such period, plus without duplication, to the extent deducted in determining Consolidated Net Income, the sum for such period of (i) amortization and depreciation expense, (ii) provision for income taxes (including provision for deferred taxes not payable currently), (iii) Consolidated Interest Expense, (iv) Rent Expense, (v) non-cash charges as are reasonably acceptable to Landlord, and (vi) non-recurring income and expenses as are reasonably acceptable to Landlord; but, excluding, for purposes hereof, to the extent included in determining Consolidated Net Income for such period, the amount of interest income as determined for such period in conformity with GAAP.

“**Consolidated Fixed Charges**” means, for Guarantor and its Consolidated Subsidiaries determined on a consolidated basis, for a particular period, the following determined in accordance with GAAP: the sum of the scheduled and mandatory amortization of Debt (but without double counting) during such period plus Consolidated Interest Expense and Rent Expense for such period.

“**Consolidated Interest Expense**” means, for a given period, all interest expense for Guarantor and its Consolidated Subsidiaries during such period determined on a consolidated basis for such period in accordance with GAAP, including the interest component under Capital Leases (and also including, to the extent required under GAAP, the implied interest component under a securitization), any accrued but unpaid interest, capitalized interest, and all current payments due under Interest Rate Protection Agreements by Guarantor and its Consolidated

Exhibit A

Subsidiaries determined on a consolidated basis (net of payments to such parties by any counter party thereunder, but excluding the amortization of any deferred financing fees.

“**Consolidated Net Income**” means, for any given period, the net income or loss of Guarantor and its Consolidated Subsidiaries during such period (including net income or net loss attributable to non-controlling interests) determined on a consolidated basis for such period in accordance with GAAP; provided that there shall be excluded from such determination of net income or loss (i) adjustments for straight-line rent accounting, (ii) the income or loss of any Person (other than the Consolidated Subsidiaries) in which Guarantor or any of its Consolidated Subsidiaries has an equity investment or comparable interest, except to the extent of the amount of dividends or other distributions actually received by Guarantor or any Consolidated Subsidiary in cash on a non-contingent basis, without any obligation to return such dividend or distribution by the Guarantor or any Consolidated Subsidiary, (iii) income or loss of a Person accrued prior to the date it becomes a Consolidated Subsidiary or is merged or consolidated with or such Person’s assets are acquired by Guarantor or any of its Consolidated Subsidiaries and (iv) any after tax gains or losses attributable to sales of non-current assets out of the ordinary course of business and write-downs of non-current assets in anticipation of losses to the extent they have decreased net income.

“**Consolidated Subsidiary**” shall mean, with respect to Guarantor, any subsidiary or other entity the accounts of which would be consolidated with those of Guarantor in its consolidated financial statements if such statements were prepared as of such date.

“**Cumulative Straight-line Rent**” shall mean the sum of all non-cash straight-line rent adjustments made by Guarantor or its Consolidated Subsidiaries, whether made before or after the date hereof, but only to the extent such adjustments remain directly reflected as an asset or as a liability on the balance sheet of Guarantor as of the applicable date of calculation.

“**Debt**” means, for Guarantor or any of its Consolidated Subsidiaries, without duplication, any indebtedness of Guarantor or any of its Consolidated Subsidiaries, whether or not contingent, in respect of: (i) borrowed money as evidenced by bonds, notes, debentures or similar instruments; (ii) indebtedness for borrowed money secured by any encumbrance existing on property owned by Guarantor or its Consolidated Subsidiaries, to the extent of the lesser of (x) the amount of indebtedness so secured or (y) the fair market value of the property subject to such encumbrance; (iii) all reimbursement obligations in connection with any letters of credit or amounts representing the balance deferred and unpaid of the purchase price of any property or services, except any such balance that constitutes an accrued expense, trade payable, conditional sale obligation or obligation under any title retention agreement; (iv) all net obligations of such Person under any Interest Rate Protection Agreement valued in accordance with GAAP; (v) all obligations in respect of any preferred equity to the extent payments are being made thereon; (vi) indebtedness of any partnership or joint venture or other similar entity in which such Person is a general partner or joint venturer and, as such, has personal liability for such obligations, but only if and to the extent there is recourse to such Person for payment thereof; (vii) any obligations of Guarantor and its Consolidated Subsidiaries with respect to redemption, repayment or other repurchase of any Equity Interest or the principal amount of any subordinated Debt (regardless of whether interest or principal is then-currently payable with respect thereto); (viii) any lease of property by Guarantor or any of its Consolidated Subsidiaries as lessee which is reflected as a

Exhibit A

capital lease obligation on the consolidated balance sheet of Guarantor or its Consolidated Subsidiaries; to the extent, in the case of items of indebtedness under clauses (i) through (viii) above, that any such items would appear as a liability on Guarantor's or its Consolidated Subsidiaries' consolidated balance sheet in accordance with GAAP; or (ix) the liquidation preference of any Equity Interest of Guarantor or any shares of preferred stock of any of its Consolidated Subsidiaries to the extent payments are being made thereon.

"Equity Interest" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"Fixed Charge Coverage Ratio" means, for Guarantor for the trailing twelve (12) consecutive month period ending as of any date of determination, (i) the Consolidated EBITDAR for such period, divided by (ii) the sum of the Consolidated Fixed Charges for such period. For purposes of computing the Fixed Charge Coverage Ratio, Consolidated EBITDAR and Consolidated Fixed Charges shall be normalized on a Pro Forma Basis for any acquisitions and/or divestitures and/or refinancings and/or debt repayments occurring during each fiscal quarter.

"Interest Rate Protection Agreements" means any interest rate swap agreement, interest rate cap agreement, synthetic cap, collar or floor or other financial agreement or arrangement designed to protect Guarantor or any Consolidated Subsidiary against fluctuations in interest rates or to reduce the effect of any such fluctuations.

"Leverage Ratio" shall mean as of any date of determination, for Guarantor and its Consolidated Subsidiaries determined on a consolidated basis, the ratio of (a) the sum of (i) Debt (excluding reimbursement obligations in connection with any undrawn letters of credit to the extent included in Debt) and (ii) Rent Expense for the Trailing Four Quarter Period ending on such date multiplied by ten (10), to (b) Consolidated EBITDAR for the Trailing Four Quarter Period ending on such date. For purposes of calculating the foregoing ratio, asset dispositions, refinancings, debt repayments or Acquisitions which have occurred during such period shall be included on a Pro Forma Basis.

"Market Capitalization" means the Market Price of Guarantor's Publicly Traded Capital Stock currently outstanding multiplied by the number of such shares. For purposes of this definition, the number of shares of Guarantor's Publicly Traded Capital Stock currently outstanding shall not include any shares held (a) by any subsidiary of Guarantor; or (b) by Guarantor as treasury stock or otherwise.

"Market Price" means, on any date, the closing sale price per share of Guarantor's Publicly Traded Capital Stock on such date on the New York Stock Exchange or another registered national stock exchange on which Guarantor's Publicly Traded Capital Stock is then listed, or if there is no such price on such date, then the closing sale price on such exchange or quotation system on the date nearest preceding such date.

"Material Event" means (a) any transaction or series, step or tiered transactions, including, but not limited to the Transfer of any stock, partnership, membership or other direct or

Exhibit A

indirect equity interests of Guarantor or any Person or group of Persons Controlling Guarantor, that involve or effectively result in (without regard, for example, to the form or direction of transaction or name or form of any successor entity/ies) (1) a change in Control of Guarantor or in such Controlling Person or Persons; or (2) the Transfer of any of the assets of Guarantor or its Consolidated Subsidiaries if the Net Worth of Guarantor immediately following such transaction is not at least equal to Seventy-Five Percent (75%) of the Net Worth of Guarantor immediately prior to such transaction; or (b) any transaction or series, step or tiered transactions that results in the Guarantor no longer being a Publicly Traded Company.

“**Net Worth**” means, as of the date of this Agreement (if applicable, on a Pro Forma Basis reflecting the repayment of \$235,000,000 of the Outstanding Debt (as defined in the Purchase Agreement) on such date) and any subsequent date of determination, for Guarantor and, if applicable, its Consolidated Subsidiaries determined on a consolidated basis, an amount equal to the book value of Guarantor’s assets as of such date, *plus* (a) (i) accumulated depreciation and (ii) the Cumulative Straight-line Rent (to the extent reflected as a liability on the balance sheet of Guarantor as of the applicable date of calculation), *minus* (b) (i) the liabilities of Guarantor as of such date, (ii) the total intangible assets (excluding resident lease intangibles) of Guarantor as of such date, and (iii) the Cumulative Straight-line Rent (to the extent reflected as an asset on the balance sheet of Guarantor as of the applicable date of calculation), each as determined in accordance with GAAP.

“**Pro Forma Basis**” means, for purposes of determining compliance with any financial covenant hereunder, that the subject transaction shall be deemed to have occurred as of the first day of the applicable period ending on the last day of the applicable period for which financial performance is being measured. Further, for purposes of making calculations on a “Pro Forma Basis” hereunder, (i) in the case of an asset disposition or repayment of debt, (A) income statement items (whether positive or negative) attributable to the property, entities or business units that are the subject of such asset disposition shall be excluded to the extent relating to any period prior to the actual date of the subject transaction, and (B) Debt paid or retired in connection with the subject transaction shall be deemed to have been paid and retired as of the first day of the applicable period; and (ii) in the case of an Acquisition, (A) income statement items (whether positive or negative) attributable to the property, entities or business units that are the subject of such Acquisition shall be included to the extent relating to any period prior to the actual date of the subject transaction, and (B) Debt incurred in connection with the subject transaction shall be deemed to have been incurred as of the first day of the applicable period (and interest expense shall be imputed for the applicable period utilizing the actual interest rates thereunder or, if actual rates are not ascertainable, assuming prevailing interest rates included in the income statements shall be eliminated).

“**Publicly Traded Capital Stock**” means Capital Stock which is (i) registered under the Securities Exchange Act of 1934, as amended, and (ii) listed on the New York Stock Exchange or traded on the NASDAQ Stock Market.

“**Publicly Traded Company**” means a company with Publicly Traded Capital Stock.

“**Quarter**” means calendar quarter.

Exhibit A

“**Rent Expense**” means rent expense computed under and in accordance with GAAP, exclusive of any non-cash adjustment under GAAP for the straight lining of rent.

“**Trailing Four Quarter Period**” shall mean with respect to a date, the period of four consecutive Quarters ended on such date or the end of the Quarter most immediately preceding such date.

Exhibit A

SCHEDULE 1(a)

FINANCIAL COVENANTS

Fixed Charge Coverage Ratio: 1.10x

Leverage Ratio: 10x

Net Worth: \$150,000,000

Schedule 1

SCHEDULE 1(b)

FINANCIAL COVENANTS

Fixed Charge Coverage Ratio: 1.05x

Schedule 1

SCHEDULE 2**LOCATIONS**

Facility	Address	City	State
Arlington Plaza	6801 W Poly Webb Road	Arlington	TX
Blair House	1200 East College Avenue	Normal	IL
Blue Water Lodge	2840 Keewahdin Road	Fort Gratiot	MI
Briarcrest Estates	14525 Clayton Road	Ballwin	MO
Chateau Ridgeland	745 S Pear Orchard Road	Ridgeland	MS
Cherry Laurel	1009 Concord Road	Tallahassee	FL
Colonial Harbor	2405 Ft. Eustis Blvd.	Yorktown	VA
Country Squire	1602 Buckingham Street	St. Joseph	MO
Courtyard at Lakewood	7100 W 13th Avenue	Lakewood	CO
Desoto Beach Club	5201 Desoto Rd.	Sarasota	FL
El Dorado	714 W Arapaho Road	Richardson	TX
Essex House	20 N. 12th St.	Lemoine	PA
Fleming Point	720 Latta Rd.	Greece	NY
Grasslands Estates	10665 W. 13th St. N	Wichita	KS
Greeley Place	1051 6th Street	Greeley	CO
Grizzly Peak	3600 American Way	Missoula	MT
Jackson Oaks	2500 Marshall Avenue	Paducah	KY
Maple Downs	7220 Genesee St. E.	Fayetteville	NY
Parkwood Estates	2201 South Lemay Avenue	Fort Collins	CO
Pioneer Valley Lodge	2351 N 400 E	North Logan	UT
Regency Residence	6711 Embassy Boulevard	Port Richey	FL
Simi Hills	950 Sunset Garden Lane	Simi Valley	CA
Stoneybrook Lodge	4700 SW Hollyhock Circle	Corvallis	OR
Summerfield Estates	9133 Baird Road	Shreveport	LA
Ventura Place	3026 54th Street	Lubbock	TX

SCHEDULE 3

FINANCIAL INFORMATION

(1) **Financial Reports:** No later than 50 days after the Commencement Date, Guarantor shall deliver to Landlord audited financial statements with footnotes including footnotes with respect to the Guarantor for the period prior to the Commencement Date certified in a manner reasonably acceptable to Landlord by independent certified public accountants of recognized standing.

(2) **Quarterly Financial Reports:** No later than 30 days after the end of each calendar quarter (or 50 days with respect to the last calendar quarter of each year), Guarantor shall deliver to Landlord unaudited financial statements prepared for the applicable quarter with respect to Guarantor, including:

- (a) a balance sheet and operating statement as of the end of such quarter;
- (b) related statements of income;
- (c) calculation of Net Worth, Fixed Charge Coverage Ratio and Leverage Ratio;
- (d) an Officer's Certificate executed and delivered by the Chief Executive Officer or Chief Financial Officer of Guarantor, certifying that the foregoing are true and correct and were prepared in accordance with GAAP, applied on a consistent basis, subject to changes resulting from audit and normal year-end audit adjustments; and
- (e) such other information regarding Guarantor or Tenant as may be reasonably required to be disclosed by (i) operation of law, rule, regulation or legal process, (ii) the adoption of any accounting standards or principles, (iii) any change in any of the foregoing, (iv) any change in the interpretation or administration thereof by any governmental authority, accounting standards or oversight board or comparable agency or authority charged with the interpretation or administration thereof, or (v) compliance with any request or directive (whether or not having the force of law) of any such regulatory authority or agency, to a governmental authority or agency such as the Internal Revenue Service or the Securities and Exchange Commission, or a stock exchange such as the New York Stock Exchange, in each case in form and substance reasonably acceptable to the Landlord.

(3) **Annual Financial Reports:** No later than 50 days after the end of each calendar year, Guarantor shall deliver to Landlord audited financial statements including footnotes prepared for the applicable calendar year with respect to Guarantor, including:

- (a) a balance sheet and operating statement as of the end of such calendar year;
 - (b) related statements of income;
 - (c) calculation of Net Worth, Fixed Charge Coverage Ratio and Leverage Ratio;
-

- (d) an Officer's Certificate executed and delivered by the Chief Executive Officer or Chief Financial Officer of Guarantor, certifying that the foregoing are true and correct and were prepared in accordance with GAAP, applied on a consistent basis, subject to changes resulting from audit and normal year-end audit adjustments; and
 - (e) such other information regarding Guarantor or Tenant as may be reasonably required to be disclosed by (i) operation of law, rule, regulation or legal process, (ii) the adoption of any accounting standards or principles, (iii) any change in any of the foregoing, (iv) any change in the interpretation or administration thereof by any governmental authority, accounting standards or oversight board or comparable agency or authority charged with the interpretation or administration thereof, or (v) compliance with any request or directive (whether or not having the force of law) of any such regulatory authority or agency, to a governmental authority or agency such as the Internal Revenue Service or the Securities and Exchange Commission, or a stock exchange such as the New York Stock Exchange, in each case in form and substance reasonably acceptable to the Landlord.
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EXHIBIT 12.1**RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS AND RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our ratio of earnings to combined fixed charges and preferred dividends and our ratio of earnings to fixed charges for each of the periods indicated:

	Year Ended December 31,				
	2013	2012	2011	2010	2009 (A)
Ratio of Earnings to Combined Fixed Charges and Preferred Dividends	2.17	4.71	3.08	4.42	0.04
Ratio of Earnings to Fixed Charges	2.30	4.95	3.21	4.61	0.04

(A)The 2009 deficiencies in each ratio are \$222.7 million and \$209.2 million, respectively. The 2009 results included impairment charges. Excluding such charges, the ratios would have exceeded 1 to 1.

For purposes of calculating the above ratios, (i) earnings represent "Income (loss) from continuing operations," excluding equity in earnings of unconsolidated subsidiaries, from our consolidated statements of income, as adjusted for fixed charges and distributions from unconsolidated subsidiaries, and (ii) fixed charges represent "Interest expense" from our consolidated statements of income. The ratios are based solely on historical financial information.

EXHIBIT 21.1**NEWCASTLE INVESTMENT CORP. SUBSIDIARIES**

Subsidiary	Jurisdiction of Incorporation/Organization
1. Fortress Asset Trust	Delaware
2. IMPAC CMB Trust 1998-C1	Delaware
3. IMPAC Commercial Assets Corporation	California
4. IMPAC Commercial Capital Corporation	California
5. IMPAC Commercial Holdings, Inc.	Maryland
6. Karl S.A.	Belgium
7. LIV Holdings LLC	Delaware
8. NCT Holdings LLC	Delaware
9. Newcastle 2005-1 Asset Backed Note LLC	Delaware
10. Newcastle 2006-1 Asset Backed Note LLC	Delaware
11. Newcastle 2006-1 Depositor LLC	Delaware
12. Newcastle CDO IV Corp. (process of dissolution)	Delaware
13. Newcastle CDO IV Holdings LLC (process of dissolution)	Delaware
14. Newcastle CDO IV Ltd.	Cayman Islands
15. Newcastle CDO V Corp.	Delaware
16. Newcastle CDO V Holdings LLC	Delaware
17. Newcastle CDO V, Ltd.	Cayman Islands
18. Newcastle CDO VI Corp.	Delaware
19. Newcastle CDO VI Holdings LLC	Delaware
20. Newcastle CDO VI, Ltd.	Cayman Islands
21. Newcastle CDO VIII 1, Limited	Cayman Islands
22. Newcastle CDO VIII 2, Limited	Cayman Islands
23. Newcastle CDO VIII Holdings LLC	Delaware
24. Newcastle CDO X Holdings LLC (process of dissolution)	Delaware
25. Newcastle VIII LLC	Delaware
26. Newcastle CDO IX 1, Limited	Cayman Islands
27. Newcastle CDO IX 2, Limited	Cayman Islands
28. Newcastle CDO IX Holdings LLC	Delaware
29. Newcastle CDO IX LLC	Delaware
30. Newcastle MH I LLC	Delaware
31. Newcastle Mortgage Securities LLC	Delaware
32. Newcastle Mortgage Securities Trust 2004-1	Delaware
33. Newcastle Mortgage Securities 2006-1	Delaware
34. Newcastle Mortgage Securities 2007-1	Delaware
35. Newcastle Trust 1	Delaware
36. NIC Airport Corporate Center LLC	Delaware
37. NIC Apple Valley I LLC	Delaware
38. NIC Apple Valley II LLC	Delaware
39. NIC Apple Valley III LLC	Delaware
40. NIC CRA LLC	Delaware

Continued on next page.

EXHIBIT 21.1**NEWCASTLE INVESTMENT CORP. SUBSIDIARIES**

Subsidiary	Jurisdiction of Incorporation/Organization
41. NIC Dayton Town Center LLC	Delaware
42. NIC DB LLC	Delaware
43. NIC DP LLC	Delaware
44. NIC OTC LLC	Delaware
45. NIC TP LLC	Delaware
46. NIC TRS Holdings, Inc.	Delaware
47. NIC TRS LLC	Delaware
48. NIC WL II LLC	Delaware
49. NIC WL LLC	Delaware
50. Steinhage B.V.	Netherlands
51. NIC SF LLC	Delaware
52. NIC Management LLC	Delaware
53. NIC SN LLC	Delaware
54. Xanadu Asset Holdings LLC	Delaware
55. SP I Term Facility LLC	Delaware
56. Dayton Asset Holding LLC	Delaware
57. NCT Holdings II LLC	Delaware
58. Newcastle Investment Trust 2010-MH1	Delaware
59. Newcastle Investment Trust 2011-MH1	Delaware
60. SSL Term Loan LLC	Delaware
61. Newcastle Senior Living Holdings LLC	Delaware
62. TRS LLC	Delaware
63. Propco LLC	Delaware
64. BF Leasing LLC	Delaware
65. BF Owner LLC	Delaware
66. B Leasing LLC	Delaware
67. B Owner LLC	Delaware
68. B California Leasing LLC	Delaware
69. B Oregon Leasing LLC	Delaware
70. B Arizona Leasing LLC	Delaware
71. B Utah Leasing LLC	Delaware
72. B Idaho Leasing LLC	Delaware
73. Orchard Park Leasing LLC	Delaware
74. Sun Oaks Leasing LLC	Delaware
75. Sunshine Villa Leasing LLC	Delaware
76. Regent Court Leasing LLC	Delaware
77. Sheldon Park Leasing LLC	Delaware
78. Desert Flower Leasing LLC	Delaware
79. Canyon Creek Leasing LLC	Delaware
80. Willow Park Leasing LLC	Delaware

Continued on next page.

EXHIBIT 21.1**NEWCASTLE INVESTMENT CORP. SUBSIDIARIES**

Subsidiary	Jurisdiction of Incorporation/Organization
81. B California Owner LLC	Delaware
82. B Oregon Owner LLC	Delaware
83. B Arizona Owner LLC	Delaware
84. B Utah Owner LLC	Delaware
85. B Idaho Owner LLC	Delaware
86. Orchard Park Owner LLC	Delaware
87. Sun Oak Owner LLC	Delaware
88. Sunshine Villa Owner LLC	Delaware
89. Regent Court Owner LLC	Delaware
90. Sheldon Park Owner LLC	Delaware
91. Desert Flower Owner LLC	Delaware
92. Canyon Creek Owner LLC	Delaware
93. Willow Park Owner LLC	Delaware
94. RLG Leasing LLC	Delaware
95. RLG Owner LLC	Delaware
96. RLG Utah Leasing LLC	Delaware
97. RLG Utah Owner LLC	Delaware
98. Heritage Place Leasing LLC	Delaware
99. Golden Living Taylorsville Leasing LLC	Delaware
100. Chateau Brickyard Operations LLC	Delaware
101. Heritage Place Owner LLC	Delaware
102. Golden Living Taylorsville Owner LLC	Delaware
103. Chateau Brickyard Owner LLC	Delaware
104. Propco 2 LLC	Delaware
105. NIC Courtyards Owner LLC	Delaware
106. NIC GH I LLC	Delaware
107. NIC GH II LLC	Delaware
108. NIC GH III LLC	Delaware
109. NIC GH IV LLC	Delaware
110. NIC GH V LLC	Delaware
111. NIC GH VI LLC	Delaware
112. NIC GH VII LLC	Delaware
113. NIC GH VIII LLC	Delaware
114. NIC GH IX LLC	Delaware
115. NIC GH X LLC	Delaware
116. NIC GH XI LLC	Delaware
117. Propco 3 LLC	Delaware
118. NIC Courtyards Leasing LLC	Delaware
119. NIC Courtyards LLC	Delaware

Continued on next page.

EXHIBIT 21.1**NEWCASTLE INVESTMENT CORP. SUBSIDIARIES**

Subsidiary	Jurisdiction of Incorporation/Organization
120. NIC GH Equity LLC	Delaware
121. NIC GH XII LLC	Delaware
122. NIC Acquisitions LLC	Delaware
123. NIC GH XIII LLC	Delaware
124. NIC 4/5 Leasing LLC	Delaware
125. NIC 5 Florida Leasing LLC	Delaware
126. NIC 5 Springs Heaven Leasing LLC	Delaware
127. NIC 5 Renaissance Retirement Leasing LLC	Delaware
128. NIC 5 Forrest Oaks Leasing LLC	Delaware
129. NIC 4 Florida Leasing LLC	Delaware
130. NIC 4 The Grande Leasing LLC	Delaware
131. NIC 4 Village Place Leasing LLC	Delaware
132. NIC 4 Bradenton Oaks Leasing LLC	Delaware
133. NIC 4 Spring Oaks Leasing LLC	Delaware
134. NIC 4 Summerfield Leasing LLC	Delaware
135. NIC 4 Emerald Park Retirement Leasing LLC	Delaware
136. NIC 4 Bayside Terrace Leasing LLC	Delaware
137. NIC 4 Balmoral Leasing LLC	Delaware
138. NIC 4 Sunset Lake Leasing LLC	Delaware
139. NIC 4 North Carolina Leasing LLC	Delaware
140. NIC 4 Courtyards of New Bern Owner LLC	Delaware
141. NIC 5 Owner LLC	Delaware
142. NIC 5 Florida Owner LLC	Delaware
143. NIC 5 Spring Heaven Owner LLC	Delaware
144. NIC 5 Renaissance Retirement Owner LLC	Delaware
145. NIC 5 Forest Oaks Owner LLC	Delaware
146. NIC 5 Lake Morton Plaza Owner LLC	Delaware
147. NIC 7 Glen Riddle Owner LLC	Delaware
148. NIC 7 Pennsylvania Owner LLC	Delaware
149. NIC 7 Owner LLC	Delaware
150. Propco 7 LLC	Delaware
151. NIC 8 Schenley Gardens Owner LLC	Delaware
152. NIC 8 Pennsylvania Owner LLC	Delaware
153. NIC 8 Owner LLC	Delaware
154. Propco 8 LLC	Delaware
155. NIC GH XIV LLC	Delaware
156. NIC GH XV LLC	Delaware
157. NIC GH XVI LLC	Delaware
158. NIC GH XVII LLC	Delaware

Continued on next page.

EXHIBIT 21.1**NEWCASTLE INVESTMENT CORP. SUBSIDIARIES**

Subsidiary	Jurisdiction of Incorporation/Organization
159. NIC GH XVIII LLC	Delaware
160. NIC GH XIX LLC	Delaware
161. NIC GH XXI LLC	Delaware
162. NIC GH XXII LLC	Delaware
163. NIC 6 Manor at Woodside Owner LLC	Delaware
164. NIC 6 Owner LLC	Delaware
165. Propco 6 LLC	Delaware
166. NIC 6 Manor at Woodside Management LLC	Delaware
167. NIC 6 New York Management LLC	Delaware
168. NIC 6 Management LLC	Delaware
169. NIC 6 New York Owner LLC	Delaware
170. NIC 7 Glen Riddle Leasing LLC	Delaware
171. NIC 7 Pennsylvania Leasing LLC	Delaware
172. NIC 7 Leasing LLC	Delaware
173. NIC GH XXIII LLC	Delaware
174. NIC GH XXIV LLC	Delaware
175. CDO VIII Repack Limited	Delaware
176. NIC 5 Lake Morton Plaza Leasing LLC	Delaware
177. NIC 4 Emerald Park Retirement Owner LLC	Delaware
178. Propco 5 LLC	Delaware
179. NIC 8 Leasing LLC	Delaware
180. NIC 8 Pennsylvania Leasing LLC	Delaware
181. NIC 8 Schenley Gardens Leasing LLC	Delaware
182. NIC Texas Courtyards Leasing LLC	Delaware
183. NIC 4 Royal Palm Leasing LLC	Delaware
184. NIC 4 Royal Palm Owner LLC	Delaware
185. NIC GH XX LLC	Delaware
186. NCT 2013 – VI Funding Ltd.	Cayman Islands
187. American Golf Leasing LLC	Delaware
188. Propco 9 LLC	Delaware
189. NIC 9 Virginia Owner LLC	Delaware
190. NIC 9 Heritage Oaks Owner LLC	Delaware
191. NIC 9 Virginia Management LLC	Delaware
192. NIC 9 Heritage Oaks Management LLC	Delaware
193. NCT 2013-VI Funding Investors LLC	Delaware
194. Castle Sports & Entertainment Group, Inc.	Delaware

Continued on next page.

EXHIBIT 21.1**NEWCASTLE INVESTMENT CORP. SUBSIDIARIES**

Subsidiary	Jurisdiction of Incorporation/Organization
195. American Golf Group Holdings LLC	Delaware
196. Propco 10 LLC	Delaware
197. NIC 10 Florida Leasing LLC	Delaware
198. NIC 10 Florida Owner LLC	Delaware
199. NIC 10 Barkley Place Leasing LLC	Delaware
200. NIC 10 Barkley Place Owner LLC	Delaware
201. Propco 12 LLC	Delaware
202. NIC 12 Owner LLC	Delaware
203. NIC 12 Arlington Plaza Owner LLC	Delaware
204. NIC 12 Blair House Owner LLC	Delaware
205. NIC 12 Blue Water House Owner LLC	Delaware
206. NIC 12 Chateau Ridgeland Owner LLC	Delaware
207. NIC 12 Cherry Laurel Owner LLC	Delaware
208. NIC 12 Colonial Harbor Owner LLC	Delaware
209. NIC 12 Country Squire Owner LLC	Delaware
210. NIC 12 Courtyard At Lakewood Owner LLC	Delaware
211. NIC 12 Desoto Beach Club Owner LLC	Delaware
212. NIC 12 El Dorado Owner LLC	Delaware
213. NIC 12 Essex House Owner LLC	Delaware
214. NIC 12 Fleming Point Owner LLC	Delaware
215. NIC 12 Grasslands Estates Owner LLC	Delaware
216. NIC 12 Grizzly Peak Owner LLC	Delaware
217. NIC 13 Hidden Lakes Owner LLC	Delaware
218. NIC 12 Jackson Oaks Owner LLC	Delaware
219. NIC 12 Maples Downs Owner LLC	Delaware
220. NIC 12 Parkwood Estates Owner LLC	Delaware
221. NIC 12 Pioneer Valley Lodge Owner LLC	Delaware
222. NIC 12 Regency Residence Owner LLC	Delaware
223. NIC 12 Simi Hills Owner LLC	Delaware
224. NIC 12 Stoneybrook Lodge Owner LLC	Delaware
225. NIC 12 Summerfield Owner LLC	Delaware
226. NIC 12 Venture Place Owner LLC	Delaware
227. Propco 13 LLC	Delaware
228. NIC 13 Owner LLC	Delaware
229. NIC 13 The Bentley Owner LLC	Delaware

Continued on next page.

EXHIBIT 21.1**NEWCASTLE INVESTMENT CORP. SUBSIDIARIES**

Subsidiary	Jurisdiction of Incorporation/Organization
230. NIC 13 Briarcrest Estates Owner LLC	Delaware
231. NIC 13 Dogwood Estates Owner LLC	Delaware
232. NIC 13 Durhman Regent Owner LLC	Delaware
233. NIC 13 Fountains At Hidden Lakes Owner LLC	Delaware
234. NIC 13 Illahee Hills Owner LLC	Delaware
235. NIC 13 Jordan Oaks Owner LLC	Delaware
236. NIC 13 Lodge at Cold Spring Owner LLC	Delaware
237. NIC 13 Madison Estates Owner LLC	Delaware
238. NIC 13 Manor at Oakridge Owner LLC	Delaware
239. NIC 13 Oakwood Hills Owner LLC	Delaware
240. NIC 13 Orchid Terrace Owner LLC	Delaware
241. NIC 13 Palmer Hills Owner LLC	Delaware
242. NIC 13 Pinewood Hills Owner LLC	Delaware
243. NIC 13 Pueblo Regent Owner LLC	Delaware
244. NIC 13 The Regent Owner LLC	Delaware
245. NIC 13 Rock Creek Owner LLC	Delaware
246. NIC 13 Sheldon Oaks Owner LLC	Delaware
247. NIC 13 Sky Peaks Owner LLC	Delaware
248. NIC 13 Thornton Place Owner LLC	Delaware
249. NIC 13 Uffelman Estates Owner LLC	Delaware
250. NIC 13 Village Gate Owner LLC	Delaware
251. NIC 13 Vista De La Montana Owner LLC	Delaware
252. NIC 13 Walnut Woods Owner LLC	Delaware
253. NIC 13 The Westmont Owner LLC	Delaware
254. NIC 13 Whiterock Court Owner LLC	Delaware
255. Castle Sports & Entertainment Partners LLC	Delaware
256. Tower A LLC	Delaware
257. Tower A1 Holdings LLC	Delaware
258. Tower A2 Holdings LLC	Delaware
259. Tower B Holdings LLC	Delaware
260. Tower C Holdings LLC	Delaware
261. Tower B LLC	Delaware
262. Tower C LLC	Delaware
263. Vineyards Holdings LLC	Delaware
264. American Golf Partners LLC	Delaware
265. NGP Mezzanine, LLC	Delaware
266. NGP Realty Sub GP, LLC	Delaware
267. NGP Realty Sub, L.P.	Delaware
268. AGC Mezzanine Pledge LLC	Delaware
269. New AGC LLC	Delaware

Continued on next page.

EXHIBIT 21.1**NEWCASTLE INVESTMENT CORP. SUBSIDIARIES**

Subsidiary	Jurisdiction of Incorporation/Organization
270. American Golf Corporation	Delaware
271. Propco 4 LLC	Delaware
272. NIC 4 Owner LLC	Delaware
273. NIC 4 Florida Owner LLC	Delaware
274. NIC 4 North Carolina Owner LLC	Delaware
275. NIC 4 The Plaza Leasing LLC	Delaware
276. NIC 4 Courtyards of New Bern Leasing LLC	Delaware
277. NIC 4 The Grande Owner LLC	Delaware
278. NIC 4 Village Place Owner LLC	Delaware
279. NIC 4 Bradenton Oaks Owner LLC	Delaware
280. NIC 4 Spring Oaks Owner LLC	Delaware
281. NIC 4 Summerfield Owner LLC	Delaware
282. NIC 4 Emerald Park Retirement Owner LLC	Delaware
283. NIC 4 Bayside Terrace Owner LLC	Delaware
284. NIC 4 Balmoral Owner LLC	Delaware
285. NIC 4 The Plaza Owner LLC	Delaware
286. NIC 4 Sunset Lake Owner LLC	Delaware
287. NIC 4 Royal Palm Owner LLC	Delaware
288. NIC 12 Greeley Place Owner LLC	Delaware
289. American Golf of Atlanta	Georgia
290. CW Golf Partners LP	California
291. Golf Enterprises Inc.	Kansas
292. Persimmon Golf Club LLC	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-182103) of Newcastle Investment Corp. and Subsidiaries and in the related Prospectus of our reports dated March 3, 2014, with respect to the consolidated financial statements of Newcastle Investment Corp. and Subsidiaries, and the effectiveness of internal control over financial reporting of Newcastle Investment Corp. and Subsidiaries, included in this Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst & Young LLP
New York, New York
March 3, 2014

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 333-182103) of Newcastle Investment Corp. and Subsidiaries and in the related Prospectus of our reports dated February 19, 2014, with respect to the consolidated financial statements of Holiday AL Holding LP as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, and February 6, 2014, with respect to the combined financial statements of the NCT Portfolio as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, both included in this Annual Report on Form 10-K.

/s/Ernst & Young LLP
Chicago, Illinois
March 3, 2014

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kenneth M. Riis, certify that:

1. I have reviewed this annual report on Form 10-K of Newcastle Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d - 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d - 15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 3, 2014
(Date)

/s/ Kenneth M. Riis
Kenneth M. Riis
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Jonathan R. Brown, certify that:

1. I have reviewed this annual report on Form 10-K of Newcastle Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February [], 2014
(Date)

/s/ Jonathan R. Brown
Jonathan R. Brown
Interim Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION OF CEO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Newcastle Investment Corp. (the "Company") for the annual period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kenneth M. Riis, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kenneth M. Riis

Kenneth M. Riis
Chief Executive Officer
February [], 2014

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

**CERTIFICATION OF CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Newcastle Investment Corp. (the "Company") for the annual period ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Jonathan R. Brown, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jonathan R. Brown

Jonathan R. Brown
Interim Chief Financial Officer
February [], 2014

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 99.1

Audited Financial Statements of Holiday AL Holding LP

As of December 31, 2013 and 2012 and for each of the years in the three year period ended December 31, 2013, the guarantor in a significant asset concentration subject to a triple net lease.

Report of Independent Auditors

The Partners
Holiday AL Holdings LP

We have audited the accompanying consolidated financial statements of Holiday AL Holdings LP (the Partnership), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2013, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Partnership at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013 in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP
Chicago, Illinois
February 19, 2013

Holiday AL Holdings LP
Consolidated Balance Sheets
(In Thousands)

	December 31,	
	2013	2012
Assets		
Investment in real estate:		
Land and land improvements	\$ 40,301	\$ 40,246
Building and building improvements	265,617	265,451
Equipment	17,257	14,047
	323,175	319,744
Less accumulated depreciation	(60,430)	(52,187)
	262,745	267,557
Cash and cash equivalents	4,621	2,209
Cash and escrow deposits – restricted	106,420	3,233
Accounts receivable, net	789	247
Prepaid expenses and other assets, net	22,552	10,987
Resident lease intangibles, net	1,990	2,050
Deferred loan costs, net	—	366
Total assets	\$ 399,117	\$ 286,649
Liabilities and equity		
Mortgage notes payable	\$ —	\$ 234,319
Accounts payable and accrued expenses	24,946	4,939
Accrued interest payable	—	1,040
Prepaid rent and deferred revenue	5,990	1,477
Tenant security deposits	3,957	924
Straight-line rent payable	4,830	—
Total liabilities	39,723	242,699
Equity:		
Partnership	359,394	43,950
Total liabilities and equity	\$ 399,117	\$ 286,649

See accompanying notes to consolidated financial statements.

Holiday AL Holdings LP
Consolidated Statements of Operations
(In Thousands)

	Year Ended December 31		
	2013	2012	2011
Revenue			
Resident fees	\$ 89,429	\$ 55,626	\$ 52,038
Expenses			
Facility operating expenses	44,899	30,742	28,750
General and administrative expenses	3,602	2,025	1,950
Lease expense	20,903	—	—
Depreciation and amortization	8,298	8,429	9,573
Total expenses	<u>77,702</u>	<u>41,196</u>	<u>40,273</u>
Operating income	11,727	14,430	11,765
Interest expense:			
Interest incurred	(13,000)	(14,670)	(14,646)
Amortization of deferred loan costs	(366)	(227)	(227)
Loss on extinguishment of mortgage notes payable	(5,983)	—	—
Net loss attributable to the Partnership	<u>\$ (7,622)</u>	<u>\$ (467)</u>	<u>\$ (3,108)</u>

See accompanying notes to consolidated financial statements.

Holiday AL Holdings LP
Consolidated Statements of Changes in Equity
For the Year Ended December 31, 2013, 2012 and 2011
(In Thousands)

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Total Equity</u>
Balance at January 1, 2011	\$ 531	\$ 52,601	\$ 53,132
Net loss	(31)	(3,077)	(3,108)
Distributions	(46)	(4,539)	(4,585)
Balance at December 31, 2011	454	44,985	45,439
Net loss	(5)	(462)	(467)
Distributions	(10)	(1,012)	(1,022)
Balance at December 31, 2012	439	43,511	43,950
Net loss	(76)	(7,546)	(7,622)
Contributions, net	3,231	319,835	323,066
Balance at December 31, 2013	<u>\$ 3,594</u>	<u>\$ 355,800</u>	<u>\$ 359,394</u>

See accompanying notes to consolidated financial statements.

Holiday AL Holdings LP
Consolidated Statements of Cash Flows
(In Thousands)

	Years Ended December 31,		
	2013	2012	2011
Operating activities			
Net loss	\$ (7,622)	\$ (467)	\$ (3,108)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	8,298	8,429	9,573
Amortization of deferred loan costs	366	227	227
Amortization of resident incentives, net	780	350	(414)
Straight-line rent expense	4,830	—	—
Non-refundable community fees, deferred	1,456	326	(77)
Changes in operating assets and liabilities:			
Cash and escrow deposits – restricted	(103,187)	(621)	121
Accounts receivable	(542)	148	(99)
Prepaid expenses and other assets	(15,033)	(27)	(25)
Accounts payable and accrued expenses	6,695	1,108	380
Prepaid rent	1,887	229	183
Tenant security deposits	1,132	(3)	(59)
Net cash (used in) provided by operating activities	(100,940)	9,699	6,702
Investing activities			
Additions to investment in real estate	(3,425)	(1,514)	(2,117)
Cash used in investing activities	(3,425)	(1,514)	(2,117)
Financing activities			
Repayment of principal on mortgage notes payable	(234,319)	(476)	—
Distributions	—	(1,022)	(4,585)
Contributions	338,221	—	—
Due from affiliate	2,875	(4,482)	—
Net cash provided by (used in) financing activities	106,777	(5,980)	(4,585)
Net increase in cash and cash equivalents	2,412	2,205	—
Cash and cash equivalents at beginning of year	2,209	4	4
Cash and cash equivalents at end of year	\$ 4,621	\$ 2,209	\$ 4
Supplemental disclosure of cash flow information			
Cash paid for interest	\$ 14,040	\$ 14,674	\$ 14,645
Supplemental disclosure of non-cash information			
Net liabilities assumed:			
Accounts payable and accrued expenses	\$ (12,272)		
Tenant security deposits	(1,901)		
Prepaid rent	(1,170)		
Prepaid expenses and other assets	188		
Net liabilities assumed	\$ (15,155)		

See accompanying notes to consolidated financial statements.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

1. Formation and Description of Operations

Holiday AL Holdings LP (HAHLP or the Partnership), a Delaware limited partnership, is the owner and operator of assisted living and independent living facilities in the United States. As of December 31, 2013, the Partnership, directly or indirectly through its ownership entities, owned or leased 110 assisted living communities and independent communities consisting of 10,549 apartment and townhouse units (unaudited), located in 34 states (unaudited).

Properties	Communities	Units
Owned communities	8	1,648
Leased communities	102	8,901

The "Owned Communities" are accounted for under the consolidation method of accounting and are reflected as investment in real estate.

The "Leased Communities" are accounted for as operating leases, pursuant to Accounting Standards Codification (ASC) 840, *Leases*.

The Partnership is owned by Holiday AL Acquisition, LLC (Holiday Acquisition, a limited liability company and a wholly owned subsidiary of investment funds managed by affiliates of Fortress Investment Group LLC), Holiday AL Holdings GP LLC (Holiday AL GP – the general partner and a wholly owned subsidiary of Holiday Acquisition), and Retained Interest LLC (Retained Interest – which is wholly owned by previous investors of Holiday Retirement).

On March 1, 2012 and May 1, 2012, in connection with the commencement of operations of Holiday AL Holdings LP, assets and liabilities of 8 assisted living communities were transferred from Harvest Facility Holdings LP (Harvest) to the Partnership. The Partnership and Harvest are under common control and therefore the net assets transferred were recorded at carryover basis on the financial statements of the Partnership. As a result of the common control transaction, the accompanying financial statements are presented as if the net assets were transferred at the beginning of the period; therefore the financial statements have been presented as if the transfer occurred on January 1, 2011.

2. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The significant accounting policies are summarized below.

Principles of Consolidation

The Partnership consolidates its majority-owned subsidiaries in which it has the ability to control the operations of the subsidiaries. All intercompany transactions have been eliminated in consolidation.

Reclassifications

Certain reclassifications considered necessary for a fair presentation have been made to the prior period financial statements in order to conform to the current year presentation. These reclassifications have not changed the results of operations or equity.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements (In Thousands)

December 31, 2013

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the allocation of purchase price to tangible and intangible assets and liabilities, the evaluation of asset impairments, insurance reserves, depreciation and amortization, allowance for doubtful accounts, and other contingencies. Actual results could differ from those estimates and assumptions.

Investment in Real Estate and Related Intangibles

In business combinations, the Partnership recognizes all assets acquired and liabilities assumed in a transaction at the acquisition-date fair value. In addition, the Partnership is required to expense acquisition-related costs as incurred, value noncontrolling interests at fair value at the acquisition date and expense restructuring costs associated with an acquired business.

The Partnership allocates the purchase price of properties to net tangible and identified intangible assets acquired based on their fair values. In making estimates of fair values for purposes of allocating purchase price, the Partnership utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, own internal analysis of recently acquired and existing comparable properties in our portfolio and other market data. The Partnership also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

Identified net tangible and finite lived intangible assets are amortized over their estimated useful lives or contractual lives, which are as follows:

<u>Asset Categories</u>	<u>Estimated Useful Life (In Years)</u>
Building and building improvements	15–40
Land improvements	15
Equipment	3–10
Resident lease intangibles	3–40

Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Renovations and upgrades that improve and/or extend the life of the assets are capitalized and depreciated over their estimated useful lives. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets held for use is assessed by a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted net cash flows are less than the carrying amount of the asset, then the fair value of the asset is estimated. The impairment expense is determined by comparing the estimated fair value of the asset to its carrying value, with any excess of carrying value over fair value recognized as an expense in the current period.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements *(In Thousands)*

December 31, 2013

During the years ended December 31, 2013, 2012 and 2011, the Partnership evaluated all long-lived depreciable assets for indicators of impairment, noting none. As a result, no impairment charges were recorded on the Partnership's long-lived assets during the years ended December 31, 2013, 2012 and 2011.

Property sales or dispositions are recorded when title transfers to unrelated third parties, contingencies have been removed and sufficient cash consideration has been received by the Partnership. Upon disposition, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss on sale is recognized.

Leases

Leases are accounted for as operating, capital, or financing leases based on the underlying terms. The classification criteria are based on estimates regarding the fair value of the leased communities, minimum lease payments, effective cost of funds, the economic life of the community, and certain other terms in the respective lease agreements. The Partnership does not include communities under operating leases on the consolidated balance sheets and it records the rents paid as lease expense.

The Partnership accounts for leases with rent holiday provisions or that contain fixed payment escalators on a straight-line basis as if the lease payments were fixed evenly over the life of each lease. Straight-line rent payable on the consolidated balance sheets represents the effects of straight-lining lease payments. The Partnership capitalizes out-of-pocket costs incurred to enter into lease contracts as lease acquisition costs and amortizes them over the lives of the respective leases as additional community lease expense.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less from the date of purchase.

Prior to the formation of Partnership (Note 1), Harvest used a centralized approach to cash management. All cash generated by the communities was transferred to Harvest and Harvest funded operating and investing activities for the communities as needed. Cash transfers from the 8 communities to Harvest are treated as distributions in the accompanying financial statements. Subsequent to the formation of the Partnership, all cash generated by the communities is held and retained by the Partnership in its own cash accounts.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements (In Thousands)

December 31, 2013

Cash and Escrow Deposits – Restricted

Cash and escrow deposits – restricted consist primarily of funds required by various landlords to be placed on deposit as security for the Partnership’s performance under lease agreements and will generally be held until lease termination. A summary is as follows:

	December 31	
	2013	2012
Landlord required deposit	\$ 97,279	\$ —
Property tax and reserves	7,838	3,118
Tenant/resident security deposits	1,303	115
Total cash and escrow deposits-restricted	\$ 106,420	\$ 3,233

Allowance for Doubtful Accounts

Allowance for doubtful accounts are recorded by management based upon the Partnership’s historical write-off experience, analysis of accounts receivable aging, and historic resident payment trends.

Management reviews material past due balances on a monthly basis. Account balances are charged off against the allowance when management determines it is probable that the receivable will not be recovered. Allowance for doubtful accounts was \$1,119 and \$282 at December 31, 2013 and 2012, respectively.

Deferred Loan Costs

Deferred loan costs include direct costs to obtain financing. Such costs are deferred and amortized using the straight-line method, which approximates the level-yield method, over the terms of the underlying debt agreements.

Revenue Recognition

Resident fee revenue is recorded as it becomes due as provided for in the residents’ lease agreements. Residents’ agreements are generally for a term of 30 days with resident fees due monthly in advance.

Certain communities have residency agreements that require the resident to pay an upfront fee prior to occupying the community. Community fees are non-refundable after a stated period (typically 90 days) and are initially recorded as deferred revenue and recognized on a straight-line basis as part of resident fee revenue over an estimated three-year average stay of the residents in the communities. Deferred revenue totaled \$2,173 and \$717 at December 31, 2013 and 2012, respectively.

Certain residency agreements provide for free rent or incentives for a stated period of time. Incentives are initially recorded in other assets and recognized on a straight-line basis as a reduction of resident fee revenue over an estimated three-year average stay of the residents in the communities.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

Income Taxes

The Partnership is a limited partnership, and all federal and, substantially, all state income taxes are recorded by the partners. Accordingly, the Partnership does not provide or record a provision for federal income taxes. Certain state and local jurisdictions may impose an income tax on the Partnership.

Advertising Costs

The Partnership expenses advertising costs as incurred. Advertising costs were \$691, \$511 and \$357 for the periods ended December 31, 2013, 2012 and 2011, respectively, and are included in facility operating expenses in the consolidated statements of operations.

Fair Value of Financial Instruments

Cash and cash equivalents and cash and escrow deposits – restricted are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Partnership's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Partnership had outstanding debt with a carrying value of \$234.3 million as of December 31, 2012 (see Note 5). As of December 31, 2012, the carrying value of debt approximated the fair value, based upon a Level 3 valuation.

The Partnership follows the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, when valuing its financial instruments. The statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market-priced assumptions in fair value measurements, the statement establishes a fair value hierarchy that distinguishes between market-participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 and Level 2 of the hierarchy) and the reporting entity's own assumptions about market-participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Partnership has the ability to access.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability, other than quoted prices, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

3. Resident Lease Intangibles, Net

At December 31, 2013 and December 2012, resident lease intangibles, net were as follows:

	Resident Lease Intangibles, Net
Balance at January 1, 2012	\$ 2,110
Amortization	(60)
Balance at December 31, 2012	2,050
Amortization	(60)
Balance at December 31, 2013	<u>\$ 1,990</u>

Future amortization expense related to the resident lease intangibles over the next five years and thereafter, is as follows:

	Estimated Amortization of Resident Lease Intangibles, Net
Years:	
2014	\$ 60
2015	60
2016	60
2017	60
2018	60
Thereafter	1,690
Total	<u>\$ 1,990</u>

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

4. Other Balance Sheet Data

Prepaid expenses and other assets, net consisted of the following as of December 31, 2013 and 2012:

	2013	2012
Deferred rent incentives, net	\$ 1,534	\$ 2,314
Other assets	7,248	4,191
Pre-paid lease expense	12,163	—
Due from affiliate (Note 9)	1,607	4,482
Total	<u>\$ 22,552</u>	<u>\$ 10,987</u>

Accounts payable and accrued expenses consisted of the following as of December 31, 2013 and 2012:

	2013	2012
Trade and accrued payables	\$ 5,706	\$ 1,718
Salaries and benefits	5,512	1,338
Property taxes	5,765	846
Insurance reserves	7,693	905
Other	270	132
Total	<u>\$ 24,946</u>	<u>\$ 4,939</u>

5. Mortgage Notes Payable

Mortgage notes payable consisted of the following as of December 31, 2013 and 2012:

Mortgage Notes Payable	December 31	
	2013	2012
<i>Loan Pool 1 due March 6, 2016</i> : interest rate of 7.21%; payable interest-only until April 6, 2012; payable principal and interest from April 6, 2012 until maturity; secured by four facilities	\$ —	\$ 76,086
<i>Loan 2 Pool due March 6, 2014</i> : interest rate of 5.64%; payable interest only until maturity; secured by four facilities	—	158,233
Total mortgage notes payable	<u>\$ —</u>	<u>\$ 234,319</u>

The primary obligors on the notes are the underlying LLCs and LLPs and the Partnership became the secondary guarantor on the debt. The Partnership remains in compliance with all of its debt (including the financial covenants contained therein).

During 2013, the Partnership repaid \$234,319 in mortgage notes payable which was funded through contributions from the partners. In connection with the mortgage notes payable repayment, the Partnership incurred \$5,983 of prepayment penalties and exit fees, which are included in loss on extinguishment of mortgage notes payable in the accompanying 2013 statement of operations.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements
(In Thousands)

December 31, 2013

6. Leases

On September 19, 2013, Harvest sold 26 independent living communities to a third party. These communities were subsequently leased to the Partnership. The Partnership will operate the communities pursuant to a 15 year lease (with two 5 year renewal options at which point rent will reset to a fair value rate). The minimum lease payment is initially \$49,016, and such amount is subject to certain defined increases throughout the lease term, as further detailed in the lease agreement.

On December 23, 2013, Harvest sold 25 independent living communities to a third party. These communities were subsequently leased to the Partnership. The Partnership will operate the communities pursuant to a 17 year lease. The minimum lease payment is initially \$31,915, and such amount is subject to certain defined increases throughout the lease term, as further detailed in the lease agreement.

On December 23, 2013, Harvest sold 51 independent living communities to a third party. These communities were subsequently leased to the Partnership. The Partnership will operate the communities pursuant to a 17 year lease. The minimum lease payment is initially \$65,031, and such amount is subject to certain defined increases throughout the lease term, as further detailed in the lease agreement.

Lease expense under noncancelable operating leases was as follows (in thousands):

	Year Ended December 31 2013
Contractual operating lease expense	\$ 16,073
Noncash straight-line lease expense	4,830
Lease expense	<u>\$ 20,903</u>

Minimum future lease payments under noncancelable operating leases which include 102 communities at December 31, 2013 are as follows (in thousands):

2014	\$ 146,513
2015	153,106
2016	159,996
2017	166,951
2018	172,372
Thereafter	2,384,972
Total	<u>\$ 3,183,910</u>

As of December 31, 2013, the Partnership was in compliance with all lease covenant requirements.

Holiday AL Holdings LP

Notes to Consolidated Financial Statements *(In Thousands)*

December 31, 2013

7. Insurance

Harvest obtains various insurance coverages from commercial carriers at stated amounts as defined in the applicable policies. Losses related to deductible amounts are accrued based on management's estimate of expected losses plus incurred but not reported claims. As of December 31, 2013 and 2012, the Partnership accrued \$7,693 and \$905 for the expected future payment of deductible amounts specific to the Partnership, which is included in accounts payable and accrued expense in the accompanying consolidated balance sheets.

8. Commitments and Contingencies

In the normal course of business, the Partnership is involved in legal actions arising from the ownership and operation of the business. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material adverse effect on the consolidated financial position, operations or liquidity of the Partnership.

9. Due from Affiliate

As of December 31, 2012, an affiliate of the Partnership held approximately \$4.5 million of the Partnership's cash.

On December 31, 2012, the Partnership and affiliate entered into a note related to this cash. The note was due on December 31, 2014, and bore interest equal to the rate in a U.S. Treasury security, having the closest maturity to the maturity date on the note. This note was repaid in full in September 2013.

As of December 31, 2013, an affiliate of the Partnership held approximately \$1.6 million of the Partnership's cash.

10. Subsequent Events

The Partnership has evaluated its subsequent events through February 19, 2014, the date the Partnership's consolidated financial statements for the year ended December 31, 2013, were available for issuance.

EXHIBIT 99.2

Combined Audited Financial Statements of NCT Portfolio

As of December 31, 2012 and 2011 and for each of the years in the three year period ended December 31, 2012, the 51 independent living senior housing communities acquired by Newcastle on December 23, 2013.

Report of Independent Auditors
Owners
NCT Portfolio

We have audited the accompanying combined financial statements of NCT Portfolio (the Company), which comprise the combined balance sheets as of December 31, 2012 and 2011, and the related combined statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2012, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Company at December 31, 2012 and 2011, and the combined results of its operations and its cash flows for each of the three years in the period ended December 31, 2012 in conformity with U.S. generally accepted accounting principles.

Ernst & Young
Chicago, Illinois
February 6, 2014

NCT Portfolio
 Combined Balance Sheets
 (In Thousands)

	December 31,	
	2012	2011
Assets		
Investment in real estate:		
Land and land improvements	\$ 121,563	\$ 120,344
Building and building improvements	804,124	799,513
Equipment	44,703	41,103
	970,390	960,960
Less accumulated depreciation	(158,590)	(132,958)
	811,800	828,002
Cash and cash equivalents	21	20
Cash and escrow deposits – restricted	5,562	5,861
Accounts receivable, net	1,054	3,294
Prepaid expenses and other assets, net	9,118	10,356
Resident lease and other intangibles, net	14,526	13,989
Deferred loan costs, net	1,029	1,798
Total assets	\$ 843,110	\$ 863,320
Liabilities and equity		
Mortgage notes payable	\$ 727,805	\$ 723,662
Accounts payable and accrued expenses	10,531	10,367
Accrued interest payable	2,974	2,950
Prepaid rent and deferred revenue	4,777	2,643
Tenant security deposits	1,566	1,747
Total liabilities	747,653	741,369
Equity	95,457	121,951
Total liabilities and equity	\$ 843,110	\$ 863,320

See accompanying notes to combined financial statements.

NCT Portfolio
 Combined Statements of Operations
 (In Thousands)

	Years Ended December 31,		
	2012	2011	2010
Revenue			
Resident fees	\$ 139,718	\$ 131,408	\$ 121,473
Expenses			
Facility operating expenses	74,285	70,628	65,663
Property management fee	4,890	4,599	4,252
Depreciation and amortization	26,274	29,413	30,972
Total expenses	105,449	104,640	100,887
Operating income	34,269	26,768	20,586
Interest expense:			
Interest incurred	(41,692)	(41,447)	(41,547)
Amortization of deferred loan costs	(845)	(830)	(830)
Net loss	\$ (8,268)	\$ (15,509)	\$ (21,791)

See accompanying notes to combined financial statements.

NCT Portfolio
Combined Statements of Changes in Equity
For the Years Ended December 31, 2012, 2011 and 2010
(In Thousands)

	Total Equity
Balance at January 1, 2010	\$ 168,211
Net loss	(21,791)
Distributions	(2,527)
Balance at December 31, 2010	143,893
Net loss	(15,509)
Distributions	(6,433)
Balance at December 31, 2011	121,951
Net loss	(8,268)
Distributions	(20,725)
Contributions	2,499
Balance at December 31, 2012	<u>\$ 95,457</u>

See accompanying notes to combined financial statements.

NCT Portfolio
 Combined Statements of Cash Flows
 (In Thousands)

	Years Ended December 31,		
	2012	2011	2010
Operating activities			
Net loss	\$ (8,268)	\$ (15,509)	\$ (21,791)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	26,274	29,413	30,972
Bad debt expense	1,051	578	331
Amortization of deferred loan costs	845	830	830
Gain on sale of assets			
Amortization of resident incentives, net	1,303	(1,812)	(2,535)
Non-refundable community fees, deferred	1,171	(208)	(1,173)
Changes in operating assets and liabilities:			
Cash and escrow deposits – restricted	299	592	(530)
Accounts receivable, net	1,189	(2,639)	(1,338)
Prepaid expenses and other assets	(65)	12	(20)
Accounts payable and accrued expenses	188	281	1,591
Tenant security deposits	(181)	(572)	(906)
Prepaid rent	963	284	292
Net cash provided by operating activities	<u>24,769</u>	<u>11,250</u>	<u>5,723</u>
Investing activities			
Cash paid for acquisition	(6,662)	—	—
Additions to investment in real estate	(3,947)	(4,992)	(3,417)
Cash used in investing activities	<u>(10,609)</u>	<u>(4,992)</u>	<u>(3,417)</u>
Financing activities			
Proceeds from mortgage note payable (acquisition)	4,178	—	—
Repayment of principal on mortgage notes payable	(35)	—	—
Deferred financing costs paid			
Deferred financing costs paid	(76)	—	—
Distributions	(20,725)	(6,433)	(2,527)
Contributions	2,499	—	—
Net cash used in financing activities	<u>(14,159)</u>	<u>(6,433)</u>	<u>(2,527)</u>
Net increase (decrease) in cash and cash equivalents	1	(175)	(221)
Cash and cash equivalents at beginning of year	20	195	416
Cash and cash equivalents at end of year	<u>\$ 21</u>	<u>\$ 20</u>	<u>\$ 195</u>
Supplemental disclosure of cash flow information			
Cash paid for interest	<u>\$ 41,668</u>	<u>\$ 41,447</u>	<u>\$ 44,433</u>

See accompanying notes to combined financial statements.

NCT Portfolio

Notes to Combined Financial Statements (In Thousands)

December 31, 2012

1. Basis of Presentation

The NCT Portfolio (the Company) represents the 51 independent living senior housing communities (the Communities) acquired by Newcastle Investment Corp. (NCT) on December 23, 2013 (see Note 9) from certain wholly owned subsidiaries of Harvest Facility Holdings LP (Harvest). Harvest is owned by Holiday Acquisition Holdings LLC (Holiday Acquisition, a limited liability company and a wholly owned subsidiary of investment funds managed by affiliates of Fortress Investment Group LLC). As of December 31, 2012, the Communities consist of 5,744 apartment and townhouse units (unaudited), located in 24 states.

2. Summary of Significant Accounting Policies

The combined financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The significant accounting policies are summarized below.

Use of Estimates

The preparation of the combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the combined financial statements and accompanying notes. Estimates are used for, but not limited to, the allocation of purchase price to tangible and intangible assets and liabilities, the evaluation of asset impairments, insurance reserves, depreciation and amortization, allowance for doubtful accounts, and other contingencies. Actual results could differ from those estimates and assumptions.

Investment in Real Estate and Related Intangibles

In business combinations, the Company recognizes all assets acquired and liabilities assumed in a transaction at the acquisition-date fair value. In addition, the Company is required to expense acquisition-related costs as incurred, value noncontrolling interests at fair value at the acquisition date and expense restructuring costs associated with an acquired business.

NCT Portfolio

Notes to Combined Financial Statements
(In Thousands)

2. Summary of Significant Accounting Policies (continued)

The Company allocates the purchase price of properties to net tangible and identified intangible assets acquired based on their fair values. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, own internal analysis of recently acquired and existing comparable properties in our portfolio and other market data. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

Identified net tangible and finite lived intangible assets are amortized over their estimated useful lives or contractual lives, which are as follows:

Asset Categories	Estimated Useful Life (In Years)
Building and building improvements	15 – 40
Land improvements	15
Equipment	3 – 10
Resident lease and other intangibles	3 – 40

Expenditures for ordinary maintenance and repairs are expensed to operations as incurred. Renovations and upgrades that improve and/or extend the life of the assets are capitalized and depreciated over their estimated useful lives. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets held for use is assessed by a comparison of the carrying amount of the asset to the estimated future undiscounted net cash flows expected to be generated by the asset. If estimated future undiscounted net cash flows are less than the carrying amount of the asset, then the fair value of the asset is estimated. The impairment expense is determined by comparing the carrying value of the asset to its estimated fair value, with any excess carrying value recognized as an expense in the current period.

NCT Portfolio

Notes to Combined Financial Statements (In Thousands)

During the years ended December 31, 2012, 2011, and 2010, the Company evaluated all long-lived assets using an undiscounted cash flow approach and determined that the undiscounted cash flows exceeded the carrying value of the assets for all Communities. As a result, no impairment charges were recorded on the Company's long-lived assets during the years ended December 31, 2012, 2011, and 2010. The cash flow projections are based on a number of estimates and assumptions, such as revenue and expense growth rates, capitalization rates and hold periods. Such assumptions are classified as Level 3 inputs in the valuation hierarchy.

Property sales or dispositions are recorded when title transfers to unrelated third parties, contingencies have been removed and sufficient cash consideration has been received by the Company. Upon disposition, the related costs and accumulated depreciation are removed from the respective accounts and any gain or loss on sale is recognized.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less from the date of purchase.

Harvest uses a centralized approach to cash management. All cash generated by the Communities is transferred to Harvest and Harvest funds operating and investing activities for the Communities as needed. Cash transfers from the 51 Communities to Harvest are treated as distributions in the accompanying combined financial statements.

Cash and Escrow Deposits – Restricted

Cash and escrow deposits – restricted consist principally of deposits required by certain lenders pursuant to the applicable debt agreement to fund future property expenditures, and certain resident security deposits held in trusts. A summary is as follows:

	December 31	
	2012	2011
Property tax and other lender-required reserves	\$ 5,031	\$ 5,161
Tenant/resident security deposits	531	700
Total cash and escrow deposits-restricted	\$ 5,562	\$ 5,861

NCT Portfolio

Notes to Combined Financial Statements (In Thousands)

Allowance for Doubtful Accounts

Allowance for doubtful accounts are recorded by management based upon the Company's historical write-off experience, analysis of accounts receivable aging, and historic resident payment trends.

Management reviews material past due balances on a monthly basis. Account balances are charged off against the allowance when management determines it is probable that the receivable will not be recovered. Allowance for doubtful accounts was \$2,235 and \$403 at December 31, 2012 and 2011, respectively.

Deferred Loan Costs

Deferred loan costs include direct costs to obtain financing. Such costs are deferred and amortized using the straight-line method, which approximates the level-yield method, over the terms of the underlying debt agreements.

Revenue Recognition

Resident fee revenue is recorded as it becomes due as provided for in the residents' lease agreements. Residents' agreements are generally for a term of 30 days with resident fees due monthly in advance.

Certain communities have residency agreements that require the resident to pay an upfront fee prior to occupying the community. Community fees are non-refundable after a stated period (typically 90 days) and are initially recorded as deferred revenue and recognized on a straight-line basis as part of resident fee revenue over an estimated three-year average stay of the residents in the communities. Deferred revenue totaled \$2,772 and \$1,600 at December 31, 2012 and 2011, respectively.

Certain residency agreements provide for free rent or incentives for a stated period of time. Incentives are initially recorded in other assets and recognized on a straight-line basis as a reduction of resident fee revenue over an estimated three-year average stay of the residents in the communities.

NCT Portfolio

Notes to Combined Financial Statements

(In Thousands)

Income Taxes

All Communities within the combined portfolio are operated as limited partnerships or limited liability companies; thus, all federal and, substantially, all state income taxes are recorded by the owners. Accordingly, the Company does not provide for or record a provision for federal income taxes. Certain state and local jurisdictions may impose an income tax on the Company.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs were \$1,831, \$1,404, and \$655 for the years ended December 31, 2012, 2011, and 2010, respectively, and are included in facility operating expenses in the combined statements of operations.

Fair Value of Financial Instruments

Cash and cash equivalents and cash and escrow deposits – restricted are reflected in the accompanying combined balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Company's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Company had outstanding debt with a carrying value of \$727.8 million and \$723.7 million as of December 31, 2012 and 2011, respectively (see Note 5). As of December 31, 2012 and 2011, the carrying value of debt approximated the fair value, based upon a Level 3 valuation.

The Company follows the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, when valuing its financial instruments. The statement emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market-priced assumptions in fair value measurements, the statement establishes a fair value hierarchy that distinguishes between market-participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 and Level 2 of the hierarchy) and the reporting entity's own assumptions about market-participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

NCT Portfolio

Notes to Combined Financial Statements (In Thousands)

Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability, other than quoted prices, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

3. Resident Lease and Other Intangibles, Net

At December 31, 2012 and 2011, resident lease and other intangibles, net were as follows:

	Resident Lease and Other Intangibles, Net
Balance at January 1, 2011	\$ 14,471
Amortization	(482)
Balance at December 31, 2011	13,989
Additions	1,179
Amortization	(642)
Balance at December 31, 2012	\$ 14,526

NCT Portfolio

Notes to Combined Financial Statements
(In Thousands)

Future amortization expense related to the resident lease and other intangibles over the next five years and thereafter, is as follows:

	Estimated Amortization of Resident Lease and Other Intangibles, Net
Years:	
2013	\$ 802
2014	802
2015	645
2016	487
2017	487
Thereafter	11,303
Total	<u>\$ 14,526</u>

4. Other Balance Sheet Data

Prepaid expenses and other assets, net consisted of the following as of December 31, 2012 and 2011:

	2012	2011
Deferred rent incentives, net	\$ 7,678	\$ 8,981
Other assets	1,440	1,375
Total	<u>\$ 9,118</u>	<u>\$ 10,356</u>

Accounts payable and accrued expenses consisted of the following as of December 31, 2012 and 2011:

	2012	2011
Trade and accrued payables	\$ 2,523	\$ 2,695
Salaries and benefits	2,279	2,247
Property taxes	3,237	3,025
Insurance reserves	2,405	2,288
Other	87	112
Total	<u>\$ 10,531</u>	<u>\$ 10,367</u>

NCT Portfolio

Notes to Combined Financial Statements
(In Thousands)

5. Debt

Debt consisted of the following as of December 31, 2012 and 2011:

Long-Term Debt	<u>2012</u>	<u>2011</u>
<i>Assumed Loan due February 2015</i> ; interest rate of 5.88%; payable interest and principal until maturity; secured by one facility	\$ 4,143	\$ —
<i>Loan due March 2014</i> ; interest rate of 6.05%; payable interest only until maturity; secured by one facility	15,000	15,000
<i>Loan Pool due March 2014</i> ; interest rate of 5.64%; payable interest only until maturity; secured by forty-nine facilities ⁽¹⁾	708,662	708,662
Total debt	<u>\$ 727,805</u>	<u>\$ 723,662</u>

(1) As of December 31, 2012 and 2011, Harvest was the debtor on two pooled mortgage note agreements totaling \$3,528,268 and \$3,711,173, respectively, collateralized by all Harvest owned facilities including the Communities. The debt allocated to the Communities and included in the combined financial statements was the portion of the two pooled mortgage notes where the underlying property owning entities for the Communities were the primary obligors.

In September 2013, Harvest paid off a portion of the above pooled debt and as a result, the remaining obligation was reallocated to the remaining Harvest facilities which decreased the debt on the Communities by \$69,448.

In connection with the sale of the Communities (see Note 9) Harvest repaid a portion of the pooled loans discussed above which resulted in full satisfaction of all debt outstanding specific to the Communities and the Communities were released as collateral for the remaining Harvest outstanding pooled debt.

The Company remains in compliance with all of its debt and lease agreements (including the financial covenants contained therein).

The following is a schedule of principal due on debt obligations as of December 31, 2012:

Year ended December 31:	
2013	\$ 55
2014	723,717
2015	4,033
Total	<u>\$ 727,805</u>

NCT Portfolio

Notes to Combined Financial Statements
(In Thousands)

6. Insurance

Harvest obtains various insurance coverages from commercial carriers at stated amounts as defined in the applicable policies. Losses related to deductible amounts are accrued based on management's estimate of expected losses plus incurred but not reported claims. As of December 31, 2012 and 2011, the Company accrued \$2,405 and \$2,228 for the expected future payment of deductible amounts specific to the NCT Portfolio, which is included in accounts payable and accrued expense in the accompanying combined balance sheets.

7. Management fees

Harvest charges the Communities a management fee equal to 3.5% of resident fees revenue covering employee and other overhead costs attributable to managing the Communities. Such fee is presented as property management fee expense in the accompanying combined statements of operations.

8. Commitments and Contingencies

In the normal course of business, the Company is involved in legal actions arising from the ownership and operation of the business. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material adverse effect on the combined financial position, operations or liquidity of the Company.

9. Subsequent Events

The Company has evaluated its subsequent events through February 6, 2014, the date the Company's combined financial statements were available for issuance.

On December 23, 2013, NCT acquired the Communities from Harvest for a purchase price totaling \$1,000,475. The Communities were subsequently leased to subsidiaries of Holiday AL Holdings LP (the Partnership), a wholly owned subsidiary of Holiday Acquisition. The Partnership will operate the Communities pursuant to 17-year leases. The minimum lease payments are initially \$65,031, and such amount is subject to certain defined increases throughout the lease terms.

End of Filing
