

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM S-11  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

NEWCASTLE INVESTMENT CORP.  
(Exact name of registrant as specified in its governing instruments)

1251 AVENUE OF THE AMERICAS  
NEW YORK, NY 10020  
(212) 798-6100  
(Address, including zip code, and telephone number, including area code, of  
registrant's principal executive offices)

RANDAL A. NARDONE  
SECRETARY  
NEWCASTLE INVESTMENT CORP.  
C/O FORTRESS INVESTMENT GROUP LLC  
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NEW YORK, NY 10020  
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of agent for service)

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</Table>

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this registration statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. [ ]

<Table>  
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TITLE OF SECURITIES BEING REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1) (2)	AMOUNT OF REGISTRATION FEE (2) (3)
Common stock, par value \$0.01 per share.....	\$115,000,000	\$10,580.00

</Table>

(1) Includes shares that may be purchased pursuant to an over-allotment option

granted to the underwriters.

- (2) Estimated based on a bona fide estimate of the maximum aggregate offering price solely for the purposes of calculating the registration fee pursuant to Rule 457(o) of the Securities Act of 1933.
- (3) \$123,408.76 was previously paid in connection with the registration statement (no. 333-63061) filed by Newcastle Investment Holdings Corp. (formerly Fortress Investment Corp.), the parent corporation of the issuer, which was withdrawn.

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION ACTING, PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JUNE 14, 2002

PROSPECTUS

SHARES

NEWCASTLE INVESTMENT CORP.  
(BEAR, STEARNS & CO., LOGO) COMMON STOCK

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This is the initial public offering of Newcastle Investment Corp. No public market currently exists for our common stock. All of our common stock is currently owned by Newcastle Investment Holdings Corp. After this offering, new investors will own % of our common stock and Newcastle Investment Holdings Corp. will own % of our common stock, assuming no exercise of outstanding options.

We currently anticipate the initial public offering price of our common stock to be between \$ and \$ per share. We will apply for listing of the shares on the New York Stock Exchange under the symbol "NCT."

We are externally managed by Fortress Investment Group LLC, our manager. At March 31, 2002, Fortress Investment Group and its employees owned approximately 16.4% of the equity of Newcastle Investment Holdings (25.8% upon exercise of outstanding options). We have also granted to our manager an option to purchase shares of our common stock. In addition, in connection with this offering, we will grant to our manager an option to purchase an additional shares of our common stock, representing 10% of the number of shares being offered hereby, and subject to adjustment if the underwriters' over-allotment option is exercised, at the offering price of our shares in this offering. As a result, upon completion of this offering, our manager will beneficially own approximately % of our common stock, taking into account its interest in Newcastle Investment Holdings and assuming its exercise of all of its options. The manager option shares will not be registered in connection with this offering. We have no ownership interest in Fortress Investment Group. We pay Fortress Investment Group an annual base management fee and may pay an incentive return based on certain performance criteria. Fortress Investment Group also manages and invests in other entities, including Newcastle Investment Holdings, that invest in real estate assets.

We are organized and conduct our operations to qualify as a real estate investment trust (a REIT) for federal income tax purposes. To assist us in complying with certain federal income tax requirements applicable to REITs, our charter and bylaws contain certain restrictions relating to the ownership and transfer of our common stock, including a 9.8% ownership limit.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 15 FOR A DISCUSSION OF THESE RISKS, INCLUDING, AMONG OTHERS:

- We are dependent upon our manager and may not find a suitable replacement if our manager terminates the management agreement.
- All of our officers are officers of our manager.
- Our manager manages and invests in other real estate-related vehicles, including Newcastle Investment Holdings, and our chairman and chief executive officer and some of our other officers also serve as officers and/or directors of these other entities.

- We were organized in June 2002. While our business has previously been operated as part of Newcastle Investment Holdings, we have no separate operating history.
- Our ability to continue to pay dividends on our common stock at or above historical levels paid by Newcastle Investment Holdings may be dependent on our ability to generate gains upon sales of investments.
- We may change our investment strategy without stockholder consent.
- Many of our investments are illiquid and we may not be able to respond to changes in market conditions.
- We invest in subordinated securities, which have a greater risk of loss than more senior securities.
- We may leverage up to 90% of the value of our assets.
- Interest rate fluctuations may reduce our net income.
- If we fail to qualify as a REIT, we will be subject to income tax at regular corporate rates.
- Newcastle Investment Holdings may make a distribution to its stockholders of shares of our common stock at any time following 180 days after the date of this prospectus and substantial sales of these shares may adversely affect the market price of our common stock.

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	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS	PROCEEDS TO US
	-----	-----	-----
<S>	<C>	<C>	<C>
Per Share.....	\$	\$	\$
Total.....	\$	\$	\$

We have granted the underwriters a 30-day option to purchase up to additional shares to cover any over-allotments.

Delivery of the shares will be made on or about , 2002.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

BEAR, STEARNS & CO. INC.

LEHMAN BROTHERS

BANC OF AMERICA SECURITIES LLC  
The date of this prospectus is , 2002

YOU MAY RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. NEITHER WE NOR THE UNDERWRITERS HAVE AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT OR ADDITIONAL INFORMATION. THIS PROSPECTUS IS NOT AN OFFER TO SELL NOR IS IT SEEKING AN OFFER TO BUY COMMON STOCK IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR OF ANY SALE OF COMMON STOCK.

TABLE OF CONTENTS

<Table>  
<Caption>

	PAGE
	----
<S>	<C>
PROSPECTUS SUMMARY.....	1
RISK FACTORS.....	16
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS...	28
USE OF PROCEEDS.....	29
DISTRIBUTION POLICY.....	29
CAPITALIZATION.....	32
DILUTION.....	33
SELECTED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION.....	34
SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION.....	37
MANAGEMENT'S DISCUSSION AND ANALYSIS OF PRO FORMA FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	41
MANAGEMENT'S DISCUSSION AND ANALYSIS OF HISTORICAL FINANCIAL	

CONDITION AND RESULTS OF OPERATIONS.....	50
NEWCASTLE INVESTMENT CORP.....	64
OUR MANAGER AND THE MANAGEMENT AGREEMENT.....	81
MANAGEMENT.....	90
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS.....	94
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.....	95
DESCRIPTION OF CAPITAL STOCK.....	97
SHARES ELIGIBLE FOR FUTURE SALE.....	103
IMPORTANT PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS.....	105
FEDERAL INCOME TAX CONSIDERATIONS.....	108
ERISA CONSIDERATIONS.....	124
UNDERWRITING.....	127
LEGAL MATTERS.....	130
EXPERTS.....	130
WHERE YOU CAN FIND MORE INFORMATION.....	130
INDEX TO FINANCIAL STATEMENTS.....	F-1

</Table>

#### PROSPECTUS SUMMARY

This summary highlights information more fully described elsewhere in this prospectus. This summary is not complete and does not contain all the information you should consider before buying shares of our common stock. You should read this entire prospectus carefully, including "Risk Factors" and our consolidated historical and pro forma financial statements and the related notes included in this prospectus, before deciding to invest in shares of our common stock.

Prior to the closing of this offering, Newcastle Investment Holdings, our sole stockholder, will have transferred to us the following assets and related liabilities:

- Real estate securities (CBO I and CBO II);
- Credit leased real estate (Bell Canada portfolio and LIV portfolio);
- GSA portfolio mezzanine bonds; and
- Other assets.

In this prospectus we refer to our formation and this transfer of assets and liabilities as the "formation transactions." We describe each of these assets and related liabilities in this prospectus under "Newcastle Investment Corp. -- Our Investments." Unless otherwise noted, all information in this prospectus assumes that the formation transactions have been completed and, unless we state otherwise, all financial and statistical data that we provide with respect to our investments assumes that the formation transactions have been completed as of the date such information is given.

#### NEWCASTLE INVESTMENT CORP.

We invest in real estate securities and other real estate-related assets. We seek to finance these investments primarily using match-funded financing structures. Match-funded financing structures match assets and liabilities with respect to interest rates and maturities. Our objective is to maximize the difference between the yield on our investments and the cost of financing these investments while hedging our positions. We are organized and conduct our operations to qualify as a real estate investment trust (REIT) for federal income tax purposes.

Newcastle Investment Holdings Corp. currently owns all of our outstanding common stock. Newcastle Investment Holdings was formed in May 1998. We were formed in June 2002 for the purpose of separating the core real estate securities business from Newcastle Investment Holdings' other investments. We believe that separating this core business from Newcastle Investment Holdings provides an opportunity for achieving more stable earnings. In connection with our formation, Newcastle Investment Holdings changed its name from Newcastle Investment Corp. Immediately upon completion of this offering, Newcastle Investment Holdings will own % of our common stock and new investors in this offering will own % of our common stock.

At March 31, 2002, our manager, Fortress Investment Group, and its employees owned approximately 16.4% of the equity of Newcastle Investment Holdings (25.8% upon exercise of outstanding options). We have granted to our manager an option to purchase shares of our common stock. In addition, in connection with this offering, we will grant to our manager an option to purchase an additional shares of our common stock, representing 10% of the number of shares being offered hereby, and subject to adjustment if the underwriters' over-allotment option is exercised, at the offering price of our shares in this offering. As a result, upon completion of this offering, our manager will beneficially own approximately % of our common stock, taking into account its interest in Newcastle Investment Holdings and assuming exercise of all of its options.

As a result of the formation transactions, we will own a diversified portfolio of credit sensitive real estate securities, including commercial and

residential mortgage backed securities and unsecured REIT debt, rated primarily BBB (the lowest investment grade rating) and BB (one level below investment grade). Mortgage backed securities are interests in or obligations secured by pools of commercial or residential mortgage loans. We will also own credit leased real estate in Canada and Belgium, which we

1

refer to in this prospectus as the "Bell Canada portfolio" and the "LIV portfolio," respectively. We consider credit leased real estate to be real estate that is leased primarily to tenants with, or whose major tenant has, investment grade (BBB- or higher) credit ratings. After giving effect to the formation transactions as if they had been completed as of the dates below:

- our portfolio consisted of approximately \$731 million of assets at March 31, 2002;
- for the year ended December 31, 2001, we had revenues of approximately \$78.3 million and income from continuing operations of approximately \$27.6 million;
- for the three months ended March 31, 2002, we had revenues of approximately \$21.5 million and income from continuing operations of approximately \$9.7 million; and
- our income from continuing operations per common share was \$1.67 for 2001 and was \$0.59 per share for the three months ended March 31, 2002.

As of and for the three months ended March 31, 2002, 82% of our total assets was comprised of real estate securities and 18% was comprised of credit leased real estate, and 74% of our total revenue was derived from interest and dividend income and gains on settlement of investments from our real estate securities and 26% was derived from rental and escalation income from our credit leased real estate.

We have also entered into an agreement with an affiliate of Bear Stearns that provides us with an option to purchase up to \$225 million face amount of mortgage loans. For more information, including a description of these assets and related financing, see "Use of Proceeds" and "Newcastle Investment Corp. -- Our Investments."

We intend to focus on increasing our holdings in credit sensitive real estate securities, including mortgage backed securities and REIT debt securities, and to continue to invest in other real estate related investments, including credit leased real estate and mortgage loans. The mortgage backed securities we intend to invest in will generally be junior in right of payment of interest and principal to one or more senior classes, but will benefit from the support of one or more subordinate classes of securities or other form of credit support within a securitization structure. The REIT debt securities we intend to invest in will reflect comparable credit risk. We believe that these securities offer attractive risk-adjusted returns with varying degrees of principal protection under a variety of default and loss scenarios. While the expected yield on these securities is sensitive to the performance of the underlying assets, the more subordinated securities or other features of the securitization structure, in the case of mortgage backed securities, and the issuer's underlying equity and subordinated debt, in the case of REIT debt, are designed to bear the first risk of default and loss. We intend to further minimize credit risk through active management of our portfolio.

Returns on these investments can be sensitive to interest rate volatility. We intend to minimize exposure to interest rate fluctuations through the use of match-funded financing structures. In particular, we expect to finance our real estate securities investments through the issuance of debt securities in the form of collateralized bond obligations, known as CBOs, which are obligations issued in multiple classes secured by an underlying portfolio of securities. CBO transactions offer us structural flexibility to buy and sell certain investment positions to manage risk and, subject to certain limitations, to optimize returns.

The annual gross return on our weighted average equity investment of \$92.3 million in our first CBO transaction issued in July 1999, which we refer to as CBO I, was approximately 22.1% from inception through March 31, 2002. On April 25, 2002 we closed our second CBO transaction, which we refer to as CBO II. The annual gross return on our weighted average equity investment of \$ million in CBO II was approximately % from inception through , 2002. As of May 31, 2002, the aggregate dollar amount of the collateral owned by CBO I and CBO II is approximately \$1.0 billion. The weighted average credit rating of the collateral in CBO I and CBO II is BBB-. We are currently discussing financing arrangements with various investment banks to purchase securities for our third CBO transaction.

2

The keys to our investment strategy are:

- to actively manage our investment portfolio to minimize credit risk;
- to use match-funded financing structures, such as CBOs, to minimize exposure to interest rate fluctuations and to take advantage of the structural flexibility offered by CBO transactions to buy and sell investment positions; and
- to take advantage of our manager's significant existing business relationships, its expertise in real estate investing and financing, capital markets, transaction structuring and resolution of distressed assets, its operational and risk management systems and the economies of scale associated with its current business operation.

#### OUR COMPETITIVE STRENGTHS

##### Asset Quality and Diversification

Our portfolio is diversified by asset type, industry, location and issuer. We expect that diversification will minimize the risk of capital loss, and will also enhance the terms of our financing structures.

Our CBO collateral, which consists primarily of real estate securities, has an overall weighted average credit rating of BBB-, and approximately 67% of these securities have an investment grade rating (BBB- or higher). As of March 31, 2002, 78% of the square footage of our credit leased real estate was occupied by tenants having investment grade credit ratings. For a detailed description of the ratings assigned by Standard and Poor's and Moody's, see "Newcastle Investment Corp. -- Ratings." The credit ratings of our tenants and our real estate securities do not represent a rating of the securities offered in this prospectus.

##### Match-Funding Discipline

Generally, we "match fund" our assets and liabilities with respect to interest rates and maturities. Our objective is to finance our investments with like-kind debt (i.e., floating-rate assets are financed with floating-rate debt and fixed-rate assets are financed with fixed-rate debt), directly or through the use of hedges such as interest rate swaps, caps and other financial instruments, subject to limitations on the ability to utilize these instruments pursuant to the tax rules applicable to REITs. In addition, we attempt to match the maturities of our investments with the maturities of our financial obligations. This allows us to reduce the impact of changing interest rates on our earnings and net asset value. As of March 31, 2002, a 100 basis point change in short-term interest rates would affect our earnings by no more than \$2.2 million per annum.

##### Creative Financing Strategies

We seek to enhance returns to stockholders through the use of leverage. We finance our investments in real estate securities by issuing debt securities, in particular, CBOs, to take advantage of the structural flexibility offered by CBO transactions. Unlike typical securitization structures, the assets underlying the CBOs may be sold, subject to certain limitations, without a corresponding pay-down of the CBO, provided the proceeds are reinvested in qualifying assets. As a result, CBOs enable us to actively manage, subject to certain limitations, the pool of assets. We have also employed lease securitizations to finance certain of our credit leased real estate. We intend to use short term financing, in the form of repurchase agreements, bridge financings and bank warehousing facilities, prior to implementing optimal match-funded financing.

##### Experienced Management

The principal executives of our manager have an average of more than 17 years of experience in the fields of real estate investing and finance, private equity investment, capital markets, transaction structuring and risk management with respect to both dollar and non-dollar denominated investments, providing us with significant expertise in key areas of our business. Over the last six years alone, the founders of our

3

manager have managed the acquisition of over \$20 billion of real estate-related assets and the issuance of over \$11 billion of real estate securities.

#### OUR MANAGER

We are externally managed and advised by Fortress Investment Group LLC. Our chairman and chief executive officer and each of our executive officers also serve as officers of our manager. We have no ownership interest in our manager. At March 31, 2002, our manager and its employees owned approximately 16.4% of the equity of Newcastle Investment Holdings (25.8% upon exercise of outstanding options to purchase shares of Newcastle Investment Holdings) and options to purchase \_\_\_\_\_ shares of our common stock, representing \_\_\_\_\_ % of our equity upon

exercise of outstanding options. In addition, in connection with this offering, we will grant to our manager an option to purchase an additional \_\_\_\_\_ shares of our common stock, representing 10% of the number of shares being offered hereby, and subject to adjustment if the underwriters' over-allotment option is exercised, at the offering price of our shares in this offering. As a result, upon completion of this offering, our manager will beneficially own approximately \_\_\_\_\_ % of our common stock, taking into account its interest in Newcastle Investment Holdings and assuming exercise of all of its options. Our manager is entitled to receive an annual base management fee from us and may receive an incentive return based on certain performance criteria.

As required by our management agreement with our manager, our manager provides a dedicated management team to us, including a President, Chief Financial Officer and Chief Operating Officer, whose primary responsibility is to manage us. The members of this team have as their primary responsibility our management and must devote such of their time to our management as our board of directors reasonably deems necessary and appropriate, commensurate with our level of activity from time to time.

Our manager also serves as manager of our sole stockholder, Newcastle Investment Holdings. In addition, our manager also manages other real estate-related assets and intends to engage in additional management and investment opportunities and investment vehicles in the future. However, our manager has agreed not to raise or sponsor any new investment vehicle that targets, as its primary investment category, investment in credit sensitive real estate securities, although these entities, and other entities managed by our manager, are not prohibited from investing in credit sensitive real estate securities.

Our manager, including its directors and executive officers, our directors and our executive officers have agreed under lock-up agreements with Bear Stearns that, without the prior written consent of Bear Stearns, they will not, directly or indirectly, offer for sale, sell, pledge, enter into any swap or other derivatives transaction that transfers to another person any of the economic benefits or risks of ownership of our common stock, or otherwise dispose of any shares of our common stock or any securities that may be converted into or exchanged for any shares of common stock for a period ending 365 days after the date of this prospectus or pursuant to an earlier release as provided in the lock-up agreements.

4

#### NEWCASTLE INVESTMENT HOLDINGS

Newcastle Investment Holdings currently owns all of our outstanding stock. After completion of this offering, Newcastle Investment Holdings will own \_\_\_\_\_ % of our common stock. Newcastle Investment Holdings has informed us that it may make a distribution to its stockholders of shares of our common stock. However, Newcastle Investment Holdings has agreed with the underwriters of this offering not to distribute any shares of our common stock to its stockholders earlier than 180 days after the date of this prospectus.

The following chart shows our corporate structure and the equity ownership after giving effect to the formation transactions and this offering. The percentage ownership information in the chart assumes full exercise of all outstanding options to purchase shares of our common stock and all outstanding options to purchase shares of Newcastle Investment Holdings.

[Post-Initial Public Offering Graphic]

#### SUMMARY RISK FACTORS

An investment in shares of our common stock involves various material risks. You should consider carefully the risks discussed below and under "Risk Factors" before purchasing our common stock.

- RELIANCE ON OUTSIDE MANAGER. We have no employees. Our officers are employees of the manager. We have no separate facilities and are completely reliant on our manager, which has significant discretion as to the implementation of our operating policies and strategies.
- CONFLICTS OF INTEREST. We are subject to potential conflicts of interest arising out of our relationships with our manager. Our chairman and each of our executive officers serve as officers of our manager. Our chairman and chief executive officer and certain of our executive officers also serve as officers and/or directors of other real estate-related companies, some of which may compete with us for investments. Our manager and certain of our officers will devote substantial time to activities outside of our business. We are also subject to potential conflicts of interest arising out of our relationship with Newcastle Investment Holdings. Our chairman and chief

5

executive officer also serves as chairman and chief executive officer of

Newcastle Investment Holdings and, at the time the transfer of assets and liabilities from Newcastle Investment Holdings to us was approved and other organizational matters were approved for us, Newcastle Investment Holdings was our sole stockholder.

- NO SEPARATE OPERATING HISTORY. We were organized in June 2002 for the purpose of separating the core real estate securities business from Newcastle Investment Holdings' other investments. We have not operated separate from Newcastle Investment Holdings.
- SUBSTANTIAL MANAGEMENT FEES ARE PAYABLE REGARDLESS OF PERFORMANCE AND OUR MANAGER'S INCENTIVE RETURN MAY CAUSE US TO MAKE RISKIER INVESTMENTS. We pay our manager substantial base management fees regardless of the performance of our portfolio and may pay an incentive return based on our portfolio's performance, which may lead our manager to place emphasis on the maximization of revenues which could result in increased risk to the value of the invested portfolio. Termination of the management agreement is also difficult and costly.
- DIVIDEND RISK. A significant percentage of Newcastle Investment Holdings' historical revenues and earnings was derived from gains upon sales of investments. We have included such gains in the calculation of historical funds from operations (FFO). Our ability to pay dividends on shares of our common stock at or above the historical levels paid by Newcastle Investment Holdings may be dependent upon our ability to generate similar gains in the future.
- BROAD INVESTMENT DISCRETION. We may change our investment strategy at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described in this prospectus.
- INVESTMENTS MAY BE ILLIQUID. Real estate and real estate-related assets are generally illiquid and real estate securities purchased in privately negotiated, unregistered transactions have restrictions on their transfer, sale, pledge or other disposition. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited.
- COMPETITION. We compete with respect to our acquisition of assets with several other companies, including other REITs, insurance companies and other investors, some of which have greater resources than us and we may not be able to compete successfully for investments.
- LEVERAGE MAY COMPOUND LOSSES. We leverage our assets, which can compound losses and reduce the cash available for distribution to our stockholders. Our leverage policy permits us to leverage up to 90% of the value of our assets on an aggregate basis.
- CREDIT SENSITIVE REAL ESTATE SECURITIES ARE SUBJECT TO LOSSES. We invest in real estate securities rated primarily BBB (the lowest investment grade rating) and BB (one level below investment grade.) These securities are subject to the credit risk of the underlying assets. In the event of default of such assets and the exhaustion of any underlying credit support, we may not recover our full investment.
- INTEREST RATE FLUCTUATIONS MAY CAUSE LOSSES. The yield on our investments in credit leased real estate and real estate securities will be sensitive to changes in prevailing interest rates and changes in prepayment rates, which may result in a mismatch between our asset yields and borrowing rates and consequently reduce or eliminate income derived from our investments.
- SIGNIFICANT CONCENTRATION OF CREDIT RISK. Approximately 5.9% of our total assets at December 31, 2001 and 6.1% of our total assets at March 31, 2002 consisted of properties leased to Bell Canada after giving effect to the formation transactions as if they occurred as of such date. If the credit quality of this tenant is downgraded, or if it is unable or unwilling to timely pay rent, the value of our Bell Canada portfolio would decline. In addition, as of March 31, 2002, we had a \$13.9 million investment in GSA portfolio mezzanine bonds issued by affiliates of Newcastle Investment Holdings that own a portfolio of 14 office properties primarily leased to the U.S. General Services Administration, which we refer to in this prospectus as the GSA portfolio. Prior to the closing of

this offering, we will have an approximately \$43.2 million aggregate investment in such bonds. If the value of the GSA properties is diminished, the value of this investment could decline.

- CONFLICTS RELATING TO OUR INVESTMENT IN THE GSA PORTFOLIO MEZZANINE BONDS. The GSA portfolio mezzanine bonds are not entitled to any scheduled interest or amortization payments prior to the maturity date.





## SUMMARY SELECTED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth certain summary selected financial and operating information on a pro forma basis.

The summary selected unaudited pro forma consolidated statements of income are presented as if the formation transactions had been consummated on January 1, 2002 or 2001, as applicable. The historical results of operations of the assets and liabilities to be retained by Newcastle Investment Holdings have been presented as discontinued operations, in the case of the GSA portfolio and the mortgage loans, or eliminated. Certain intercompany transactions between investments of Newcastle Investment Holdings and our investments which were historically eliminated in the consolidated financial statements of Newcastle Investment Holdings have not been eliminated for this presentation.

For purposes of this pro forma financial presentation, the formation transactions are adjusted to include: (1) the deposit for the CBO II collateral, but not the subsequent purchase of the CBO II collateral and the issuance of the CBO II securitization, which were consummated subsequent to March 31, 2002 in the ordinary course of our business and (2) our \$13.9 million investment in GSA portfolio mezzanine bonds as of March 31, 2002, but not any additional investment by us in those bonds subsequent to March 31, 2002.

The summary selected unaudited pro forma consolidated balance sheets are presented as if the formation transactions had been consummated on March 31, 2002. Certain intercompany balances between investments of Newcastle Investment Holdings and our investments which were historically eliminated in the consolidated financial statements of Newcastle Investment Holdings have not been eliminated for this presentation.

The summary selected unaudited pro forma consolidated financial statements are presented for comparative purposes only, and are not necessarily indicative of what our actual financial position or our consolidated results of operations would have been at the date or for the periods presented, nor do they purport to represent the results of any future periods. In the opinion of management, all adjustments necessary to present fairly the unaudited pro forma financial information have been made. The summary selected pro forma consolidated financial information set forth below as of March 31, 2002 and for the year ended December 31, 2001 and the three month periods ended March 31, 2002 and 2001 have been derived from our unaudited pro forma financial statements.

The information below should be read in conjunction with "Management's Discussion and Analysis of Pro Forma Financial Condition and Results of Operations" and the financial statements and notes thereto included in this prospectus.

SUMMARY SELECTED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
<Caption>

	THREE MONTHS ENDED		YEAR ENDED
	MARCH 31,		DECEMBER 31,
	2002	2001	2001
	<C>	<C>	<C>
<b>OPERATING DATA</b>			
<b>Revenues</b>			
Interest and dividend income.....	\$ 12,951	\$ 12,541	\$ 47,707
Rental and escalation income.....	5,563	6,137	23,117
Gain on settlement of investments.....	3,026	6,390	7,405
Other income.....	4	4	43
	-----	-----	-----
	21,544	25,072	78,272
<b>Expenses</b>			
Interest expense.....	7,273	8,698	32,659
Property operating expense.....	2,456	2,762	9,941
Loan servicing and REO expense.....	88	56	243
General and administrative expense.....	431	418	1,291
Management fees.....	874	793	3,642
Depreciation and amortization.....	718	736	2,905
	-----	-----	-----
	11,840	13,463	50,681
	-----	-----	-----
Income from continuing operations.....	\$ 9,704	\$ 11,609	\$ 27,591
	=====	=====	=====
Income from discontinued operations.....	\$ 868	\$ 2,537	\$ 6,118

Income from continuing operations per common share, basic and diluted.....	\$ 0.59	\$ 0.70	\$ 1.67
Weighted average number of common shares outstanding, basic and diluted.....	16,489	16,500	16,493

</Table>

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<Caption>

	MARCH 31, 2002		
	-----	-----	-----
<S>	<C>	<C>	<C>
BALANCE SHEET DATA			
CBO collateral, net.....	\$533,033		
Operating real estate, net.....	\$117,407		
Cash and cash equivalents.....	\$ 834		
Total assets.....	\$731,012		
Debt.....	\$531,983		
Stockholders' equity.....	\$187,523		

</Table>

10

<Table>  
<Caption>

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,
	-----	-----	-----
	2002	2001	2001
	-----	-----	-----
<S>	<C>	<C>	<C>
OTHER DATA			
Cash flow from continuing operations provided by (used in):			
Operating activities.....	\$ 6,927	\$ 6,685	\$17,483
Investing activities.....	\$(23,119)	\$ 22,596	\$(6,973)
Financing activities.....	\$(12,936)	\$(28,194)	\$16,294
Funds from Operations (FFO) from continuing operations(A).....	\$ 10,411	\$ 12,331	\$30,443

</Table>

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(A) We believe funds from operations (FFO) is one appropriate measure of the performance of real estate companies because it provides investors with an understanding of our ability to incur and service debt and make capital expenditures. Funds from operations (FFO), for our purposes, represents net income available for common stockholders (computed in accordance with accounting principles generally accepted in the United States ("GAAP")), excluding extraordinary items, plus real estate depreciation and amortization, and after adjustments for unconsolidated subsidiaries, if any. We consider gains and losses on resolution of our investments to be a normal part of our recurring operations and, therefore, do not exclude such gains and losses when arriving at funds from operations (FFO). Adjustments for unconsolidated subsidiaries, if any, are calculated to reflect funds from operations (FFO) on the same basis. Funds from operations (FFO) 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 liquidity and is not necessarily indicative of cash available to fund cash needs.

<Table>  
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	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,
	-----	-----	-----
	2002	2001	2001
	-----	-----	-----
<S>	<C>	<C>	<C>
CALCULATION OF FUNDS FROM OPERATIONS (FFO)			
Income from continuing operations.....	\$ 9,704	\$11,609	\$27,591
Real estate depreciation and amortization.....	707	722	2,852
Funds from Operations (FFO) from continuing operations.....	\$10,411	\$12,331	\$30,443

</Table>

11

The following table sets forth certain summary selected financial and operating information on an historical consolidated basis.

The historical summary selected consolidated financial information set forth below as of December 31, 2001, 2000, 1999 and 1998 and for the years ended December 31, 2001, 2000 and 1999 and for the period from May 11, 1998 to December 31, 1998 have been derived from our audited historical consolidated financial statements. The summary selected historical financial information set forth below as of March 31, 2002 and for the three month periods ended March 31, 2002 and 2001 have been derived from our unaudited historical financial statements.

The information below should be read in conjunction with "Management's Discussion and Analysis of Historical Financial Condition and Results of Operations" and the financial statements and notes thereto included in this prospectus.

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,			PERIOD FROM MAY
11,	-----		-----			-----
1998	2002	2001	2001	2000	1999	1998 TO DEC 31,
---	-----	-----	-----	-----	-----	-----
<S>	(UNAUDITED)	(UNAUDITED)	<C>	<C>	<C>	<C>
OPERATING DATA	<C>	<C>	<C>	<C>	<C>	<C>
Revenues						
Interest and dividend income.....	\$ 13,010	\$15,028	\$ 53,430	\$ 65,389	\$ 50,286	\$19,675
Rental and escalation income.....	19,886	20,804	81,458	80,641	65,352	23,143
Gain (loss) on settlement of investments.....	3,105	7,206	10,386	21,763	(1,526)	2,584
Equity in earnings (losses) of unconsolidated subsidiaries.....	(452)	(346)	2,807	(980)	(3,615)	117
Incentive income (loss)...	(12,810)	--	28,709	--	--	--
Other income.....	6	78	146	1,006	462	369
	-----	-----	-----	-----	-----	-----
	22,745	42,770	176,936	167,819	110,959	45,888
Expenses						
Interest expense.....	14,100	17,326	62,767	68,517	46,778	12,693
Property operating expense.....	7,416	7,930	30,261	29,552	23,251	7,027
Loan servicing and REO expense.....	235	242	965	2,325	3,122	1,291
General and administrative expense.....	762	605	2,425	3,988	3,516	2,751
Management fees.....	1,363	1,434	5,746	6,646	7,407	6,751
Incentive return.....	840	--	2,834	--	--	--
Depreciation and amortization.....	3,571	3,398	13,996	13,183	10,474	4,165
	-----	-----	-----	-----	-----	-----
	28,287	30,935	118,994	124,211	94,548	34,678
Income (loss) before minority interest.....	(5,542)	11,835	57,942	43,608	16,411	11,210
Minority interest in (income) loss of consolidated subsidiaries.....	6,413	(139)	(14,271)	(748)	(1,258)	(570)
	-----	-----	-----	-----	-----	-----
Income before extraordinary item.....	871	11,696	43,671	42,860	15,153	10,640
Extraordinary item -- loss on extinguishment of debt.....	--	--	--	--	(2,341)	--
	-----	-----	-----	-----	-----	-----

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,			PERIOD FROM MAY
11,	-----		-----			-----
	2002	2001	2001	2000	1999	1998 TO DEC 31,
	-----	-----	-----	-----	-----	-----

1998

	(UNAUDITED) <C>	(UNAUDITED) <C>	<C>	<C>	<C>	<C>
Income before change in accounting principle.....	871	11,696	43,671	42,860	12,812	10,640
Cumulative effect of change in accounting principle -- write off of organizational costs.....	--	--	--	--	(513)	--
Net Income.....	871	11,696	43,671	42,860	12,299	10,640
Preferred dividends and related accretion.....	(638)	(630)	(2,540)	(2,084)	--	--
Income available for common shareholders.....	\$ 233	\$11,066	\$ 41,131	\$ 40,776	\$ 12,299	\$10,640
Net Income per Common Share, basic and diluted.....	\$ 0.01	\$ 0.67	\$ 2.49	\$ 2.16	\$ 0.59	\$ 0.51
Income before extraordinary item per common share, basic and diluted.....	\$ 0.01	\$ 0.67	\$ 2.49	\$ 2.16	\$ 0.72	\$ 0.51
Effect of extraordinary item per common share, basic and diluted.....	\$ --	\$ --	\$ --	\$ --	\$ (0.11)	\$ --
Effect of change in accounting principle per common share, basic and diluted.....	\$ --	\$ --	\$ --	\$ --	\$ (0.02)	\$ --
Weighted average number of common shares outstanding, basic and diluted.....	16,489	16,500	16,493	18,892	20,917	20,862
Dividends declared per common share.....	\$ 0.60	\$ 0.50	\$ 2.00	\$ 1.50	\$ 2.04	\$ 0.55

</Table>

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	MARCH 31,	DECEMBER 31,				
	2002	2001	2000	1999	1998	
BALANCE SHEET DATA						
CBO collateral, net.....	\$ 519,086	\$ 522,258	\$ 509,729	\$ 504,669	\$ --	
Operating real estate, net.....	\$ 521,077	\$ 524,834	\$ 540,539	\$ 558,849	\$383,073	
Cash and cash equivalents...	\$ 25,780	\$ 31,360	\$ 10,575	\$ 14,345	\$ 75,596	
Total assets.....	\$1,262,487	\$1,276,473	\$1,331,086	\$1,381,600	\$765,650	
Debt.....	\$ 912,453	\$ 897,390	\$ 975,656	\$ 971,260	\$336,845	
Stockholders' equity.....	\$ 292,392	\$ 310,545	\$ 300,655	\$ 354,673	\$384,924	

13

<Table>  
<Caption>

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,		PERIOD FROM MAY
	2002	2001	2001	2000	1998 TO DEC 31,
OTHER DATA					
Cash flow provided by (used in):					
Operating activities.....	\$ 9,248	\$ 8,395	\$ 34,448	\$ 24,823	\$ (7,230)
Investing activities.....	\$ (16,093)	\$ 47,070	\$ 106,053	\$ 151,632	\$ (638,844)
Financing activities.....	\$ 1,265	\$ (46,132)	\$ (119,716)	\$ (180,225)	\$ 721,670
Funds from					

Operations (FFO) (A) ..... \$ 10,098 \$ 14,568 \$ 48,264 \$ 53,523 \$ 24,707 \$ 14,337  
 </Table>

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(A) We believe funds from operations (FFO) is one appropriate measure of the performance of real estate companies because it provides investors with an understanding of our ability to incur and service debt and make capital expenditures. Funds from operations (FFO), for our purposes, represents net income available for common stockholders (computed in accordance with GAAP), excluding extraordinary items, plus real estate depreciation and amortization, and after adjustments for unconsolidated subsidiaries. We consider gains and losses on resolution of our investments to be a normal part of our recurring operations and, therefore, do not exclude such gains and losses when arriving at funds from operations (FFO). In addition, we exclude accrued incentive income (loss) from Fortress Investment Fund (the "Fund" or "FIF") and include incentive income distributed or distributable from the Fund in accordance with the operating agreement of the Fund since this more accurately reflects cash distributed or distributable to us from the Fund, while our accrued incentive income is based upon the fair value of the Fund's net assets, which is subject to fluctuation in future periods. Adjustments for unconsolidated subsidiaries are calculated to reflect funds from operations (FFO) on the same basis. Funds from operations (FFO) 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 liquidity and is not necessarily indicative of cash available to fund cash needs.

<Table>  
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11, 1998	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,			PERIOD FROM MAY
	2002	2001	2001	2000	1999	1998 TO DEC 31,
	(UNAUDITED)	(UNAUDITED)	<C>	<C>	<C>	<C>
CALCULATION OF FUNDS FROM OPERATIONS (FFO):						
Income available for common shareholders.....	\$ 233	\$11,066	\$ 41,131	\$40,776	\$12,299	\$10,640
Extraordinary item -- loss on extinguishment of debt.....	--	--	--	--	2,341	--
Real estate depreciation and amortization.....	3,330	3,201	12,909	12,621	9,927	3,697
Real estate depreciation and amortization -- unconsolidated subsidiaries.....	864	301	2,564	126	140	--
Incentive (income) loss accrued from FIF(A).....	6,405	--	(14,354)	--	--	--
Equity in incentive return accrued by FIF.....	(734)	--	1,645	--	--	--
Distributable incentive income from FIF(B).....	--	--	4,369	--	--	--
Funds from Operations (FFO).....	\$10,098	\$14,568	\$ 48,264	\$53,523	\$24,707	\$14,337

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(A) Represents our 50% interest in the incentive income as follows:

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	THREE MONTHS ENDED MARCH 31, 2002	YEAR ENDED DECEMBER 31, 2001
	(UNAUDITED)	<C>
Total incentive income (loss).....	\$ (12,810)	\$ 28,709
Minority interest -- Manager.....	\$ 6,405	\$ (14,355)

Our incentive income	-----	-----
(loss).....	\$ (6,405)	\$ 14,354
	=====	=====

</Table>

(B) Represents our 50% interest in the distributable incentive income:

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Total distributable incentive income.....			\$ 8,738			
Distributable incentive income due Manager.....			\$ (4,369)			
			-----			
Our distributable incentive income.....			\$ 4,369			
			=====			

</Table>

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following information, together with the other information contained in this prospectus, before buying shares of our common stock. In connection with the forward-looking statements that appear in this prospectus, you should also carefully review the cautionary statement referred to under "Cautionary Statement Regarding Forward-Looking Statements."

RISKS RELATING TO OUR MANAGEMENT

WE ARE DEPENDENT ON OUR MANAGER AND MAY NOT FIND A SUITABLE REPLACEMENT IF OUR MANAGER TERMINATES THE MANAGEMENT AGREEMENT.

We have no employees. Our officers are employees of our manager. We have no separate facilities and are completely reliant on our manager, which has significant discretion as to the implementation of our operating policies and strategies. We are subject to the risk that our manager will terminate the management agreement and that no suitable replacement will be found to manage us. We believe that our success depends to a significant extent upon the experience of the manager's executive officers, whose continued service is not guaranteed.

THERE ARE CONFLICTS OF INTEREST IN OUR RELATIONSHIP WITH OUR MANAGER.

Our chairman and chief executive officer and each of our executive officers also serve as officers of our manager. As a result, the management agreement 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 manager also manages and invests in other real estate-related investment vehicles, including Newcastle Investment Holdings, and our chairman and chief executive officer and some of our other officers also serve as officers and/or directors of these other entities. As a result, they may not be able to devote sufficient time to the management of our business operations. For example, our manager manages Fortress Investment Fund, which has a substantial investment in Capstead Mortgage Corporation, a publicly traded mortgage REIT. Our chairman and chief executive officer, who is also an officer of our manager, also serves as chairman and chief executive officer of Capstead. Capstead's portfolio consists primarily of adjustable-rate residential mortgage backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae. However, Capstead has a broader investment mandate, which could lead to a future conflict with our business. Certain investments appropriate for us may also be appropriate for one or more of these other investment vehicles and our manager may decide to make a particular investment through another investment vehicle rather than through us. Our manager also intends to engage in additional real estate-related management and investment opportunities in the future which may also compete with us for investments.

Our management agreement with our manager generally does not limit or restrict our manager from engaging in any business or managing any other vehicle that invests generally in real estate securities. The ability of our manager and its officers and employees to engage in these other business activities will reduce the time our manager spends managing us. The manager is required to seek the approval of the independent members of our board of directors before we engage in a material transaction with another entity managed by our manager.

The management compensation structure that we have agreed to with our manager may cause our manager to invest in high risk investments. In addition to its annual management fee, our manager is entitled to receive an incentive return based in part upon our achievement of targeted levels of funds from operations. In evaluating investments and other management strategies, the opportunity to earn an incentive return based on funds from operations may lead our manager to place undue emphasis on the maximization of funds from operations at the expense of other criteria, such as preservation of capital, in

order to achieve a higher incentive return. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our invested portfolio.

Termination of the management agreement with our manager is difficult and costly. The management agreement may only 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 (1) unsatisfactory performance by our manager that is materially detrimental to us or (2) a determination that the compensation to our manager is not fair, subject to our manager's right to prevent such a compensation termination by accepting a mutually acceptable reduction of fees. Our manager will be provided 60 days' prior notice of any 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 incentive return 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 return 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.

THERE ARE CONFLICTS OF INTEREST IN OUR RELATIONSHIP WITH NEWCASTLE INVESTMENT HOLDINGS.

Our chairman and chief executive officer also serves as chairman and chief executive officer of Newcastle Investment Holdings and, at the time the transfer of assets and liabilities from Newcastle Investment Holdings to us was approved and other organizational matters were approved for us, Newcastle Investment Holdings was our sole stockholder. As a result, these matters were not approved at arm's length and the terms of the transfer may not be as favorable to us as if the transfer was with an unaffiliated third party. As of March 31, 2002, we had a \$13.9 million investment in the GSA portfolio mezzanine bonds issued by affiliates of Newcastle Investment Holdings that currently hold indirectly all of the equity in the GSA portfolio. Prior to the closing of this offering, we will have an approximately \$43.2 million investment in such bonds. If the value of the GSA properties declines and does not support the repayment of the senior mortgage debt and our bonds, then our manager, who also manages Newcastle Investment Holdings, will be subject to a conflict of interest in managing our interests and those of Newcastle Investment Holdings. Our manager also has an equity interest in both us and in Newcastle Investment Holdings. In addition, we may enter into transactions in the future with Newcastle Investment Holdings with the approval of the independent members of our board.

WE HAVE NO SEPARATE OPERATING HISTORY FROM NEWCASTLE INVESTMENT HOLDINGS.

Newcastle Investment Holdings was organized in May 1998. We were organized in June 2002 for the purpose of separating the core real estate securities business from Newcastle Investment Holdings' other investments and have not operated separately from Newcastle Investment Holdings. The results of our operations will depend on many factors, including the availability of opportunities for the acquisition of assets, the level and volatility of interest rates, readily accessible short and long term funding, alternative conditions in the financial markets and economic conditions. We will face substantial competition in acquiring suitable investments, which could increase our costs.

OUR DIRECTORS HAVE APPROVED VERY BROAD INVESTMENT GUIDELINES FOR OUR MANAGER AND DO NOT APPROVE EACH INVESTMENT DECISION MADE BY OUR MANAGER.

Our manager is authorized to follow very broad investment guidelines. Our directors will periodically review our investment guidelines and our investment portfolio. However, our board does not review each proposed investment. In addition, in conducting periodic reviews, the directors rely primarily on information provided to them by our manager. Furthermore, transactions entered into by our manager may be difficult or impossible to unwind by the time they are reviewed by the directors. Our manager has great latitude within the broad investment guidelines in determining the types of assets it may decide are proper investments for us.

WE MAY CHANGE OUR INVESTMENT STRATEGY WITHOUT STOCKHOLDER CONSENT.

We may change our investment strategy at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described in this prospectus. A change in our investment strategy may increase our exposure to interest rate and real estate market fluctuations.



## RISKS RELATING TO OUR BUSINESS

WE ARE SUBJECT TO SIGNIFICANT COMPETITION AND WE MAY NOT COMPETE SUCCESSFULLY.

We are subject to significant competition in seeking investments. We compete with several 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 us and we may not be able to compete successfully for investments.

WE LEVERAGE OUR PORTFOLIO, WHICH MAY ADVERSELY AFFECT OUR RETURN ON OUR INVESTMENTS AND MAY REDUCE CASH AVAILABLE FOR DISTRIBUTION.

We leverage our portfolio through borrowings, generally through the use of bank credit facilities, repurchase agreements, mortgage loans on real estate, securitizations, including the issuance of CBOs, and other borrowings. The percentage of leverage varies depending on our ability to obtain credit facilities and the lender's estimate of the stability of the portfolio's cash flow. We currently have a policy limiting the use of leverage up to 90% of the value of our assets on an aggregate basis. Our return on our investments and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions cause the cost of our financing to increase relative to the income that can be derived from the assets acquired.

Our debt service payments reduce the net income available for distributions to stockholders. After giving effect to the formation transactions as if they occurred as of that date, for the year ended December 31, 2001, our debt service payments were \$1.1 million and \$35.0 million of principal and interest payments, respectively, and for the three months ended March 31, 2002, our debt service payments were \$0.9 million and \$7.5 million of principal and interest payments, respectively. We may not be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to foreclosure or sale to satisfy our debt obligations.

We may leverage certain of our investments through repurchase agreements. A decrease in the value of the assets may lead to margin calls which we will have to satisfy. We may not have the funds available to satisfy any such margin calls.

THE MORTGAGE LOANS WE MAY INVEST IN AND THE MORTGAGE LOANS UNDERLYING THE MORTGAGE BACKED SECURITIES WE INVEST IN ARE SUBJECT TO DELINQUENCY, FORECLOSURE AND LOSS.

Commercial mortgage loans are secured by multifamily or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that are greater than similar risks associated with loans made on the security of single-family residential property. 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, real estate tax rates and other operating expenses,

18

changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances.

Residential mortgage loans are secured by single-family residential 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 a residential property is dependent upon the income or assets of the borrower. A number of factors, including a general economic downturn, acts of God, terrorism, social unrest and civil disturbances, may impair borrowers' abilities to repay their loans.

In the event of any default under a mortgage 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 principal and accrued interest of the mortgage loan, which could have a material adverse effect on our cash flow from operations. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or

debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan.

Residential mortgage backed securities evidence interests in or are secured by pools of residential mortgage loans and commercial mortgage backed securities evidence interests in or are secured by a single commercial mortgage loan or a pool of commercial mortgage loans. Accordingly, the mortgage backed securities we invest in are subject to all of the risks of the underlying mortgage loans.

OUR INVESTMENTS IN SUBORDINATED MORTGAGE BACKED SECURITIES ARE SUBJECT TO LOSSES.

In general, losses on a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, and then by the "first loss" subordinated security holder. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit and any classes of securities junior to those in which we invest, we will not be able to recover all of our investment in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related mortgage backed securities, the securities in which we invest may effectively become the "first loss" position behind the more senior securities, which may result in significant losses to us.

The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments. A projection of an economic downturn, for example, could cause a decline in the price of lower credit quality securities because the ability of obligors of mortgages underlying mortgage backed securities to make principal and interest payments may be impaired. In such event, existing credit support in the securitization structure may be insufficient to protect us against loss of our principal on these securities.

OUR INVESTMENTS IN REIT DEBT SECURITIES ARE SUBJECT TO SPECIFIC RISKS RELATING TO THE PARTICULAR REIT ISSUER OF THE SECURITIES AND TO THE GENERAL RISKS OF INVESTING IN SUBORDINATED REAL ESTATE SECURITIES.

Our investments in REIT debt securities involve special risks. REITs generally are required to substantially invest in real estate or real estate-related assets and are subject to the inherent risks associated with real estate-related investments discussed in this prospectus. Our investments in REIT debt securities are 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.

19

REIT debt securities are generally unsecured and may also be subordinated to other obligations of the issuer. We may also invest in REIT debt securities that are rated below investment grade. As a result, REIT debt securities investments 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 debt security issuer may be insufficient to meet its debt service and (vi) the declining creditworthiness and potential for insolvency of the issuer of such REIT debt securities during periods of rising interest rates and economic downturn. These risks may adversely affect the value of outstanding REIT debt securities and the ability of the issuers thereof to repay principal and interest.

THE B NOTES WE INVEST IN MAY BE SUBJECT TO ADDITIONAL RISKS RELATING TO THE PRIVATELY NEGOTIATED STRUCTURE AND TERMS OF THE TRANSACTION.

We intend to invest in one or more "B Notes." A "B Note" is a mortgage loan typically (a) secured by a first mortgage on a single large commercial property or group of related properties and (b) sub-ordinated 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. However, since each transaction is privately negotiated, B Notes 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. Further, B Notes typically are secured by a single property, and so reflect the risks associated with significant

concentration. B Notes also are less liquid than commercial mortgage backed securities.

OUR INSURANCE ON OUR REAL ESTATE AND INSURANCE ON OUR REAL ESTATE COLLATERAL 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 are limiting and/or excluding 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 which are secured by certain of our properties contain customary covenants, including covenants that require us to maintain property insurance in an amount equal to replacement cost of the properties. There can be no assurance that the lenders under our mortgage loans will not take the position that exclusions from our 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.

ENVIRONMENTAL COMPLIANCE COSTS AND LIABILITIES WITH RESPECT TO OUR REAL ESTATE MAY AFFECT OUR RESULTS OF OPERATIONS.

Our operating costs may be affected by our obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation with respect to the assets, or loans secured by assets, with environmental problems that materially impair the value of the assets. 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

20

remediate properly, may adversely affect the owner's ability to borrow by 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 may be operated, and these restrictions may require expenditures. In connection with the 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 materially adversely affect our results of operations and financial condition.

MANY OF OUR INVESTMENTS MAY BE ILLIQUID.

Real estate and real estate-related 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. A majority of the mortgage backed securities and REIT debt securities, and all of the B Notes, that we purchase are purchased in private, unregistered transactions and are therefore subject to restrictions on resale or otherwise have no established trading market. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited.

INTEREST RATE FLUCTUATIONS MAY CAUSE LOSSES.

Our primary interest rate exposures relate to our loans, mortgage backed securities and variable-rate debt, as well as our interest rate swaps and caps that we primarily utilize for hedging purposes. Changes in interest rates can affect our net interest income, which is the difference between the interest income we earn on our interest-earning investments and the interest expense we incur in financing these investments. Changes in the level of interest rates also can affect our ability to originate and acquire assets, the value of our assets and our ability to realize gains from the settlement of such assets.

In a period of rising interest rates, our interest expense could increase while the interest we earn on our fixed-rate mortgage backed securities would not change. This would adversely affect our profitability.

Our operating results will depend in large part on differences between the income from our assets, net of credit losses, and our financing costs. We anticipate that, in most cases, for any period during which our assets are not match-funded, the income from such assets will respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may significantly influence our net income. Increases in these rates will tend to decrease our net income and market value of our assets. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us.

OUR HEDGING TRANSACTIONS MAY LIMIT OUR GAINS OR RESULT IN LOSSES.

We use derivatives to hedge our liabilities and this 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. Our board of directors has 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. 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.

21

WE MAY NOT BE ABLE TO ACQUIRE ELIGIBLE SECURITIES FOR A CBO ISSUANCE, OR MAY NOT BE ABLE TO ISSUE CBO SECURITIES ON ATTRACTIVE TERMS, WHICH MAY REQUIRE US TO SEEK MORE COSTLY FINANCING FOR OUR INVESTMENTS OR TO LIQUIDATE ASSETS.

We acquire real estate securities and finance them on a long-term basis, such as through the issuance of collateralized bond obligations. During the period that we are acquiring these assets, we finance our purchases through relatively short-term credit facilities. We use these warehouse lines of credit to finance the acquisition of real estate securities until a sufficient quantity of securities is accumulated at which time we may refinance these lines through a securitization, such as a CBO issuance, or other long-term financing. As a result, we are subject to the risk that we will not be able to acquire, during the period that our warehouse facility is available, a sufficient amount of eligible securities to maximize the efficiency of a collateralized bond obligation issuance. In addition, conditions in the capital markets may make the issuance of a collateralized bond obligation less attractive to us when we do have a sufficient pool of collateral. If we are unable to issue a collateralized bond obligation to finance these assets, we may be required to seek such other forms of potentially less attractive financing or otherwise to liquidate the assets.

PREPAYMENT RATES CAN INCREASE, ADVERSELY AFFECTING YIELDS ON OUR INVESTMENTS.

The value of our assets may be affected by prepayment rates on mortgage loans. Prepayment rates on mortgage loans 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 mortgage 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 the mortgage assets may, because of the risk of prepayment, benefit less than other fixed-income securities from declining interest rates. Conversely, in periods of rising interest rates, prepayments on mortgage 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.

INTERNATIONAL INVESTMENTS ARE SUBJECT TO CURRENCY RATE EXPOSURE AND THE UNCERTAINTY OF FOREIGN LAWS AND MARKETS.

We own real estate located outside of the United States which in addition to all the risks inherent in the investment in real estate generally discussed in this prospectus are also subject to fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, political and economic instability in certain geographic locations, difficulties in managing international operations, potentially adverse tax consequences, enhanced accounting and control expenses and the burden of complying with a wide variety of foreign laws. A change in foreign currency exchange rates may adversely impact returns on our non-dollar denominated investments. Our principal currency exposures are to the Euro and the Canadian Dollar. Changes in the currency rates can adversely impact the fair values and earnings streams of our international

holdings. We generally do not directly hedge our foreign currency risk through the use of derivatives, due to, among other things, REIT income qualification issues.

WE ARE EXPOSED TO CREDIT RISK FROM BELL CANADA AND FROM THE GENERAL SERVICES ADMINISTRATION OF THE U.S. GOVERNMENT.

After giving effect to the formation transactions as if they occurred as of such date, approximately 5.9% of our total assets at December 31, 2001 and 6.1% of our total assets at March 31, 2002 consisted of properties leased to Bell Canada. If the credit quality of this tenant is downgraded, or if it is unable or unwilling to timely pay rent, the value of our Bell Canada portfolio would decline.

In addition, as of March 31, 2002, we had a \$13.9 million investment, which represented approximately 1.9% of our total assets at March 31, 2002, in GSA portfolio mezzanine bonds issued by

22

affiliates of Newcastle Investment Holdings that own a portfolio of 14 office properties primarily leased to the U.S. General Services Administration. Prior to this offering, we will have an approximately \$43.2 million investment in such bonds. If the value of the GSA properties is diminished, the value of this investment could decline.

RISKS RELATED TO OUR COMPANY

OUR FAILURE TO QUALIFY AS A REIT WOULD RESULT IN HIGHER TAXES AND REDUCED CASH AVAILABLE FOR STOCKHOLDERS.

We intend to operate in a manner so as to qualify as a REIT for federal income tax purposes. Although we do not intend to request a ruling from the Internal Revenue Service (the IRS) as to our REIT status, we will receive the opinion of Skadden, Arps, Slate, Meagher & Flom LLP with respect to our qualification as a REIT. This opinion will be issued in connection with this offering of common stock. Investors should be aware, however, that opinions of counsel are not binding on the IRS or any court. The opinion of Skadden, Arps, Slate, Meagher & Flom LLP will represent only the view of our counsel based on our counsel's review and analysis of existing law and on certain representations as to factual matters and covenants made by us and our manager. The opinion of Skadden, Arps, Slate, Meagher & Flom LLP also relies on various legal opinions issued by other counsel for Newcastle and its predecessors with respect to certain issues and transactions. The opinions, copies of which are filed as an exhibit to the registration statement of which this prospectus is a part, are expressed as of the date issued, and do not cover subsequent periods. Counsel will have no obligation to advise us or the holders of our common stock of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in applicable law. Furthermore, both the validity of the opinion of Skadden, Arps, Slate, Meagher & Flom LLP, and our continued qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis, the results of which will not be monitored by Skadden, Arps, Slate, Meagher & Flom LLP. Our ability to satisfy some of the asset tests depends upon the fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Moreover, the proper classification of an instrument as debt or equity for federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements as described below. Accordingly, there can be no assurance that the IRS will not contend that our interests in subsidiaries or other issuers will not cause a violation of 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 common stock. Unless entitled to relief under certain Internal Revenue Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. The rule against re-electing REIT status following a loss of such status would also apply to us if Newcastle Investment Holdings fails to qualify as a REIT, and we are treated as a successor to Newcastle Investment Holdings for federal income tax purposes. See "Federal Income Tax Considerations" for a discussion of material federal income tax consequences relating to us and our common stock.

REIT DISTRIBUTION REQUIREMENTS COULD ADVERSELY AFFECT OUR LIQUIDITY.

We generally must distribute annually at least 90% of our net taxable income, excluding any net capital gain, in order for corporate income tax not to apply to earnings that we distribute. We intend to make distributions to our stockholders to comply with the requirements of the Internal Revenue 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 Internal Revenue Code. Certain of our assets generate substantial

23

mismatches between taxable income and available cash. Such assets include (a) rental real estate that has been financed through financing structures which require some or all of available cash flows to be used to service borrowings and (b) mortgage backed securities and mezzanine bonds we hold that have been issued at a discount and require the accrual of taxable economic interest in advance of receipt in cash. As a result, the requirement to distribute a substantial portion of our net taxable income could cause us to: (a) sell assets in adverse market conditions, (b) borrow on unfavorable terms or (c) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt in order to comply with REIT requirements.

Further, amounts distributed will not be available to fund investment activities. Newcastle Investment Holdings has historically funded its investments, initially, by raising capital in a private equity offering and, subsequently, through borrowings from financial institutions, along with securitization financings. We expect to finance our investments this way. If we fail to obtain debt or equity capital in the future, it could limit our ability to grow, which could have a material adverse effect on the value of our common stock.

OUR ABILITY TO CONTINUE TO PAY DIVIDENDS AT OR ABOVE NEWCASTLE INVESTMENT HOLDINGS' HISTORICAL LEVELS MAY BE DEPENDENT ON OUR ABILITY TO GENERATE GAINS UPON SALES OF INVESTMENTS.

A significant percentage of Newcastle Investment Holdings' historical revenues and earnings was derived from gains upon sales of investments. We have included such gains in the calculation of our funds from operations. Our ability to continue to pay dividends on shares of our common stock at or above our historical levels may be dependent upon our ability to generate similar gains in the future.

MAINTENANCE OF OUR INVESTMENT COMPANY ACT EXEMPTION IMPOSES LIMITS ON OUR OPERATIONS.

We conduct our operations so as not to become regulated as an investment company under the Investment Company Act of 1940. We believe that there are a number of exemptions under the Investment Company Act that may be applicable to us. The assets that we may acquire, therefore, are limited by the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act. In addition, we could, among other things, be required either (a) to change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company, either of which could have an adverse effect on us and the market price for our common stock.

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 might constitute or give rise to a prohibited transaction under ERISA, the Internal Revenue Code or any substantially similar federal, state or local law and whether an exemption from such prohibited transaction rules is available. See "ERISA Considerations."

THE STOCK OWNERSHIP LIMIT IMPOSED BY THE INTERNAL REVENUE CODE FOR REITS AND OUR CHARTER MAY INHIBIT MARKET ACTIVITY IN OUR STOCK AND MAY RESTRICT OUR BUSINESS COMBINATIONS OPPORTUNITIES.

In order for us to maintain our qualification as a REIT under the Internal Revenue 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 Internal Revenue Code to include certain entities) at any time during the last half of each taxable year. Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person, other than Newcastle Investment Holdings, our manager and certain of its affiliates and executive officers, each of which have been exempted by our board, may own more than 9.8% of the aggregate value of the outstanding shares of any class or series of our stock. Our board may not grant such an exemption to any proposed transferee whose ownership of in excess of 9.8% of the value of our outstanding shares would result in the termination of our status as a REIT. These ownership limits

24

could delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

MARYLAND TAKEOVER STATUTES MAY PREVENT A CHANGE OF OUR CONTROL. THIS 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 a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation's shares; or
- an affiliate or associate of the 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 voting 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 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; 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.

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. See "Important Provisions of Maryland Law and of Our Charter and Bylaws -- Business Combinations" and "-- Control Share Acquisitions."

OUR AUTHORIZED BUT UNISSUED 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 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.

OUR STOCKHOLDER RIGHTS PLAN COULD INHIBIT A CHANGE IN OUR CONTROL.

We have adopted a stockholder rights agreement. Under the terms of the rights agreement, in general, if a person or group acquires more than 15% of the outstanding shares of our common stock, all of our other stockholders will have the right to purchase securities from us at a discount to such securities' fair market value, thus causing substantial dilution to the acquiring person. The rights agreement may have the effect of inhibiting or impeding a change in control not approved by our board of directors and, therefore, could adversely affect our stockholders' ability to realize a premium over the then-prevailing market price for our common stock in connection with such a transaction. In addition, since our board of directors can prevent the rights agreement from operating, in the event our board approves of an acquiring person, the rights agreement gives our board of directors significant discretion over whether a potential acquiror's efforts to acquire a large interest in us will be successful. Because the rights agreement contains provisions

25

that are designed to assure that the executive officers, our manager and its affiliates will never, alone, be considered a group that is an acquiring person, the rights agreement provides the executive officers, our manager and its affiliates with certain advantages under the rights agreement that are not available to other stockholders. See "Description of Capital Stock -- Stockholder Rights Plan."

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. The current terms of the Class I, Class II and Class III directors will expire in 2003, 2004 and 2005, respectively. 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 THIS OFFERING

YOU WILL EXPERIENCE IMMEDIATE AND SIGNIFICANT DILUTION IN THE BOOK VALUE PER SHARE.

The initial public offering price of our common stock is substantially higher than the book value per share of our outstanding common stock will be immediately after this offering. If you purchase our common stock in this offering, you will incur immediate dilution of approximately \$            in the book value per share of common stock from the price you pay for our common stock in this offering.

THE MARKET PRICE FOR OUR COMMON STOCK AFTER THIS OFFERING MAY BE LOWER THAN THE OFFERING PRICE AND OUR STOCK PRICE MAY BE VOLATILE.

Prior to this offering, there has been no public market for the shares of our common stock. The initial public offering price will be determined by negotiations between us and representatives of the underwriters. The price at which the shares of our common stock may sell in the public market after this offering may be lower than the price at which they are sold by the underwriters.

The stock market in general has recently experienced extreme price fluctuations. Fluctuations in our stock price may not be correlated in a predictable way to our performance or operating results. Our stock price may fluctuate as a result of factors that are beyond our control or unrelated to our operating results.

OUR INITIAL PAYOUT RATIO WILL BE    % BASED ON PRO FORMA OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND    % BASED ON PRO FORMA OPERATING RESULTS FOR THE YEAR ENDED DECEMBER 31, 2001, IN EACH CASE AS PRESENTED UNDER "DISTRIBUTION POLICY." IF WE DO NOT MEET EXPECTED OPERATING RESULTS, WE MAY NOT BE ABLE TO PAY OUR ESTIMATED INITIAL DISTRIBUTIONS.

Our estimated initial quarterly distributions will represent    % of our estimated cash available for distribution for the three months ended March 31, 2002 and our estimated initial annual distribution will represent    % of our estimated cash available for distribution for the year ended December 31, 2001. Accordingly, if we fail to achieve our expected operating results, our ability to pay our estimated initial annual distribution of \$    per share to stockholders out of cash available for distribution could be adversely affected. If we are unable to pay such distribution out of cash available for distribution, we could be required to borrow funds or sell assets for funds for such distribution, or to reduce the amount of such distribution.

FUTURE SALES OF SHARES OF OUR COMMON STOCK, INCLUDING SHARES OF COMMON STOCK AS A RESULT OF ANY DISTRIBUTION BY NEWCASTLE INVESTMENT HOLDINGS, MAY DEPRESS THE PRICE OF OUR SHARES.

Any sales of a substantial number of our shares in the public market, or the perception that such sales might occur, may cause the market price of our shares to decline. Upon completion of this offering, all

26

shares we are offering will be freely tradable without restriction, unless the shares are owned by one of our affiliates. Newcastle Investment Holdings has informed us that it may make a distribution to its stockholders of its holdings of our common stock. Newcastle Investment Holdings has agreed not to distribute our common stock to its stockholders earlier than 180 days after the date of this prospectus. Upon any such distribution, all of those shares of our common stock that are not owned by our affiliates (representing approximately 75% of the shares of our common stock that may be distributed by Newcastle Investment Holdings) would be eligible for immediate resale in the public market. We are unable to predict whether significant numbers of shares will be sold in the open market in anticipation of or following a distribution.

27

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements which are subject to various risks and uncertainties, including without limitation, statements relating to the operating performance of our investments and 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 effect 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. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate and bond markets specifically, legislative/regulatory changes (including changes to laws governing the taxation of real estate investment trusts), availability of capital, interest rates and interest rate spreads, generally accepted accounting principles and policies and rules applicable to REITs. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views as of the date of this prospectus. The "Risk Factors" and other factors noted throughout this prospectus could cause our actual results to differ significantly from those contained in any forward-looking statement. For a discussion of our critical accounting policies see "Management's Discussion and Analysis of Pro Forma Financial Condition and Results of Operations -- Critical Accounting Policies."

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. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

28

#### USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the \_\_\_\_\_ shares of common stock will be approximately \$ \_\_\_\_\_ million, or approximately \$ \_\_\_\_\_ million if the underwriters exercise their over-allotment option in full, based upon an assumed public offering price per share of \$ \_\_\_\_\_, after deducting assumed underwriting discounts and estimated offering expenses.

We intend to use the net proceeds of this offering to pay a portion of the purchase price for a portfolio of mortgage loans. The mortgage loans and related financing are to be obtained from affiliates of Bear Stearns. We intend to use the financing to fund the balance of the purchase price for such mortgage loans. The financing will permit us to further borrow an amount up to 90% of the purchase price of the mortgage loans. We intend to utilize borrowings under the financing to purchase additional real estate securities and for general corporate purposes.

#### DISTRIBUTION POLICY

In order for corporate income tax not to apply to the earnings that we distribute, we must distribute to our stockholders an amount at least equal to (i) 90% of our REIT taxable income (determined before the deduction for dividends paid and excluding any net capital gain) plus (ii) 90% of the excess of our net income from foreclosure property (as defined in Section 856 of the Internal Revenue Code) over the tax imposed on such income by the Internal Revenue Code less (iii) any excess non-cash income (as determined under the Internal Revenue Code). See "Federal Income Tax Considerations." The actual amount and timing of distributions, however, will be at the discretion of our board of directors and will depend upon our financial condition in addition to the requirements of the Internal Revenue Code.

Subject to the distribution requirements referred to in the immediately preceding paragraph, we intend, to the extent practicable, to invest substantially all of the proceeds from repayments, sales and refinancings of our assets in real estate-related assets and other assets. We may, however, under certain circumstances, make a distribution of capital or of assets. Such distributions, if any, will be made at the discretion of our board of directors. Distributions will be made in cash to extent that cash is available for distribution.

It is anticipated that distributions generally will be taxable as ordinary income to our non-exempt stockholders, although a portion of such distributions may be designated by us as long-term capital gain or may constitute a return of capital. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their federal income tax status. For a discussion of the federal income tax treatment of distributions by us, see "Federal Income Tax Considerations -- Taxation of Newcastle" and "--- Taxation of Stockholders."

Subsequent to the offering, we intend to make regular quarterly

distributions to the holders of our common stock. The first dividend, for the period commencing at the closing of the offering and ending September 30, 2002, is anticipated to be in an amount approximately equivalent to a quarterly distribution of \$ per share (which, if annualized, would equal \$ per share), or an annual yield of %, based upon an assumed public offering price of \$ per share. We do not intend to reduce the expected distribution per share if the underwriters' over-allotment option is exercised. We intend to maintain our initial distribution rate through December 31, 2002, unless actual results of operations, economic conditions or other factors differ materially from the assumptions used in our estimate, and to review the distribution rate on a quarterly basis. If revenues generated by our investments in future periods decrease materially from current levels, our ability to make expected distributions would be materially adversely affected, which could result in a decrease in the market price of the shares of common stock. The board of directors may vary the percentage of cash available for distribution which is distributed if the actual results of operations, economic conditions or other factors differ from the assumptions used in our estimates.

The following estimate of cash available for distributions ("CAD") is based upon pro forma CAD for the year ended December 31, 2001 and the three months ended March 31, 2002, adjusted to reflect the effect during such periods of the transactions described in the adjustments (A), (B), (C), (D), (E) and

29

(F) to the following table and for completion of the offering and application of the estimated net proceeds therefrom, as described below. We do not believe that any other transactions entered into subsequent to March 31, 2002 would be material to the calculation of CAD. This estimate of CAD is being made solely for the purpose of establishing the distribution policy described above and is not intended to be a projection or forecast of our results of operations or our liquidity.

The following table illustrates the adjustments made in order to calculate our estimated Cash Available for Distribution for the year ended December 31, 2001 and for the three months ended March 31, 2002, which we believe provides the best estimate of our Cash Available for Distribution in 2002 (in thousands, except per share data):

<Table>

<Caption>

	THREE MONTHS ENDED MARCH 31, 2002	YEAR ENDED DECEMBER 31, 2001
	----- <C>	----- <C>
<S>		
Pro forma income from continuing operations.....	\$ 9,704	\$27,591
ADJUSTMENTS:		
Net interest on investment in mortgage loans(A).....	2,408	9,630
Net interest on CBO II(B).....	1,017	8,658
Incentive return(C).....	(1,660)	(4,989)
	-----	-----
Pro forma income from continuing operations as adjusted.....	11,469	40,890
FFO reconciling item:		
Real estate depreciation.....	707	2,852
	-----	-----
Pro forma FFO from continuing operations as adjusted.....	12,176	43,742
CAD reconciling items:		
Straight-lined rent.....	(261)	(1,227)
Non-real estate depreciation and amortization.....	(2,034)	(7,489)
Gain on sale of investments(D).....	(3,026)	(7,405)
	-----	-----
Estimated net cash provided by operating activities.....	6,855	27,621
Estimated pro forma as adjusted cash flows from investing activities:		
Capital expenditures on a normalized basis(E).....	(113)	(452)
Gain on sale of investments(D).....	3,026	7,405
	-----	-----
Estimated net cash provided by investing activities.....	2,913	6,953
Estimated pro forma as adjusted cash flows from financing activities:		
Recurring debt principal payments(F).....	(931)	(803)
	-----	-----
Estimated pro forma as adjusted CAD from continuing operations(G).....	\$ 8,837	\$33,771
	=====	=====

</Table>

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(A) Represents net interest income on the approximately \$91.7 million of proceeds from the offering which are anticipated to be invested in a pool of mortgage loans with a face value of \$225 million purchased at 103% bearing interest at approximately 6% (or an approximate effective rate of 5.73%) with \$140.1 million of financing bearing interest at LIBOR plus 0.75% or 2.59% based on LIBOR of 1.84% on June 13, 2002.

- (B) Represents incremental net interest income on CBO II as if it had closed on January 1, 2002 or 2001, as applicable.
- (C) Reflects incentive return payable to our manager pursuant to our management agreement with our manager as if the adjustments described in Notes (A) and (B) had taken place at the beginning of the period and has been calculated taking into account the shares issued in this offering.

30

- (D) See "Management's Discussion and Analysis of Pro Forma Financial Condition and Results of Operations" for a discussion of gain on sale of investments.
- (E) Estimated at \$0.25 multiplied by the total portfolio's gross leasable area to be contributed to us of 1.8 million square feet, which approximates our historical experience for recurring capital expenditures.
- (F) Represents all of our debt principal payments for this period on a pro forma basis.
- (G) Based on the estimated CAD shown above, the payout ratio would be calculated as follows:

<Table>  
<Caption>

	THREE MONTHS ENDED MARCH 31, 2002	YEAR ENDED DECEMBER 31, 2001
	-----	-----
	<C>	<C>
Pro forma shares outstanding subsequent to the offering.....		
Anticipated quarterly distribution, subsequent to the offering, per share.....	-----	-----
Anticipated quarterly distribution, subsequent to the offering.....	\$ =====	\$ =====
Payout ratio.....	%	%

It is anticipated that our board of directors will declare a special distribution of \$0. per share to Newcastle Investment Holdings, our sole stockholder prior to the consummation of the offering. We anticipate paying this dividend so that holders of common stock prior to the offering will receive a full quarterly distribution for the quarter ending September 30, 2002. Purchasers of shares of our common stock in this offering will not be entitled to this special distribution.

31

CAPITALIZATION

The following table sets forth our consolidated capitalization as of March 31, 2002:

- (i) on a pro forma basis to give effect to the formation transactions;
- (ii) on a pro forma basis, as adjusted for transactions entered into in the ordinary course of business subsequent to March 31, 2002 as described in Note (A) below; and
- (iii) on a pro forma as adjusted basis as described in clause (ii), as further adjusted to give effect to the sale of shares of our common stock offered by us in this offering at an assumed initial public offering price of \$ , after deducting assumed underwriting discounts and estimated offering expenses payable by us, and the use of the proceeds as described under "Use of Proceeds."

<Table>  
<Caption>

	MARCH 31, 2002		
	PRO FORMA	PRO FORMA AS ADJUSTED (A)	PRO FORMA AS FURTHER ADJUSTED
	-----	-----	-----
	<C>	<C>	<C>
Debt.....	\$531,983	\$ 956,239	\$1,096,289
Stockholders' equity:			
Preferred stock, \$0.01 par value: 100,000,000 shares authorized; no shares issued and outstanding on an as adjusted basis; no shares issued and outstanding on a pro forma as adjusted basis.....	--	--	--

Common stock, \$0.01 par value: 500,000,000 shares authorized; shares issued and outstanding on an as adjusted basis; shares issued and outstanding on a pro forma as adjusted basis.....	165	165	237
Additional paid-in capital.....	195,161	203,690	295,318
Retained earnings.....	--	--	--
Accumulated other comprehensive income.....	(7,803)	(7,803)	(7,803)
	-----	-----	-----
Total stockholders' equity(B).....	187,523	196,052	287,752
	-----	-----	-----
Total capitalization.....	\$719,506	\$1,152,291	\$1,384,041
	=====	=====	=====

</Table>

- -----

(A) The transactions entered into subsequent to March 31, 2002 consist of:

- the Bell Canada portfolio refinancing;
- the purchase of the CBO II collateral and the issuance of the CBO II securitization;
- the issuance to us of additional GSA portfolio mezzanine bonds by affiliates of Newcastle Investment Holdings that hold indirectly all of the equity in the GSA portfolio;
- the sale of a property in the LIV portfolio; and
- our repurchase of the CBO I Class E Note.

(B) Total stockholders' equity is subject to change based on the mark-to-market value of our assets.

32

#### DILUTION

The information below assumes that the formation transactions were completed as of March 31, 2002.

Our pro forma book value attributable to common stockholders on March 31, 2002, as adjusted for the subsequent transactions described under Note (A) to the table under "Capitalization," was approximately \$196.1 million, or \$11.89 per common share.

After giving effect to this offering, our pro forma book value attributable to common stockholders on March 31, 2002 would have been \$ million, or \$ per common share. The adjustments made to determine pro forma book value per share are the following:

- increasing total assets to reflect the estimated net proceeds of the offering as described under "Use of Proceeds" at an assumed initial public offering price of \$ per share; and
- adding the number of common shares offered by this prospectus to the number of common shares outstanding.

The following table illustrates the pro forma increase in book value of \$ per common share and the dilution (the difference between the offering price per common share and book value per common share) to new investors:

<Table>		
<S>	<C>	<C>
Initial public offering price per share of common stock.....		\$
Book value per share of common stock prior to the offering.....	\$11.89	
Increase in book value per share of common stock attributable to investors in the offering.....		
Pro forma book value per common share, after the offering...		
Dilution to new investors.....		=====

</Table>

The following table shows the difference between Newcastle Investment Holdings, our sole stockholder, as of March 31, 2002 and new investors with respect to the number of shares purchased, the total consideration paid and the average price paid per common share. We have used an assumed initial public offering price of \$ per share.

<Table>  
<Caption>

SHARES PURCHASED	TOTAL CONSIDERATION	AVERAGE PRICE
-----	-----	

	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Newcastle Investment Holdings.....	16,488,517		\$196,052,000		\$11.89
New investors.....					
Total.....	=====	=====	=====	=====	=====

</Table>

In the discussion and tables above, we assume no exercise of outstanding options to purchase shares of our common stock. As of , 2002, there were outstanding options to purchase a total of shares of our common stock at a weighted average exercise price of \$ per share. To the extent that outstanding options are exercised, new investors will be further diluted.

33

SELECTED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth certain selected financial and operating information on a pro forma basis.

The selected unaudited pro forma consolidated statements of income are presented as if the formation transactions had been consummated on January 1, 2002 or 2001, as applicable. The historical results of operations of the assets and liabilities to be retained by Newcastle Investment Holdings have been presented as discontinued operations, in the case of the GSA portfolio and the mortgage loans, or eliminated. Certain intercompany transactions between investments of Newcastle Investment Holdings and our investments which were historically eliminated in the consolidated financial statements of Newcastle Investment Holdings have not been eliminated for this presentation.

For purposes of this pro forma financial presentation, the formation transactions are adjusted to include: (1) the deposit for the CBO II collateral, but not the subsequent purchase of the CBO II collateral and the issuance of the CBO II securitization, which were consummated subsequent to March 31, 2002 in the ordinary course of our business and (2) our \$13.9 million investment in GSA portfolio mezzanine bonds as of March 31, 2002, but not any additional investment by us in those bonds subsequent to March 31, 2002.

The selected unaudited pro forma consolidated balance sheets are presented as if the formation transactions had been consummated on March 31, 2002. Certain intercompany balances between investments of Newcastle Investment Holdings and our investments which were historically eliminated in the consolidated financial statements of Newcastle Investment Holdings have not been eliminated for this presentation.

The selected unaudited pro forma consolidated financial statements are presented for comparative purposes only, and are not necessarily indicative of what our actual financial position or our consolidated results of operations would have been at the date or for the periods presented, nor do they purport to represent the results of any future periods. In the opinion of management, all adjustments necessary to present fairly the unaudited pro forma financial information have been made. The selected pro forma financial information set forth below as of March 31, 2002 and for the year ended December 31, 2001 and the three month periods ended March 31, 2002 and 2001 have been derived from our unaudited pro forma financial statements.

The information below should be read in conjunction with "Management's Discussion and Analysis of Pro Forma Financial Condition and Results of Operations" and the financial statements and notes thereto included in this prospectus.

34

SELECTED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
<Caption>

	THREE MONTHS ENDED		YEAR ENDED
	MARCH 31,		DECEMBER 31,
	2002	2001	2001
	-----	-----	-----
<S>	<C>	<C>	<C>
OPERATING DATA			
Revenues			
Interest and dividend income.....	\$ 12,951	\$ 12,541	\$ 47,707
Rental and escalation income.....	5,563	6,137	23,117
Gain on settlement of investments.....	3,026	6,390	7,405

Other income.....	4	4	43
	-----	-----	-----
	21,544	25,072	78,272
Expenses			
Interest expense.....	7,273	8,698	32,659
Property operating expense.....	2,456	2,762	9,941
Loan servicing and REO expense.....	88	56	243
General and administrative expense.....	431	418	1,291
Management fees.....	874	793	3,642
Depreciation and amortization.....	718	736	2,905
	-----	-----	-----
	11,840	13,463	50,681
	-----	-----	-----
Income from continuing operations.....	\$ 9,704	\$ 11,609	\$ 27,591
	=====	=====	=====
Income from discontinued operations.....	\$ 868	\$ 2,537	\$ 6,118
	=====	=====	=====
Income from continuing operations per common share, basic and diluted.....	\$ 0.59	\$ 0.70	\$ 1.67
	=====	=====	=====
Weighted average number of common shares outstanding, basic and diluted.....	16,489	16,500	16,493
	=====	=====	=====

</Table>

<Table>  
<Caption>

	MARCH 31, 2002		
	-----	-----	-----
<S>	<C>	<C>	<C>
BALANCE SHEET DATA			
CBO collateral, net.....	\$533,033		
Operating real estate, net.....	\$117,407		
Cash and cash equivalents.....	\$ 834		
Total assets.....	\$731,012		
Debt.....	\$531,983		
Stockholders' equity.....	\$187,523		

</Table>

35

<Table>  
<Caption>

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,
	-----	-----	-----
	2002	2001	2001
	-----	-----	-----
<S>	<C>	<C>	<C>
OTHER DATA			
Cash flow from continuing operations provided by (used in):			
Operating activities.....	\$ 6,927	\$ 6,685	\$ 17,483
Investing activities.....	\$(23,119)	\$ 22,596	\$(6,973)
Financing activities.....	\$(12,936)	\$(28,194)	\$ 16,294
Funds from Operations (FFO) from continuing operations(A)...	\$ 10,411	\$ 12,331	\$ 30,443

</Table>

- - - - -

(A) We believe funds from operations (FFO) is one appropriate measure of the performance of real estate companies because it provides investors with an understanding of our ability to incur and service debt and make capital expenditures. Funds from operations (FFO), for our purposes, represents net income available for common stockholders (computed in accordance with accounting principles generally accepted in the United States ("GAAP")), excluding extraordinary items, plus real estate depreciation and amortization, and after adjustments for unconsolidated subsidiaries, if any. We consider gains and losses on resolution of our investments to be a normal part of our recurring operations and, therefore, do not exclude such gains and losses when arriving at funds from operations (FFO). Adjustments for unconsolidated subsidiaries, if any, are calculated to reflect funds from operations (FFO) on the same basis. Funds from operations (FFO) 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 liquidity and is not necessarily indicative of cash available to fund cash needs.

<Table>  
<Caption>

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED
--	------------------------------------	--	---------------

	----- 2002 -----	2001 -----	DECEMBER 31, 2001 -----
<S>	<C>	<C>	<C>
CALCULATION OF FUNDS FROM OPERATIONS			
Income from continuing operations.....	\$ 9,704	\$11,609	\$27,591
Real estate depreciation and amortization.....	707	722	2,852
	-----	-----	-----
Funds from Operations (FFO) from continuing operations.....	\$10,411	\$12,331	\$30,443
	=====	=====	=====

</Table>

36

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

The following table sets forth certain selected financial and operating information on an historical consolidated basis.

The selected historical consolidated financial information set forth below as of December 31, 2001, 2000, 1999 and 1998 and for the years ended December 31, 2001, 2000 and 1999 and for the period from May 11, 1998 to December 31, 1998 have been derived from our audited historical consolidated financial statements. The selected historical financial information set forth below as of March 31, 2002 and for the three month periods ended March 31, 2002 and 2001 have been derived from our unaudited historical financial statements.

The information below should be read in conjunction with "Management's Discussion and Analysis of Historical Financial Condition and Results of Operations" and the financial statements and notes thereto included in this prospectus.

<Table>  
<Caption>

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,			PERIOD FROM MAY 11, 1998 TO DEC. 31, 1998
	2002	2001	2001	2000	1999	-----
-						
OPERATING DATA	(UNAUDITED)	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues						
Interest and dividend income.....	\$ 13,010	\$15,028	\$ 53,430	\$ 65,389	\$ 50,286	\$19,675
Rental and escalation income.....	19,886	20,804	81,458	80,641	65,352	23,143
Gain (loss) on settlement of investments.....	3,105	7,206	10,386	21,763	(1,526)	2,584
Equity in earnings (losses) of unconsolidated subsidiaries.....	(452)	(346)	2,807	(980)	(3,615)	117
Incentive income.....	(12,810)	--	28,709	--	--	--
Other income.....	6	78	146	1,006	462	369
	-----	-----	-----	-----	-----	-----
	22,745	42,770	176,936	167,819	110,959	45,888
Expenses						
Interest expense.....	14,100	17,326	62,767	68,517	46,778	12,693
Property operating expense.....	7,416	7,930	30,261	29,552	23,251	7,027
Loan servicing and REO expense.....	235	242	965	2,325	3,122	1,291
General and administrative expense.....	762	605	2,425	3,988	3,516	2,751
Management fees.....	1,363	1,434	5,746	6,646	7,407	6,751
Incentive return.....	840	--	2,834	--	--	--
Depreciation and amortization.....	3,571	3,398	13,996	13,183	10,474	4,165
	-----	-----	-----	-----	-----	-----
	28,287	30,935	118,994	124,211	94,548	34,678
Income (loss) before minority interest.....	(5,542)	11,835	57,942	43,608	16,411	11,210
Minority interest in (income) loss of consolidated subsidiaries.....	6,413	(139)	(14,271)	(748)	(1,258)	(570)
	-----	-----	-----	-----	-----	-----

</Table>

37

<Table>  
<Caption>

	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,			PERIOD FROM MAY 11, 1998 TO DEC. 31, 1998
	2002 (UNAUDITED) <C>	2001 (UNAUDITED) <C>	2001 <C>	2000 <C>	1999 <C>	<C>
OPERATING DATA						
<S>						
Income before extraordinary item.....	871	11,696	43,671	42,860	15,153	10,640
Extraordinary item -- loss on extinguishment of debt.....	--	--	--	--	(2,341)	--
Income before change in accounting principle...	871	11,696	43,671	42,860	12,812	10,640
Cumulative effect of change in accounting principle -- write off of organizational costs.....	--	--	--	--	(513)	--
Net Income.....	871	11,696	43,671	42,860	12,299	10,640
Preferred dividends and related accretion.....	(638)	(630)	(2,540)	(2,084)	--	--
Income available for common shareholders....	\$ 233	\$11,066	\$ 41,131	\$ 40,776	\$ 12,299	\$10,640
Net Income per Common Share, basic and diluted.....	\$ 0.01	\$ 0.67	\$ 2.49	\$ 2.16	\$ 0.59	\$ 0.51
Income before extraordinary item per common share, basic and diluted.....	\$ 0.01	\$ 0.67	\$ 2.49	\$ 2.16	\$ 0.72	\$ 0.51
Effect of extraordinary item per common share, basic and diluted.....	\$ --	\$ --	\$ --	\$ --	\$ (0.11)	\$ --
Effect of change in accounting principle per common share, basic and diluted.....	\$ --	\$ --	\$ --	\$ --	\$ (0.02)	\$ --
Weighted average number of common shares outstanding, basic and diluted.....	16,489	16,500	16,493	18,892	20,917	20,862
Dividends declared per common share.....	\$ 0.60	\$ 0.50	\$ 2.00	\$ 1.50	\$ 2.04	\$ 0.55

</Table>

<Table>  
<Caption>

	MARCH 31, 2002 (UNAUDITED) <C>	DECEMBER 31,			
		2001 <C>	2000 <C>	1999 <C>	1998 <C>
BALANCE SHEET DATA					
<S>					
CBO collateral, net.....	\$ 519,086	\$ 522,258	\$ 509,729	\$ 504,669	\$ --
Operating real estate, net.....	\$ 521,077	\$ 524,834	\$ 540,539	\$ 558,849	\$383,073
Cash and cash equivalents.....	\$ 25,780	\$ 31,360	\$ 10,575	\$ 14,345	\$ 75,596
Total assets.....	\$1,262,487	\$1,276,473	\$1,331,086	\$1,381,600	\$765,650
Debt.....	\$ 912,453	\$ 897,390	\$ 975,656	\$ 971,260	\$336,845
Stockholders' equity.....	\$ 292,392	\$ 310,545	\$ 300,655	\$ 354,673	\$384,924

</Table>

<Table>  
<Caption>

	THREE MONTHS ENDED MARCH 31,	YEAR ENDED DECEMBER 31,	PERIOD FROM MAY 11, 1998 TO
--	---------------------------------	----------------------------	-----------------------------------



	2002	2001	2001	2000	1999	DEC 31, 1998
	(UNAUDITED)	(UNAUDITED)				
OTHER DATA						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Cash flow provided by (used in):						
Operating activities...	\$ 9,248	\$ 8,395	\$ 34,448	\$ 24,823	\$ 32,834	\$ (7,230)
Investing activities...	\$(16,093)	47,070	\$ 106,053	\$ 151,632	\$(683,420)	\$(638,844)
Financing activities...	\$ 1,265	\$(46,132)	\$(119,716)	\$(180,225)	\$ 589,335	\$ 721,670
Funds from operations (FFO) (A).....	\$ 10,098	\$ 14,568	\$ 48,264	\$ 53,523	\$ 24,707	\$ 14,337

(A) We believe funds from operations (FFO) is one appropriate measure of the performance of real estate companies because it provides investors with an understanding of our ability to incur and service debt and make capital expenditures. Funds from operations (FFO), for our purposes, represents net income available for common stockholders (computed in accordance with GAAP), excluding extraordinary items, plus real estate depreciation and amortization, and after adjustments for unconsolidated subsidiaries. We consider gains and losses on resolution of our investments to be a normal part of our recurring operations and, therefore, do not exclude such gains and losses when arriving at funds from operations (FFO). In addition, we exclude accrued incentive income from Fortress Investment Fund (the "Fund" or "FIF") and include incentive income distributed or distributable from FIF in accordance with the operating agreement of the Fund since this more accurately reflects cash distributed or distributable to us from the Fund, while our accrued incentive income is based upon the fair value of the Fund's net assets, which is subject to fluctuation in future periods. Adjustments for unconsolidated subsidiaries are calculated to reflect funds from operations (FFO) on the same basis. Funds from operations (FFO) 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 liquidity and is not necessarily indicative of cash available to fund cash needs.

<Table>  
<Caption>

CALCULATION OF FUNDS FROM OPERATIONS (FFO)	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,			PERIOD FROM MAY 11, 1998 TO DEC 31, 1998
	2002	2001	2001	2000	1999	
	(UNAUDITED)	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Income available for common shareholders.....	\$ 233	\$11,066	\$41,131	\$40,776	\$12,299	\$10,640
Extraordinary item -- loss on extinguishment of debt.....	--	--	--	--	2,341	--
Real estate depreciation and amortization.....	3,330	3,201	12,909	12,621	9,927	3,697
Real estate depreciation and amortization -- unconsolidated subsidiaries.....	864	301	2,564	126	140	--
Incentive (income) loss accrued from FIF (A).....	6,405	--	(14,354)	--	--	--
Equity in incentive return accrued by FIF.....	(734)	--	1,645	--	--	--

39

<Table>  
<Caption>

CALCULATION OF FUNDS FROM OPERATIONS (FFO)	THREE MONTHS ENDED MARCH 31,		YEAR ENDED DECEMBER 31,			PERIOD FROM MAY 11, 1998 TO DEC 31, 1998
	2002	2001	2001	2000	1999	
	(UNAUDITED)	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Distributable incentive income from FIF (B).....	--	--	4,369	--	--	--
Funds from Operations (FFO).....	\$10,098	\$14,568	\$48,264	\$53,523	\$24,707	\$14,337

(A) Represents our 50% interest in the incentive income as follows:

<Table>  
<Caption>

	THREE MONTHS ENDED MARCH 31, 2002	YEAR ENDED DECEMBER 31, 2001			
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
Total incentive income (loss).....	\$ (12,810)	\$ 28,709			
Minority interest - Manager.....	\$ 6,405	\$ (14,355)			
Our incentive income (loss).....	--	--			
	-----	-----			
	\$ (6,405)	\$ 14,354			
	=====	=====			

</Table>

(B) Represents our 50% interest in the distributable incentive income:

<Table>

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Total distributable incentive income.....			\$ 8,738			
Distributable incentive income due Manager.....			\$ (4,369)			
			-----			
Our distributable incentive income.....			\$ 4,369			
			=====			

</Table>

40

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF PRO FORMA FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

The following should be read in conjunction with our Unaudited Pro Forma Consolidated Financial Statements and Notes thereto included herein. Management's discussion for the years ended December 31, 2000 and 1999 is based on the table set forth below, which adjusts the Unaudited Pro Forma Consolidated Financial Statements to reflect the elimination of the historical results of operations of the assets and liabilities to be retained by Newcastle Investment Holdings, which have not been treated as discontinued operations. Such adjustments, which are detailed below, also include allocations of general and administrative expense and management fees, pro rata based on equity, between us and Newcastle Investment Holdings. The Unaudited Pro Forma Consolidated Financial Statements included herein for the year ended December 31, 2001 and the three months ended March 31, 2001 and 2002 already reflect the elimination of such amounts.

<Table>  
<Caption>

PRO FORMA FOR THE YEAR ENDED DECEMBER 31, 1999	THREE MONTHS ENDED MARCH 31,			PRO FORMA FOR THE YEAR ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31, 2000
	2002	2001	2001	2000	ADJUSTMENTS	AS ADJUSTED
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues						
Interest and dividend income.....	\$12,951	\$ 12,541	\$47,707	\$50,989	\$ (3,954)	\$47,035
\$30,288						
Rental and escalation income.....	5,563	6,137	23,117	23,555	--	23,555
17,087						
Gain (loss) on settlement of investments.....	3,026	6,390	7,405	20,836	(20,821)	15
1,765						
Equity in earnings (losses) of unconsolidated subsidiaries.....	--	--	--	(980)	980	--
(3,615)						
Other income.....	4	4	43	728	(674)	54
69						
	-----	-----	-----	-----	-----	-----
	21,544	25,072	78,272	95,128	(24,469)	70,659

45,594	-----	-----	-----	-----	-----	-----
-----						
Expenses						
Interest expense.....	7,273	8,698	32,659	36,897	(1,757)	35,140
19,741						
Property operating expense...	2,456	2,762	9,941	10,229	--	10,229
8,428						
Loan servicing and REO						
expense.....	88	56	243	265	--	265
112						
General and administrative						
expense.....	431	418	1,291	3,310	(1,101)	2,209
3,083						
Management fees.....	874	793	3,642	6,646	(2,971)	3,675
7,387						
Depreciation and						
amortization.....	718	736	2,905	3,263	(515)	2,748
1,819						
-----						
	11,840	13,463	50,681	60,610	(6,344)	54,266
40,570						
-----						
Income from continuing						
operations.....	\$ 9,704	\$ 11,609	\$27,591	\$34,518	\$ (18,125)	\$16,393
\$ 5,024						
=====						
Income from discontinued						
operations.....	\$ 868	\$ 2,537	\$ 6,118	\$ 8,342	\$ --	\$ 8,342
\$ 7,788						
=====						
Income from continuing						
operations per common share,						
basic and diluted.....	\$ 0.59	\$ 0.70	\$ 1.67	\$ 1.83	\$ (0.96)	\$ 0.87
\$ 0.24						
=====						
Income from discontinued						
operations per common share,						
basic and diluted.....	\$ 0.05	\$ 0.15	\$ 0.37	\$ 0.44	\$ --	\$ 0.44
\$ 0.37						
=====						
Weighted average number of						
common shares outstanding,						
basic and diluted.....	16,489	16,500	16,493	18,892	18,892	18,892
20,917						
=====						

<Caption>

	ADJUSTMENTS	YEAR ENDED DECEMBER 31, 1999 AS ADJUSTED
<S>	<C>	<C>
Revenues		
Interest and dividend		
income.....	\$ (4,827)	\$25,461
Rental and escalation		
income.....	--	17,087
Gain (loss) on settlement of		
investments.....	1,143	2,908
Equity in earnings (losses)		
of unconsolidated		
subsidiaries.....	3,615	--
Other income.....	(62)	7
	-----	-----
	(131)	45,463
	-----	-----
Expenses		
Interest expense.....	(242)	19,499
Property operating expense...	--	8,428
Loan servicing and REO		
expense.....	--	112
General and administrative		
expense.....	(1,258)	1,825
Management fees.....	(3,291)	4,096
Depreciation and		

amortization.....	(461)	1,358
	-----	-----
	(5,252)	35,318
	-----	-----
Income from continuing operations.....	\$ 5,121	\$10,145
	=====	=====
Income from discontinued operations.....	\$ --	\$ 7,788
	=====	=====
Income from continuing operations per common share, basic and diluted.....	\$ 0.25	\$ 0.49
	=====	=====
Income from discontinued operations per common share, basic and diluted.....	\$ --	\$ 0.37
	=====	=====
Weighted average number of common shares outstanding, basic and diluted.....	20,917	20,917
	=====	=====

</Table>

GENERAL

We were formed in June 2002 as a wholly owned subsidiary of Newcastle Investment Holdings Corp. for the purpose of separating the core real estate securities business from Newcastle Investment Holdings' other investments. Prior to the closing of this offering, Newcastle Investment Holdings will have transferred to us certain assets and liabilities in exchange for shares of our common stock.

We are organized and conduct our operations to qualify as a REIT for federal income tax purposes. As such, we will generally not be subject to federal income tax on that portion of our income that is distributed to shareholders if we distribute at least 90% of our REIT taxable income to our shareholders by the due date of our federal income tax return and comply with various other requirements.

We conduct our business through two primary segments: (i) real estate securities and (ii) revenue-producing real estate, primarily credit leased real estate. Revenues attributable to each segment are disclosed below (unaudited) (in thousands).

<Table>  
<Caption>

	REAL ESTATE	REAL ESTATE SECURITIES	UN- ALLOCATED	TOTAL
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
For the three months ended March 31, 2002.....	\$ 5,598	\$15,608	\$ 338	\$21,544
For the year ended December 31, 2001.....	\$23,311	\$53,095	\$1,866	\$78,272

</Table>

Certain activities described herein occurred prior to our formation in June 2002 and were consummated by our predecessor, Newcastle Investment Holdings Corp., with respect to investments anticipated to be contributed to us as part of the formation transactions.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

We have classified our real estate securities as available for sale. As such, they are carried at market value with net unrealized gains or losses reported as a component of accumulated other comprehensive income. Market value is based primarily upon broker quotations. These quotations are subject to significant variability based on market conditions, such as interest rates and spreads. Changes in market conditions could therefore result in a significant increase or decrease in our book equity.

Similarly, our derivative instruments, held for hedging purposes, are carried at market value pursuant to Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended. To the extent they qualify as hedges under SFAS No. 133, net unrealized gains or losses are reported as a component of accumulated other comprehensive income; otherwise, they are reported as a component of current income. Market values of such derivatives are subject to significant variability based on many of the same factors as the securities discussed above. The results of such variability could be a significant increase or decrease in our book equity and/or earnings.

## RESULTS OF OPERATIONS

### COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2002 TO THE THREE MONTHS ENDED MARCH 31, 2001 ON A PRO FORMA BASIS

Interest and dividend income increased by \$0.5 million or 3.3%, from \$12.5 million to \$13.0 million. This increase is primarily the result of the CBO II transaction (\$1.2 million) offset by a decrease in interest from a security subsequent to its restructuring (\$0.5 million).

Rental and escalation income decreased by \$0.5 million or 9.4%, from \$6.1 million to \$5.6 million. This decrease is primarily the result of foreign currency fluctuations related to our Bell Canada portfolio. Escalation income represents contractual increases in rental income to offset increases in expenses or general price increases over a base amount.

42

Gain on settlement of investments decreased by \$3.4 million, from \$6.4 million to \$3.0 million, primarily as a result of a reduction in the volume of sales of certain CBO I securities.

Interest expense decreased by \$1.4 million or 16.4%, from \$8.7 million to \$7.3 million. This decrease is primarily the result of lower interest rates being paid on the variable rate CBO I securities classes.

Property operating expense decreased by \$0.3 million or 11.1%, from \$2.8 million to \$2.5 million, primarily as the result of foreign currency fluctuations related to our Bell Canada portfolio.

Loan servicing expense remained at approximately \$0.1 million.

General and administrative expense remained at approximately \$0.4 million.

Management fee expense increased by \$0.1 million, from \$0.8 million to \$0.9 million. The calculation of the management fee is more fully discussed under "Our Manager and The Management Agreement -- Management Fees" in this prospectus.

Depreciation and amortization remained at approximately \$0.7 million.

### COMPARISON OF THE YEAR ENDED DECEMBER 31, 2001 TO THE YEAR ENDED DECEMBER 31, 2000 ON A PRO FORMA BASIS

Interest and dividend income increased by \$0.7 million or 1.4%, from \$47.0 million to \$47.7 million. This increase is primarily the result of interest on securities acquired in late 2000 (\$1.2 million) offset by decreased interest earned on the CBO I collateral securities (\$0.7 million).

Rental and escalation income decreased by \$0.5 million or 1.9%, from \$23.6 million to \$23.1 million. This decrease is primarily the result of foreign currency fluctuations related to our Bell Canada portfolio.

Gain on settlement of investments increased by \$7.4 million, primarily as a result of gains on the sale of certain CBO I collateral securities in 2001.

Interest expense decreased by \$2.4 million or 7.1%, from \$35.1 million to \$32.7 million. This decrease is primarily the result of lower interest rates being paid on the variable rate CBO I securities classes.

Property operating expense decreased by \$0.3 million or 2.8%, from \$10.2 million to \$9.9 million, primarily as the result of foreign currency fluctuations related to our Bell Canada portfolio.

Loan servicing expense remained at approximately \$0.2 million.

General and administrative expense decreased by \$0.9 million or 41.6%, from \$2.2 million to \$1.3 million, primarily as a result of a decrease in professional fees.

Management fee expense decreased \$0.1 million, from \$3.7 million to \$3.6 million. The calculation of the management fee is more fully discussed under "Our Manager and The Management Agreement -- Management Fees" in this prospectus.

Depreciation and amortization increased by \$0.2 million or 5.7%, from \$2.7 million to \$2.9 million, primarily as the result of depreciation on the capital expenditures we made with respect to our real estate assets.

### COMPARISON OF THE YEAR ENDED DECEMBER 31, 2000 TO THE YEAR ENDED DECEMBER 31, 1999 ON A PRO FORMA BASIS

Interest and dividend income increased by \$21.5 million or 84.7%, from \$25.5 million to \$47.0 million. This increase is primarily the result of our CBO

investments during 1999.

Rental and escalation income increased by \$6.5 million or 37.9%, from \$17.1 million to \$23.6 million. This increase is primarily the result of the acquisition of our LIV portfolio in November 1999.

Gain on settlement of investments decreased by \$2.9 million, primarily as a result of a reduction in the volume of sales of certain CBO I collateral securities.

43

Interest expense increased by \$15.6 million or 80.2%, from \$19.5 million to \$35.1 million. This increase is primarily the result of the CBO securitization, the Bell Canada mortgage and the LIV mortgage, which were entered into in 1999, net of interest on various notes payable which were repaid with the proceeds thereof.

Property operating expense increased by \$1.8 million or 21.4%, from \$8.4 million to \$10.2 million, primarily as the result of the acquisition of our LIV portfolio in November 1999.

Loan servicing expense increased \$0.2 million, from \$0.1 million to \$0.3 million as a result of the CBO I securitization.

General and administrative expense increased by \$0.4 million or 21.0%, from \$1.8 million to \$2.2 million, primarily as a result of an increase in professional fees.

Management fee expense decreased \$0.4 million, from \$4.1 million to \$3.7 million. The calculation of the management fee is more fully discussed under "Our Manager and The Management Agreement -- Management Fees" in this prospectus.

Depreciation and amortization increased by \$1.3 million or 102.4%, from \$1.4 million to \$2.7 million, primarily as the result of the acquisition of our LIV portfolio in November 1999.

#### LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, and other general business needs. Additionally, to maintain our status as a REIT under the Internal Revenue Code, we must distribute annually at least 90% of our taxable income. Our primary sources of funds for liquidity, in addition to this offering, consist of net cash provided by operating activities, borrowings under loans and the issuance of debt securities.

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 CBO strategy is dependent upon our ability to place the match funded debt we create in the market at spreads that provide a positive arbitrage. If spreads for CBO liabilities widen or if demand for such liabilities ceases to exist, then our ability to execute future CBO transactions will be severely restricted.

We expect to meet our short-term liquidity requirements generally through our cash flow provided by operations, as well as investment specific borrowings and secured or unsecured lines of credit. Our real estate investments are financed long-term and primarily leased to credit tenants with long-term leases and are therefore expected to generate generally stable cash flows. Our real estate securities are also financed long-term and their credit status is continuously monitored; therefore, these investments are also expected to generate a generally stable return, subject to interest rate fluctuations. See "-- Quantitative and Qualitative Disclosures About Market Risk -- Interest Rate Exposure" below. We consider our ability to generate cash to be adequate and expect it to continue to be adequate to meet operating requirements both in the short- and long-terms.

We expect to meet our long-term liquidity requirements, specifically the repayment of our debt and our investment funding needs, through additional borrowings, the issuance of debt and/or equity securities and the liquidation or refinancing of our assets at maturity. We believe that the value of these assets is, and will continue to be, sufficient to repay our debt at maturity under either scenario.

With respect to our real estate assets, we expect to incur approximately \$1.2 million of tenant improvements in connection with the inception of leases and capital expenditures during the nine months ending December 31, 2002.

Our long-term debt existing at March 31, 2002 (gross of \$8.9 million of discounts) is expected to mature as follows: \$34.8 million during the period from April 1, 2002 through December 31, 2002, \$2.9 million in 2003, \$2.9 million in 2004, \$2.9 million in 2005, \$2.9 million in 2006, \$2.9 million in 2007,

and \$491.6 million thereafter. Of the \$34.8 million maturing during the period from April 1, 2002 through December 31, 2002, \$31.2 has been repaid in connection with the refinancing of our Bell Canada portfolio, as described below, subsequent to March 31, 2002. Our debt contains various customary loan covenants.

In July 1999, we completed our first CBO securitization, CBO I, whereby the CBO I collateral was contributed to a consolidated subsidiary which issued \$437.5 million face amount of investment grade senior securities and \$62.5 million face amount of non-investment grade subordinated securities in a private placement. As a result of the CBO I securitization, the existing short-term repurchase agreement on the CBO I collateral was repaid. At March 31, 2002, the subordinated securities were retained by us, except for the Class E Note as described below, and the senior securities (all of which are still outstanding), which bore interest at a weighted average effective rate, including discount and cost amortization, of 4.86%, had an expected weighted average life of approximately 6.0 years. Two classes of the senior securities bear floating interest rates. We have obtained an interest rate swap and cap in order to hedge our exposure to the risk of changes in market interest rates with respect to these securities, at an initial cost of approximately \$14.3 million. In addition, in connection with the sale of one class of senior securities, we entered into two interest rate swaps and two interest rate cap agreements that do not qualify for hedge accounting.

In March 1999, we obtained the Bell Canada mortgage secured by the Bell Canada properties, which had an outstanding balance of \$31.1 million and bore interest at a fixed rate of 7.25% as of March 31, 2002, and was due in April 2002. In April 2002, we refinanced the Bell Canada properties through a securitization transaction by issuing approximately \$37.6 million of investment grade debt securities in a private placement. The issued securities, which bear interest at a weighted average effective rate, including discount and cost amortization, of approximately 6.70%, have an expected weighted average life of approximately 5.1 years. We have retained one class of the issued securities. The proceeds from the issued securities were used, in part, to repay the Bell Canada mortgage.

In November 1999, we obtained the LIV mortgage, which had an outstanding balance of \$53.3 million and bore interest at 4.76% as of March 31, 2002, and is due in November 2016. We hedged our exposure to the risk of changes in market interest rates with respect to the LIV mortgage by obtaining an interest rate cap.

We utilize repurchase agreements for short-term financings of investments. As of March 31, 2002 we had a \$1.5 million repurchase agreement outstanding, bearing interest at approximately 3.25% with a short-term maturity.

In October 2001, we entered into an agreement with a major investment bank whereby we had the right to purchase up to \$400 million, plus our deposit, of commercial mortgage backed securities, unsecured REIT debt and asset backed securities, which we refer to as the CBO II collateral, which were specifically designated for our second CBO transaction, the CBO II securitization. As of March 31, 2002, \$357.1 million of mortgage backed securities had been accumulated, on which we had deposited \$43.3 million. In April 2002, we completed the CBO II securitization whereby a consolidated subsidiary of ours issued \$444.0 million face amount of investment grade senior securities and \$56.0 million face amount of non-investment grade subordinated securities, collectively referred to as the CBO II securities, in a private placement. The senior securities were issued for net proceeds of \$438.8 million after issue costs. The subordinated securities have been retained by us. As of May 31, 2002, the CBO II securities are collateralized by (i) our purchase of a portfolio of CMBS, unsecured REIT debt, asset-backed securities, and a limited amount of other securities with an aggregate principal balance of \$455.6 million for approximately \$441.1 million and (ii) restricted cash, which will be included in CBO collateral, of \$43.1 million (collectively, the "CBO II collateral"). The senior securities, which bear interest at a weighted average effective rate, including discount and cost amortization, of approximately 3.69%, have an expected weighted average life of approximately 8.04 years. One class of the senior securities bears a floating interest rate. We obtained an interest rate swap and cap in order to hedge our exposure to the changes in market interest rates with respect to this security, at an initial cost of \$1.2 million.

In November 2001, we sold the retained subordinated \$17.5 million Class E Note from our CBO I to a third party for approximately \$18.5 million. The Class E Note bore interest at a fixed rate of 8.0% and had a stated maturity of June 2038. The sale of the Class E Note represented an issuance of debt and was recorded as additional CBO Bonds Payable. In April 2002, a wholly owned subsidiary of ours repurchased the Class E Note. The repurchase of the Class E Note represents a repayment of debt and will be recorded as a reduction of CBO Bonds Payable. The Class E Note is included in the CBO II collateral. The Class E Note will be eliminated in consolidation.





income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities. Changes in the level of interest rates also can effect, among other things, our ability to originate and acquire loans and securities, the value of our loans and mortgage backed securities, and our ability to realize gains from the settlement of such assets. We utilize interest rate swaps, caps and match-funded financings in order to limit the effects of interest rates on our operations. As of March 31, 2002, a 100 basis point change in short-term interest rates would affect our earnings by no more than \$2.2 million per annum.

#### Currency Rate Exposure

Our primary foreign currency exchange rate exposures relate to our real estate leases and assets. Our principal direct currency exposures are to the Euro and the Canadian Dollar. Changes in the currency rates can adversely impact the fair values and earnings streams of our international holdings. We have attempted to mitigate this impact in part by utilizing local currency-denominated financing on our foreign investments to partially hedge, in effect, these assets.

We have material investments in a portfolio of Belgian properties, the LIV portfolio and a portfolio of Canadian properties, the Bell Canada portfolio. These properties are financed utilizing debt instruments denominated in their respective local currencies (the Euro and the Canadian Dollar). The net equity invested in these portfolios, approximately \$17.7 million and \$25.2 million, respectively, at March 31, 2002, is exposed to foreign currency exchange risk.

#### Fair Values

For certain of our financial instruments, fair values are not readily available since there are no active trading markets as characterized by current exchanges between willing parties. Accordingly, fair values can only be derived or estimated for these investments using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. We note 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 currency rate environments as of March 31, 2002 and do not take into consideration the effects of subsequent interest rate or currency rate fluctuations.

47

We held the following interest rate risk sensitive instruments at March 31, 2002 on a pro forma basis after giving effect to the formation transactions (unaudited) (dollars in thousands):

	CARRYING AMOUNT	PRINCIPAL BALANCE OR NOTIONAL AMOUNT	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	MATURITY DATE	OTHER TERMS	FAIR VALUE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Assets:						
CBO collateral, net(A).....	\$533,033	\$587,766	8.91%		Various (mixed floating and fixed rates, amortizing and interest only)	\$533,033
Marketable securities, available for sale(B).....	7,184	19,326	N/A	(B)	(B)	7,184
Interest rate caps, treated as hedges, net(C).....	9,421	205,547	N/A	(C)	(C)	9,421
Liabilities:						
CBO bonds payable(D)..	446,036	455,000	4.86%	Jul-38	Amortizes principal based on collateral payments, subject to reinvestment	465,493
Notes payable(E).....	84,490	84,490	5.85%	(F)	(F)	84,490
Repurchase agreement(E).....	1,457	1,457	3.25%	Short-term	Interest only	1,457
Interest rate swaps, treated as hedges, net(G).....	6,542	190,278	N/A	(G)	(G)	6,542
Non-hedge derivative obligations(H).....	180	(H)	N/A	(H)	(H)	180

- - - - -

- (A) The fair value of these securities is estimated by obtaining third party independent broker quotations.
- (B) These two securities with carrying amounts of \$3.9 million and \$3.2 million, respectively, mature in November 2007 and August 2030, respectively, and represent subordinate and residual interests in securitizations. The fair values of these securities, for which quoted market prices are not readily available, are estimated by means of a price/yield analysis based on our expected disposition strategies for such assets.
- (C) These two agreements have notional balances of \$152.2 million and \$53.3 million, respectively, mature in March 2009 and August 2004, respectively, and cap 1-month LIBOR at 6.50% and 3-month EURIBOR at 4.75%, respectively. The fair value of these agreements is estimated by obtaining broker quotations.
- (D) For those bonds bearing floating rates at spreads over market indices, representing approximately \$341.7 million of the carrying amount of the CBO Bonds Payable, we believe that for similar financial instruments with comparable credit risks, the effective rates at March 31, 2002 approximate market rates. Accordingly, the carrying amount outstanding on these bonds is believed to approximate fair value. For those bonds bearing fixed interest rates, values were obtained by discounting expected future payments by a rate calculated by imputing a spread over a market index on the date of borrowing.
- (E) We believe that for similar financial instruments with comparable credit risks, the stated interest rates at March 31, 2002 (all of which are floating rates at spreads over market indices) approximate market rates, with the exception of the Bell Canada mortgage which bears interest at a fixed rate. The Bell Canada mortgage was repaid through the proceeds of a refinancing in April 2002 at its face amount, which therefore approximates fair value. Accordingly, the carrying amount outstanding is believed to approximate fair value for these notes.
- (F) The two notes payable have carrying amounts of \$31.1 million and \$53.3 million, respectively, and mature in April 2002 and November 2016, respectively. The note maturing in April 2002 has been refinanced as described in "-- Liquidity and Capital Resources" above. The note due in 2016 is making principal amortization payments and has a balloon payment at maturity.

48

- (G) This agreement has a notional balance of \$190.3 million, matures in July 2005 and swaps 1-month LIBOR for 6.175%. The fair value of this agreement is estimated by obtaining broker quotations.
- (H) These are two essentially offsetting interest rate caps and two essentially offsetting interest rate swaps, each with notional amounts of \$32.5 million as of March 31, 2002, as well as an interest rate cap with a notional balance of \$17.5 million as of March 31, 2002. The maturity date of the purchased swap is July 2009; the maturity date of the sold swap is July 2014, the maturity date of the \$32.5 million caps is July 2038, and the maturity date of \$17.5 million cap is July 2009. They have been valued by reference to current broker quotations on similar instruments.

We held the following currency rate risk sensitive balances at March 31, 2002 on a pro forma basis and after giving effect to the formation transactions (unaudited):

<Table>  
<Caption>

	CARRYING AMOUNT	LOCAL CURRENCY	CURRENT EXCHANGE RATE TO USD	EFFECT OF A 5% NEGATIVE CHANGE IN EURO RATE	EFFECT OF A 5% NEGATIVE CHANGE IN CAD RATE
	-----	-----	-----	-----	-----
		(DOLLARS IN	THOUSANDS,	EXCEPT EXCHANGE	RATES)
<S>	<C>	<C>	<C>	<C>	<C>
<b>Assets:</b>					
LIV portfolio.....	\$66,673	Euro	1.14718	\$(3,334)	N/A
Bell Canada portfolio.....	50,734	CAD	1.59490	N/A	\$(2,537)
LIV interest rate cap.....	324	Euro	1.14718	(16)	N/A
LIV other, net.....	4,050	Euro	1.14718	(203)	N/A
Bell Canada other, net.....	5,595	CAD	1.59490	N/A	(280)
<b>Liabilities:</b>					
LIV mortgage.....	53,324	Euro	1.14718	2,666	N/A
Bell Canada mortgage.....	31,166	CAD	1.59490	N/A	1,558
Total.....				\$(887)	\$(1,259)
				=====	=====

</Table>

USD refers to U.S. dollars; CAD refers to Canadian dollars.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF HISTORICAL FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following should be read in conjunction with the Historical Consolidated Financial Statements and Notes thereto included herein.

GENERAL

Newcastle Investment Holdings was incorporated on May 11, 1998 and was initially capitalized through the sale of 50 shares of common stock for \$1,000. In June 1998, Newcastle Investment Holdings completed a private offering, including an over-allotment option, for the sale of 20,912,401 shares of common stock for proceeds of approximately \$384.5 million, net of expenses. In addition, in July 1998, certain employees of Fortress Investment Group LLC purchased an aggregate of 4,288 shares of the common stock of Newcastle Investment Holdings resulting in additional proceeds of approximately \$0.1 million. In 2000 and 2001, Newcastle Investment Holdings repurchased an aggregate of 4,428,222 shares of its common stock for \$32.4 million of cash and \$46.3 million of newly issued shares of its Series A Cumulative Convertible Preferred Stock (the "Series A Preferred"). At March 31, 2002, Newcastle Investment Holdings had 16,488,517 shares of its common stock outstanding. The Series A Preferred was fully redeemed on June 14, 2002.

Newcastle Investment Holdings has elected to be taxed as a REIT under the Internal Revenue Code. As such, it will generally not be subject to federal income tax on that portion of its income that is distributed to shareholders if it distributes at least 90% of its REIT taxable income to its shareholders by the due date of its federal income tax return and complies with various other requirements.

Newcastle Investment Holdings conducts its business through four primary segments: (1) real estate securities, (2) revenue-producing real estate, primarily credit leased real estate, (3) its investment in Fortress Investment Fund LLC (the "Fund") and (4) real estate loans. Revenues attributable to each segment are disclosed below. For a further discussion of Newcastle Investment Holdings' operating segments, please see the audited Historical Consolidated Financial Statements included herein. As discussed in this prospectus, in connection with the formation transactions, Newcastle Investment Holdings' investments in real estate securities and a portion of its investments in revenue-producing real estate will be contributed to us. All of Newcastle Investment Holdings' historical operations are considered below, including those to be contributed to us. See "Management's Discussion and Analysis of Pro Forma Financial Condition and Results of Operations" for a separate discussion of the operations to be contributed to us on a stand alone basis.

<Table>  
<Caption>

	REAL ESTATE	REAL ESTATE SECURITIES	REAL ESTATE LOANS	FORTRESS INVESTMENT FUND	UN- ALLOCATED	TOTAL
	-----	-----	-----	-----	-----	-----
	(UNAUDITED)			(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
FOR THE THREE MONTHS ENDED MARCH 31, 2002:						
Revenues.....	\$20,079	\$15,420	\$ 94	\$(12,832)	\$ 436	\$ 23,197
Equity in earnings (loss) of unconsolidated subsidiaries.....	--	--	--	(479)	27	(452)
FOR THE YEAR ENDED DECEMBER 31, 2001:						
Revenues.....	81,927	53,095	6,270	29,356	3,481	174,129
Equity in earnings (loss) of unconsolidated subsidiaries.....	--	--	--	5,360	(2,553)	2,807

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Newcastle Investment Holdings has classified its real estate securities, which will be contributed to us, as available for sale. As such, they are carried at market value with net unrealized gains or losses reported as a component of accumulated other comprehensive income. Market value is based upon broker

quotations. Such quotations are subject to significant variability based on market conditions, such as interest rates and spreads. Changes in market conditions could therefore result in a significant increase or decrease in the

book equity of Newcastle Investment Holdings.

Similarly, Newcastle Investment Holdings' derivative instruments, held for hedging purposes, are carried at market value pursuant to Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended. Such derivative instruments will primarily be contributed to us. To the extent they qualify as hedges under SFAS No. 133, net unrealized gains or losses are reported as a component of accumulated other comprehensive income; otherwise, they are reported as a component of current income. Market values of such derivatives are subject to significant variability based on many of the same factors as the securities discussed above. The results of such variability could be a significant increase or decrease in Newcastle Investment Holdings' book equity and/or earnings.

The investment in the Fund will be retained by Newcastle Investment Holdings. The managing member of the Fund is Fortress Fund MM LLC (the "Managing Member"), which is owned jointly, through subsidiaries, by Newcastle Investment Holdings, approximately 94%, and the Manager, approximately 6%. The Managing Member is entitled to an incentive return (the "Fund Incentive Return") generally equal to 20% of the Fund's returns, as defined, subject to: (1) a 10% preferred return payable to the Investors and (2) a clawback provision which requires amounts previously distributed as Fund Incentive Return to be returned to the Fund if, upon liquidation of the Fund, the amounts ultimately distributed to each Investor do not meet a 10% preferred return to the Investors. The Fund is managed by the Manager pursuant to the Managing Member's operating agreement and a management agreement between the Manager and the Managing Member. In accordance with those documents, (1) the Manager is entitled to 100% of the management fee payable by the Fund, (2) the Manager is entitled to 50% of the Fund Incentive Return payable by the Fund, (3) Newcastle Investment Holdings is entitled to 50% of the Fund Incentive Return payable by the Fund and (4) Newcastle Investment Holdings is entitled to receive 100% of the investment income or loss attributable to the capital invested in the Fund by the Managing Member. The Manager of the Fund also manages Newcastle Investment Holdings. Newcastle Investment Holdings consolidates the financial results of the Managing Member because it owns substantially all of the voting interest in the Managing Member. As a result, the financial statements of Newcastle Investment Holdings reflect all of the Fund Incentive Return payable to the Managing Member, including the 50% portion payable to the Manager which is treated as Minority Interest.

The Fund Incentive Return is payable on an asset-by-asset basis, as realized. Accordingly, a Fund Incentive Return may be paid to the Managing Member in connection with a particular Fund investment if and when such investment generates proceeds to the Fund in excess of the capital called with respect to such investment, plus a 10% preferred return thereon. If, upon liquidation of the Fund, the aggregate amount paid to the Managing Member as the Fund Incentive Return exceeds the amount actually due to the Managing Member (that is, amounts that should instead have been paid to Investors) after taking into account the aggregate return to Investors, the excess is required to be returned by the Managing Member (that is "clawed back") to the Fund. Newcastle Investment Holdings receives a credit against management fees otherwise payable under the Management Agreement with the Manager for management fees and any Fund Incentive Return paid to the Manager by the Fund in connection with Newcastle Investment Holdings' investment in the Fund.

Newcastle Investment Holdings has adopted Method 2 of Emerging Issues Task Force Topic D-96 which specifies that companies with management arrangements that contain a performance based incentive return that is not finalized until the end of a period of time specified in the contract may record such return as revenue in the amount that would be due under the formula at any point in time as if the incentive return arrangement was terminated at that date.

Newcastle Investment Holdings records as incentive income the amount that would be due based on the fair value of the assets in the Fund exceeding the required return at a specific point in time as if the management arrangement was terminated on that date. Based on this methodology, the net income of

Newcastle Investment Holdings in each reporting period will reflect changes in the fair value of the assets in the Fund which may be significant. The fair value of the assets in the Fund is determined by the Managing Member pursuant to guidelines established by the Fund's board of directors. Due to the inherent uncertainty of valuations of investments without a public market, the estimates of value may differ from the values that are ultimately realized by the Fund, and the differences could be material. Such estimates of fair value can fluctuate from quarter to quarter, which can result in material fluctuations in the amount of Fund Incentive Return recorded by Newcastle Investment Holdings. Fund Incentive Return recorded in prior periods may be reversed in future periods if value estimates decrease. This could result in material fluctuations, positive or negative, in Newcastle Investment Holdings' earnings from quarter to quarter.

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2002 TO THE THREE MONTHS ENDED  
MARCH 31, 2001

Interest and dividend income decreased by \$2.0 million or 13.4%, from \$15.0 million to \$13.0 million. This decrease is primarily the result of a decrease in interest earned on loan and mortgage pool investments as the result of the settlement of a substantial portion of such investments during 2001, offset by an increase resulting from the CBO II transaction.

Rental and escalation income decreased by \$0.9 million or 4.4%, from \$20.8 million to \$19.9 million. This decrease is primarily the result of foreign currency fluctuations related to the Bell Canada portfolio.

Gain on settlement of investments decreased by \$4.1 million, from \$7.2 million to \$3.1 million, primarily as a result of a reduction in the volume of sales of certain CBO collateral securities.

Equity in earnings (losses) of unconsolidated subsidiaries decreased \$0.1 million, from a \$0.3 million loss to a \$0.4 million loss, as a result of the recognition of Newcastle Investment Holdings' share of loss from its investment in Fortress Investment Fund LLC (a \$1.2 million reduction in income) offset by the elimination of prior loss recognition from Newcastle Investment Holdings' investment in Austin Holdings Corporation due to the winding-up of its activities (\$1.1 million).

Fund Incentive Return from Newcastle Investment Holdings' investment in Fortress Investment Fund LLC of \$12.8 million of loss was recorded during the three months ended March 31, 2002. Newcastle Investment Holdings records as Fund Incentive Return the amount that would be due based on the fair value of the assets in the Fund exceeding the required return as if the management arrangement was terminated. In the three months ended March 31, 2002, the amount previously recognized as Fund Incentive Return in 2001 was reduced due to losses incurred in the Fund. The calculation of incentive income is more fully discussed above.

Minority interest decreased by \$6.5 million primarily due to the Manager's 50% share of the incentive income (loss) of \$6.4 million.

Interest expense decreased by \$3.2 million or 18.6%, from \$17.3 million to \$14.1 million. This decrease is primarily the result of the repayment of debt associated with the settlement of certain of Newcastle Investment Holdings' loan and mortgage pool investments during these periods (\$1.4 million), as well as the payment of bond principal amortization on the GSA securitization (\$0.2 million) and lower interest rates being paid on the variable rate CBO securities classes (\$1.2 million).

Property operating expense decreased by \$0.5 million or 6.5%, from \$7.9 million to \$7.4 million, primarily as the result of foreign currency fluctuations related to the Canadian properties.

Loan servicing and REO expense remained at approximately \$0.2 million. REO expense represents expenses related to maintaining foreclosed property and preparing it for sale.

General and administrative expense increased by \$0.2 million or 26.0%, from \$0.6 million to \$0.8 million, primarily as a result of increased insurance costs and increased state and local taxes.

52

Management fee expense remained at approximately \$1.4 million. The calculation of the management fee is more fully discussed under "Our Manager and The Management Agreement -- Management Fees" in this prospectus.

Incentive return increased by \$0.8 million as a result of Newcastle Investment Holdings reaching the incentive return threshold in late 2001. The calculation of the incentive return is more fully discussed under "Our Manager and The Management Agreement -- Management Fees" in this prospectus.

Depreciation and amortization increased by \$0.2 million or 5.1%, from \$3.4 million to \$3.6 million, primarily as the result of depreciation on the capital expenditures we made with respect to our real estate assets.

Preferred dividends and related accretion remained at approximately \$0.6 million.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2001 TO THE YEAR ENDED DECEMBER 31,  
2000

Interest and dividend income decreased by \$12.0 million or 18.3%, from \$65.4 million to \$53.4 million. This decrease is primarily the result of a decrease in interest earned on loan and mortgage pool investments as the result of the settlement of a substantial portion of such investments during 2001 (\$9.8 million) and a decrease in interest earned on cash balances due to Newcastle Investment Holdings being more fully invested in 2001.

Rental and escalation income increased by \$0.9 million or 1.0%, from \$80.6 million to \$81.5 million. This increase is primarily the result of increased escalations related to the GSA properties.

Gain on settlement of investments decreased by \$11.4 million, from \$21.8 million to \$10.4 million, primarily as a result of the gains on the sale of various securities acquired in the ICH transaction occurring in 2000 (\$21.3 million) offset by gains on the sale of certain CBO collateral securities (\$7.4 million) and notes receivable (\$3.0 million) in 2001.

Equity in earnings (losses) of unconsolidated subsidiaries increased \$3.8 million, from a \$1.0 million loss to a \$2.8 million gain, primarily as a result of the recognition of Newcastle Investment Holdings' share of increased income from its investment in Fortress Investment Fund LLC.

Fund Incentive Return from Newcastle Investment Holdings' Fortress Investment Fund LLC investment of \$28.7 million was recorded during the year ended December 31, 2001. Newcastle Investment Holdings records as incentive income the amount that would be due based on the fair value of the assets in the Fund exceeding the required return as if the management arrangement was terminated. The calculation of incentive income is more fully discussed above.

Minority interest increased by \$13.6 million primarily due to the Manager's 50% share of the incentive income of \$14.4 million.

Interest expense decreased by \$5.7 million or 8.4%, from \$68.5 million to \$62.8 million. This decrease is primarily the result of the repayment of debt associated with the settlement of certain loan and mortgage pool investments during these periods (\$3.4 million) and lower interest rates being paid on the variable rate CBO securities classes (\$2.9 million).

Property operating expense increased by \$0.7 million or 2.4%, from \$29.6 million to \$30.3 million, primarily as the result of increased expenses at the GSA properties, which is offset by increased escalation income (see above).

Loan servicing and REO expense decreased by \$1.3 million or 58.5%, from \$2.3 million to \$1.0 million. This decrease is primarily the result of the settlement of a substantial portion of Newcastle Investment Holdings' mortgage pool investments during these periods.

General and administrative expense decreased by \$1.6 million or 39.2%, from \$4.0 million to \$2.4 million, primarily as a result of decreases in insurance expense (\$0.4 million) and professional fees (\$1.1 million).

53

Management fee expense decreased \$0.9 million from \$6.6 million to \$5.7 million. The calculation of the management fee is more fully discussed under "Our Manager and The Management Agreement -- Management Fees" in this prospectus.

Incentive return increased by \$2.8 million as a result of Newcastle Investment Holdings reaching the incentive return threshold in late 2001. The calculation of the incentive return is more fully discussed under "Our Manager and The Management Agreement -- Management Fees" in this prospectus.

Depreciation and amortization increased by \$0.8 million or 6.2%, from \$13.2 million to \$14.0 million, primarily as the result of depreciation on the capital expenditures made with respect to real estate assets.

Preferred dividends and related accretion increased by \$0.4 million from \$2.1 million to \$2.5 million as a result of the contractual increase in dividend rate effective July 1, 2001.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2000 TO THE YEAR ENDED DECEMBER 31, 1999

Rental and escalation income increased by \$15.2 million, from \$65.4 million to \$80.6 million. This increase was primarily the result of the acquisition of three GSA properties during 1999 (\$7.5 million) and the acquisition of the Belgian real estate portfolio in November 1999 (\$6.2 million), plus rental increases on other properties.

Interest and dividend income increased by \$15.1 million, from \$50.3 million to \$65.4 million. This increase was primarily the result of CBO investments during 1999 (\$20.8 million), offset by a decrease in interest earned on mortgage pool investments as the result of the settlement of a substantial portion of such investments during 1999 and 2000 (\$4.2 million) as well as a decrease in interest earned on cash balances due to Newcastle Investment Holdings being more fully invested in 2000.

Gain (loss) on settlement of investments improved \$23.3 million, from a loss of \$1.5 million to a gain of \$21.8 million, primarily as a result of the gains on the sale of various securities acquired in the ICH transaction in

November and December 2000 (\$21.3 million), as well as improved net gains on the settlement of a substantial portion of Newcastle Investment Holdings' mortgage pool investments (\$4.4 million), offset by a reduction in gains on the sale of CBO collateral subsequent to the securitization of such collateral in July 1999 (after which trading of such securities was reduced substantially) (\$2.9 million).

Equity in earnings (losses) of unconsolidated subsidiaries improved \$2.6 million, from a loss of \$3.6 million to a loss of \$1.0 million, primarily as a result of losses associated with certain joint ventures, including Ascend Residential Holdings, Inc., whose primary business is the acquisition, rehabilitation and sale of single-family residential properties, which were recorded in 1999.

Interest expense increased by \$21.7 million, from \$46.8 million to \$68.5 million. This increase is primarily the result of interest on the GSA securitization, the CBO securitization, the LIV mortgage, the Bell Canada mortgage, and the GSA Kansas City mortgage which were funded in 1999 and Newcastle Investment Holdings' credit facility which was entered in July 2000, net of interest on various notes payable which were repaid with the proceeds thereof.

Property operating expense increased by \$6.3 million, from \$23.3 million to \$29.6 million, primarily as the result of the same factors described under "rental and escalation income" above.

Loan servicing and REO expense decreased by \$0.8 million, from \$3.1 million to \$2.3 million. This decrease is primarily the result of the settlement of a substantial portion of Newcastle Investment Holdings' mortgage pool investments during 1999 and 2000.

General and administrative expense increased by \$0.5 million, from \$3.5 million to \$4.0 million, primarily as a result of increased costs associated with Newcastle Investment Holdings being more fully invested.

54

Management fee expense decreased by \$0.8 million, from \$7.4 million to \$6.6 million. The calculation of the management fee is more fully discussed under "Our Manager and The Management Agreement -- Management Fees" in this prospectus.

Depreciation and amortization increased by \$2.7 million, from \$10.5 million to \$13.2 million, primarily as the result of the same factors described under "rental and escalation income" above.

Preferred dividends and related accretion increased by \$2.1 million as a result of the issuance of the Series A Preferred in June 2000.

#### LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measurement of the ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, and other general business needs. Additionally, to maintain its status as a REIT under the Internal Revenue Code, Newcastle Investment Holdings must distribute annually at least 90% of its taxable income. Newcastle Investment Holdings' primary sources of funds for liquidity, subsequent to its private equity offering in 1998, have consisted of net cash provided by operating activities, borrowings under loans, the issuance of debt securities and the settlement of investments.

At this time, Newcastle Investment Holdings does not expect to materially grow its separate investment portfolio in the future, except for its required contributions to the Fund.

Newcastle Investment Holdings expects to meet its short-term liquidity requirements generally through its cash flow provided by operations, as well as investment specific borrowings and secured or unsecured lines of credit. Its real estate investments, a portion of which will be contributed to us, are financed long-term and primarily leased to credit tenants with long-term leases and are therefore expected to generate generally stable cash flows. Its real estate securities, which are anticipated to be contributed to us, are also financed long-term and their credit status is continuously monitored; therefore, these investments are also expected to generate a generally stable return, subject to interest rate fluctuations. See "- Interest Rate Exposure" below. Returns on Newcastle Investment Holdings' investment in the Fund, which is expected to be retained by Newcastle Investment Holdings, are subject to significant variability. However, this asset is unleveraged. Newcastle Investment Holdings considers its ability to generate cash to be adequate and expects it to continue to be adequate to meet operating requirements both in the short-and long-terms.

Newcastle Investment Holdings expects to meet its long-term liquidity requirements, specifically the repayment of its debt and its investment funding needs, through additional borrowings, the issuance of debt and/or equity

securities and the liquidation or refinancing of its assets at maturity. Newcastle Investment Holdings believes that the value of these assets is, and will continue to be, sufficient to repay its debt at maturity under either scenario.

Newcastle Investment Holdings has certain investments in, and commitments to, two unconsolidated subsidiaries as described below. Both of these investments, and the related commitments, will be retained by Newcastle Investment Holdings.

Newcastle Investment Holdings has committed to contribute approximately \$100 million to Fortress Investment Fund LLC, along with other major institutional investors who, together with Newcastle Investment Holdings and its affiliates, have committed approximately \$872.8 million over the three years ending April 28, 2003. Approximately \$539.5 million, net, of this amount had been funded through March 31, 2002. The portion of the expenses payable by Newcastle Investment Holdings in connection with raising the Fund, including placement agent fees, printing costs and legal fees, is approximately \$9.8 million, of which approximately \$4.0 million has been paid through March 31, 2002.

In 1998, Newcastle Investment Holdings and Fortress Principal Investment Group LLC ("FPIG"), an affiliate of our manager, formed Austin Holdings Corporation ("Austin"). FPIG contributed cash and Newcastle Investment Holdings contributed its interest in entities that owned certain assets, primarily non-

55

performing loans and foreclosed real estate intended for sale, which it originally acquired as part of a loan pool acquisition. The assets Newcastle Investment Holdings contributed, and any income generated from them, are not well suited to be held by a REIT because of the following reasons. If the assets were treated as inventory held for sale in the ordinary course of business, any gain from the sale of these assets would be subject to a 100% excise tax in the hands of a REIT. By holding these assets indirectly through Austin, a corporate entity, Newcastle Investment Holdings instead receives dividend income from the corporation, which is not subject to the 100% excise tax, and is treated as qualifying income for purposes of the REIT 95% income test. Newcastle Investment Holdings holds non-voting preferred stock of Austin. Newcastle Investment Holdings' preferred stock in Austin represents a 95% economic ownership interest in Austin and has a liquidation preference over the common stockholders. Newcastle Investment Holdings' interest in Austin is accounted for under the equity method. As of March 31, 2002, Newcastle Investment Holdings had no outstanding obligations to Austin. Newcastle Investment Holdings acquired stock that is non-voting in order to comply with the rule that REITs generally may not hold more than 10% of the voting stock of any corporation. FPIG is the holder of all of the common stock, which represents 100% of the vote and 5% of the economic ownership interest in Austin. Austin also owns 100% of the common stock of Ascend Residential Holdings, Inc. ("Ascend"). Ascend's primary business is the acquisition, rehabilitation and sale of single-family residential properties. As of March 31, 2002, Newcastle Investment Holdings' gross investment in Austin is \$4.5 million, Austin has no debt outstanding, and Austin is in the process of disposing of its remaining assets.

With respect to its real estate assets, Newcastle Investment Holdings expects to incur approximately \$1.2 million and \$4.0 million, related to the assets to be held by us and Newcastle Investment Holdings, after the formation transactions, respectively, of tenant improvements in connection with the inception of leases and capital expenditures during the nine months ending December 31, 2002.

Newcastle Investment Holdings' long-term debt existing at March 31, 2002 (gross of \$48.9 million of discounts) is expected to mature as follows: \$79.5 million during the period from April 1, 2002 through December 31, 2002, \$52.0 million in 2003, \$22.0 million in 2004, \$23.6 million in 2005, \$25.2 million in 2006, \$26.0 million in 2007, and \$733.0 million thereafter. Of the \$79.5 million maturing during the period from April 1, 2002 through December 31, 2002, \$24.5 million has been repaid in connection with the sale of one of the GSA properties and \$31.2 has been repaid in connection with the refinancing of the Bell Canada portfolio, as described below, subsequent to March 31, 2002. Of the remaining \$23.8 million maturing during this period, \$20.2 relates to investments to be retained by Newcastle Investment Holdings and \$3.6 million relates to investments to be contributed to us. Newcastle Investment Holdings' debt contains various customary loan covenants.

In August 1998, Newcastle Investment Holdings closed on the \$234.2 million GSA mortgage. In March 1999, it closed on the \$18.6 million GSA San Diego mortgage. In May 1999, it repaid these two mortgages with proceeds from the \$399.1 million GSA Securitization, of which \$356.0 million (gross of discounts) was outstanding on March 31 2002. The GSA securitization matures in May 2011 and has a weighted average effective interest rate, including discount and cost amortization, of approximately 7.04%. The GSA securitization, and related assets, will be retained by Newcastle Investment Holdings.

In July 1999, Newcastle Investment Holdings completed its first CBO



securitization whereby the CBO collateral was contributed to a consolidated subsidiary of Newcastle Investment Holdings which issued \$437.5 million of investment grade senior securities and \$62.5 million of non-investment grade subordinated securities in a private placement. As a result of the CBO securitization, the existing short-term repurchase agreement on the CBO collateral was repaid. At March 31, 2002, the subordinated securities were retained by Newcastle Investment Holdings, except for the Class E Note as described below, and the senior securities (all of which are still outstanding), which bore interest at a weighted average effective rate, including discount and cost amortization, of 4.86%, had an expected weighted average life of approximately 6.0 years. Two classes of the senior securities bear floating interest rates. Newcastle Investment Holdings has obtained an interest rate swap and cap in order to hedge its exposure to the risk of changes in market interest rates with respect to these securities, at an initial cost of approximately \$14.3 million. In addition, in connection with the sale of one class of senior securities, we

56

entered into two interest rate swaps and two interest rate cap agreements that do not qualify for hedge accounting. The CBO securitization, and related assets, will be contributed to us.

In November 1999, Newcastle Investment Holdings securitized a U.S. commercial mortgage loan by issuing \$55.6 million of bonds. The bonds were also secured by a \$15.0 million letter of credit. These obligations were repaid in December 2001.

In March 1999, Newcastle Investment Holdings obtained the Bell Canada mortgage secured by the Bell Canada properties, which had an outstanding balance of \$31.1 million and bore interest at a fixed rate of 7.25% as of March 31, 2002, and was due in April 2002. In April 2002, Newcastle Investment Holdings refinanced the Bell Canada properties by issuing approximately \$37.6 million of investment grade debt securities in a private placement. The issued securities, which bear interest at a weighted average effective rate, including discount and cost amortization, of approximately 6.70%, have an expected weighted average life of approximately 5.1 years. Newcastle Investment Holdings has retained one class of the issued securities. The proceeds from the issued securities were used, in part, to repay the Bell Canada mortgage. In November 1999, Newcastle Investment Holdings obtained the LIV mortgage, which had an outstanding balance of \$53.3 million and bore interest at 4.76% as of March 31, 2002, and is due in November 2016. In November 1999, Newcastle Investment Holdings obtained the \$24.8 million GSA Kansas City mortgage, which was repaid in May 2002 upon sale of the related asset. Newcastle Investment Holdings hedged its exposure to the risk of changes in market interest rates with respect to the LIV mortgage and the GSA Kansas City mortgage by obtaining interest rate caps. The Bell Canada mortgage, LIV mortgage, and related assets, will be contributed to us.

In July 2000, Newcastle Investment Holdings entered into a \$40 million revolving credit agreement, which had an outstanding balance of \$40.0 million and bore interest at 6.16% as of March 31, 2002, and is due in July 2003. Newcastle Investment Holdings hedged its exposure to the risk of changes in market interest rates with respect to the credit agreement by obtaining an interest rate swap. This credit agreement will be retained by Newcastle Investment Holdings.

Newcastle Investment Holdings utilizes repurchase agreements for short-term financings of mortgage pools and of investments prior to securitizations. As of March 31, 2002 Newcastle Investment Holdings had a \$1.5 million repurchase agreement outstanding, bearing interest at approximately 3.25% with a short-term maturity. This agreement, and the related asset, will be contributed to us.

In October 2001, Newcastle Investment Holdings entered into an agreement with a major investment bank whereby it had the right to purchase up to \$400 million, plus our deposit, of commercial mortgage backed securities, unsecured REIT debt and asset backed securities (the "CBO II collateral"), which were specifically designated for a securitization transaction (the "CBO II transaction"). As of March 31, 2002, \$357.1 million of \$400 million had been accumulated, on which Newcastle Investment Holdings had deposited \$43.3 million. In April 2002, Newcastle Investment Holdings completed the CBO II transaction whereby a consolidated subsidiary of Newcastle Investment Holdings issued \$444.0 million of investment grade senior securities and \$56.0 million of non-investment grade subordinated securities (the "CBO II securities") in a private placement. The senior securities were issued for net proceeds of \$438.8 million after issue costs. The subordinated securities have been retained by Newcastle Investment Holdings. The CBO II securities are collateralized by (i) the purchase, via a forward purchase arrangement with a U.S. investment bank, of a portfolio of CMBS, unsecured REIT debt, asset-backed securities, and a limited amount of other securities with an aggregate principal balance of \$411.3 million for approximately \$399.1 million and (ii) restricted cash, which will be included in CBO collateral, of \$85.1 million (collectively, the "CBO II collateral"). The senior securities, which bear interest at a weighted average effective rate, including discount and cost amortization, of approximately 3.69%, have an expected weighted average life of approximately 8.04 years. One class of the senior securities bears a floating interest rate. Newcastle

Investment Holdings obtained an interest rate swap and cap in order to hedge its exposure to the changes in market interest rates with respect to this security, at an initial cost of \$1.2 million. The CBO II collateral and retained CBO II securities will be contributed to us.

57

In November 2001, Newcastle Investment Holdings sold the retained subordinated \$17.5 million Class E Note (the "Note") from CBO I, issued by Fortress CBO Investments I, Ltd., for approximately \$18.5 million. The Note bore interest at a fixed rate of 8.0% and had a stated maturity of June 2038. The sale of the Note represented an issuance of debt and was recorded as additional CBO Bonds Payable. In April 2002, a wholly owned subsidiary of Newcastle Investment Holdings repurchased the Note. The repurchase of the Note represents a repayment of debt and will be recorded as a reduction of CBO Bonds Payable. The Note is included in the CBO II collateral which was purchased in connection with the CBO II transaction. The Note will be eliminated in consolidation.

The net cash flow provided by operating activities increased from \$24.8 million for the year ended December 31, 2000 to \$34.4 million for the year ended December 31, 2001 and decreased from \$32.8 million for the year ended December 31, 1999 to \$24.8 million for the year ended December 31, 2000. It increased from \$8.4 million for the three months ended March 31, 2001 to \$9.2 million for the three months ended March 31, 2002. These changes generally resulted from the acquisition and settlement of Newcastle Investment Holdings' investments as described above.

Investing activities provided (used) \$106.1 million, \$151.6 million and (\$683.4 million) during the years ended December 31, 2001, 2000 and 1999, respectively. They provided (used) (\$16.1 million) and \$47.1 million during the three months ended March 31, 2002 and 2001, respectively. Investing activities consisted primarily of the acquisition and improvement of properties and the investments made in certain loans, mortgage pools, and equity securities, as well as debt instruments used as the CBO collateral, net of proceeds from the settlement of such debt and equity investments (no properties have been sold through March 31, 2002).

Financing activities provided (used) (\$119.7 million), (\$180.2 million) and \$589.3 million during the years ended December 31, 2001, 2000 and 1999, respectively. They provided (used) \$1.3 million and (\$46.1 million) during the three months ended March 31, 2002 and 2001, respectively. The borrowings and debt issuances described above, as well as the issuance of the Series A Preferred and certain short-term repurchase agreements and other borrowings, served as the primary sources of cash flow from financing activities. Offsetting uses included the payment of related deferred financing costs (including the purchase of hedging instruments), the payment of dividends and the repayment of debt and repurchase of common shares as described above.

See the Historical Consolidated Statements of Cash Flows included in our Historical Consolidated Financial Statements included herein for a reconciliation of Newcastle Investment Holdings' cash position for the periods described herein.

#### INFLATION

Substantially all of the office leases of Newcastle Investment Holdings provide for separate escalations of real estate taxes and operating expenses over a base amount, and/or increases in the base rent based on changes in the Consumer Price Index ("CPI"). Newcastle Investment Holdings' management believes that inflationary increases in expenses will generally be offset by the expense reimbursements and contractual rent increases described above.

The management of Newcastle Investment Holdings believes that its risk of increases in the market interest rates on its floating rate debt as a result of inflation is largely offset by its use of match funding and hedging instruments as described above. See "-- Quantitative and Qualitative Disclosures About Market Risk -- Interest Rate Exposure" below.

#### FUNDS FROM OPERATIONS

Newcastle Investment Holdings believes Funds from Operations (FFO) is one appropriate measure of the performance of real estate companies because it provides investors with an understanding of Newcastle Investment Holdings' ability to incur and service debt and make capital expenditures. Funds from Operations (FFO), for its purposes, represents net income available for common shareholders (computed

58

in accordance with accounting principles generally accepted in the United States ("GAAP")), excluding extraordinary items, plus real estate depreciation and amortization, and after adjustments for unconsolidated subsidiaries. Newcastle Investment Holdings considers gains and losses on resolution of its investments to be a normal part of its recurring operations and therefore does not exclude such gains and losses when arriving at Funds from Operations (FFO). In addition,

Newcastle Investment Holdings excludes accrued incentive income from Fortress Investment Fund LLC (the "Fund" or "FIF") and includes incentive income distributed or distributable from FIF in accordance with the operating agreement of the Fund since this reflects cash distributed or distributable to Newcastle Investment Holdings from the Fund, while its accrued incentive income is based upon the fair value of the Fund's net assets, which is subject to fluctuation in future periods. Adjustments for unconsolidated subsidiaries are calculated to reflect Funds from Operations (FFO) on the same basis. Funds from Operations (FFO) 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 the operating performance of Newcastle Investment Holdings or as an alternative to cash flow as a measure of liquidity and is not necessarily indicative of cash available to fund cash needs.

Funds from Operations for Newcastle Investment Holdings is calculated as follows (unaudited) (in thousands):

	FOR THE THREE MONTHS ENDED MARCH 31,		FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2001	2000	1999
Income available for common shareholders.....	\$ 233	\$11,066	\$ 41,131	\$40,776	\$12,299
Extraordinary item -- loss on extinguishment of debt.....	--	--	--	--	2,341
Real estate depreciation and amortization.....	3,330	3,201	12,909	12,621	9,927
Real estate depreciation and amortization -- unconsolidated subsidiaries.....	864	301	2,564	126	140
Incentive income accrued from Fortress Investment Fund(A).....	6,405	--	(14,354)	--	--
Equity in incentive return accrued by Fortress Investment Fund.....	(734)	--	1,645	--	--
Distributable incentive income from Fortress Investment Fund(B).....	--	--	4,369	--	--
<b>Funds from Operations (FFO).....</b>	<b>\$10,098</b>	<b>\$14,568</b>	<b>\$ 48,264</b>	<b>\$53,523</b>	<b>\$24,707</b>

(A) Represents our 50% interest in the incentive income as follows:

	FOR THE THREE MONTHS ENDED MARCH 31,	FOR THE YEAR ENDED DECEMBER 31,
Total incentive income.....	\$ (12,810)	\$ 28,709
Minority interest -- Manager...	\$ 6,405	\$ (14,355)
<b>Our incentive income.....</b>	<b>\$ (6,405)</b>	<b>\$ 14,354</b>

(B) Represents our 50% interest in the distributable incentive income:

	FOR THE YEAR ENDED DECEMBER 31,
Total distributable incentive income.....	\$ 8,738
Distributable incentive income due Manager...	\$ (4,369)
<b>Our distributable incentive income.....</b>	<b>\$ 4,369</b>

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risks that Newcastle Investment Holdings is exposed to are interest rate risk and foreign currency exchange rate risk. Interest rate risk and foreign currency exchange rate risk are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond its control. All of its market risk sensitive assets, liabilities and related derivative positions are for non-trading purposes only.

Interest Rate Exposure

Newcastle Investment Holdings' primary interest rate exposures relate to its loans, mortgage pools, mortgage backed securities and variable-rate debt, as well as its interest rate swaps and caps. Changes in the general level of interest rates can effect its net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with its interest-bearing liabilities. Changes in the level of interest rates also can effect, among other things, its ability to originate and acquire loans and securities, the value of its loans, mortgage pools and mortgage backed securities, and its ability to realize gains from the settlement of such assets. Newcastle Investment Holdings utilizes interest rate swaps, caps and match-funded financings in order to limit the effects of interest rates on its operations. As of March 31, 2002, a 100 basis point change in short-term interest rates would affect its earnings from its real estate securities, credit leased real estate portfolio and mortgage loans, which represents 94% of its assets based on book value, by no more than \$2.4 million per annum.

Currency Rate Exposure

Newcastle Investment Holdings' primary foreign currency exchange rate exposures relate to its real estate leases and assets and one of its mortgage pools, as well as a portion of its investment in Fortress Investment Fund LLC. Newcastle Investment Holdings' principal direct currency exposures are to the Euro and the Canadian Dollar. Changes in the currency rates can adversely impact the fair values and earnings streams of its international holdings. Newcastle Investment Holdings has attempted to mitigate this impact in part by utilizing local currency-denominated financing on its foreign investments to partially hedge, in effect, these assets.

Newcastle Investment Holdings has material investments in a portfolio of Belgian properties and a portfolio of Canadian properties. These properties are financed utilizing debt instruments denominated in their respective local currencies (the Euro and the Canadian Dollar). The net equity invested in these portfolios, approximately \$17.7 million and \$25.2 million, respectively, at March 31, 2002, is exposed to foreign currency exchange risk. These assets are expected to be contributed to us.

Fair Values

For the majority of Newcastle Investment Holdings' financial instruments, principally loans and certain securities, fair values are not readily available since there are no active trading markets as characterized by current exchanges between willing parties. Accordingly, fair values can only be derived or estimated using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. Newcastle Investment Holdings' notes 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 currency rate environments as of March 31, 2002 and do not take into consideration the effects of subsequent interest rate or currency rate fluctuations.

Newcastle Investment Holdings held the following interest rate risk sensitive instruments at March 31, 2002 (unaudited) (dollars in thousands):

<Table>  
<Caption>

	CARRYING AMOUNT	PRINCIPAL BALANCE OR NOTIONAL AMOUNT	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	MATURITY DATE	OTHER TERMS	FAIR VALUE
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Assets:						
CBO collateral, net (A).....	\$519,086	\$562,766	8.91%		Various (mixed floating and fixed rates,	\$519,086

					amortizing and interest only)	
Marketable securities, available for sale (B) .....	14,975	296,326	N/A	(B)	(B)	14,975
Mortgage pool receivables, net (C) .....	3,824	18,495	(C)	Various	Various (mixed floating and fixed rates, amortizing and interest only)	8,219
Interest rate caps, treated as hedges, net (D) .....	9,421	229,547	N/A	(D)	(D)	9,421
Liabilities:						
CBO bonds payable (E) ..	446,036	455,000	4.86%	Jul-38	Amortizes principal based on collateral payments, subject to reinvestment	465,493
Other bonds payable (E) .....	316,007	355,991	7.04%	May-11	Amortizes principal with a balloon payment	379,825
Notes payable (F) .....	108,953	108,953	5.39%	(G)	(G)	108,953
Repurchase agreement (F) .....	1,457	1,457	3.25%	Short-term	Interest only	1,457
Credit facility (F) ....	40,000	40,000	6.16%	Jul-03	Interest only	40,000
Interest rate swaps, treated as hedges, net (H) .....	8,285	230,278	N/A	(H)	(H)	8,285
Non-hedge derivative obligations (I) .....	180	(I)	N/A	(I)	(I)	180

</Table>

- -----
- (A) The fair value of these securities is estimated by obtaining third party independent broker quotations. These securities will be contributed to us.
- (B) These three securities with carrying amounts of \$3.9 million, \$3.2 million and \$7.9 million, respectively, mature in November 2007, August 2030 and August 2018, respectively, and represent subordinate and residual interests in securitizations and an interest-only strip security. The fair values of these securities, for which quoted market prices are not readily available, are estimated by means of a price/yield analysis based on our expected disposition strategies for such assets. The former two of these securities will be contributed to us.
- (C) The remaining mortgage pool assets, which will be retained by Newcastle Investment Holdings, primarily consist of non-accruing, non-performing loans purchased at a discount. The fair value of impaired loans is estimated by means of a discounted cash flow analysis, utilizing expected cash flows and discount rates estimated by the manager to approximate those that a willing buyer and seller might use.
- (D) These three agreements have notional balances of \$152.2 million, \$53.3 million and \$24.0 million, respectively, mature in March 2009, August 2004 and November 2002, respectively, and cap 1-month LIBOR at 6.50%, 3-month EURIBOR at 4.75% and 3-month LIBOR at 6.50%, respectively. The fair value of these agreements is estimated by obtaining broker quotations. The former two of these agreements will be contributed to us.
- 61
- (E) For those bonds bearing floating rates at spreads over market indices, representing approximately \$341.7 million of the carrying amount of the CBO Bonds Payable, Newcastle Investment Holdings believes that for similar financial instruments with comparable credit risks, the effective rates at March 31, 2002 approximate market rates. Accordingly, the carrying amount outstanding on these bonds is believed to approximate fair value. For those bonds bearing fixed interest rates, values were obtained by discounting expected future payments by a rate calculated by imputing a spread over a market index on the date of borrowing. These bonds will be contributed to us.
- (F) Newcastle Investment Holdings believes that for similar financial instruments with comparable credit risks, the stated interest rates at March 31, 2002 (all of which are floating rates at spreads over market indices) approximate market rates, with the exception of the Bell Canada mortgage which bears interest at a fixed rate. The Bell Canada mortgage was repaid through the proceeds of a refinancing in April 2002 at its face amount, which therefore approximates fair value. Accordingly, the carrying amount outstanding is believed to approximate fair value for these notes. This debt, except for a \$24.5 million note, will be contributed to us.
- (G) The three notes payable have carrying amounts of \$31.1 million, \$53.3

million and \$24.5 million, respectively, and mature in April 2002, November 2016 and November 2002, respectively. The note maturing in April 2002 has been refinanced as described above. The note maturing in November 2002 has been repaid as described above. The note due in 2016 is making principal amortization payments and has a balloon payment at maturity.

- (H) These two agreements have notional balances of \$190.3 million and \$40.0 million, respectively, mature in July 2005 and July 2003, respectively, and swap 1-month LIBOR for 6.1755% and 7.18%, respectively. The fair value of these agreements is estimated by obtaining broker quotations. The former agreement will be contributed to us.
- (I) These are two essentially offsetting interest rate caps and two essentially offsetting interest rate swaps, each with notional amounts of \$32.5 million as of March 31, 2002, as well as an interest rate cap with a notional balance of \$17.5 million as of March 31, 2002. The maturity date of the purchased swap is July 2009; the maturity date of the sold swap is July 2014, the maturity date of the \$32.5 million caps is July 2038, and the maturity date of \$17.5 million cap is July 2009. They have been valued by reference to current broker quotations on similar instruments. These agreements will be contributed to us.

62

Newcastle Investment Holdings held the following currency rate risk sensitive balances at March 31, 2002 (unaudited) (dollars in thousands, except exchange rates):

<Table>  
<Caption>

	CARRYING AMOUNT	LOCAL CURRENCY (B)	CURRENT EXCHANGE RATE TO USD (B)	EFFECT OF A 5% NEGATIVE CHANGE IN EURO RATE	EFFECT OF A 5% NEGATIVE CHANGE IN CAD RATE (B)	EFFECT OF A 5% NEGATIVE CHANGE IN GBP RATE (B)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Assets, to be Contributed to us:						
LIV portfolio.....	\$66,673	Euro	1.14718	\$ (3,334)	N/A	N/A
Bell Canada portfolio.....	50,734	CAD	1.59490	N/A	\$ (2,537)	N/A
LIV interest rate cap.....	324	Euro	1.14718	(16)	N/A	N/A
LIV other, net.....	4,050	Euro	1.14718	(203)	N/A	N/A
Bell Canada other, net.....	5,595	CAD	1.59490	N/A	(280)	N/A
Liabilities, to be Contributed to us:						
LIV mortgage.....	53,324	Euro	1.14718	2,666	N/A	N/A
Bell Canada mortgage.....	31,166	CAD	1.59490	N/A	1,558	N/A
Net Operations to be Contributed to us.....				(887)	(1,259)	N/A
Assets, to be retained by Newcastle Investment Holdings						
Italian mortgage loan pool...	3,782	Euro	1.14718	(189)	N/A	N/A
Bell Canada mortgage loan pool.....	64	CAD	1.59490	N/A	(3)	N/A
Fortress Investment Fund LLC(A).....	19,098	Various	Various	(271)	N/A	\$ (684)
Italian other, net.....	1,036	Euro	1.14718	(52)	N/A	N/A
Net Operations to be retained by Newcastle Investment Holdings.....				(512)	(3)	(684)
Total.....				\$ (1,399)	\$ (1,262)	\$ (684)

</Table>

(A) Represents foreign portion only. Excludes the affect of hedging at the Fortress Investment Fund LLC level.

(B) USD refers to U.S. dollars; CAD refers to Canadian dollars; and GBP refers to the Great Britain Pound.

63

NEWCASTLE INVESTMENT CORP.

We invest in real estate securities and other real estate-related assets. We seek to finance these investments primarily using match-funded financing structures. Match-funded financing structures match assets and liabilities with respect to interest rates and maturities. Our objective is to maximize the

difference between the yield on our investments and the cost of financing these investments while hedging our positions. We are organized and conduct our operations to qualify as a real estate investment trust (REIT) for federal income tax purposes.

Newcastle Investment Holdings Corp. currently owns all of our outstanding common stock. Newcastle Investment Holdings was formed in May 1998. We were formed in June 2002 for the purpose of separating the core real estate securities business from Newcastle Investment Holdings' other investments. We believe that separating this core business from Newcastle Investment Holdings provides an opportunity for achieving more stable earnings. In connection with our formation, Newcastle Investment Holdings changed its name from Newcastle Investment Corp. Immediately upon completion of this offering, Newcastle Investment Holdings will own % of our common stock and new investors in this offering will own % of our common stock.

At March 31, 2002, our manager, Fortress Investment Group, and its employees owned approximately 16.4% of the equity of Newcastle Investment Holdings (25.8% upon exercise of outstanding options). We have granted to our manager an option to purchase shares of our common stock. In addition, in connection with this offering, we will grant to our manager an option to purchase an additional shares of our common stock, representing 10% of the number of shares being offered hereby, and subject to adjustment if the underwriters' over-allotment option is exercised, at the offering price of our shares in this offering. As a result, upon completion of this offering, our manager will beneficially own approximately % of our common stock, taking into account its interest in Newcastle Investment Holdings and assuming its exercise of all of its options.

Prior to the closing of this offering, Newcastle Investment Holdings will have transferred to us certain assets and liabilities in exchange for shares of our common stock. We describe each of these assets and liabilities below under "Newcastle Investment Corp. -- Our Investments." As a result of the formation transactions, we will own a diversified portfolio of credit sensitive real estate securities, including commercial and residential mortgage backed securities and unsecured REIT debt, rated primarily BBB (the lowest investment grade rating) and BB (one level below investment grade). Mortgage backed securities are interests in or obligations secured by pools of commercial or residential mortgage loans. We will also own credit leased real estate in Canada. We consider credit leased real estate to be real estate that is leased to tenants with investment grade (BBB- or higher) credit ratings. After giving effect to the formation transactions as if they had been completed as of the dates below:

- our portfolio consists of approximately \$731 million of assets at March 31, 2002;
- for the year ended December 31, 2001, we had revenues of approximately \$78.3 million and income from continuing operations of approximately \$27.6 million;
- for the three months ended March 31, 2002, we had revenues of approximately \$21.5 million and income from continuing operations of approximately \$9.7 million; and
- our income from continuing operations per common share was \$1.67 for 2001 and was \$0.59 per share for the three months ended March 31, 2002.

As of and for the three months ended March 31, 2002, 82% of our total assets was comprised of real estate securities and 18% was comprised of credit leased real estate, and 74% of our total revenue was derived from interest and dividend income and gains on settlement of investments from our real estate securities and 26% was derived from rental and escalation income from our credit leased real estate.

We have also entered into an agreement with an affiliate of Bear Stearns that provides us with an option to purchase up to \$225 million face amount of mortgage loans, which we intend to purchase with

the proceeds of this offering. For more information, including a description of these assets and related financing, see "Newcastle Investment Corp. -- Our Investments."

We are externally managed and advised by Fortress Investment Group LLC. Our chairman and chief executive officer and each of our executive officers also serve as officers of our manager. We have no ownership interest in our manager. We have chosen to be externally managed by Fortress Investment Group to take advantage of the existing business relationships, operational and risk management systems, expertise and economies of scale associated with our manager's current business operation. At March 31, 2002, our manager and its employees owned approximately 16.4% of the equity of Newcastle Investment Holdings (25.8% upon exercise of outstanding options to purchase shares of Newcastle Investment Holdings) and options to purchase shares of our

common stock, representing % of our equity upon exercise of outstanding options. In addition, in connection with this offering, we will grant to our manager an option to purchase an additional shares of our common stock, representing 10% of the number of shares being offered hereby, and subject to adjustment if the underwriters' over-allotment option is exercised, at the offering price of our shares in this offering. Fortress Investment Group would have a total beneficial ownership in our common stock of approximately %, taking into account its interest in Newcastle Investment Holdings and its exercise of all of its options. We pay Fortress Investment Group an annual management fee and an incentive return based on certain performance criteria. Fortress Investment Group also manages and invests in other entities, including Newcastle Investment Holdings, that invest in real estate assets.

Newcastle Investment Holdings was formed in 1998 by Messrs. Wesley R. Edens, Robert I. Kauffman, Randal A. Nardone and Erik P. Nygaard. In June 2002, we were organized under the laws of the State of Maryland. For information regarding each of these individuals, including the positions and offices they hold, see "Our Manager and the Management Agreement -- Officers of Our Manager."

We may form an operating partnership, of which we will be the sole general partner, through which we may make certain of our investments in the future.

#### OUR STRATEGY

We intend to focus on increasing our holdings in credit sensitive real estate securities, including mortgage backed securities and REIT debt securities, and to continue to invest in other real estate related investments, including credit leased real estate and mortgage loans. The mortgage backed securities we intend to invest in will generally be junior in right of payment of interest and principal to one or more senior classes, but will benefit from the support of one or more subordinate classes of securities or other form of credit support within a securitization transaction. The REIT debt securities we intend to invest in will reflect comparable credit risk. We believe that these securities offer attractive risk-adjusted returns with long-term principal protection under a variety of default and loss scenarios. While the expected yield on these securities is sensitive to the performance of the underlying assets, the more subordinated securities or other features of the securitization transaction, in the case of mortgage backed securities, and the issuer's underlying equity and subordinated debt, in the case of REIT debt, are designed to bear the first risk of default and loss. We intend to further minimize credit risk through active management of our portfolio.

Returns on these investments can be sensitive to interest rate volatility. We intend to minimize exposure to interest rate fluctuation through the use of match-funded financing structures. In particular, we expect to finance our real estate securities investments through the issuance of debt securities in the form of CBOs to take advantage of the structural flexibility offered by CBO transactions to buy and sell certain investment positions to manage risk and, subject to certain limitations, to optimize returns.

We actively monitor our investment portfolio and the underlying credit quality of our holdings and, where appropriate, reposition our investments to upgrade the credit quality and yield on our investments. We selectively pursue special investment situations where we believe cash flows have been mispriced, including discounted securities purchases in sectors or jurisdictions which have fallen out of favor due to economic pressures, regulatory issues or illiquidity. We will draw on our manager's expertise and significant

65

business relationships with participants in the real estate securities industry to enhance our access to these investments, which may not be broadly marketed.

We intend to broadly diversify our portfolio by asset type, industry, location and issuer. We expect that diversification will minimize the risk of capital loss, and will also enhance the terms of our financing structures.

Our investments may be made directly or indirectly, such as in the form of an investment in a vehicle created to hold such assets. We do not intend that our investment in securities of other issuers will require us to register as an "investment company" under the Investment Company Act of 1940, as amended, and we would divest securities before any such registration would be required.

#### OUR INVESTMENT GUIDELINES

Our board of directors has adopted general guidelines for our investments and borrowings to the effect that:

- no investment shall be made which would cause us to fail to qualify as a REIT;
- no investment shall be made which would cause us to be regulated as an investment company;
- no more than 20% of our equity, determined as of the date of such



investment, shall be invested in any single asset;

- our leverage shall not exceed 90% of the value of our assets; and
- we shall not 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.

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

#### OUR TARGETED INVESTMENTS

COMMERCIAL MORTGAGE BACKED SECURITIES. We intend to invest in commercial mortgage backed securities (CMBS), which are secured by or evidence ownership interests in a single commercial mortgage loan or a pool of mortgage loans secured by commercial properties. These securities may be senior, subordinate, investment grade or non-investment grade securities. We expect the majority of our CMBS investments to be rated by at least one nationally recognized rating agency. The majority of our investments in CMBS will consist of securities that are part of a capital structure or securitization where the rights of such class to receive principal and interest are subordinate to senior classes but senior to the rights of lower rated classes of securities. We intend to seek to invest in CMBS that will yield high current interest income and where we consider the return of principal to be likely. We intend to acquire CMBS from private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage bankers, commercial banks, finance companies, investment banks and other entities.

The yield on CMBS depends on the timely payment of interest and principal due on the underlying mortgage loans and defaults by the borrowers on such loans may ultimately result in deficiencies and defaults on the CMBS. In the event of a default, the trustee for the benefit of the holders of CMBS has recourse only to the underlying pool of mortgage loans and, if a loan is in default, to the mortgaged property securing such mortgage loan. After the trustee has exercised all of the rights of a lender under a defaulted mortgage loan and the related mortgaged property has been liquidated, no further remedy will be available. However, holders of relatively senior classes of CMBS will be protected to a certain degree by the structural features of the securitization transaction within which such CMBS were issued, such as the subordination of the relatively more junior classes of the CMBS.

66

The credit quality of CMBS depends primarily on the credit quality of the underlying mortgage loans. Among the factors determining credit quality of a mortgage loan are (i) the purpose of the mortgage loan (e.g. refinancing or new purchase), (ii) the principal amount of the mortgage loan relative to the value of the related mortgaged property at origination and at maturity, (iii) the mortgage loan terms (e.g. amortization, balloon amounts, reserves, prepayment terms), (iv) the geographic location of the mortgaged property securing the mortgage loan, and (v) the creditworthiness of tenants occupying the underlying properties.

In considering whether to acquire a CMBS, we perform due diligence to assess the credit quality of the mortgage loans as discussed above, as well as (i) the capabilities of the master and special servicer servicing the mortgage loans, (ii) the CMBS structure including subordination levels, (iii) the prepayment and default history of the other mortgage loans previously originated by lenders, (iv) cash flow analyses under various prepayment and interest rate scenarios (including sensitivity analyses), and (v) an analysis of various default scenarios.

B NOTES. We intend to invest in one or more "B Notes" rated by at least one nationally recognized rating agency. A "B Note" is typically a privately negotiated loan (a) secured by a first mortgage on a single large commercial property or group of related properties and (b) subordinated to an "A Note" secured by the same first mortgage on the same property. The subordination of a B Note is typically evidenced by an inter-creditor agreement with the holder of the related A Note.

B Notes share certain credit characteristics with subordinated CMBS, in that both reflect an interest in a first mortgage and are subject to more credit risk with respect to the underlying mortgage collateral than the corresponding senior securities or the A Notes, as the case may be. As opposed to a typical CMBS secured by a large pool of mortgage loans, B Notes typically are secured by a single property, and the associated credit risk is concentrated in that single property. B Notes also share certain credit characteristics with second mortgages, in that both are subject to more credit risk with respect to the underlying mortgage collateral than the corresponding first mortgage or the A Note, as the case may be. We will acquire B Notes in negotiated transactions

with the originators, as well as in the secondary market.

The yield on a B Note depends on the timely payment by the borrower of interest and principal. Default by the borrower may, depending on the transaction structure, result in the immediate interruption of current cash flow and may ultimately result in the loss of principal of the B Note. In the event of such a default, the rights of the B Note holders to foreclose on the mortgage collateral are typically subject to the prior right of the holder of the corresponding A Note. As a result, the rights of the holder of a B Note to mitigate losses in the event of a borrower default may be impaired.

The credit quality of a B Note depends on (i) the borrower under the underlying mortgage, (ii) the value of the underlying collateral and the extent to which it secures the obligation owed to the B Note holder, (iii) the rights under the mortgage loan documents (e.g. personal guarantees, additional collateral, default covenants, remedies), (iv) the B Note holder's rights under an inter-creditor agreement with the A Note holders, (v) the level and stability of cash flow from the property available to service the mortgage debt, and (vi) the availability of capital for refinancing by the borrower if the mortgage loan does not fully amortize.

We perform extensive due diligence and credit analysis including (i) borrower credit underwriting, (ii) property review (e.g. appraisal, environmental, structural), (iii) mortgage loan and B Note documentation review, (iv) property cash flow analysis, and (v) analysis of the eligibility of each mortgage loan for inclusion as collateral in a future securitization or appropriateness for other forms of financing or sale.

REIT DEBT SECURITIES. We intend to invest in investment grade and non-investment grade debt securities issued by other REITs. REIT debt securities are generally unsecured corporate obligations of REITs. We expect the majority of these REIT debt securities to be rated by at least one nationally recognized rating agency. We will seek to invest in REIT debt securities that will yield high current

67

interest income and where we consider the return of principal to be likely. We intend to acquire REIT debt from companies representing a variety of property types.

The credit quality of REIT debt is directly dependent on the financial condition and business outlook of the issuer. Factors determining the financial condition and outlook include (i) portfolio credit quality (e.g. diversity, type of asset and stability of cash flow), (ii) availability of capital, (iii) leverage and leverage trends, (iv) size of portfolio, (v) competition, and (vi) quality of the REIT's management team.

In analyzing these debt securities, we consider, among other factors, the credit quality factors described above as well as unencumbered and encumbered cash flow coverage, capital structure, refinancing risks, and covenants of the issuer's outstanding debt.

RESIDENTIAL MORTGAGE SECURITIES. We intend to invest in residential mortgage backed securities (RMBS), which are secured by or evidence ownership interests in pools of mortgage loans secured by single family residential properties. We will invest in securities with credit quality and subordination levels similar to those described above for our CMBS investments.

We will seek to invest in RMBS that will yield high current interest income and where we consider the return of principal to be likely. We intend to acquire RMBS from private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage bankers, commercial banks, finance companies, investment banks and other entities.

Like CMBS, the yield on RMBS depends on the timely payment of interest and principal due on the underlying mortgage loans by the borrowers under such mortgage loans and defaults by such borrowers may ultimately result in deficiencies and defaults on the RMBS. In the event of a default, the trustee for the benefit of the holders of RMBS has rights similar to corresponding rights of a CMBS trustee.

Like CMBS, the credit quality of RMBS depends on the credit quality of the underlying mortgage loans, which is a function of factors such as (i) the purpose of the mortgage loans (e.g. refinancing or new purchase), (ii) the principal amount of the mortgage loans relative to the value of the related mortgaged properties, (iii) the mortgage loan terms (e.g. amortization), (iv) the geographic location of the properties securing the mortgage loans, and (v) the creditworthiness of the borrowers.

In considering whether to acquire an RMBS, we will perform due diligence to assess the credit quality of the mortgage loans as discussed above for CMBS, as well as the likelihood of prepayment, which residential borrowers are generally permitted to do without penalty. For RMBS, credit quality may also depend on the extent of any government or agency guarantee of the mortgage loans securing the

mortgage loans.

**MORTGAGE LOANS.** We may invest in portfolios of mortgage loans from various sellers, including life insurance companies, banks and other owners, generally secured by commercial or residential properties in the U.S. Among the factors determining credit quality of a mortgage loan are (i) the purpose of the mortgage loan (e.g. refinancing or new purchase), (ii) the principal amount of the mortgage loan relative to the value of the related mortgaged property at origination and at maturity, (iii) the mortgage loan terms (e.g. amortization, balloon amounts, reserves, prepayment terms), (iv) the geographic location of the mortgaged property securing the mortgage loan, and (v) the creditworthiness of tenants or borrowers occupying the underlying property.

We intend to use the net proceeds of this offering to pay a portion of the purchase price for a portfolio of mortgage loans. We have entered into an agreement with an affiliate of Bear Stearns that provides us with an option to purchase up to \$225 million face amount of mortgage loans. We have also entered into a financing arrangement with an affiliate of Bear Stearns to fund the balance of the purchase price for the mortgage loans. This financing arrangement will permit us to further borrow an amount up to 90% of the purchase price of the mortgage loans.

**OTHER REAL ESTATE-RELATED INVESTMENTS.** We may also make investments in other types of commercial real estate assets as well as in non-mortgage backed securities. In particular, we may invest in credit leased real property similar to our current credit leased real estate portfolio.

68

Although we intend to invest in the investments described above, our business decisions will depend on changing market conditions. As a result, we cannot predict with any certainty the percentage of our assets that will be invested in each category. We may change our investment strategy and policies without a vote of stockholders. We may acquire assets from our manager or its affiliates, including securities issued by our manager or its affiliates. There are no limitations on such transactions, except that they must comply with our general investment guidelines and our management agreement with our manager.

#### OUR FINANCING STRATEGY

We will seek to enhance returns to stockholders through the use of leverage. Our financing strategy focuses on the use of match-funded financing structures. This means that we seek to match the maturities of our financial obligations with the maturities of our investments to minimize 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 earnings. In addition, we match fund interest rates 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), through the use of hedges such as interest rate swaps, caps, or through a combination of these strategies. This allows us to reduce the impact of changing interest rates on our earnings. In this regard, we intend to utilize securitization structures, particularly collateralized bond obligations, otherwise known as CBOs, as well as other match-funded financing structures. CBOs are multiple class debt securities, or bonds, secured by pools of assets, such as mortgage backed securities, B Notes and REIT debt. Like typical securitization structures, in a CBO (a) the assets are pledged to a trustee for the benefit of the holders of the bonds, (b) one or more classes of the bonds are rated by one or more rating agencies, and (c) one or more classes of the bonds are marketed to a wide variety of fixed income investors, which enables the CBO sponsor to achieve a relatively low cost of long-term financing. Unlike typical securitization structures, the underlying assets may be sold, subject to certain limitations, without a corresponding pay-down of the CBO, provided the proceeds are reinvested in qualifying assets. As a result, CBOs enable the sponsor to actively manage, subject to certain limitations, the pool of assets. We believe that CBO financing structures are an appropriate financing vehicle for our targeted asset classes, because they will enable us to lock in a long-term cost of funds and minimize the risk that we have to refinance our liabilities prior to the maturities of our investments while giving us the flexibility to manage credit risk and, subject to certain limitations, to take advantage of profit opportunities.

We may also use short term financing, in the form of repurchase agreements, bridge financings and bank warehousing facilities, as an intermediary step prior to the implementation of optimal match-funded financing. We utilize leverage for the sole purpose of financing our portfolio and not for the purpose of speculating on changes in interest rates. As of March 31, 2002, a 100 basis point change in short-term interest rates would affect our earnings by no more than \$2.2 million per annum.

#### OUR HEDGING ACTIVITIES

We intend to enter into hedging transactions to protect our positions from interest rate fluctuations and other changes in market conditions. These transactions may include interest rate swaps, the purchase or sale of interest rate collars, caps or floors, options, mortgage derivatives and other hedging instruments. 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 may elect to have us bear a level of interest rate risk that could otherwise be hedged when our manager believes, based on all relevant facts, that bearing such risks is advisable. Our manager has extensive experience in hedging real estate positions with these types of instruments. Our manager engages in hedging for the sole purpose of protecting against interest rate risk and not for the purpose of speculating on changes in interest rates.

OUR INVESTMENTS

As a result of the formation transactions, we own a diversified portfolio of credit sensitive real estate securities, including commercial mortgage backed securities and unsecured REIT debt rated primarily

BBB (the lowest investment grade rating) and BB (one level below investment grade). We also own certain credit leased real estate in Canada and Europe and mezzanine bonds relating to a real estate portfolio credit leased to the Government Services Administration of the U.S. government. Newcastle Investment Holdings transferred these assets and liabilities to us and retained its investment and interest in, among other things, Fortress Investment Fund, a private equity fund managed by our manager, and a portfolio of credit leased real estate leased to the Government Services Administration of the United States government. The retained assets produce less predictable current cash flows than the transferred assets. Accordingly, these assets were not transferred.

As of March 31, 2002, our assets, after giving effect to the formation transactions, based on the book value of our operating segments, were 81.9% in real estate securities, 17.8% in credit leased real estate and 0.3% in cash and other assets. The following is a description of our investment assets as of , 2002. For an explanation of the ratings assigned by Standard & Poor's and Moody's Investor Services, see "-- Ratings."

REAL ESTATE SECURITIES

CBO I: In July 1999, Fortress CBO Investments I, Limited and Fortress CBO Investments I Corp. issued approximately \$500 million face amount of collateralized bond obligations (CBOs) and other securities in transactions exempt from the registration requirements of the Securities Act pursuant to Rule 144A and Regulation S thereunder. As of March 31, 2002, the underlying securities securing CBO I consist of:

- \$290.9 million face amount in commercial mortgage backed securities (CMBS) with a weighted average coupon of 6.55%, a weighted average rating of approximately Ba2 and a weighted average term to maturity of 7.28 years at March 31, 2002. Retail, multifamily and office properties comprise 32%, 21% and 17%, respectively, of the underlying collateral.
- \$253.8 million face amount in unsecured REIT debt securities with a weighted average coupon of 7.00%, a weighted average rating of approximately Ba1 and a weighted average remaining term to maturity of 6.01 years at March 31, 2002. Office, retail, industrial and residential REIT industries comprise 24%, 36%, 15%, 17%, respectively, of the debt.

\$437.5 million of Senior CBO I Securities were sold to third parties and we own \$62.5 million of the Subordinated CBO I Securities. The table below sets forth further information with respect to the CBO I structure.

<Table>  
<Caption>

	CLASS	MOODY'S/S&P RATINGS	FACE AMOUNT	COUPON	EXPECTED MATURITY
<S>	<C>	<C>	<C>	<C>	<C>
Senior CBO I Securities.....	A	Aaa/AAA	\$322,500,000	LIBOR +0.65%	July-04
	B	Aa2/AA	\$ 20,000,000	LIBOR +0.80%	July-04
	C	A2/NR	\$ 62,500,000	7.85%	July-09
	D	Baa2/NR	\$ 32,500,000	8.60%	July-09
TOTAL.....			\$437,500,000		
=====					
Subordinate CBO I Securities.....	E	Ba2	\$ 17,500,000	9.00%	July-09
	Preferred	B2	\$ 17,500,000	9.00%	July-09
	Common I		\$ 26,400,000	N/A	N/A
	Common II		\$ 1,100,000	N/A	N/A
TOTAL.....			\$ 62,500,000		
=====					

</Table>

We act as collateral manager for CBO I and are paid a monthly fee of 0.5%

per annum of the principal balance of the CBO I collateral. We have the discretion to buy and sell up to 15% of the outstanding face of the collateral annually, and to sell defaulted and credit risk securities on an unlimited

basis. Until 2004, we are obligated to reinvest principal received from the collateral. In 2004, we intend to refinance the Class A and B Senior CBO I securities, provided it would not result in a downgrade of any rated classes of securities. Failure to so refinance on the scheduled date in 2004 will result in an additional allocation of cash flows from certain of the Subordinate CBO I securities to the Class A and B Senior CBO I securities. To better match the collateral cash flow to the debt service on the CBO I Securities, we entered into interest rate swap and cap agreements.

CBO II: On April 25, 2002, Newcastle CDO I Limited and Newcastle CDO I Corp. issued \$500 million face amount of collateralized bond obligations and other securities in our second CBO transaction. As of May 31, 2002, the proceeds had been 91% invested. We expect to be 100% invested by July 2002 with a portfolio composed of approximately 59% CMBS, 25% REIT debt securities and 16% Asset Backed Securities and other securities. More specifically, at May 31, 2002 the second CBO, which we refer to as CBO II, consisted of:

- \$281 million face amount in CMBS with a weighted average coupon of 6.44%, a weighted average rating of approximately Baa3 and a weighted average term to maturity of 7.5 years. Retail, multifamily and office properties comprise 33.8%, 15.8% and 21.5%, respectively, of the underlying collateral.
- \$132 million face amount in unsecured REIT debt securities with a weighted average coupon of 7.45%, a weighted average rating of approximately Baa2 and a weighted average remaining term to maturity of 7.5 years. Office, retail, industrial and residential REIT industries comprise 34%, 36%, 4% and 13% respectively, of the debt.
- \$42 million face amount in asset backed securities with a weighted average coupon of 7.68% and a weighted average term to maturity of 9.0 years.

\$444 million face amount of Senior CBO II securities were sold to third parties and we own \$56 million of the Subordinated CBO II securities. The table below sets for the further information with respect to the structure of CBO II.

<Table>  
<Caption>

	CLASS	MOODY'S/S&P RATINGS	FACE AMOUNT	COUPON	EXPECTED MATURITY
<S>	<C>	<C>	<C>	<C>	<C>
Senior CBO II Securities.....	Class I	Aaa/AAA	\$372,000,000	LIBOR+0.55%	April-32
	Class II	A3/A-	\$ 38,000,000	7.59%	April-37
	Class III	Baa2/BBB	\$ 34,000,000	8.37%	April-37
TOTAL.....			\$444,000,000		
Subordinate CBO II Securities.....	Class IV Preferred	Ba2/BB NR	\$ 19,000,000 \$ 37,000,000	7.50% N/A	April-37 April-37
TOTAL.....			\$ 56,000,000		

</Table>

We act as collateral manager for CBO II and are paid a quarterly fee of 1/4 of 0.35% of the principal balance of the CBO II collateral. We have the discretion to buy and sell up to 15% of the outstanding face of the collateral annually, and to sell defaulted and credit risk securities on an unlimited basis. Until 2007, we are obligated to reinvest principal received from the collateral. To better match the collateral cash flow to the debt service on the CBO II securities, we entered into interest rate swap and cap agreements.

CBO III: We are currently discussing financing arrangements with various investment banks to purchase securities which we will finance through our third CBO issuance.

CREDIT LEASED REAL ESTATE

Bell Canada Portfolio. We own four office properties and an industrial property in Canada leased primarily to Bell Canada. In this prospectus, we refer to these properties as the Bell Canada Portfolio. The total net rentable area is approximately 1.3 million square feet and the current annual rent is

approximately \$5.9 million. We believe that these properties are adequately

covered by insurance against potential loss.

To more effectively monetize lease cash flows and the anticipated value of the properties in the Bell Canada Portfolio, in April 2002, we issued approximately \$70 million face amount of securities secured by the lease payments and by the five Bell Canada properties in a transaction exempt from the registration requirements of both Canadian and U.S. securities laws.

The table below sets forth further information on the securities issued:

SERIES	MOODY'S/S&P RATINGS	FACE	COUPON	EXPECTED MATURITY
<S>	<C>	<C>	<C>	<C>
Series A Class I Notes.....	AAA	\$18,000,000	6.150%	April-2012
Series A Class II Notes....	AA	\$ 6,000,000	6.150%	April-2012
Series A Class III Notes...	A+	\$30,000,000	6.150%	April-2012
Series B Notes.....	A	\$ 6,000,000	7.675%	April-2012
Series C Notes.....	BBB	\$10,000,000	LIBOR+8.000% (A)	April-2012
TOTAL.....		\$70,000,000		

(A) The coupon on these Notes is capped at 12.000%.

The Series A and B Notes were sold to third parties and the Series C Notes were retained by us.

The following table sets forth certain information with respect to the Bell Canada Portfolio:

BELL CANADA PORTFOLIO

PROPERTY ADDRESS	CITY/SUBMARKET (1)	STATE/ PROVINCE	NET RENTABLE SQUARE FEET	YEAR BUILT/ RENOVATED	OWNERSHIP %	USE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
20-40 Norelco Drive, 83 Signet Drive	Toronto/North York	ON	624,786	1963/ 1971/ 1979	100%	Industrial/ Distribution
2 Fieldway Road	Etobicoke (Toronto)/ Metro West	ON	177,214	1972/ expanded 1978	100%	Office
100 Dundas Street	London/CBD	ON	325,764	1980	100%	Office
449 Princess Street	Kingston/CBD	ON	45,691	1981	100%	Office
66 Bay Street South	Hamilton/CBD	ON	118,787	1974	100%	Office
Total/Average			1,292,242			

PROPERTY ADDRESS	TENANT	% OF TOTAL SQUARE FOOTAGE LEASED	TENANT NET RENTABLE SQUARE FEET	LEASE START DATE	LEASE EXP DATE	TENANT CREDIT RATING
<S>	<C>	<C>	<C>	<C>	<C>	<C>
20-40 Norelco Drive, 83 Signet Drive	Bell Canada-Office	98.48%	615,274	3/26/98	3/31/07	A
	Bell Canada-Cafeteria	0.73%	4,559	3/26/98	3/31/07	A
	Bell Canada-Storage	0.47%	2,960	3/26/98	3/31/07	A
	Bell Canada-O&Y	0.32%	1,993	3/26/98	3/31/07	A
2 Fieldway Road	Bell Canada-Office	94.1%	166,753	3/26/98	3/31/04	A
	Bell Canada-Cafeteria	4.25%	7,533	3/26/98	3/31/04	A
	Bell Canada-Storage	0.91%	1,619	3/26/98	3/31/04	A
	Bell Canada-Mgmt	0.65%	1,153	3/26/98	3/31/04	A
	Hosnya Elshaarawy	0.09%	156	4/1/01	3/31/06	
100 Dundas Street	Bell Canada-Office	89.24%	290,706	3/26/98	3/31/06	A
	Bell Canada-Cafeteria	3.96%	12,890	3/26/98	3/31/06	A
	Bell Canada-Storage	0.52%	1,686	3/26/98	3/31/07	A
	Bell Canada-Mgmt	0.45%	1,478	3/26/98	3/31/06	A
	ComTech	0.03%	96	1/01/00	12/31/05	
	MacTel	0.47%	1,536	6/1/00	5/31/03	
	MacTel	0.21%	673	4/1/01	5/31/03	
	UUNet	0.13%	431	6/1/99	5/31/02	

	Tony & Fay Gardner	0.14%	460	9/1/99	8/31/02	
	Pointts Limited	0.61%	1,989	8/15/97	7/31/02	
	Palmieri's Fine Food Inc	0.58%	1,884	10/1/00	9/30/10	
449 Princess Street	Bell Canada-Office	99.41%	45,422	3/26/98	3/31/03	A
	Bell Canada-Storage	0.59%	269	3/26/98	3/31/03	A
66 Bay Street South	Bell Canada-Office	92.94%	110,400	3/26/98	3/31/03	A
	Bell Canada-Cafeteria	6.42%	7,621	3/26/98	3/31/03	A
	Bell Canada-Storage	0.41%	492	3/26/98	3/31/03	A
	Bell Canada-Mgmt	0.23%	274	3/26/98	3/31/03	A
		-----	-----			
Total/Average		99.08%	1,280,307			

<Caption>

PROPERTY ADDRESS	ANNUAL RENT (2)	CURRENT RENT PER SQUARE FOOT	ANNUAL REAL ESTATE TAXES	LEASE RENEWAL OPTION
<S>	<C>	<C>	<C>	<C>
20-40 Norelco Drive,	\$2,797,343	\$ 4.55	\$1,095,720	One 5 Year
83 Signet Drive	\$ 29,611	\$ 6.49		
	\$ 9,613	\$ 3.25		
	\$ 9,061	\$ 4.55		
2 Fieldway Road	\$ 758,143	\$ 4.55	\$ 608,057	One 5 Year
	\$ 48,927	\$ 6.49		
	\$ 5,258	\$ 3.25		
	\$ 7,489	\$ 6.49		
	709	\$ 4.55		
100 Dundas Street	\$1,321,695	\$ 4.55	\$1,057,885	One 5 Year
	\$ 41,860	\$ 3.25		One 5 Year
	\$ 21,901	\$12.99		None
	\$ 10,080	\$ 6.82		
	\$ 499	\$ 5.20		
	\$ 7,981	\$ 5.20		One 2 Year
	\$ 3,497	\$ 5.20		One 2 Year
	\$ 4,199	\$ 9.74		One 3 Year
	\$ 2,689	\$ 5.85		None
	\$ 19,378	\$ 9.74		One 5 Year
	\$ 31,815	\$16.89		One 5 Year
449 Princess Street	\$ 206,511	\$ 4.55	\$ 59,717	One 5 Year
	\$ 874	\$ 3.25		One 5 Year
66 Bay Street South	\$ 501,934	\$ 4.55	\$ 308,105	One 5 Year
	\$ 49,498	\$ 6.49		One 5 Year
	\$ 1,598	\$ 3.25		One 5 Year
	\$ 1,248	\$ 4.55		
	-----		-----	
Total/Average	\$5,893,411		\$3,129,484	

</Table>

(1) CBD means central business district.

(2) Certain operating expenses are reimbursed by tenants at rates ranging up to 15% above actual cost

All monetary amounts are in U.S. dollars based on the May 21, 2002 Canadian dollar to U.S. dollar exchange rate of 1.5396459.

73

The following schedule represents the leases expiring over the next 10 years for the Bell Canada portfolio as of March 31, 2002.

SCHEDULE OF LEASE EXPIRATIONS

BELL CANADA PORTFOLIO

<Table>  
<Caption>

YEAR	NUMBER OF TENANTS LEASE EXPIRING	SQUARE FEET OF EXPIRING LEASES	ANNUAL RENT OF EXPIRING LEASES*	% OF GROSS ANNUAL RENT REPRESENTED BY EXPIRING LEASES
<S>	<C>	<C>	<C>	<C>
2002	3	2,880	\$ 26,266	0.45%
2003	8	166,687	\$ 773,049	13.12%
2004	4	177,058	\$ 819,816	13.91%
2005	1	96	\$ 499	0.01%
2006	4	305,230	\$1,374,344	23.32%
2007	4	624,786	\$2,845,628	48.28%
2008	0	0	\$ 0	0.00%
2009	0	0	\$ 0	0.00%
2010	1	1,884	\$ 31,815	0.54%

\* Monetary amount is in U.S. dollars based on a Canadian dollar to U.S. dollar exchange rate of 1.5396459 as of May 21, 2002.

LIV Portfolio. As of May 31, 2002, we own eight office and industrial properties in Belgium leased primarily to government or quasi-governmental entities, referred to in this prospectus as the LIV portfolio. The total net rentable area of the portfolio is approximately 456,000 square feet and the current annual rent is approximately \$5.4 million.

Until recently, the portfolio included a ninth property, located at 6-14 Avenue Palmerston in Brussels. We recently completed a lease/sale transaction of this asset. On April 24, 2002, we signed a 27-year capital lease with the European Commission. On May 2, 2002, we sold both our interest in this lease and our remaining interest in the property to a special-purpose entity controlled by a third party. As a consequence of this transaction, we no longer have any rights or obligations related to the asset.

The LIV portfolio is financed with a loan from a commercial bank in Belgium, \$53.3 million of which was outstanding as of March 31, 2002. The loan bears interest at a rate equal to EURIBOR + 1.49%. In order to mitigate the interest rate risk related to the financing, we are party to an interest rate cap agreement with a commercial bank in Belgium. Pursuant to the interest rate cap agreement, the hedge counterparty pays the excess, if any, between the strike rate (4.75%) and the three-month EURIBOR rate as of the payment date. The cap has a notional balance of \$53.3 million and matures in August 2004.

The following table sets forth certain information with respect to the LIV portfolio as of March 31, 2002:

LIV PORTFOLIO

<Table>  
 <Caption>

PROPERTY ADDRESS	CITY/ SUBMARKET	STATE/ PROVINCE	NET RENTABLE SQUARE FEET	YEAR BUILT/ RENOVATED	OWNERSHIP %	USE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
54 Gossetlaan	Groot-Bijgaarden	Belgium	81,763	1994	100%	Office
325 Leuvensesteenweg	Zaventum	Belgium	65,175	1975/1990	100%	Office
15-17 Rue Belliard	Brussels	Belgium	28,180	1974/1996	100%	Office
159 Dreve Richelle	Waterloo	Belgium	46,231	1930/1990	100%	Office
4 Rue de law Science	Brussels	Belgium	26,651	1952/1993/1998	100%	Office
4-6 Rue Belliard	Brussels	Belgium	32,206	1987/2001	100%	Office
5 Hoge Wei	Zaventum	Belgium	55,606	1986	100%	Warehouse
10 Rue Guimard	Brussels	Belgium	119,781	1973/1995	100%	Office
6-14 Avenue Palmerston*	Brussels	Belgium	53,421	1965/1990	100%	Office
Total/Average			509,014			

<Caption>

PROPERTY ADDRESS	TENANT	% OF TOTAL SQUARE FOOTAGE LEASED	TENANT NET RENTABLE SQUARE FEET	LEASE START DATE	LEASE EXP DATE
<S>	<C>	<C>	<C>	<C>	<C>
54 Gossetlaan	Ascend/Lucent Tech	9.56%	7,815	12/1/98	11/30/02
	Wella	14.96%	12,228	1/1/99	12/31/07
	Lucent Tech	6.92%	5,662	10/1/00	11/30/07
	Media Genix	17.58%	14,370	3/1/00	2/28/08
	United Biscuits	18.04%	14,746	3/1/99	2/28/08
	Job @	10.02%	8,191	7/1/00	6/30/09
325 Leuvensesteenweg	Express Road	9.27%	6,039	9/1/91	8/31/02
	Space Applic. Services	7.27%	4,736	8/15/93	8/14/11
	K & L	4.38%	2,852	10/1/97	9/30/06
	Integri	12.48%	8,137	4/1/98	3/31/07
	Integri	2.44%	1,593	9/1/01	3/31/07
	Euro Business	2.89%	1,884	6/1/99	5/31/08
	Elsevier	23.52%	15,199	6/1/99	5/31/08
	Elsevier	15.82%	10,312	12/1/99	11/30/08
	Aprico	7.27%	4,736	3/1/00	2/28/09
	Secproof	1.90%	1,238	1/1/01	12/31/09
	Quality Infor	4.57%	2,982	3/1/01	2/28/10
15-17 Rue Belliard	Foratom	18.87%	5,318	6/1/97	5/31/06
	Foratom	10.73%	3,025	6/1/99	5/31/08
	Alliance for Beverages	10.73%	3,025	2/1/00	1/31/09



	Agenzia Erogazioni	10.73%	3,025	10/1/00	9/30/09
	Agricoltura				
	Czech Trade Promotioa	4.39%	1,238	12/1/00	11/30/09
	Agency C.V.N.	10.73%	3,025	9/1/01	8/31/10
159 Dreve Richelle	CBC Banque	4.66%	2,153	11/1/93	10/31/11
	Battersby Chung	1.70%	786	7/1/96	6/30/05
	Europay	91.01%	42,076	1/1/00	12/31/07
	Lunch Time	2.63%	1,217	5/1/00	4/30/09
4 Rue de law Science	Swedish & Finnish Ass.	13.81%	3,681	8/15/95	8/14/04
	Vedior Interim	8.24%	2,196	6/1/96	5/31/05
	Vedior Interim	2.79%	743	12/1/97	5/31/05
	Local Government	19.91%	5,307	1/1/00	12/31/08
	Denmark				
	Government of Belgium	55.25%	14,724	4/1/01	03/31/10
4-6 Rue Belliard	Nouvelle Entreprise	28.7%	9,235	04/01/02	03/31/11
	Stragier				
5 Hoge Wei	Unidata Noortman	100%	55,606	7/1/00	6/30/09
	Belgium				
10 Rue Guimard	European Commission	100%	119,782	10/1/95	9/30/07
6-14 Avenue Palmerston*	European Commission	100%	53,421	1/1/99	12/31/01
		-----	-----		
Total/Average		88.86%	452,303		

<Caption>

PROPERTY ADDRESS	ANNUAL RENT	CURRENT RENT PER SQUARE FOOT	ANNUAL REAL ESTATE TAXES
-----	-----	-----	-----
<S>	<C>	<C>	<C>
54 Gossetlaan	\$ 100,329	\$12.84	\$ 44,121
	\$ 151,953	\$12.43	
	\$ 74,364	\$13.13	
	\$ 167,671	\$11.67	
	\$ 183,119	\$12.42	
	\$ 90,399	\$11.04	
325 Leuvensesteenweg	\$ 30,709	\$ 5.09	\$ 25,620
	\$ 50,917	\$10.75	
	\$ 26,131	\$ 9.16	
	\$ 74,607	\$ 9.17	
	\$ 15,394	\$ 9.66	
	\$ 19,805	\$10.51	
	\$ 134,566	\$ 8.85	
	\$ 23,009	\$ 2.23	
	\$ 46,715	\$ 9.86	
	\$ 12,107	\$ 9.78	
	\$ 26,828	\$ 9.00	
15-17 Rue Belliard	\$ 59,615	\$11.21	\$ 61,037
	\$ 32,754	\$10.83	
	\$ 32,326	\$10.69	
	\$ 33,549	\$11.09	
	\$ 14,940	\$12.07	
	\$ 30,417	\$10.06	
159 Dreve Richelle	\$ 34,955	\$16.24	\$ 45,403
	\$ 8,602	\$10.94	
	\$ 483,144	\$11.48	
	\$ 24,878	\$20.44	
4 Rue de law Science	\$ 52,988	\$14.39	\$ 51,596
	\$ 20,834	\$ 9.49	
	\$ 7,460	\$10.04	
	\$ 64,276	\$12.11	
	\$ 198,397	\$13.47	
4-6 Rue Belliard	92,542	\$10.02	\$ 70,257
5 Hoge Wei	\$ 244,599	\$ 4.40	\$ 13,912
10 Rue Guimard	\$2,737,151	\$22.85	\$330,891
6-14 Avenue Palmerston*	\$ 814,023	\$15.24	\$ 43,795
	-----	-----	-----
Total/Average	\$6,216,073		\$686,632

</Table>

\* On May 2, 2002 the company disposed of this asset in a lease/sale transaction. Please refer to the LIV Portfolio description for additional information.

All monetary amounts are in U.S. dollars based on the 5/21/2002 Euro to U.S. dollars exchange rate of 1.0878.

The following schedule represents the leases expiring over the next 10 years for the LIV portfolio as of March 31, 2002.

## LIV PORTFOLIO

<Table>  
<Caption>

YEAR	NUMBER OF TENANTS LEASE EXPIRING	SQUARE FEET OF EXPIRING LEASES	ANNUAL RENT OF EXPIRING LEASES*	% OF GROSS ANNUAL RENT REPRESENTED BY EXPIRING LEASES
<S>	<C>	<C>	<C>	<C>
2002	2	13,854	\$ 131,038	2.43%
2003	0	0	\$ 0	0.00%
2004	1	3,681	\$ 52,988	0.98%
2005	3	3,725	\$ 36,896	0.68%
2006	2	8,170	\$ 85,746	1.59%
2007	6	189,478	\$3,536,613	65.47%
2008	7	64,842	\$ 625,200	11.57%
2009	8	78,276	\$ 499,513	9.25%
2010	3	20,731	\$ 255,642	4.73%
2011	3	16,124	\$ 178,414	3.30%

</Table>

\* Monetary amount is in U.S. dollars based on Euro to U.S. dollars exchange rate of 1.0878 as of May 21, 2002.

76

## GSA PORTFOLIO MEZZANINE BONDS

Prior to the closing of this offering, we will hold a \$43.2 million investment in \$121 million face amount of mezzanine bonds due May 2011 issued by the various affiliates of Newcastle Investment Holdings that hold indirectly investments in the GSA portfolio. The bonds are not entitled to any scheduled interest or amortization payment prior to the maturity date. None of the bonds is secured by mortgages on the GSA portfolio; approximately \$81 million face amount of the bonds we own are secured by the equity interests in the direct or indirect owners of the GSA properties; and approximately \$40 million face amount of the bonds we own are unsecured.

Our manager also manages and holds an interest in Newcastle Investment Holdings. As a result, our manager could be subject to a conflict of interest in managing our interests and those of Newcastle Investment Holdings with respect to the GSA portfolio, including enforcing or waiving events of default and in connection with compliance with other obligations and covenants. There can be no assurance that Newcastle Investment Holdings will continue to hold all or any part of the GSA portfolio.

In the event of a default prior to maturity of the subordinated mezzanine bonds, we would be entitled only to an amount equal to the accreted value of these bonds, and not the face amount of these bonds.

As of March 31, 2002, the total undepreciated cost of the GSA portfolio is \$404 million. The GSA portfolio secures \$356.0 million face amount of mortgage debt at March 31, 2002, which is senior to bonds that we hold. The mortgage debt consists of:

- \$180.1 million face amount of fully amortizing lease-backed pass-through certificates, which are expected to be fully amortized by May 2011.
- \$175.9 million face amount of commercial mortgage pass-through certificates, which we refer to here as the property certificates, which are expected to be outstanding at May 2011.

The table below sets forth the expected outstanding amount of all debt relating to the GSA portfolio at maturity in May 2011, excluding the \$180.1 million of lease-backed pass-through certificates that are scheduled to be repaid by May 2011, assuming all scheduled payments prior to such date are made.

<Table>  
<Caption>

DEBT INSTRUMENT	RATINGS (S&P)	PRINCIPAL AMOUNT AT MATURITY (IN MILLIONS)	HOLDER
<S>	<C>	<C>	<C>
Property Certificates.....	AA, A, BBB	\$176	Third Parties
Senior Mezzanine Bonds.....	BB	\$ 44	Newcastle Investment Corp.
Senior Mezzanine Bonds.....	B	\$ 31	Newcastle Investment Corp.
Senior Mezzanine Bonds.....	NR	\$ 6	Newcastle Investment Corp.
Senior Mezzanine Bonds.....	NR	\$ 4	Newcastle Investment Holdings(A)
Subordinated Mezzanine Bonds.....	NR	\$ 40	Newcastle Investment Corp.

Total Debt.....

\$301

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</Table>

(A) Newcastle Investment Holdings will enter into an agreement which subordinates the rights evidenced by these bonds to the rights evidenced by the bonds that we hold, including the subordinated mezzanine bonds.

Assuming no degradation of the value of the GSA properties, we expect that the value of the GSA portfolio will support the repayment of the mortgage debt and the mezzanine bonds, either through a refinancing or a property sale. However, there can be no assurance that the value of the GSA portfolio upon the maturity of our bonds will be sufficient, after repayment of the mortgage debt, to result in the payment of our bonds at maturity.

We financed \$ million face amount of our investment in the mezzanine bonds through CBO I and CBO II (that is, such bonds serve as CBO collateral).

77

The GSA portfolio, which is owned indirectly by Newcastle Investment Holdings, consists of 14 office properties located in 10 different states and the District of Columbia and is primarily leased to the U.S. General Services Administration. The GSA portfolio contains approximately 2.9 million square feet of total net rentable space and, as of March 31, 2002, the aggregate annual rent was approximately \$45.8 million. The leases generally provide for early termination rights in the event of the destruction of the property or other casualty or upon a finding that the landlord discriminated against an employee or applicant for employment. As of March 31, 2002, the weighted average lease expiration was August 2010 and approximately 98.5% of the total square footage in the GSA portfolio was leased.

#### RATINGS

The following are the explanations of the ratings provided by Standard and Poor's and Moody's. Ratings of BBB and Baa and above are considered investment grade.

#### STANDARD AND POOR'S RATINGS:

AAA: The highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA: Differs from the highest rated obligations only in small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

A: Somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB: Exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB: Less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

PLUS (+) OR MINUS (-): Shows relative standing within the major rating categories.

#### MOODY'S RATINGS:

AAA: Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

AA: Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than the Aaa securities.

A: Bonds which are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.

BAA: Bonds which are rated Baa are considered as medium-grade obligations (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any

78

great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

BA: Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B: Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Moody's applies numerical modifiers 1, 2, and 3 in each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

#### POLICIES WITH RESPECT TO CERTAIN OTHER ACTIVITIES

If our board of directors determines that additional funding is required, we may raise such funds through additional equity offerings, debt financing, retention of cash flow (subject to provisions in the Internal Revenue Code concerning taxability of undistributed REIT taxable income) or a combination of these methods.

In the event that our board of directors determines to raise additional equity capital, it has the authority, without stockholder approval, 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.

Borrowings may be in the form of bank borrowings, secured or unsecured, and publicly or privately placed debt instruments, purchase money obligations to the sellers of assets, long-term, tax-exempt bonds or other publicly or privately placed debt instruments, financing from banks, institutional investors or other lenders, securitizations, including CBOs, any of which indebtedness may be unsecured or may be secured by mortgages or other interests in the asset. Such indebtedness may be recourse to all or any part of our assets or may be limited to the particular asset to which the indebtedness relates.

We have 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. Similarly, we may offer additional interests in our operating partnership that are exchangeable into common shares or, at our option, cash, in exchange for property. We also may make loans to our subsidiaries.

Subject to the percentage of ownership limitations 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. We do not underwrite the securities of other issuers.

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

#### COMPETITION

We are subject to significant competition in seeking investments. We compete with several other companies for investments, including other REITs, insurance companies and other investors. Some of our competitors have greater resources than we do and we may not be able to compete successfully for investments.

79

#### COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT OF 1990

Our properties are required to meet federal requirements related to access and use by disabled persons as a result of the Americans with Disabilities Act of 1990. In addition, a number of additional federal, state and local laws may require modifications to any properties we purchase, or may restrict further renovations thereof, with respect to access by disabled persons. Noncompliance

with these laws or regulations could result in the imposition of fines or an award of damages to private litigants. Additional legislation could impose additional financial obligations or restrictions with respect to access by disabled persons. If required changes involve greater expenditures than we currently anticipate, or if the changes must be made on a more accelerated basis, our ability to make expected distributions could be adversely affected.

#### COMPLIANCE WITH FEDERAL, STATE AND LOCAL ENVIRONMENTAL LAWS

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

#### LEGAL PROCEEDINGS

We are not a party to any material legal proceedings.

80

#### OUR MANAGER AND THE MANAGEMENT AGREEMENT

##### FORTRESS INVESTMENT GROUP LLC

Our manager, Fortress Investment Group, was founded in 1998 by Messrs. Wesley R. Edens, Robert I. Kauffman, Randal A. Nardone and Erik P. Nygaard.

Our manager employs 15 professionals and has offices in New York, London and Rome. Our manager's principal executives have an average of more than years of experience in the fields of real estate investing and finance, private equity investment, capital markets, transaction structuring and risk management with respect to both dollar and non-dollar denominated investments. Over the last six years alone, the founders of our manager have managed the acquisition of over \$20 billion of real estate-related assets and the issuance of over \$11 billion of real estate securities. At March 31, 2002, our manager and its employees owned approximately 16.4% of the equity of Newcastle Investment Holdings (25.8% upon exercise of outstanding options to purchase shares of Newcastle Investment Holdings) and options to purchase shares of our common stock, representing % of our equity upon exercise of outstanding options. In addition, in connection with this offering, we will grant to our manager an option to purchase an additional shares of our common stock, representing 10% of the number of shares being offered hereby, and subject to adjustment if the underwriters' over-allotment option is exercised, at the offering price of our shares in this offering. Fortress Investment Group would have a total beneficial ownership in our common stock of approximately %, taking into account its interest in Newcastle Investment Holdings and its exercise of all of its options. Our manager is entitled to receive an annual base management fee from us and may receive an incentive return based on certain performance criteria.

Our manager continues to manage Newcastle Investment Holdings and also manages and invests in other entities that invest in real estate and other assets.

The executive offices of Fortress Investment Group are located at 1251 Avenue of the Americas, New York, New York 10020 and the telephone number of its executive offices is (212) 798-6100.

#### OFFICERS OF OUR MANAGER

The following table sets forth certain information with respect to the senior officers of our manager. Each of our executive officers is also a senior officer of our manager.

<Table>  
<Caption>

NAME	AGE	POSITION WITH OUR MANAGER
Wesley R. Edens.....	40	Chief Executive Officer
Robert I. Kauffman.....	38	President
Randal A. Nardone.....	46	Chief Operating Officer
Erik P. Nygaard.....	42	Chief Information Officer
Jeffrey R. Rosenthal.....	51	Chief Financial Officer and Treasurer

WESLEY R. EDENS has been our Chief Executive Officer and the Chairman of our board of directors since inception. Mr. Edens co-founded our manager with Messrs. Kauffman, Nardone and Nygaard and is its Chief Executive Officer. Mr. Edens was previously a Managing Director of Union Bank of Switzerland from May 1997 to May 1998. Prior to joining Union Bank of Switzerland, Mr. Edens was a partner and Managing Director of BlackRock Financial Management, Inc. In addition, Mr. Edens was formerly a partner and Managing Director of Lehman Brothers, where he was head of the Non-Agency Mortgage Trading Desk. Mr. Edens received a B.S. degree in Business Administration from Oregon State University. Mr. Edens has been Chief Executive Officer, President and Chairman of the board of directors of Capstead Mortgage Corporation since April 2000.

ROBERT I. KAUFFMAN has been President of our manager since inception. Mr. Kauffman co-founded our manager with Messrs. Edens, Nardone and Nygaard. Mr. Kauffman was previously a Managing Director of Union Bank of Switzerland from May 1997 to May 1998. Prior to joining Union Bank of Switzerland in 1997, Mr. Kauffman was a principal of BlackRock Financial Management, Inc. Prior to joining

81

BlackRock, Mr. Kauffman was an Executive Director of Lehman Brothers International in London from December 1992. Mr. Kauffman received a B.S. degree in Business Administration from Northeastern University.

RANDAL A. NARDONE has been our Secretary since inception. Mr. Nardone co-founded our manager with Messrs. Edens, Kauffman and Nygaard and has been Chief Operating Officer of our manager since inception. Mr. Nardone was previously a Managing Director of Union Bank of Switzerland from May 1997 to May 1998. Prior to joining Union Bank of Switzerland in 1997, Mr. Nardone was a principal of BlackRock Financial Management, Inc. Prior to joining BlackRock, Mr. Nardone was a partner and a member of the executive committee at the law firm of Thacher Proffitt & Wood. Mr. Nardone joined Thacher Proffitt & Wood in 1980 and became head of its structured finance group in 1993. Mr. Nardone received a B.A. degree in English and Biology from the University of Connecticut and a J.D. degree from the Boston University School of Law.

ERIK P. NYGAARD has been our Chief Information Officer since our inception and Chief Information Officer of our manager since inception. Mr. Nygaard co-founded our manager with Messrs. Kauffman and Nardone. Mr. Nygaard was previously a Managing Director of Union Bank of Switzerland from May 1997 to May 1998. Prior to joining Union Bank of Switzerland, Mr. Nygaard was a principal of BlackRock Financial Management, Inc. From April 1990 to July 1994, Mr. Nygaard was a Director at Nomura Securities International. Mr. Nygaard received a B.S. degree in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology.

JEFFREY R. ROSENTHAL has been our manager's Chief Financial Officer since June 2002. Mr. Rosenthal was previously Executive Vice President and Chief Operating Officer of Starwood Capital Group, a real estate equity fund manager, from April 1997 to June 2002. In addition, he was a member of Starwood's Executive and Investment Committees. Mr. Rosenthal previously held the positions of Chief Financial Officer of JMB Realty Corporation from December 1987 to February 1996, Chief Financial Officer of Reyes Holdings from February 1996 to April 1997, and was a partner in the public accounting firm of KPMG Peat Marwick from December 1972 to December 1987. He is also a Director of Baird & Warner, Inc., the largest independent real estate brokerage firm in the Chicago area. Mr. Rosenthal received a B.S. in Accounting from The University of Illinois in Chicago and is a Certified Public Accountant.

#### OTHER KEY PROFESSIONALS OF OUR MANAGER

KENNETH M. RIIS has been our President since inception and a Managing Director of our manager since December 2001. From November 1996 to December 2001, Mr. Riis was an independent consultant for our manager as well as other financial companies. From 1989 to 1996, Mr. Riis was a Principal and Managing Director of the real estate finance group at Donaldson, Lufkin & Jenrette. Mr. Riis received a B.S. degree in Finance and Business Management from San Jose State University.

MICHAEL I. WIRTH has been our Chief Financial Officer since our formation and joined our manager in May 2002. From August 2000 to May 2002, Mr. Wirth was the Senior Vice President and Chief Financial Officer of three public companies:

Charter Municipal Mortgage Acceptance Company, American Mortgage Acceptance Company and Aegis Realty Inc. He was also a Senior Vice President of Related Capital Company which externally managed these companies. Prior to joining Related Capital in August 2000, he was a Vice President at CGA Investment Management. From 1988-1997, he was a Senior Manager with the Estate Consulting Practice of Deloitte & Touche, where he specialized in real estate capital markets and the financial services industry. From 1986-1988, he was the Chief Financial Officer for Cochran Properties, Inc., an Atlanta, Georgia commercial real estate development company and from 1983-1986 was a Senior Accountant with Deloitte Haskins & Sells. Mr. Wirth holds a Bachelor of Business Administration from Georgia State University and is a member of the American Institute of Certified Public Accountants.

JONATHAN ASHLEY has been our Chief Operating Officer since our formation and a Managing Director of our manager since its formation in May 1998. Mr. Ashley previously worked for Union Bank of Switzerland from May 1997 to May 1998. Prior to joining Union Bank of Switzerland, Mr. Ashley worked

82

for an affiliate of BlackRock Financial Management, Inc. from April 1996 to May 1997. Prior to joining BlackRock, Mr. Ashley worked at Morgan Stanley, Inc. in its Real Estate Investment Banking Group. Prior to joining Morgan Stanley, Mr. Ashley was in the Structured Finance Group at the law firm of Skadden, Arps, Slate, Meagher & Flom LLP. Mr. Ashley received a B.A. degree in History from Tufts University and a J.D. degree from the University of Pennsylvania Law School.

WILLIAM DONIGER joined our manager in May 1998 as a Managing Director. He previously worked for Union Bank of Switzerland from January 1998 to May 1998. Prior to joining Union Bank of Switzerland, Mr. Doniger worked for an affiliate of BlackRock Financial Management, Inc. from January 1996 through December 1997. Prior to that, Mr. Doniger was in the structured finance group of the law firm of Thacher Proffitt & Wood. Mr. Doniger graduated from Princeton University with an A.B. degree in History and received a J.D. degree from American University.

MARSHALL L. GLICK joined our manager in February 2002 and is presently serving as our Senior Credit Officer. Mr. Glick previously was a Vice President and Senior CMBS analyst in the Fixed Income Division at Alliance Capital Management L.P from April 1996 to February 2002. Prior to joining Alliance, Marshall was an Associate Director in the Structured Finance Ratings Group at Standard & Poor's Rating Services. Prior to joining Standard & Poor's, he was a Real Estate Associate with National Westminster Bank in New York. Marshall received an M.B.A. from the Graduate School of Business Administration at Fordham University with a concentration in finance and a Bachelor of Science Degree from the School of Business at the State University of New York in Albany.

ALLISON THRUSH joined our manager in March 2001 as Director of Investor Relations. From 1996 to 2001, Ms. Thrush was with The New York State Common Retirement Fund, most recently as Senior Investment Officer. Ms. Thrush received a B.S. degree in Economics from the University of California, Berkeley, and an M.P.P. degree from Harvard University's Kennedy School of Government.

#### THE MANAGEMENT AGREEMENT

We are party to a management agreement with Fortress Investment Group, dated as of \_\_\_\_\_, 2002, pursuant to which Fortress Investment Group, our manager, provides for the day-to-day management of our operations.

The management agreement requires our manager to manage our business affairs in conformity with the policies and the investment guidelines that are approved and monitored by our board of directors. Our manager's management is under the direction of our board of directors. The manager is responsible for (i) the purchase and sale of real estate securities and other real estate-related assets, (ii) management of our real estate, including arranging for purchases, sales, leases, maintenance and insurance, (iii) the purchase, sale and servicing of mortgages for us, and (iv) investment advisory services. Our manager is responsible for our day-to-day operations and performs (or causes to be performed) such services and activities relating to our assets and operations as may be appropriate, including, without limitation, the following:

(i) serving as our consultant with respect to the periodic review of the investment criteria and parameters for our investments, borrowings and operations for the approval of our board of directors;

(ii) investigating, analyzing and selecting possible investment opportunities;

(iii) conducting negotiations with real estate brokers, sellers and purchasers and their agents and representatives, investment bankers and owners of privately and publicly held real estate companies;

(iv) engaging and supervising, on our behalf and at our expense, independent contractors which provide real estate brokerage, investment

banking and leasing services, mortgage brokerage, securities brokerage and other financial services and such other services as may be required relating to our investments;

(v) negotiating on our behalf for the sale, exchange or other disposition of any of our investments;

83

(vi) coordinating and managing operations of any joint venture or co-investment interests held by us and conducting all matters with any joint venture or co-investment partners;

(vii) coordinating and supervising, on our behalf and at our expense, all property managers, leasing agents and developers for the administration, leasing, management and/or development of any of our investments;

(viii) providing executive and administrative personnel, office space and office services required in rendering services to us;

(ix) administering our day-to-day operations and performing and supervising the performance of such other administrative functions necessary to our management as may be agreed upon by our manager and the board of directors, including the collection of revenues and the payment of our debts and obligations and maintenance of appropriate computer services to perform such administrative functions;

(x) communicating on our behalf with the holders of any of our equity or debt securities as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders;

(xi) counseling us in connection with policy decisions to be made by our board of directors;

(xii) evaluating and recommending to our board of directors modifications to the hedging strategies in effect and engaging in overall hedging strategies, engaging in hedging activities on our behalf, consistent with our status as a REIT and with the investment guidelines;

(xiii) counseling us regarding the maintenance of our status as a REIT and monitoring compliance with the various REIT qualification tests and other rules set out in the Internal Revenue Code and Treasury Regulations thereunder;

(xiv) counseling us regarding the maintenance of our exemption from the Investment Company Act and monitoring compliance with the requirements for maintaining an exemption from that Act;

(xv) assisting us in developing criteria for asset purchase commitments that are specifically tailored to our investment objectives and making available to us its knowledge and experience with respect to mortgage loans, real estate, real estate securities and other real estate-related assets;

(xvi) representing and making recommendations to us in connection with the purchase and finance and commitment to purchase and finance of mortgage loans (including on a portfolio basis), real estate, real estate securities and other real estate-related assets, and the sale and commitment to sell such assets;

(xvii) monitoring the operating performance of our investments and providing periodic reports with respect thereto to our board of directors, including comparative information with respect to such operating performance and budgeted or projected operating results;

(xviii) investing or reinvesting any money of ours (including investing in short-term investments pending investment in long-term asset investments, payment of fees, costs and expenses, or payments of dividends or distributions to our stockholders and partners), and advising us as to our capital structure and capital raising;

(xix) causing us to retain qualified accountants and legal counsel, as applicable, to assist in developing appropriate accounting procedures, compliance procedures and testing systems with respect to financial reporting obligations and compliance with the REIT provisions of the Internal Revenue Code and to conduct quarterly compliance reviews with respect thereto;

(xx) causing us to qualify to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses;

84



(xxi) assisting us in complying with all regulatory requirements applicable to us in respect of our business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents, if any, required under the Exchange Act;

(xxii) taking all necessary actions to enable us to make required tax filings and reports, including soliciting stockholders for required information to the extent provided by the REIT provisions of the Internal Revenue Code;

(xxiii) handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which we may be involved or to which we may be subject arising out of our day-to-day operations, subject to such limitations or parameters as may be imposed from time to time by our board of directors;

(xxiv) using commercially reasonable efforts to cause expenses incurred by or on behalf of us to be reasonable or customary and within any budgeted parameters or expense guidelines set by our board of directors from time to time;

(xxv) performing such other services as may be required from time to time for management and other activities relating to our assets as our board of directors shall reasonably request or our manager shall deem appropriate under the particular circumstances; and

(xxvi) using commercially reasonable efforts to cause us to comply with all applicable laws.

Pursuant to the 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. Our manager, its directors and its officers will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders for acts performed in accordance with and pursuant to the management agreement, except by reason of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement. We have agreed to indemnify our manager, its directors and its officers with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of our manager not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties, performed in good faith in accordance with and pursuant to the management agreement. Our manager has agreed to indemnify us, our directors and officers with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of our manager constituting bad faith, willful misconduct, gross negligence or reckless disregard of its duties under the management agreement. Our manager carries errors and omissions and other customary insurance.

Pursuant to the terms of the management agreement, the manager is required to provide a dedicated management team, including a President, Chief Financial Officer and Chief Operating Officer, to provide the management services to be provided by the manager to us, the members of which team shall have as their primary responsibility the management of us and shall devote such of their time to the management of us as our board of directors reasonably deems necessary and appropriate, commensurate with our level of activity from time to time.

The management agreement provides for automatic one-year extensions from and after , 2003. 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 compensation to our manager is not fair, subject to our manager's right to prevent such a compensation termination by accepting a mutually acceptable reduction of fees. Our manager will be provided with 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 our manager during the twelve-month period preceding such termination which may make it more difficult for us to terminate the management agreement. Following any termination of the management agreement, we shall be entitled to purchase the portion of our

manager's incentive return, as described below, 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 return to our manager. In addition, if we do not elect to so purchase our manager's incentive return, our manager will have the right to 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, which is defined as fraud, misappropriation of funds, willful violation of the management agreement,

or gross negligence, without payment of the termination fee. Our manager may at any time assign certain duties under the management agreement to any affiliate of our manager provided that certain officers of the manager also jointly manage and supervise the day-to-day business and operations of such affiliate and provided, further, that our manager shall be fully responsible to us for all errors or omissions of such assignee.

#### MANAGEMENT FEES AND INCENTIVE RETURN

We do not maintain an office or employ personnel. Instead we rely on the facilities and resources of our manager to conduct our operations. Expense reimbursements to our manager are made monthly. The management fee and any other expenses are payable on the first business day of each calendar month.

To date, we have not paid any fees to our manager. Below is a summary of the fees and other amounts due from Newcastle Investment Holdings to the manager since the inception of Newcastle Investment Holdings.

<Table>  
<Caption>

	MAY - DECEMBER 1998	1999	2000	2001	THREE MONTHS ENDED MARCH 31, 2002
<S>	<C>	<C>	<C>	<C>	<C>
Management Fee.....	\$6.0 million	\$5.6 million	\$5.1 million	\$4.8 million	\$1.2 million
Reimbursement of Expenses.....	\$1.2 million	\$1.8 million	\$1.6 million	\$0.9 million	\$0.2 million
Management Incentive Return.....	--	--	--	\$2.8 million	\$0.8 million
Manager options.....	2,091,673 shares	--	--	--	--

**Management Fee.** We pay our manager an annual management fee equal to 1.5% of our gross equity, as defined in the management agreement. Our manager uses the proceeds from its management fee in part to pay compensation to its officers and employees who, notwithstanding that certain of them also are our officers, receive no cash compensation directly from us.

**Reimbursement of Expenses.** Because our manager's employees perform certain legal, accounting, due diligence tasks and other services that outside professionals or outside consultants otherwise would perform, our manager is paid or reimbursed for the cost of performing such tasks, provided that such costs and reimbursements are no greater than those which would be paid to outside professionals or consultants on an arm's-length basis; and provided, further that such costs shall not be reimbursed in excess of \$500,000 per annum. In addition, our manager will be reimbursed for any expenses incurred in contracting with third parties, including affiliates of our manager, for the special servicing of our assets.

We also pay all operating expenses, except those specifically required to be borne by our manager under the management agreement. Our manager is responsible for all costs incident to the performance of its duties under the management agreement, including compensation of our manager's employees, rent for facilities and other "overhead" expenses. The expenses required to be paid by us include, but are not limited to, issuance and transaction costs incident to the acquisition, disposition and financing of our investments, legal and auditing fees and expenses, the compensation and expenses of our independent directors, the costs associated with the establishment and maintenance of any credit facilities and other indebtedness of ours (including commitment fees, legal fees, closing costs, etc.), expenses associated with other securities offerings of ours, the costs of printing and mailing proxies and reports to our stockholders, costs incurred by employees of our manager for travel on our behalf, costs associated with any computer

software or hardware that is used solely for us, costs to obtain liability insurance to indemnify our directors and officers and the compensation and expenses of our transfer agent.

**Incentive Return.** Our manager is entitled to receive an annual incentive return pursuant to the terms of the partnership agreement for our operating partnership in which our manager or an affiliate will hold a minority equity interest. If such operating partnership lacks sufficient assets, equity or income to provide for the incentive return that may arise from time to time, the incentive return will instead be paid in accordance with the terms of the management agreement. The purpose of the incentive return is to provide an additional incentive for our manager to achieve targeted levels of funds from operations (including gains and losses) and to increase our stockholder value. This incentive return, which is calculated on a cumulative, but not compounding, basis is an amount equal to the product of:

(A) 25% of the dollar amount by which

(1) (a) the funds from operations before the incentive return per share of common stock, plus (b) gains (or losses) from debt restructuring and gains (or losses) from sales of property and other assets per share of common stock (subsequent to the formation transactions),

exceed

(2) an amount equal to (a) the weighted average of the price per share of common stock sold in the original issuance and sale of shares of common stock of Newcastle Investment Holdings in 1998 as ratably adjusted for the formation transactions (\$ ) and the prices per share of our common stock in any offerings by us (adjusted for prior capital dividends or capital distributions) multiplied by (b) a simple interest rate of 10% per annum

multiplied by

(B) the weighted average number of shares of common stock outstanding.

"Funds from operations" means net income (computed in accordance with GAAP), excluding gains (losses) from debt restructuring and gains (or losses) from sales of property, plus depreciation and amortization on real estate assets, and after adjustments for unconsolidated partnerships and joint ventures. Funds from operations does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income as an indication of our performance or to cash flows as a measure of liquidity or ability to make distributions.

Upon any termination of the management agreement by either party, we shall be entitled to purchase the incentive return from our manager for a cash purchase price equal to the amount that would be distributed to our manager if all of our assets were sold for cash at their then current fair market value (taking into account, among other things, expected future performance of the underlying investments) or otherwise continue to pay the incentive return to our manager. In addition, if we do not elect to so purchase our manager's incentive return, our manager will have the right to require us to purchase the same at the price described above. In either case, such fair market value shall be determined by independent appraisal to be conducted by a nationally recognized appraisal firm mutually agreed upon by us and our manager.

Our board of directors may request that our manager accept all or a portion of its incentive return in shares of our common stock, and our manager may elect, in its discretion, to accept such payment in the form of shares, subject to limitations that may be imposed by the rules of the New York Stock Exchange or otherwise.

Manager Options. In addition, in connection with this offering, we will grant to our manager options representing the right to acquire 10% of the number of shares offered and sold in this offering at an exercise price per share equal to the initial public offering price per share of the shares in this offering. The options are exercisable as to 1/30 of the shares subject to the option on the first day of each of the 30 calendar months following the date of grant. The manager options provide a means of performance-based

87

compensation in order to provide an additional incentive for our manager to enhance the value of our common stock.

#### CONFLICTS OF INTEREST IN OUR RELATIONSHIP WITH OUR MANAGER

Our chairman and chief executive officer and each of our executive officers also serve as officers of our manager. As a result, the management agreement 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 manager also manages and invests in other real estate-related investment vehicles, including Newcastle Investment Holdings, and our chairman and chief executive officer and some of our other officers also serve as officers and/or directors of these other entities. For example, our manager manages Fortress Investment Fund, which has a substantial investment in Capstead Mortgage Corporation, a publicly traded mortgage REIT. Our chairman and chief executive officer, who is an officer of our manager, also serves as chairman and chief executive officer of Capstead. Capstead's portfolio consists primarily of adjustable-rate and short-maturity assets, including residential mortgage backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae. However, Capstead has a broader investment mandate, which could lead to a future conflict. Certain investments appropriate for us may also be appropriate for one or more of these other investment vehicles and our manager may decide to make a particular investment through another investment vehicle rather than through us. Our manager also intends to engage in additional real estate-related management and investment opportunities in the future which may also compete with us for investments.

Our management agreement with our manager generally does not limit or restrict our manager from engaging in any business or managing any other vehicle that invests generally in real estate securities. However, the terms of the management agreement prohibit our manager and any entity controlled by or under common control with our manager from raising or sponsoring any new investment fund, company or vehicle whose investment policies, guidelines or plan targets as its primary investment category investment in credit sensitive real estate securities, but no such fund, company or vehicle shall be prohibited from investing in credit sensitive real estate securities. Our manager is also required to seek the approval of our independent directors before we engage in a material transaction with another unrelated entity managed by our manager. The ability of our manager and its officers and employees to engage in these other business activities will reduce the time our manager spends managing us.

The management compensation structure that we have agreed to with our manager may cause our manager to invest in high risk investments. In addition to its management fee, our manager may receive an incentive return based in part upon our achievement of targeted levels of funds from operations. In evaluating investments and other management strategies, the opportunity to earn incentive return based on funds from operations may lead our manager to place undue emphasis on the maximization of funds from operations at the expense of other criteria, such as preservation of capital, in order to achieve a higher incentive return. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our invested portfolio.

Termination of the management agreement with our manager is difficult and costly. The management agreement may only 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 (1) unsatisfactory performance by our manager that is materially detrimental to us or (2) a determination that the compensation to our manager is not fair, subject to our manager's right to prevent such a compensation 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 incentive return 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 we may otherwise continue to pay the incentive return 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 manager is authorized to follow very broad investment guidelines. Our directors periodically review our investment guidelines and our investment portfolio. However, our board does not review each proposed investment. In addition, in conducting periodic reviews, the directors rely primarily on information provided to them by our manager. Furthermore, transactions entered into by our manager may be difficult or impossible to unwind by the time they are reviewed by the directors. Our manager has great latitude within the broad guidelines of the investment guidelines in determining the types of assets it may decide are proper investments for us.

As of March 31, 2002 we had a \$13.9 million investment in zero coupon mezzanine bonds issued by affiliates of Newcastle Investment Holdings which currently holds indirectly all of the equity in the GSA portfolio as well as the GSA portfolio mezzanine bonds which are subordinated to our holdings. Prior to the closing of this offering, we will have an approximately \$43.2 million investment in such bonds. Our manager also manages Newcastle Investment Holdings and may become subject to conflicts of interest with respect to managing our interests and the interests of Newcastle Investment Holdings.

MANAGEMENT

OUR DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information about our directors and executive officers upon completion of the offering.

NAME	AGE	POSITION WITH US
- - - - -	---	-----
<S>	<C>	<C>
Wesley R. Edens.....	40	Chief Executive Officer and Chairman of the Board of Directors (Class III)

David J. Grain.....	39	Independent Director (Class II)
Stuart A. McFarland.....	54	Independent Director (Class I)
Kenneth M. Riis.....	42	President
Jonathan Ashley.....	35	Chief Operating Officer
Michael I. Wirth.....	44	Chief Financial Officer and Treasurer
Erik P. Nygaard.....	42	Chief Information Officer
Randal A. Nardone.....	46	Secretary

</Table>

Pursuant to our charter, the board of directors is divided into three classes of directors. The current terms of the Class I, Class II and Class III directors will expire in 2003, 2004 and 2005, respectively. Directors of each class will be chosen for three-year terms upon the expiration of their current terms and each year one class of directors will be elected by the stockholders. All officers serve at the discretion of our board of directors. We expect to have at least a 5 person board of directors. We will have two qualified audit committee members in place within three months of the consummation of this offering and a third qualified member in place within twelve months of the consummation of this offering. Our Bylaws provide that a majority of the entire board of directors may establish, increase or decrease the number of directors, provided that the number of directors shall never be less than the minimum number required by the Maryland General Corporation Law, which is one, nor more than 15.

Information for each of our independent directors is set forth below. For biographical information on Messrs. Edens, Riis, Ashley, Wirth, Nygaard and Nardone see "Our Manager and the Management Agreement -- Officers of Our Manager."

DAVID J. GRAIN has agreed to become a member of our board of directors upon completion of this offering. Mr. Grain has been a director of Newcastle Investment Holdings since January 2002. Mr. Grain currently serves as Senior Vice President for AT&T Broadband's Northeast Region. He is the senior executive responsible for providing cable television, high speed internet, and digital telephone service to AT&T Broadband's New England Region. Prior to joining AT&T in June 2000, Mr. Grain was a Principal at the New York investment banking firm of Morgan Stanley from 1992 to June 2000. Mr. Grain is currently a member of the Board of Directors of New England Cable News, Fox Sports New England, the New England Cable Television Association and the Greater Boston Chamber of Commerce. Mr. Grain is also a Director and member of the Investment Committee of the Pension Reserves Investment Management (PRIM) Board of Massachusetts and is a Trustee of the AT&T Foundation. Mr. Grain earned a B.A. degree in English from the College of the Holy Cross and an M.B.A. degree from the Amos Tuck School at Dartmouth College.

STUART A. MCFARLAND has agreed to become a member of our board of directors upon completion of this offering. Mr. McFarland has been a director of Newcastle Investment Holdings since May 1998. Mr. McFarland is Managing Partner of Federal City Capital Advisors, a strategic advisory and corporate financial services firm located in Washington, D.C. Previously, Mr. McFarland was President and Chief Executive Officer of Pedestal Inc., an internet secondary mortgage market trading exchange for the trading of spot and pooled mortgage loans. Mr. McFarland was Executive Vice President and General Manager of GE Capital Mortgage Services and President and CEO of GE Capital Asset Management Corporation from 1990 to 1995 where he ran GE Capital's mortgage business. Prior to GE Capital, Mr. McFarland

was President and CEO of Skyline Financial Services Corp., where he was the U.S. Bankruptcy Court appointed asset manager for the EPIC Bankruptcy. Before joining Skyline, Mr. McFarland was President and CEO of National Permanent Federal Savings Bank in Washington, D.C. Prior to this, Mr. McFarland was Executive Vice President and Chief Financial Officer with Fannie Mae (Federal National Mortgage Association). From 1972 to 1981, he was also President and Director of Ticor Mortgage Insurance Company in Los Angeles, California. He currently serves as a Director of the Brandywine Funds, as a Director and Member of the Executive Committee of the Center for Housing Policy, is a Trustee of the National Building Museum and a Member of the Board of Trustees of the Brookings Greater Washington Research Program. Mr. McFarland attended Lafayette College in Easton, Pennsylvania, where he earned an A.B. degree in Government and Law in 1970.

We pay an annual director's fee to each independent director equal to \$20,000, with no additional fee to be paid for the first four meetings of our board of directors each year. After the first four meetings, each independent director will be paid a fee of \$1,000 for each additional meeting of our board of directors attended in person by such independent director. All members of our board of directors are reimbursed for their costs and expenses in attending all meetings of our board of directors. In addition, an annual fee of \$1,000 will be paid to the chair of any committee of our board of directors. Affiliated directors, however, will not be separately compensated by us. Fees to the independent directors may be made by issuance of common stock, based on the value of such common stock at the date of issuance, rather than in cash.

In addition, the option plan provides for the automatic grant of 2,000

options to each of our independent directors on the first business day after each annual meeting of our board of directors each year during which the option plan is effective. These options will have an exercise price equal to 100% of the fair market value of our common stock on the date of grant, subject to adjustment as necessary to preserve the value of such options in connection with the occurrence of certain events.

#### EXECUTIVE COMPENSATION

Because our management agreement provides that our manager will assume principal responsibility for managing our affairs, our officers, in their capacities as such, will not receive compensation from us. However, in their capacities as officers or employees of our manager, or its affiliates, they will devote such portion of their time to our affairs as is required for the performance of the duties of our manager under the management agreement. Our manager has informed us that, because the services performed by its officers or employees in their capacities as such are not performed exclusively for us, it cannot segregate and identify that portion of the compensation awarded to, earned by or paid to our named executive officers by the manager that relates solely to their services to us. For the year ended December 31, 2001, pursuant to the management agreement between Newcastle Investment Holdings and the manager, Newcastle Investment Holdings paid the manager a management fee of \$4.8 million and an incentive return of \$2.8 million and reimbursed the manager for \$0.9 million in expenses. See "Our Manager and the Management Agreement -- Management Fees" and "Management -- Stock Options."

#### STOCK OPTIONS

We have adopted the Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan, referred to in this prospectus as the option plan, to provide incentives to attract and retain the highest qualified directors, officers, employees, advisors, consultants and other personnel. The option plan is currently administered by our full board of directors. We expect to create a committee, a majority of whose members will be independent directors, which will administer our option plan subsequent to the offering. The maximum number of shares of our common stock reserved and available for issuance each year under the option plan is that number of shares equal to 15% of the number of our outstanding equity interests but in no event more than 10,000,000 shares in the aggregate over the term of the plan.

91

#### Stock Options

The option plan permits the granting of options to purchase common stock that do not qualify as incentive stock options under section 422 of the Internal Revenue Code ("Non-Qualified Options"). The option exercise price of each option will be determined by the committee and may be less than 100% of the fair market value of our common stock subject to such option on the date of grant.

The terms of each option will be fixed by the committee. The committee will determine at what time or times each option may be exercised and, subject to the provisions of the option plan, the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised. Options become vested and exercisable in installments, and the exercisability of options may be accelerated by the committee. Upon exercise of options, the option exercise price must be paid in full either in cash or by certified or bank check or other instrument acceptable to the committee or, if the committee so permits, by delivery of shares of common stock already owned by the optionee or delivery of a promissory note. The exercise price may also be delivered to us by a broker pursuant to irrevocable instructions to the broker from the optionee.

At the discretion of the committee, stock options granted under the option plan may include a "re-load" feature pursuant to which an optionee exercising an option by the delivery of shares of common stock would automatically be granted an additional stock option (with an exercise price equal to the fair market value of the common stock on the date the additional stock option is granted) to purchase that number of shares of common stock equal to the number delivered to exercise the original stock option. The purpose of this feature is to enable participants to exercise options using previously owned shares of common stock while continuing to maintain their previous level of equity ownership in us.

The committee may also grant stock appreciation rights, restricted stock, performance awards, tandem awards and other stock and non-stock-based awards under the option plan. These awards will be subject to such conditions and restrictions as the committee may determine, which may include the achievement of certain performance goals or continued employment with us through a specific period.

#### Stock Option Grants

Pursuant to the option plan, in June 2002, we granted to our manager options, representing the right to acquire \_\_\_\_\_ shares of common stock. The manager options expire in June 2012. In addition, in connection with this

offering, we will grant to our manager an option to purchase an additional shares of our common stock, representing 10% of the number of shares being offered hereby, and subject to adjustment if the underwriters' over-allotment option is exercised, at an exercise price equal to the offering price of the shares in this offering. These options will have an exercise price equal to 100% of the fair market value of our common stock on the date of grant, subject to adjustment as necessary to preserve the value of such options in connection with the occurrence of certain events.

#### LIABILITY AND INDEMNIFICATION OF OFFICERS AND DIRECTORS

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law.

Our charter authorizes us, to the maximum extent permitted by Maryland law, to indemnify any present or former director or officer or any individual who, while our director and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer of ours and to pay or reimburse their reasonable expenses

92

in advance of final disposition of a proceeding. Our bylaws obligate us, to the maximum extent permitted by Maryland law, to indemnify any present or former director or officer or any individual who, while our director and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made a party to the proceeding by reason of his service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer of ours and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of ours in any of the capacities described above and any employee or agent of ours or a predecessor of ours.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he is made a party by reason of his service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his good faith belief that he has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or on his behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

93

#### CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

On , 2002, Newcastle Investment Holdings transferred certain

assets and liabilities to us in exchange for \_\_\_\_\_ shares of our common stock. Our chairman and chief executive officer also serves as chairman and chief executive officer of Newcastle Investment Holdings and, at the time the transfer of assets and liabilities from Newcastle Investment Holdings to us was approved and other organizational matters were approved for us, Newcastle Investment Holdings was our sole stockholder. As a result, these matters were not approved at arm's length and the terms of the transfer may not be as favorable to us as if the transfer was with an unaffiliated third party. We may enter into future transactions with Newcastle Investment Holdings with the approval of our independent directors.

Our chairman and chief executive officer and all of our executive officers also serve as officers of our manager. As a result, the management agreement between us and 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. See "Our Manager and the Management Agreement -- Conflicts of Interest in Our Relationship with Our Manager."

Prior to the closing of this offering, we will have a \$43.2 million investment the GSA mezzanine bonds issued by the various affiliates of Newcastle Investment Holdings that hold indirectly the GSA portfolio. Newcastle Investment Holdings currently holds indirectly all of the equity in the GSA portfolio. Our manager also manages Newcastle Investment Holdings, and may become subject to conflicts of interest with respect to managing our interests and the interests of Newcastle Investment Holdings.

We have not entered into any other transactions in which any other director or officer or stockholder of ours or of our manager had any material interest.

Newcastle Investment Holdings Corp. currently owns substantially all of our outstanding stock. Newcastle Investment Holdings was formed in May 1998. We were formed in June 2002 for the purpose of separating the core real estate securities business from Newcastle Investment Holdings' other investments. Immediately upon completion of this offering, Newcastle Investment Holdings will own \_\_\_\_\_ % of our common stock and new investors in this offering will own \_\_\_\_\_ % of our common stock.

At March 31, 2002, our manager, Fortress Investment Group, and its employees owned approximately 16.4% of the equity of Newcastle Investment Holdings (25.8% upon exercise of outstanding options). We have granted to our manager an option to purchase \_\_\_\_\_ shares of our common stock. In addition, in connection with this offering, we will grant to our manager an option to purchase an additional \_\_\_\_\_ shares of our common stock, representing 10% of the number of shares being offered hereby, and subject to adjustment if the underwriters' over-allotment option is exercised, at the offering price of our shares in this offering. As a result, upon completion of this offering, our manager will beneficially own approximately \_\_\_\_\_ % of our common stock, taking into account its interest in Newcastle Investment Holdings and assuming exercise of all of its options.

Fortress Investment Holdings LLC is the sole member of Fortress Investment Group LLC, our manager. The beneficial owners of Fortress Investment Holdings are Messrs. Edens, Kauffman, Nardone and Nygaard. The beneficial owners of Fortress Principal Investment Holdings are the same as the holders of Fortress Investment Holdings (Messrs. Edens, Kauffman, Nardone and Nygaard).

SECURITY OWNERSHIP OF  
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Prior to the completion of this offering, all shares of our common stock were owned by Newcastle Investment Holdings Corp. and our manager had options to purchase \_\_\_\_\_ shares of our common stock. The following table sets forth, as of May 31, 2002, the total number of shares of our common stock beneficially owned, and the percent so owned, by (i) each person known by us to own more than 5% of our common stock, (ii) each of our directors and executive officers and (iii) all directors and executive officers as a group.

<Table>  
<Caption>

AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES	PERCENT BEFORE OFFERING (6)	PERCENT AFTER OFFERING
		<C>	<C>
Newcastle Investment Holdings Corp. (2) (3)		100%	%
Fortress Principal Investment Holdings LLC (2) (4)	(5)	%	%(9)
Wesley R. Edens (2)	(7)	%	%
David J. Grain (2)	(8)		
Stuart A. McFarland (2)	(8)		
Jonathan Ashley (2)			
Randal A. Nardone (2)	(7)	%	%



Erik P. Nygaard(2).....	(7)	%	%
Kenneth M. Riis(2).....			
Michael Wirth(2).....			
All directors and executive officers as a group (8 persons).....		%	%

</Table>

\* Less than 1%

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days of the date hereof, are deemed outstanding for computing the percentage of the person holding such options or warrants but are not deemed outstanding for computing the percentage of any other person.
- (2) The address of Newcastle Investment Holdings Corp., Fortress Principal Investment Holdings LLC and all officers and directors listed above are in care of Fortress Investment Group, 1251 Avenue of the Americas, New York, NY 10020.
- (3) Certain beneficial ownership information with respect to each owner of more than 5% of the common stock of Newcastle Investment Holdings Corp. is as follows:

<Table>  
<Caption>

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	
	NUMBER OF SHARES	PERCENT
Fortress Principal Investment Holdings LLC(a).....	4,791,862 (c)	25.8%
Wallace R. Weitz & Company(b).....	2,975,142	18.0%

</Table>

- (a) For the beneficial owners of Fortress Principal Investment Holdings LLC, see footnote 4.
- (b) The address for Wallace R. Weitz & Company ("Weitz") is 1125 South 103rd Street, Omaha, NE 68124. The beneficial owners are Weitz Partners III, Weitz Value Fund, Weitz Partners Value and Weitz Hickory Fund.
- (c) Includes 2,091,673 shares underlying stock options, all of which are fully vested and exercisable.

- (4) The beneficial owners of Fortress Principal Investment Holdings LLC are Messrs. Edens, Kauffman, Nardone and Nygaard. Fortress Investment Holdings LLC is the sole member of the manager. The beneficial owners of Fortress Investment Holdings LLC are also Messrs. Edens, Kauffman, Nardone and Nygaard.
- (5) Includes shares underlying manager options. See "Management --Stock Options" for a description of the manager options.
- (6) Percentage amount assumes the exercise by such persons of all options to acquire shares of common stock and no exercise by any other person.
- (7) All shares are held by Fortress Principal Investment Holdings LLC or Fortress Principal Investment Group LLC, in which Messrs. Edens, Kauffman, Nardone and Nygaard own all of the beneficial interests.
- (8) Consists of shares underlying stock options.
- (9) Upon completion of this offering, our manager, through Fortress Principal Investment Holdings LLC, will beneficially own approximately % of our common stock, taking into account its interest in Newcastle Investment Holdings and assuming exercise of all its outstanding options to purchase shares of our common stock and shares of common stock of Newcastle Investment Holdings.

DESCRIPTION OF CAPITAL STOCK

The following description of the terms of our stock is only a summary. For

a complete description, we refer you to the Maryland General Corporation Law, our charter and our bylaws. We have filed our charter and bylaws as exhibits to this registration statement.

#### GENERAL

Our charter provides that we may issue up to 500,000,000 shares of common stock, \$.01 par value per share, and up to 100,000,000 shares of preferred stock, \$.01 par value per share. Upon completion of this offering, shares of common stock, and no shares of preferred stock will be issued and outstanding. Under Maryland law, our stockholders generally are not liable for our debts or obligations.

#### COMMON STOCK

All shares of common stock offered by this prospectus will be duly authorized, fully paid and nonassessable. Holders of our common stock are entitled to receive dividends when authorized by our board of directors out of assets legally available for the payment of dividends. They are also entitled to share ratably in our assets legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up, after payment of or adequate provision for all of our known debts and liabilities. These rights are subject to the preferential rights of any other class or series of our stock and to the provisions of our charter regarding restrictions on transfer of our stock.

Subject to our charter restrictions on transfer of our stock, each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess the exclusive voting power. There is no cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of common stock can elect all of the directors then standing for election, and the holders of the remaining shares will not be able to elect any directors.

Holders of our common stock have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any of our securities. Subject to our charter restrictions on transfer of stock, all shares of common stock will have equal dividend, liquidation and other rights.

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders holding at least two thirds of the shares entitled to vote on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter provides that these matters may be approved by a majority of all of the votes entitled to be cast on the matter.

#### POWER TO RECLASSIFY SHARES OF OUR STOCK

Our charter authorizes our board of directors to classify and reclassify any unissued shares of our preferred stock into other classes or series of stock. Prior to issuance of shares of each class or series, our board is required by Maryland law and by our charter to set, subject to our charter restrictions on transfer of stock, the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Therefore, our board could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. No shares of our preferred stock are presently outstanding and we have no present plans to issue any preferred stock.

97

#### POWER TO ISSUE ADDITIONAL SHARES OF COMMON STOCK AND PREFERRED STOCK

We believe that the power to issue additional shares of common stock or preferred stock and to classify or reclassify unissued shares of preferred stock and thereafter to issue the classified or reclassified shares provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. These actions can be taken without stockholder approval, unless stockholder approval is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although we have no present intention of doing so, we could issue a class or series of stock that could delay, defer or prevent a transaction or a change in control of us that might involve a premium price for holders of common stock or otherwise be in their best interest.

#### STOCKHOLDER RIGHTS PLAN

Our board of directors has adopted a stockholder rights agreement. The adoption of the stockholder rights agreement could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, us or a large block of our common stock.

Pursuant to the terms of the stockholder rights agreement, our board of directors declared a dividend distribution of one preferred stock purchase right for each outstanding share of common stock to stockholders of record at the close of business on . In addition, one preferred stock purchase right will automatically attach to each share of common stock issued between the record date and the distribution date. Each preferred stock purchase right entitles the registered holder to purchase from us a unit consisting of one one-hundredth of a share, each a rights unit, of Series A Junior Participating Preferred Stock, par value \$0.01 per share, the Series A Preferred Stock, at a purchase price of \$70 per rights unit, the purchase price, subject to adjustment. Each share offered hereby will be entitled to a preferred stock purchase right when distributed.

Initially, the preferred stock purchase rights are not exercisable and are attached to and transfer and trade with, the outstanding shares of common stock. The preferred stock purchase rights will separate from the common stock and will become exercisable upon the earliest of (i) the close of business on the tenth business day following the first public announcement that an acquiring person has acquired beneficial ownership of 15% or more of the sum of the outstanding shares of common stock, subject to certain exceptions, the date of said announcement being referred to as the stock acquisition date, or (ii) the close of business on the tenth business day (or such later date as our board of directors may determine) following the commencement of a tender offer or exchange offer that would result upon its consummation in a person or group becoming an acquiring person, the earlier of such dates being the distribution date. For these purposes, a person will not be deemed to beneficially own shares of common stock which may be issued in exchange for rights units. The stockholder rights agreement contains provisions that are designed to ensure that the manager and its affiliates will never, alone, be considered a group that is an acquiring person.

Until the distribution date (or earlier redemption, exchange or expiration of rights), (a) the rights will be evidenced by the common stock certificates and will be transferred with and only with such common stock certificates, (b) new common stock certificates issued after the record date will contain a notation incorporating the stockholder rights agreement by reference, and (c) the surrender for transfer of any certificates for common stock outstanding will also constitute the transfer of the rights associated with common stock represented by such certificate.

The rights are not exercisable until the distribution date and will expire ten years after the issuance thereof, on , unless such date is extended or the rights are earlier redeemed or exchanged by us as described below.

As soon as practicable after the distribution date, rights certificates will be mailed to holders of record of common stock as of the close of business on the distribution date and, thereafter, the separate rights

98

certificates alone will represent the rights. Except as otherwise determined by our board of directors, only shares of common stock issued prior to the distribution date will be issued with rights.

In the event that a person becomes an acquiring person, except pursuant to an offer for all outstanding shares of common stock which the independent directors determine to be fair to, not inadequate and to otherwise be in our best interests and the best interest of our stockholders, after receiving advice from one or more investment banking firms, a qualified offer, each holder of a right will thereafter have the right to receive, upon exercise, common stock (or, in certain circumstances, cash, property or other securities of ours) having a value equal to two times the exercise price of the right. The exercise price is the purchase price times the number of rights units associated with each right. Notwithstanding any of the foregoing, following the occurrence of the event set forth in this paragraph, all rights that are, or (under certain circumstances specified in the rights agreement) were, beneficially owned by any acquiring person will be null and void. However, rights are not exercisable following the occurrence of the event set forth above until such time as the rights are no longer redeemable by us as set forth below.

In the event that, at any time following the stock acquisition date, (i) we engage in a merger or other business combination transaction in which we are not the surviving corporation (other than with an entity which acquired the shares pursuant to a qualified offer), (ii) we engage in a merger or other business combination transaction in which we are the surviving corporation and our common stock changed or exchanged, or (iii) 50% or more of our assets, cash flow or earning power is sold or transferred, each holder of a right (except rights which have previously been voided as set forth above) shall thereafter have the

right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the right. The events set forth in this paragraph and in the preceding paragraph are referred to as the "triggering events."

At any time after a person becomes an acquiring person and prior to the acquisition by such person or group of fifty percent (50%) or more of the outstanding common stock, our board may exchange the rights (other than rights owned by such person or group which have become void), in whole or in part, at an exchange ratio of one share of common stock, or one one-hundredth of a share of preferred stock (or of a share of a class or series of our preferred stock having equivalent rights, preferences and privileges), per right (subject to adjustment).

We may redeem the rights in whole, but not in part, at a price of \$0.01 per right (payable in cash, common stock or other consideration deemed appropriate by our board of directors) at any time until the earlier of (i) the close of business on the tenth business day after the stock acquisition date, or (ii) the expiration date of the rights agreement. Immediately upon the action of our board of directors ordering redemption of the rights, the rights will terminate and thereafter the only right of the holders of rights will be to receive the redemption price.

The rights agreement may be amended by our board of directors in its sole discretion at any time prior to the distribution date. After the distribution date, subject to certain limitations set forth in the rights agreement, our board of directors may amend the rights agreement only to cure any ambiguity, defect or inconsistency, to shorten or lengthen any time period, or to make changes that do not adversely affect the interests of rights holders (excluding the interests of an acquiring person or its associates or affiliates). The foregoing notwithstanding, no amendment may be made at such time as the rights are not redeemable.

Until a right is exercised, the holder thereof, as such, will have no rights as our stockholder, including, without limitation, the right to vote or to receive dividends. While the distribution of the rights will not be taxable to stockholders or to us, stockholders may, depending upon the circumstances, recognize taxable income in the event that the rights become exercisable for common stock, other securities of ours, other consideration or for common stock of an acquiring company or in the event of the redemption of the rights as set forth above.

99

A copy of the rights agreement is available from us upon written request. The foregoing description of the rights does not purport to be complete and is qualified in its entirety by reference to the rights agreement, which is filed as an exhibit to the registration statement of which this prospectus is a part.

#### DIVIDEND REINVESTMENT PLAN

We may implement a dividend reinvestment plan whereby stockholders may automatically reinvest their dividends in our common stock. Details about any such plan would be sent to our stockholders following adoption thereof by our board of directors.

#### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the common stock is American Stock Transfer & Trust Company, New York, New York.

#### TRANSFER RESTRICTIONS

Our charter contains restrictions on the number of shares of our stock that a person may own. No person may acquire or hold, directly or indirectly, in excess of 9.8% of the value of the outstanding shares of any class or series of our stock.

Our charter further prohibits (a) any person from owning shares of our stock that would result in our being "closely held" under Section 856(h) of the Internal Revenue Code or otherwise cause us to fail to qualify as a REIT and (b) any person from transferring shares of our stock if the transfer would result in our stock being owned by fewer than 100 persons. Any person who acquires or intends to acquire shares of our stock that may violate any of these restrictions, or who is the intended transferee of shares of our stock which are transferred to the Trust, as defined below, is required to give us immediate notice and provide us with such information as we may request in order to determine the effect of the transfer on our status as a REIT. The above restrictions will not apply if our board of directors determines that it is no longer in our best interests to continue to qualify as a REIT.

Our board of directors, in its sole discretion, may exempt a person from these limits. However, our board may not exempt any person whose ownership of our outstanding stock would result in our being "closely held" within the meaning of Section 856(h) of the Internal Revenue Code or otherwise would result

in our failing to qualify as a REIT. In order to be considered by our board for exemption, a person also must not own, directly or indirectly, an interest in our tenant (or a tenant of any entity which we own or control) that would cause us to own, directly or indirectly, more than a 9.9% interest in the tenant. The person seeking an exemption must represent to the satisfaction of our board that it will not violate these two restrictions. The person also must agree that any violation or attempted violation of these restrictions will result in the automatic transfer of the shares of stock causing the violation to the trust. The above ownership limits do not apply to the common stock owned, directly or indirectly, by Newcastle Investment Holdings Corp., Fortress Principal Investment Group LLC, Fortress Principal Investment Holdings LLC, Fortress Investment Group LLC, and certain of their officers. Our board of directors may require a ruling from the Internal Revenue Service or an opinion of counsel in order to determine or ensure our status as a REIT.

Any attempted transfer of our stock which, if effective, would result in violation of the above limitations, will cause the number of shares causing the violation (rounded to the nearest whole share) to be automatically transferred to a trust ("Trust") for the exclusive benefit of one or more charitable beneficiaries ("Charitable Beneficiary"), and the proposed transferee ("Transferee") will not acquire any rights in the shares. The automatic transfer will be deemed to be effective as of the close of business on the business day (as defined in our charter) prior to the date of the transfer. Shares of our stock held in the Trust will be issued and outstanding shares. The proposed transferee will not benefit economically from ownership of any shares of stock held in the Trust, will have no rights to dividends and no rights to vote or other rights attributable to the shares of stock held in the Trust. The trustee of the Trust will have all voting rights and rights to dividends or other distributions with respect to shares held in the Trust. These

100

rights will be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or other distribution paid prior to our discovery that shares of stock have been transferred to the Trust will be paid by the recipient to the Trustee upon demand. Any dividend or other distribution authorized but unpaid will be paid when due to the Trustee. Any dividend or distribution paid to the Trustee will be held in trust for the Charitable Beneficiary. Subject to Maryland law, the Trustee will have the authority (i) to rescind as void any vote cast by the proposed transferee prior to our discovery that the shares have been transferred to the Trust and (ii) to recast the vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary. However, if we have already taken irreversible corporate action, then the Trustee will not have the authority to rescind and recast the vote.

Within 20 days of receiving notice from us that shares of our stock have been transferred to the Trust, the Trustee will sell the shares to a person designated by the Trustee, whose ownership of the shares will not violate the above ownership limitations. Upon the sale, the interest of the Charitable Beneficiary in the shares sold will terminate and the Trustee will distribute the net proceeds of the sale to the proposed transferee and to the Charitable Beneficiary as follows. The proposed transferee will receive the lesser of (i) the price paid by the proposed transferee for the shares or, if the proposed transferee did not give value for the shares in connection with the event causing the shares to be held in the Trust (e.g., a gift, devise or other similar transaction), the Market Price (as defined in our charter) of the shares on the day of the event causing the shares to be held in the Trust and (ii) the price received by the Trustee from the sale or other disposition of the shares. Any net sale proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the Charitable Beneficiary. If, prior to our discovery that shares of our stock have been transferred to the Trust, the shares are sold by the proposed transferee, then (i) the shares shall be deemed to have been sold on behalf of the Trust and (ii) to the extent that the proposed transferee received an amount for the shares that exceeds the amount he was entitled to receive, the excess shall be paid to the Trustee upon demand.

In addition, shares of our stock held in the Trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in the transfer to the Trust (or, in the case of a devise or gift, the market price at the time of the devise or gift) and (ii) the market price on the date we, or our designee, accept the offer. We will have the right to accept the offer until the Trustee has sold the shares. Upon a sale to us, the interest of the Charitable Beneficiary in the shares sold will terminate and the Trustee will distribute the net proceeds of the sale to the proposed transferee.

Our charter further provides that, prior to the date the common stock qualifies as a class of "publicly offered securities" (within the meaning of Department of Labor Regulation Section 2510.3-101(b)(2)), (a) no Plan investor may acquire shares of our stock without our prior written consent; and (b) any transfers to Plan investors that would increase the aggregate Plan investors, ownership of shares of our stock to a level that meets or exceeds 25% or more of the value of any class of our stock will be void ab initio. If any transfer of shares of our stock to Plan investors occurs which, if effective, would result in Plan investors beneficially or constructively owning, in the aggregate,

shares of our stock in excess or in violation of the above transfer or ownership limitations, then that number of shares of our stock, the beneficial or constructive ownership of which otherwise would cause such Plan investors to violate such limitations shall be automatically transferred to the Trust (as defined above) to be held, subject to certain adjustments, in accordance with the provisions detailed above.

All certificates representing shares of our stock will bear a legend referring to the restrictions described above.

Every owner of more than 5% (or such lower percentage as required by the Internal Revenue Code or the regulations promulgated thereunder) of our stock, within 30 days after the end of each taxable year, is required to give us written notice, stating his name and address, the number of shares of each class and series of our stock which he beneficially owns and a description of the manner in which the shares are held. Each such owner shall provide us with such additional information as we may request in order to determine the effect, if any, of his beneficial ownership on our status as a REIT and to ensure compliance

101

with the ownership limits. In addition, each stockholder shall upon demand be required to provide us with such information as we may request in good faith in order to determine our status as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

These ownership limits could delay, defer or prevent a transaction or a change in control that might involve a premium price for the common stock or otherwise be in the best interest of the stockholders.

102

#### SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for our common stock. Future sales in the public markets of substantial amounts of common stock could adversely affect the market prices prevailing from time to time for the common stock. It could also impair our ability to raise capital through future sales of equity securities.

We are currently a wholly-owned subsidiary of Newcastle Investment Holdings Corp. We were formed in June 2002 for the purpose of separating the core real estate securities business from Newcastle Investment Holdings' other investments. We believe that separating this core business from Newcastle Investment Holdings provides an opportunity for achieving more stable earnings and moderate credit risk. In connection with our formation, Newcastle Investment Holdings changed its name from Newcastle Investment Corp. Immediately upon completion of this offering, Newcastle Investment Holdings will own % of our common stock and new investors in this offering will own % of our common stock. At March 31, 2002, Fortress Investment Group and its employees owned approximately 16.4% of the equity of Newcastle Investment Holdings (25.8% upon exercise of outstanding options).

After completion of this offering, we will have shares of common stock outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options held by our manager. All of the shares of common stock sold in this offering will be freely transferable without restriction or further registration under the Securities Act, except for any of the shares that are acquired by affiliates as that term is defined in Rule 144 under the Securities Act.

The shares of common stock held by our manager and our officers and directors are restricted securities as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144, which is summarized below.

Newcastle Investment Holdings has agreed not to distribute our common stock to its stockholders earlier than 180 days after the date of this prospectus. However, upon any such distribution, all of the shares of our common stock that are not owned by our affiliates (representing approximately 75% of the shares of our common stock that may be distributed by Newcastle Investment Holdings) would be eligible for immediate resale in the public market.

In connection with this offering, we will grant to our manager an option to purchase an additional shares of our common stock, representing 10% of the number of shares being offered hereby, and subject to adjustment if the underwriters' over-allotment option is exercised, at the offering price of our shares in this offering, which will result in an ownership of approximately

% of our equity upon exercise of all options. The option shares are not registered in connection with this offering.

We have agreed that, subject to specified exceptions (including issuances of shares of common stock in connection with acquisitions), without the consent of Bear Stearns, we will not, directly or indirectly, offer, sell or otherwise dispose of any shares of our common stock or any securities that may be converted into or exchanged for any shares of our common stock for a period of 180 days from the date of this prospectus. Our manager, including its directors and executive officers, our executive officers and our directors have agreed under lock-up agreements with Bear Stearns that, without the prior written consent of Bear Stearns, they will not, directly or indirectly, offer for sale, sell, pledge, enter into any swap or other derivatives transaction that transfers to another any of the economic benefits or risks of ownership of our common stock, or otherwise dispose of any shares of our common stock or any securities that may be converted into or exchanged for any shares of common stock (collectively, "Transfer") for a period ending 365 days after the date of this prospectus or pursuant to an earlier release as provided in the lock-up agreements. Newcastle Investment Holdings has agreed under a lock-up agreement with Bear Stearns that, without the prior written consent of Bear Stearns, it will not, directly or indirectly, offer for sale, sell, pledge, enter into any swap or other derivatives transaction that transfers to another any of the economic

103

benefits or risks of ownership of our common stock, or otherwise dispose of any shares of our common stock or any securities that may be converted into or exchanged for any shares of common stock (collectively, "Transfer") for a period ending 180 days after the date of this prospectus or pursuant to an earlier release as provided in the lock-up agreement.

#### RULE 144

In general, Rule 144 provides that a person who is not an affiliate and has not been an affiliate in the prior 90 days who has beneficially owned shares of our common stock for at least one year would be entitled to sell within any three month period a number of shares that does not exceed the greater of:

- 1% of the total number of shares of common stock then outstanding; or
- the average weekly trading volume of the common stock on the New York Stock Exchange during the four calendar weeks preceding the filing of notice on Form 144 with respect to the sale.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

#### RULE 144(K)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner which was not an affiliate, is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

104

#### IMPORTANT PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS

The following description of the terms of our stock and of certain provisions of Maryland law is only a summary. For a complete description, we refer you to the Maryland General Corporation Law, our charter and our bylaws. We have filed our charter and bylaws as exhibits to this registration statement.

#### CLASSIFICATION OF OUR BOARD OF DIRECTORS

Our bylaws provide that the number of our directors may be established by our board of directors but may not be fewer than the minimum required by the MGCL (which is currently one) nor more than fifteen. Any vacancy will be filled, at any regular meeting or at any special meeting called for that purpose, by a majority of the remaining directors, except that a vacancy resulting from an increase in the number of directors must be filled by a majority of the entire board of directors.

Pursuant to our charter, the board of directors is divided into three classes of directors. The current terms of the Class I, Class II and Class III directors will expire in 2003, 2004 and 2005, respectively. Directors of each class will be chosen for three-year terms upon the expiration of their current terms and each year one class of directors will be elected by the stockholders. We believe that classification of the board of directors will help to assure the continuity and stability of our business strategies and policies as determined by the board of directors. Holders of shares of our common stock will have no right to cumulative voting in the election of directors. Consequently, at each annual meeting of stockholders, the holders of a majority of the shares of our

common stock will be able to elect all of the successors of the class of directors whose terms expire at that meeting.

The classified board provision could have the effect of making the replacement of incumbent directors more time-consuming and difficult. At least two annual meetings of stockholders, instead of one, will generally be required to effect a change in a majority of our board of directors. Thus, the classified board provision could increase the likelihood that incumbent directors will retain their positions. The staggered terms of directors may delay, defer or prevent a tender offer or an attempt to change the control of us, even though the tender offer or change in control might be in the best interest of our stockholders.

#### REMOVAL OF DIRECTORS

Our charter provides that a director may be removed only for cause (as defined in the charter) and only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors. This provision, when coupled with the provision in our bylaws authorizing our board of directors to fill vacant directorships, precludes stockholders from removing incumbent directors except for cause and by a substantial affirmative vote and filling the vacancies created by the removal with their own nominees.

#### BUSINESS COMBINATIONS

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 a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation's shares; or
- an affiliate or associate of the 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 voting 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 otherwise would have become an interested stockholder. However, in

105

approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

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; 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.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has exempted any business combinations (a) between us and Fortress Investment Group LLC or any of its affiliates, (b) between us and Newcastle Investment Holdings, or any of its affiliates and (c) between us and any interested stockholder, provided that any such business combination is first approved by our board of directors (including a majority of our directors who are not affiliates or associates of such interested stockholder). Consequently, the five-year prohibition and the super-majority vote requirements will not apply to business combinations between us and any of them. As a result, such parties may be able to enter into business combinations with us that may not be in the best interest of our stockholders, without compliance with the super-majority vote requirements and the other provisions of the statute.



The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

#### CONTROL SHARE ACQUISITIONS

Maryland law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third,
- one-third or more but less than a majority, or
- a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

106

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The control share acquisition statute does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction, or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. This provision may be amended or eliminated at any time in the future.

#### AMENDMENT TO OUR CHARTER

Our charter, including its provisions on classification of our board of directors and removal of directors, may be amended only by the affirmative vote of the holders of not less than a majority of all of the votes entitled to be cast on the matter.

#### ADVANCE NOTICE OF DIRECTOR NOMINATIONS AND NEW BUSINESS

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to our board of directors and the proposal of business to be considered by stockholders may be made only (i) pursuant to our notice of the meeting, (ii) by our board of directors or (iii) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of our bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to our board of directors at a special meeting may be made only (i) pursuant to our notice of the meeting, (ii) by the board of directors, or (iii) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of our bylaws.

#### ANTI-TAKEOVER EFFECT OF CERTAIN PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER

The business combination provisions and, if the applicable provision in our bylaws is rescinded, the control share acquisition provisions of Maryland law, the provisions of our charter on classification of our board of directors and removal of directors and the advance notice provisions of our bylaws could delay, defer or prevent a transaction or a change in the control of us that might involve a premium price for holders of our common stock or otherwise be in their best interest.

FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the material federal income tax consequences relating to the acquisition, holding, and disposition of our common stock. For purposes of this section under the heading "Federal Income Tax Considerations", references to Newcastle mean only Newcastle Investment Corp. and not its subsidiaries, except as otherwise indicated. This summary is based upon the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), the regulations promulgated by the U.S. Treasury Department, rulings and other administrative pronouncements issued by the IRS, and judicial decisions, all as currently in effect, and all of which are subject to differing interpretations or to change, possibly with retroactive effect. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. No advance ruling has been or will be sought from the IRS regarding any matter discussed in this prospectus. The summary is also based upon the assumption that the operation of Newcastle and its subsidiaries and affiliated entities will be in accordance with its applicable organizational documents or partnership agreement. This summary is for general information only, and does not purport to discuss all aspects of federal income taxation that may be important to a particular investor in light of its investment or tax circumstances, or to investors subject to special tax rules, such as:

- financial institutions;
- insurance companies;
- broker-dealers;
- regulated investment companies;
- holders who receive Newcastle common stock through the exercise of employee stock options or otherwise as compensation;
- persons holding Newcastle common stock as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or other integrated investment;

and, except to the extent discussed below:

- tax-exempt organizations; and
- foreign investors.

This summary assumes that investors will hold their common stock of ours as capital assets, which generally means as property held for investment.

THE FEDERAL INCOME TAX TREATMENT OF HOLDERS OF NEWCASTLE COMMON STOCK DEPENDS IN SOME INSTANCES ON DETERMINATIONS OF FACT AND INTERPRETATIONS OF COMPLEX PROVISIONS OF FEDERAL INCOME TAX LAW FOR WHICH NO CLEAR PRECEDENT OR AUTHORITY MAY BE AVAILABLE. IN ADDITION, THE TAX CONSEQUENCES OF HOLDING NEWCASTLE COMMON STOCK TO ANY PARTICULAR STOCKHOLDER WILL DEPEND ON THE STOCKHOLDER'S PARTICULAR TAX CIRCUMSTANCES. YOU ARE URGED TO CONSULT YOUR TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES TO YOU IN LIGHT OF YOUR PARTICULAR INVESTMENT OR TAX CIRCUMSTANCES OF ACQUIRING, HOLDING, EXCHANGING, OR OTHERWISE DISPOSING OF NEWCASTLE COMMON STOCK.

TAXATION OF NEWCASTLE

Newcastle will elect to be taxed as a REIT commencing with its initial taxable year ending December 31, 2002. Newcastle believes that it was organized and has operated in such a manner as to qualify for taxation as a REIT, and intends to continue to operate in such a manner.

The law firm of Skadden, Arps, Slate, Meagher & Flom LLP has acted as our tax counsel in connection with our election to be taxed as a REIT. Newcastle expects to receive the opinion of Skadden, Arps, Slate, Meagher & Flom LLP to the effect that Newcastle was organized in conformity with the requirements for qualification as a REIT under the Internal Revenue Code, and that its actual method of operation has enabled, and its proposed method of operation will enable, it to meet the requirements for

qualification and taxation as a REIT. It must be emphasized that the opinion of Skadden, Arps, Slate, Meagher & Flom LLP is based on various assumptions relating to the organization and operation of Newcastle, and is conditioned upon representations and covenants made by the management of Newcastle regarding its organization, assets and the past, present and future conduct of its business operations. While Newcastle intends to operate so that it will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in the circumstances of Newcastle, no assurance can be given by Skadden, Arps, Slate, Meagher & Flom LLP or Newcastle that Newcastle will so qualify for any particular year. The opinion of Skadden, Arps, Slate, Meagher & Flom LLP also relies on various legal opinions issued by other counsel for Newcastle and its predecessors, including Sidley Austin Brown & Wood LLP and Thacher Proffitt & Wood, with respect to certain issues and transactions. The opinions, copies of which are filed as an exhibit to the registration statement of which this prospectus is a part, are expressed as of the date issued, and do not cover subsequent periods. Counsel will have no obligation to advise Newcastle or the holders of Newcastle common stock of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in the applicable law. You should be aware that opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not challenge the conclusions set forth in such opinions.

Qualification and taxation as a REIT depends on the ability of Newcastle to meet on a continuing basis, through actual operating results, distribution levels, and diversity of stock ownership, various qualification requirements imposed upon REITs by the Internal Revenue Code, the compliance with which will not be reviewed by Skadden, Arps, Slate, Meagher & Flom LLP. In addition, Newcastle's ability to qualify as a REIT depends in part upon the operating results, organizational structure and entity classification for federal income tax purposes of certain affiliated entities, including affiliates that have made elections to be taxed as REITs, the status of which may not have been reviewed by Skadden, Arps, Slate, Meagher & Flom LLP. Newcastle's ability to qualify as a REIT also requires that it satisfies certain asset tests, some of which depend upon the fair market values of assets directly or indirectly owned by Newcastle. Such values may not be susceptible to a precise determination. Accordingly, no assurance can be given that the actual results of Newcastle's operations for any taxable year satisfy such requirements for qualification and taxation as a REIT.

#### TAXATION OF REITS IN GENERAL

As indicated above, qualification and taxation as a REIT depends upon the ability of Newcastle to meet, on a continuing basis, various qualification requirements imposed upon REITs by the Internal Revenue Code. The material qualification requirements are summarized below under "-- Requirements for Qualification -- General." While Newcastle intends to operate so that it qualifies as a REIT, no assurance can be given that the IRS will not challenge its qualification, or that it will be able to operate in accordance with the REIT requirements in the future. See "-- Failure to Qualify."

Provided that Newcastle qualifies as a REIT, it will generally be entitled to a deduction for dividends that it pays and therefore will not be subject to federal corporate income tax on its net income that is currently distributed to its stockholders. This treatment substantially eliminates the "double taxation" at the corporate and stockholder levels that generally results from investment in a corporation. Rather, income generated by a REIT generally is taxed only at the stockholder level upon a distribution of dividends by the REIT. Net operating losses, foreign tax credits and other tax attributes of a REIT generally do not pass through to the stockholders of the REIT, subject to special rules for certain items such as capital gains recognized by REITs. See "Taxation of Stockholders."

If Newcastle qualifies as a REIT, it will nonetheless be subject to federal tax in the following circumstances:

- Newcastle will be taxed at regular corporate rates on any undistributed income, including undistributed net capital gains.

109

- Newcastle may be subject to the "alternative minimum tax" on its items of tax preference, including any deductions of net operating losses.
- If Newcastle has net income from prohibited transactions, which are, in general, sales or other dispositions of property held primarily for sale to customers in the ordinary course of business, other than foreclosure property, such income will be subject to a 100% excise tax. See "-- Prohibited Transactions", and "-- Foreclosure Property", below.
- If Newcastle elects to treat property that it acquires in connection with a foreclosure of a mortgage loan or certain leasehold terminations as "foreclosure property", it may thereby avoid the 100% excise tax on gain from a resale of that property (if the sale would otherwise constitute a

prohibited transaction), but the income from the sale or operation of the property may be subject to corporate income tax at the highest applicable rate (currently 35%).

- If Newcastle should fail to satisfy the 75% gross income test or the 95% gross income test, as discussed below, but nonetheless maintains its qualification as a REIT because other requirements are met, it will be subject to a 100% tax on an amount equal to (a) the greater of the amount by which Newcastle fails the 75% or the 95% gross income test, as the case may be, multiplied by (b) a fraction intended to reflect the profitability of Newcastle.
- If Newcastle should fail to distribute during each calendar year at least the sum of (a) 85% of its REIT ordinary income for such year, (b) 95% of its REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods, Newcastle would be subject to a 4% excise tax on the excess of the required distribution over the sum of (i) the amounts actually distributed, plus (ii) retained amounts on which income tax is paid at the corporate level.
- Newcastle may be required to pay monetary penalties to the IRS in certain circumstances, including if it fails to meet record keeping requirements intended to monitor its compliance with rules relating to the composition of a REIT's stockholders, as described below in "-- Requirements for Qualification -- General."
- A 100% excise tax may be imposed on some items of income and expense that are directly or constructively paid between a REIT and a taxable REIT subsidiary (as described below) if and to the extent that the IRS successfully adjusts the reported amounts of these items.
- If Newcastle acquires assets from a corporation that is not a REIT (i.e., a corporation taxable under subchapter C of the Internal Revenue Code), in a transaction in which the adjusted tax basis of the assets in the hands of Newcastle is determined by reference to the adjusted tax basis of the assets in the hands of the subchapter C corporation, under Temporary Treasury Regulations the subchapter C corporation would generally be required to recognize any net built-in gain that would have been realized if it had liquidated on the day before the date of the transfer (i.e., as if it had sold its assets in a taxable transaction). The regulations provide, however, that in lieu of taxation of the transferor subchapter C corporation as described immediately above, a REIT that acquires the assets may elect to be subject to tax at the highest corporate income tax rate then applicable if it subsequently recognizes the built-in gain on a disposition of any such assets during the ten-year period following their acquisition from the subchapter C corporation.
- Certain of Newcastle's subsidiaries may be subchapter C corporations, the earnings of which would subject to federal corporate income tax.

In addition, Newcastle and its subsidiaries may be subject to a variety of taxes, including payroll taxes and state, local, and foreign income, property and other taxes on their assets and operations. Newcastle could also be subject to tax in situations and on transactions not presently contemplated.

110

#### REQUIREMENTS FOR QUALIFICATION -- GENERAL

The Internal Revenue Code defines a REIT as a corporation, trust or association:

- (1) that is managed by one or more trustees or directors;
- (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;
- (3) which would be taxable as a domestic corporation but for the special Internal Revenue Code provisions applicable to REITs;
- (4) that is neither a financial institution nor an insurance company subject to specific provisions of the Internal Revenue Code;
- (5) the beneficial ownership of which is held by 100 or more persons;
- (6) in which, during the last half of each taxable year, not more than 50% in value of the outstanding stock is owned, directly or indirectly, by five or fewer "individuals" (as defined in the Internal Revenue Code to include specified entities); and
- (7) which meets other tests described below, including with respect to the nature of its income and assets.

The Internal Revenue Code provides that conditions (1) through (4) must be

met during the entire taxable year, and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a shorter taxable year. Newcastle's charter provides restrictions regarding transfers of its shares, which are intended to assist Newcastle in satisfying the share ownership requirements described in conditions (5) and (6) above.

To monitor compliance with the share ownership requirements, Newcastle is generally required to maintain records regarding the actual ownership of its shares. To do so, Newcastle must demand written statements each year from the record holders of significant percentages of its stock in which the record holders are to disclose the actual owners of the shares, i.e., the persons required to include in gross income the dividends paid by Newcastle. A list of those persons failing or refusing to comply with this demand must be maintained as part of the records of Newcastle. Failure by Newcastle to comply with these record keeping requirements could subject it to monetary penalties. A stockholder that fails or refuses to comply with the demand is required by Treasury regulations to submit a statement with its tax return disclosing the actual ownership of the shares and other information.

In addition, a corporation generally may not elect to become a REIT unless its taxable year is the calendar year. Newcastle satisfies this requirement.

#### EFFECT OF SUBSIDIARY ENTITIES

**Ownership of Partnership Interests.** In the case of a REIT that is a partner in a partnership, Treasury regulations provide that the REIT is deemed to own its proportionate share of the partnership's assets, and to earn its proportionate share of the partnership's income, for purposes of the asset and gross income tests applicable to REITs as described below. In addition, the assets and gross income of the partnership are deemed to retain the same character in the hands of the REIT. Thus, Newcastle's proportionate share of the assets and items of income of its subsidiary partnerships are treated as assets and items of income of Newcastle for purposes of applying the REIT requirements described below. A summary of certain rules governing the federal income taxation of partnerships and their partners is provided below in "Tax Aspects of Investments in Affiliated Entities -- Partnerships."

**Disregarded Subsidiaries.** If a REIT owns a corporate subsidiary that is a "qualified REIT subsidiary", that subsidiary is disregarded for federal income tax purposes, and all assets, liabilities and items of income, deduction and credit of the subsidiary are treated as assets, liabilities and items of income, deduction and credit of the REIT itself, including for purposes of the gross income and asset tests

111

applicable to REITs as summarized below. A qualified REIT subsidiary is any corporation, other than a "taxable REIT subsidiary" as described below, that is wholly-owned by a REIT, or by other disregarded subsidiaries, or by a combination of the two. Newcastle has several qualified REIT subsidiaries. Other entities wholly-owned by Newcastle, including single member limited liability companies, are also generally disregarded as separate entities for federal income tax purposes, including for purposes of the REIT income and asset tests. Disregarded subsidiaries, along with subsidiary partnerships of Newcastle, are sometimes referred to in this prospectus as "pass-through subsidiaries."

In the event that a disregarded subsidiary of Newcastle ceases to be wholly-owned -- for example, if any equity interest in the subsidiary is acquired by a person other than Newcastle or another disregarded subsidiary of Newcastle -- the subsidiary's separate existence would no longer be disregarded for federal income tax purposes. Instead, it would have multiple owners and would be treated as either a partnership or a taxable corporation. Such an event could, depending on the circumstances, adversely affect Newcastle's ability to satisfy the various asset and gross income requirements applicable to REITs, including the requirement that REITs generally may not own, directly or indirectly, more than 10% of the securities of another corporation. See "-- Asset Tests" and "-- Income Tests."

**Taxable Subsidiaries.** Effective in 2001, a REIT, in general, may jointly elect with subsidiary corporations, whether or not wholly-owned, to treat the subsidiary corporation as a taxable REIT subsidiary ("TRS"). The separate existence of a TRS or other taxable corporation, unlike a disregarded subsidiary as discussed above, is not ignored for federal income tax purposes. Accordingly, such an entity would generally be subject to corporate income tax on its earnings, which may reduce the cash flow generated by Newcastle and its subsidiaries in the aggregate, and Newcastle's ability to make distributions to its stockholders.

A parent REIT is not treated as holding the assets of a taxable subsidiary corporation or as receiving any income that the subsidiary earns. Rather, the stock issued by the subsidiary is an asset in the hands of the parent REIT, and the REIT recognizes as income, the dividends, if any, that it receives from the subsidiary. This treatment can affect the income and asset test calculations that apply to the REIT, as described below. Because a parent REIT does not include the assets and income of such subsidiary corporations in determining the

parent's compliance with the REIT requirements, such entities may be used by the parent REIT to indirectly undertake activities that the REIT rules might otherwise preclude it from doing directly or through pass-through subsidiaries (for example, activities that give rise to certain categories of income such as management fees or foreign currency gains).

#### INCOME TESTS

In order to maintain qualification as a REIT, Newcastle annually must satisfy two gross income requirements. First, at least 75% of Newcastle's gross income for each taxable year, excluding gross income from sales of inventory or dealer property in "prohibited transactions", must be derived from investments relating to real property or mortgages on real property, including "rents from real property," dividends received from other REITs, interest income derived from mortgage loans secured by real property (including certain types of mortgage backed securities), and gains from the sale of real estate assets, as well as income from some kinds of temporary investments. Second, at least 95% of Newcastle's gross income in each taxable year, excluding gross income from prohibited transactions, must be derived from some combination of such income from investments in real property (i.e., income that qualifies under the 75% income test described above), as well as other dividends, interest, and gain from the sale or disposition of stock or securities, which need not have any relation to real property.

Rents received by Newcastle will qualify as "rents from real property" in satisfying the gross income requirements described above, only if several conditions are met, including the following. If rent is partly attributable to personal property leased in connection with a lease of real property, the portion of the total rent that is attributable to the personal property will not qualify as "rents from real property" unless it constitutes 15% or less of the total rent received under the lease. Moreover, for rents received to qualify as "rents from real property," the REIT generally must not operate or manage the property or furnish or

112

render services to the tenants of such property, other than through an "independent contractor" from which the REIT derives no revenue. Newcastle and its affiliates are permitted, however, to perform services that are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not otherwise considered rendered to the occupant of the property. In addition, Newcastle and its affiliates may directly or indirectly provide non-customary services to tenants of its properties without disqualifying all of the rent from the property if the payment for such services does not exceed 1% of the total gross income from the property. For purposes of this test, the income received from such non-customary services is deemed to be at least 150% of the direct cost of providing the services. Moreover, Newcastle is permitted to provide services to tenants or others through a TRS without disqualifying the rental income received from tenants for purposes of the REIT income requirements. Also, rental income will qualify as rents from real property only to the extent that Newcastle does not directly or constructively hold a 10% or greater interest, as measured by vote or value, in the lessee's equity.

To the extent that a REIT derives interest income from a mortgage loan or income from the rental of real property where all or a portion of the amount of interest or rental income payable is contingent, such income generally will qualify for purposes of the gross income tests only if it is based upon the gross receipts or sales, and not the net income or profits, of the borrower or lessee. This limitation does not apply, however, where the borrower or lessee leases substantially all of its interest in the property to tenants or subtenants, to the extent that the rental income derived by the borrower or lessee, as the case may be, would qualify as rents from real property had it been earned directly by a REIT.

To the extent that the terms of a loan provide for contingent interest that is based on the cash proceeds realized upon the sale of the property securing the loan (a "shared appreciation provision"), income attributable to the participation feature will be treated as gain from sale of the underlying property, which generally will be qualifying income for purposes of both the 75% and 95% gross income tests.

Interest income constitutes qualifying mortgage interest for purposes of the 75% income test (as described above) to the extent that the obligation is secured by a mortgage on real property. If Newcastle receives interest income with respect to a mortgage loan that is secured by both real property and other property, and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property on the date that Newcastle acquired or originated the mortgage loan, the interest income will be apportioned between the real property and the other collateral, and Newcastle's income from the arrangement will qualify for purposes of the 75% income test only to the extent that the interest is allocable to the real property. Even if a loan is not secured by real property, or is undersecured, the income that it generates may nonetheless qualify for purposes of the 95% income test.

Newcastle may indirectly receive distributions from TRSs or other

corporations that are not REITs or qualified REIT subsidiaries. These distributions will be classified as dividend income to the extent of the earnings and profits of the distributing corporation. Such distributions will generally constitute qualifying income for purposes of the 95% gross income test, but not under the 75% gross income test. Any dividends received by Newcastle from a REIT will be qualifying income in Newcastle's hands for purposes of both the 95% and 75% income tests.

If Newcastle fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year, it may still qualify as a REIT for the year if it is entitled to relief under applicable provisions of the Internal Revenue Code. These relief provisions will be generally available if the failure of Newcastle to meet these tests was due to reasonable cause and not due to willful neglect, Newcastle attaches to its tax return a schedule of the sources of its income, and any incorrect information on the schedule was not due to fraud with intent to evade tax. It is not possible to state whether Newcastle would be entitled to the benefit of these relief provisions in all circumstances. If these relief provisions are inapplicable to a particular set of circumstances involving Newcastle, Newcastle will not qualify as a REIT. As discussed above under "-- Taxation of REITs in General," even where these relief provisions apply, a tax would be imposed upon the amount by which Newcastle fails to satisfy the particular gross income test.

113

#### ASSET TESTS

Newcastle, at the close of each calendar quarter, must also satisfy four tests relating to the nature of its assets. First, at least 75% of the value of the total assets of Newcastle must be represented by some combination of "real estate assets", cash, cash items, U.S. government securities, and, under some circumstances, stock or debt instruments purchased with new capital. For this purpose, real estate assets include interests in real property, such as land, buildings, leasehold interests in real property, stock of other corporations that qualify as REITs, and some kinds of mortgage backed securities and mortgage loans. Newcastle Investment Holdings has held and currently holds stock of subsidiary entities that have made elections to be taxed as REITs. If any of these entities were to fail to qualify as a REIT, it could adversely affect Newcastle's compliance with the REIT qualification requirements described in this prospectus. Assets that do not qualify for purposes of the 75% test are subject to the additional asset tests described below.

The second asset test is that the value of any one issuer's securities owned by Newcastle may not exceed 5% of the value of Newcastle's total assets. Third, Newcastle may not own more than 10% of any one issuer's outstanding securities, as measured by either voting power or value. The 5% and 10% asset tests do not apply to securities of TRSs, and the 10% value test does not apply to "straight debt" having specified characteristics. Fourth, the aggregate value of all securities of TRSs held by a REIT may not exceed 20% of the value of the REIT's total assets.

Notwithstanding the general rule, as noted above, that for purposes of the REIT income and asset tests, a REIT is treated as owning its share of the underlying assets of a subsidiary partnership, if a REIT holds indebtedness issued by a partnership, the indebtedness will be subject to, and may cause a violation of the asset tests, unless it is a qualifying mortgage asset or otherwise satisfies the rules for "straight debt". Similarly, although stock of another REIT is a qualifying asset for purposes of the REIT asset tests, non-mortgage debt held by Newcastle that is issued by another REIT may not so qualify.

Interests held by Newcastle in a real estate mortgage investment conduit, or "REMIC," are generally treated as qualifying real estate assets, and income derived by Newcastle from interests in REMICs is generally treated as qualifying income for purposes of the REIT income tests described above. If less than 95% of the assets of a REMIC are real estate assets, however, then only a proportionate part of Newcastle's interest in the REMIC, and its income derived from the interest, qualifies for purposes of the REIT asset and income tests.

Newcastle believes that its holdings of securities and other assets comply, and will continue to comply, with the foregoing REIT asset requirements, and it intends to monitor compliance on an ongoing basis. No independent appraisals have been obtained, however, to support Newcastle's conclusions as to the value of its total assets, or the value of any particular security or securities. Moreover, values of some assets, including instruments issued in securitization transactions, may not be susceptible to a precise determination, and values are subject to change in the future. Furthermore, the proper classification of an instrument as debt or equity for federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT asset requirements. Accordingly, there can be no assurance that the IRS will not contend that Newcastle's interests in its subsidiaries or in the securities of other issuers will not cause a violation of the REIT asset requirements.

#### ANNUAL DISTRIBUTION REQUIREMENTS

In order to qualify as a REIT, Newcastle is required to distribute dividends, other than capital gain dividends, to its stockholders in an amount at least equal to:

(a) the sum of

(1) 90% of the "REIT taxable income" of Newcastle (computed without regard to the deduction for dividends paid and net capital gains of Newcastle), and

114

(2) 90% of the net income, if any, (after tax) from foreclosure property (as described below), minus

(b) the sum of specified items of noncash income.

These distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before Newcastle timely files its tax return for the year and if paid with or before the first regular dividend payment after such declaration. In order for distributions to be counted for this purpose, and to give rise to a tax deduction by Newcastle, they must not be "preferential dividends". A dividend is not a preferential dividend if it is pro rata among all outstanding shares of stock within a particular class, and is in accordance with the preferences among different classes of stock as set forth in Newcastle organizational documents.

To the extent that Newcastle distributes at least 90%, but less than 100%, of its "REIT taxable income," as adjusted, it will be subject to tax at ordinary corporate tax rates on the retained portion. Newcastle may elect to retain, rather than distribute, its net long-term capital gains and pay tax on such gains. In this case, Newcastle could elect to have its stockholders include their proportionate share of such undistributed long-term capital gains in income, and to receive a corresponding credit for their share of the tax paid by Newcastle. Stockholders of Newcastle would then increase the adjusted basis of their Newcastle common stock by the difference between the designated amounts included in their long-term capital gains and the tax deemed paid with respect to their shares.

To the extent that a REIT has available net operating losses carried forward from prior tax years, such losses may reduce the amount of distributions that it must make in order to comply with the REIT distribution requirements. Such losses, however, will generally not affect the character, in the hands of stockholders, of any distributions that are actually made by the REIT, which are generally taxable to stockholders to the extent that the REIT has current or accumulated earnings and profits. See "-- Taxation of Stockholders -- Taxation of Taxable Domestic Stockholders -- Distributions."

If Newcastle should fail to distribute during each calendar year at least the sum of (a) 85% of its REIT ordinary income for such year, (b) 95% of its REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods, Newcastle would be subject to a 4% excise tax on the excess of such required distribution over the sum of (x) the amounts actually distributed and (y) the amounts of income retained on which it has paid corporate income tax. Newcastle intends to make timely distributions so that it is not subject to the 4% excise tax.

It is possible that Newcastle, from time to time, may not have sufficient cash to meet the distribution requirements due to timing differences between (a) the actual receipt of cash, including receipt of distributions from its subsidiaries, and (b) the inclusion of items in income by Newcastle for federal income tax purposes. See, for example, the discussion below of excess inclusion income under "-- Taxable Mortgage Pools." Other sources of non-cash taxable income include real estate and securities that have been financed through securitization structures, such as the CBO structure (as described above under "Newcastle Investment Corp. -- Our Investments"), which require some or all of available cash flows to be used to service borrowings, loans, mortgage backed securities or mezzanine bonds we hold that have been issued at a discount and require the accrual of taxable economic interest in advance of its receipt in cash, and distressed loans on which we may be required to accrue taxable interest income even though the borrower is unable to make current servicing payments in cash. In the event that such timing differences occur, in order to meet the distribution requirements, it might be necessary to arrange for short-term, or possibly long-term, borrowings, or to pay dividends in the form of taxable in-kind distributions of property.

Newcastle may be able to rectify a failure to meet the distribution requirements for a year by paying "deficiency dividends" to stockholders in a later year, which may be included in Newcastle's deduction for dividends paid for the earlier year. In this case, Newcastle may be able to avoid losing its REIT status or being taxed on amounts distributed as deficiency dividends. However, Newcastle will be required to pay interest and a penalty based on the amount of any deduction taken for deficiency dividends.

115



## FAILURE TO QUALIFY

If Newcastle fails to qualify for taxation as a REIT in any taxable year, and the relief provisions do not apply, Newcastle would be subject to tax, including any applicable alternative minimum tax, on its taxable income at regular corporate rates. Distributions to stockholders in any year in which Newcastle is not a REIT would not be deductible by Newcastle, nor would they be required to be made. In this situation, to the extent of current and accumulated earnings and profits, all distributions to stockholders will be taxable as ordinary income, and, subject to limitations of the Internal Revenue Code, corporate distributees may be eligible for the dividends received deduction. Unless Newcastle is entitled to relief under specific statutory provisions, Newcastle would also be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether, in all circumstances, Newcastle would be entitled to this statutory relief. The rule against re-electing REIT status following a loss of such status would also apply to Newcastle if Newcastle Investment Holdings fails to qualify as a REIT, and Newcastle is treated as a successor to Newcastle Investment Holdings for federal income tax purposes.

## PROHIBITED TRANSACTIONS

Net income derived from a prohibited transaction is subject to a 100% excise tax. The term "prohibited transaction" generally includes a sale or other disposition of property (other than foreclosure property) that is held primarily for sale to customers in the ordinary course of a trade or business. Newcastle intends to conduct its operations so that no asset owned by Newcastle or its pass-through subsidiaries will be held for sale to customers, and that a sale of any such asset will not be in the ordinary course of Newcastle's business. Whether property is held "primarily for sale to customers in the ordinary course of a trade or business" depends, however, on the particular facts and circumstances. No assurance can be given that any property sold by Newcastle will not be treated as property held for sale to customers, or that Newcastle can comply with certain safe-harbor provisions of the Internal Revenue Code that would prevent such treatment.

## FORECLOSURE PROPERTY

Foreclosure property is real property and any personal property incident to such real property (i) that is acquired by a REIT as the result of the REIT having bid in the property at foreclosure, or having otherwise reduced the property to ownership or possession by agreement or process of law, after there was a default (or default was imminent) on a lease of the property or a mortgage loan held by the REIT and secured by the property, (ii) for which the related loan or lease was acquired by the REIT at a time when default was not imminent or anticipated, and (iii) for which such REIT makes a proper election to treat the property as foreclosure property. REITs generally are subject to tax at the maximum corporate rate (currently 35%) on any net income from foreclosure property, including any gain from the disposition of the foreclosure property, other than income that would otherwise be qualifying income for purposes of the 75% gross income test. Any gain from the sale of property for which a foreclosure property election has been made will not be subject to the 100% excise tax on gains from prohibited transactions described above, even if the property would otherwise constitute inventory or dealer property in the hands of the selling REIT. Newcastle does not anticipate that it will receive any income from foreclosure property that is not qualifying income for purposes of the 75% gross income test, but, if Newcastle does receive any such income, it intends to make an election to treat the related property as foreclosure property.

## FOREIGN INVESTMENTS

Newcastle and its subsidiaries currently hold and may acquire additional investments and, accordingly pay taxes, in foreign countries. Taxes paid by Newcastle in foreign jurisdictions may not be passed-through to, or used by, its stockholders as a foreign tax credit or otherwise. Newcastle's foreign investments may also generate foreign currency gains and losses. Foreign currency gains are treated as income that does not qualify under the 95% or 75% income tests, unless certain technical requirements are met. No assurance can be given that these technical requirements will be met in the case of any foreign currency gains

recognized by Newcastle directly or through pass-through subsidiaries, and will not adversely affect Newcastle's ability to satisfy the REIT qualification requirements.

## DERIVATIVES AND HEDGING TRANSACTIONS

Newcastle and its subsidiaries have, from time to time, and may in the future enter into hedging transactions with respect to interest rate exposure on one or more of their assets or liabilities. Any such hedging transactions could take a variety of forms, including the use of derivative instruments such as interest rate swap contracts, interest rate cap or floor contracts, futures or

forward contracts, and options. To the extent that Newcastle or a pass-through subsidiary enters into such a contract to reduce interest rate risk on indebtedness incurred to acquire or carry real estate assets, any periodic income from the instrument, or gain from the disposition of it, would be qualifying income for purposes of the REIT 95% gross income test, but not for the 75% gross income test. To the extent that Newcastle hedges with other types of financial instruments or in other situations (for example, hedges against fluctuations in the value of foreign currencies), the resultant income will be treated as income that does not qualify under the 95% or 75% income tests unless certain technical requirements are met. Newcastle intends to structure any hedging transactions in a manner that does not jeopardize its status as a REIT. Newcastle may conduct some or all of its hedging activities (including hedging activities relating to currency risk) through a TRS or other corporate entity, the income from which may be subject to federal income tax, rather than participating in the arrangements directly or through pass-through subsidiaries. No assurance can be given, however, that Newcastle's hedging activities will not give rise to income that does not qualify for purposes of either or both of the REIT income tests, and will not adversely affect Newcastle's ability to satisfy the REIT qualification requirements.

#### TAXABLE MORTGAGE POOLS

An entity, or a portion of an entity, may be classified as a taxable mortgage pool ("TMP") under the Internal Revenue Code if (1) substantially all of its assets consist of debt obligations or interests in debt obligations, (2) more than 50% of those debt obligations are real estate mortgages or interests in real estate mortgages as of specified testing dates, (3) the entity has issued debt obligations (liabilities) that have two or more maturities, and (4) the payments required to be made by the entity on its debt obligations (liabilities) "bear a relationship" to the payments to be received by the entity on the debt obligations that it holds as assets. Under regulations issued by the U.S. Treasury Department, if less than 80% of the assets of an entity (or a portion of an entity) consist of debt obligations, these debt obligations are considered not to comprise "substantially all" of its assets, and therefore the entity would not be treated as a TMP. Newcastle currently holds an interest in two TMPs, and its future financing and securitization arrangements may give rise to other TMPs, with the consequences as described in the next paragraph.

Where an entity, or a portion of an entity, is classified as a TMP, it is generally treated as a taxable corporation for federal income tax purposes. In the case of a REIT, or a portion of a REIT, or a disregarded subsidiary of a REIT, that is a TMP, however, special rules apply. The TMP is not treated as a corporation that is subject to corporate income tax, and the TMP classification does not directly affect the tax status of the REIT. Rather, the consequences of the TMP classification would, in general, except as described below, be limited to the stockholders of the REIT. The Treasury Department has not yet issued regulations to govern the treatment of stockholders as described below. A portion of the REIT's income from the TMP arrangement, which might be non-cash accrued income, could be treated as "excess inclusion income". This income would nonetheless be subject to the distribution requirements that apply to the REIT, and could therefore adversely affect its liquidity. See "-- Annual Distribution Requirements". Moreover, the REIT's excess inclusion income would be allocated among its stockholders. A stockholder's share of excess inclusion income (i) would not be allowed to be offset by any net operating losses otherwise available to the stockholder, (ii) would be subject to tax as unrelated business taxable income in the hands of most types of stockholders that are otherwise generally exempt from federal income tax, and (iii) would result in the application of U.S. federal income tax withholding at the

117

maximum rate (30%), without reduction for any otherwise applicable income tax treaty, to the extent allocable to most types of foreign stockholders. See "Taxation of Stockholders". To the extent that excess inclusion income is allocated to a tax-exempt stockholder of a REIT that is not subject to unrelated business income tax (such as government entities), the REIT would be taxable on this income at the highest applicable corporate tax rate (currently 35%). Tax-exempt investors, foreign investors and taxpayers with net operating losses should carefully consider the tax consequences described above and are urged to consult their tax advisors.

If a subsidiary partnership of Newcastle were a TMP, the foregoing rules would not apply. Rather, the partnership that is a TMP would be treated as a corporation for federal income tax purposes, and would potentially be subject to corporate income tax. In addition, this characterization would alter Newcastle's REIT income and asset test calculations, and could adversely affect its compliance with those requirements. Newcastle believes that it has no subsidiary partnerships that are or will become TMPs, and intends to monitor the structure of any TMPs in which it has an interest to ensure that they will not adversely affect its status as a REIT.

#### TAX ASPECTS OF INVESTMENTS IN AFFILIATED ENTITIES

##### PARTNERSHIPS

General. Newcastle may hold investments through entities that are classified as partnerships for federal income tax purposes. In general, partnerships are "pass-through" entities that are not subject to federal income tax. Rather, partners are allocated their proportionate shares of the items of income, gain, loss, deduction and credit of a partnership, and are potentially subject to tax on these items, without regard to whether the partners receive a distribution from the partnership. Newcastle will include in its income its proportionate share of these partnership items for purposes of the various REIT income tests and in the computation of its REIT taxable income. Moreover, for purposes of the REIT asset tests, Newcastle will include its proportionate share of assets held by subsidiary partnerships. See "Taxation of Newcastle -- Effect of Subsidiary Entities -- Ownership of Partnership Interests."

Entity Classification. The investment by Newcastle in partnerships involves special tax considerations, including the possibility of a challenge by the IRS of the status of any of Newcastle's subsidiary partnerships as a partnership, as opposed to an association taxable as a corporation, for federal income tax purposes (for example, if the IRS were to assert that a subsidiary partnership is a TMP). See "Taxation of Newcastle -- Taxable Mortgage Pools". If any of these entities were treated as an association for federal income tax purposes, it would be taxable as a corporation and therefore could be subject to an entity-level tax on its income. In such a situation, the character of the assets of Newcastle and items of gross income of Newcastle would change and could preclude Newcastle from satisfying the REIT asset tests or the gross income tests as discussed in "Taxation of Newcastle -- Asset Tests" and "-- Income Tests," and in turn could prevent Newcastle from qualifying as a REIT. See "Taxation of Newcastle -- Failure to Qualify," above, for a discussion of the effect of the failure of Newcastle to meet these tests for a taxable year. In addition, any change in the status of any of Newcastle's subsidiary partnerships for tax purposes might be treated as a taxable event, in which case Newcastle could have taxable income that is subject to the REIT distribution requirements without receiving any cash.

Tax Allocations with Respect to Partnership Properties. Under the Internal Revenue Code and the Treasury regulations, income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated for tax purposes in a manner such that the contributing partner is charged with, or benefits from, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of the unrealized gain or unrealized loss is generally equal to the difference between the fair market value of the contributed property at the time of contribution, and the adjusted tax basis of such property at the time of contribution (a "book-tax difference"). Such allocations are solely for federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners.

118

To the extent that any subsidiary partnership of Newcastle acquires appreciated (or depreciated) properties by way of capital contributions from its partners, allocations would need to be made in a manner consistent with these requirements. Where a partner contributes cash to a partnership at a time that the partnership holds appreciated (or depreciated) property, the Treasury regulations provide for a similar allocation of these items to the other (i.e. non-contributing) partners. These rules may apply to the contribution by Newcastle to any subsidiary partnerships of the cash proceeds received in offerings of its stock. As a result, partners, including Newcastle, in subsidiary partnerships, could be allocated greater or lesser amounts of depreciation and taxable income in respect of a partnership's properties than would be the case if all of the partnership's assets (including any contributed assets) had a tax basis equal to their fair market values at the time of any contributions to that partnership. This could cause Newcastle to recognize, over a period of time, taxable income in excess of cash flow from the partnership, which might adversely affect Newcastle's ability to comply with the REIT distribution requirements discussed above.

INCENTIVE RETURN. To the extent that our manager's incentive return is provided through an interest in the operating partnership, a portion of any capital gain income generated by the operating partnership may be allocated to the manager. In such a case, a relatively greater proportion of the total taxable income derived by Newcastle and its stockholders may be characterized as ordinary income, with a relatively smaller portion characterized as capital gain, than would otherwise be the case. See "Our Manager and the Management Agreement -- Management Fees and Incentive Return -- Incentive Return."

#### TAXATION OF STOCKHOLDERS

##### TAXATION OF TAXABLE DOMESTIC STOCKHOLDERS

Distributions. Provided that Newcastle qualifies as a REIT, distributions made to its taxable domestic stockholders out of current or accumulated earnings and profits, and not designated as capital gain dividends, will be taken into account by them as ordinary income and will not be eligible for the dividends received deduction for corporations. Distributions that are designated as

capital gain dividends will be taxed to stockholders as long-term capital gains, to the extent that they do not exceed the actual net capital gain of Newcastle for the taxable year, without regard to the period for which the stockholder has held its stock. A similar treatment will apply to long-term capital gains retained by Newcastle, to the extent that Newcastle elects the application of provisions of the Internal Revenue Code that treat stockholders of a REIT as having received, for federal income tax purposes, undistributed capital gains of the REIT, while passing through to stockholders a corresponding credit for taxes paid by the REIT on such retained capital gains. Corporate stockholders may be required to treat up to 20% of some capital gain dividends as ordinary income. Long-term capital gains are generally taxable at maximum federal rates of 20% in the case of stockholders who are individuals, and 35% for corporations. Capital gains attributable to the sale of depreciable real property held for more than 12 months are subject to a 25% maximum federal income tax rate for taxpayers who are individuals, to the extent of previously claimed depreciation deductions.

Distributions in excess of current and accumulated earnings and profits will not be taxable to a stockholder to the extent that they do not exceed the adjusted basis of the stockholder's shares in respect of which the distributions were made, but rather, will reduce the adjusted basis of these shares. To the extent that such distributions exceed the adjusted basis of a stockholder's shares, they will be included in income as long-term capital gain, or short-term capital gain if the shares have been held for one year or less. In addition, any dividend declared by Newcastle in October, November or December of any year and payable to a stockholder of record on a specified date in any such month will be treated as both paid by Newcastle and received by the stockholder on December 31 of such year, provided that the dividend is actually paid by Newcastle before the end of January of the following calendar year.

To the extent that a REIT has available net operating losses and capital losses carried forward from prior tax years, such losses may reduce the amount of distributions that must be made in order to comply with the REIT distribution requirements. See "Taxation of Newcastle -- Annual Distribution Requirements." Such losses, however, are not passed through to stockholders and do not offset income of

119

stockholders from other sources, nor would they affect the character of any distributions that are actually made by a REIT, which are generally subject to tax in the hands of stockholders to the extent that the REIT has current or accumulated earnings and profits.

If excess inclusion income from a taxable mortgage pool is allocated to any Newcastle stockholder, that income will be taxable in the hands of the stockholder and would not be offset by any net operating losses of the stockholder that would otherwise be available. See "Taxation of Newcastle -- Taxable Mortgage Pools."

Dispositions of Newcastle Stock. In general, capital gains recognized by individuals and other non-corporate stockholders upon the sale or disposition of shares of Newcastle stock will be subject to a maximum federal income tax rate of 20% if the Newcastle stock is held for more than 12 months, and will be taxed at ordinary income rates of up to 39.6% if the Newcastle stock is held for 12 months or less. Gains recognized by stockholders that are corporations are subject to federal income tax at a maximum rate of 35%, whether or not classified as long-term capital gains. Capital losses recognized by a stockholder upon the disposition of Newcastle stock held for more than one year at the time of disposition will be considered long-term capital losses, and are generally available only to offset capital gain income of the stockholder but not ordinary income (except in the case of individuals, who may offset up to \$3,000 of ordinary income each year). In addition, any loss upon a sale or exchange of shares of Newcastle stock by a stockholder who has held the shares for six months or less, after applying holding period rules, will be treated as a long-term capital loss to the extent of distributions received from Newcastle that are required to be treated by the stockholder as long-term capital gain.

#### TAXATION OF FOREIGN STOCKHOLDERS

The following is a summary of certain United States federal income and estate tax consequences of the ownership and disposition of Newcastle stock applicable to non-U.S. holders of Newcastle stock. A "non-U.S. holder" is any person other than:

- (a) a citizen or resident of the United States,
- (b) a corporation or partnership created or organized in the United States or under the laws of the United States, or of any state thereof, or the District of Columbia,
- (c) an estate, the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source, or
- (d) a trust if a United States court is able to exercise primary supervision over the administration of such trust and one or more United

States fiduciaries have the authority to control all substantial decisions of the trust. The discussion is based on current law and is for general information only. The discussion addresses only selective and not all aspects of United States federal income and estate taxation.

Ordinary Dividends. The portion of dividends received by non-U.S. holders payable out of the earnings and profits of Newcastle which are not attributable to capital gains of Newcastle and which are not effectively connected with a U.S. trade or business of the non-U.S. holder will be subject to U.S. withholding tax at the rate of 30%, unless reduced by treaty. Reduced treaty rates are not available to the extent that income is excess inclusion income allocated to the foreign stockholder. See "Taxation of Newcastle -- Taxable Mortgage Pools".

In general, non-U.S. holders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of Newcastle common stock. In cases where the dividend income from a non-U.S. holder's investment in Newcastle stock is, or is treated as, effectively connected with the non-U.S. holder's conduct of a U.S. trade or business, the non-U.S. holder generally will be subject to U.S. tax at graduated rates, in the same manner as domestic stockholders are taxed with respect to such dividends, and may also be subject to the 30% branch profits tax in the case of a non-U.S. holder that is a corporation.

120

Non-Dividend Distributions. Unless Newcastle stock constitutes a U.S. real property interest (a "USRPI"), distributions by Newcastle which are not dividends out of the earnings and profits of Newcastle will not be subject to U.S. income tax. If it cannot be determined at the time at which a distribution is made whether or not the distribution will exceed current and accumulated earnings and profits, the distribution will be subject to withholding at the rate applicable to dividends. However, the non-U.S. holder may seek a refund from the IRS of any amounts withheld if it is subsequently determined that the distribution was, in fact, in excess of Newcastle's current and accumulated earnings and profits. If Newcastle stock constitutes a USRPI, as described below, distributions by Newcastle in excess of the sum of its earnings and profits plus the stockholder's basis in its Newcastle stock will be taxed under the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA") at the rate of tax, including any applicable capital gains rates, that would apply to a domestic stockholder of the same type (e.g., an individual or a corporation, as the case may be), and the collection of the tax will be enforced by a refundable withholding at a rate of 10% of the amount by which the distribution exceeds the stockholder's share of Newcastle's earnings and profits.

Capital Gain Dividends. Under FIRPTA, a distribution made by Newcastle to a non-U.S. holder, to the extent attributable to gains from dispositions of USRPIs held by Newcastle directly or through pass-through subsidiaries ("USRPI capital gains"), will be considered effectively connected with a U.S. trade or business of the non-U.S. holder and will be subject to U.S. income tax at the rates applicable to U.S. individuals or corporations, without regard to whether the distribution is designated as a capital gain dividend. In addition, Newcastle will be required to withhold tax equal to 35% of the amount of dividends to the extent the dividends constitute USRPI capital gains. Distributions subject to FIRPTA may also be subject to a 30% branch profits tax in the hands of a non-U.S. holder that is a corporation.

Dispositions of Newcastle Stock. Unless Newcastle stock constitutes a USRPI, a sale of the stock by a non-U.S. holder generally will not be subject to U.S. taxation under FIRPTA. The stock will not be treated as a USRPI if less than 50% of Newcastle's assets throughout a prescribed testing period consist of interests in real property located within the United States, excluding, for this purpose, interests in real property solely in a capacity as a creditor.

Even if the foregoing test is not met, Newcastle stock nonetheless will not constitute a USRPI if Newcastle is a "domestically-controlled REIT." A domestically-controlled REIT is a REIT in which, at all times during a specified testing period, less than 50% in value of its shares is held directly or indirectly by non-U.S. holders. Newcastle believes that it is, and it expects to continue to be, a domestically-controlled REIT and, therefore, the sale of Newcastle stock should not be subject to taxation under FIRPTA. Because Newcastle common stock will be publicly traded, however, no assurance can be given that Newcastle will be a domestically-controlled REIT.

In the event that Newcastle does not constitute a domestically-controlled REIT, a non-U.S. holder's sale of stock nonetheless will generally not be subject to tax under FIRPTA as a sale of a USRPI, provided that (a) the stock is "regularly traded," as defined by applicable Treasury Department regulations, on an established securities market, and (b) the selling non-U.S. holder held 5% or less of Newcastle's outstanding stock at all times during a specified testing period.

If gain on the sale of stock of Newcastle were subject to taxation under FIRPTA, the non-U.S. holder would be subject to the same treatment as a U.S. stockholder with respect to such gain, subject to applicable alternative minimum

tax and a special alternative minimum tax in the case of non-resident alien individuals, and the purchaser of the stock could be required to withhold 10% of the purchase price and remit such amount to the IRS.

Gain from the sale of Newcastle stock that would not otherwise be subject to FIRPTA will nonetheless be taxable in the United States to a non-U.S. holder in two cases: (a) if the non-U.S. holder's investment in the Newcastle stock is effectively connected with a U.S. trade or business conducted by such non-U.S. holder, the non-U.S. holder will be subject to the same treatment as a U.S. stockholder with respect to such gain, or (b) if the non-U.S. holder is a nonresident alien individual who was present

121

in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, the nonresident alien individual will be subject to a 30% tax on the individual's capital gain.

Estate Tax. Newcastle stock owned or treated as owned by an individual who is not a citizen or resident (as specially defined for U.S. federal estate tax purposes) of the United States at the time of death will be includable in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise, and may therefore be subject to U.S. federal estate tax.

#### TAXATION OF TAX-EXEMPT STOCKHOLDERS

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from federal income taxation. However, they are subject to taxation on their unrelated business taxable income ("UBTI"). While many investments in real estate generate UBTI, the IRS has ruled that dividend distributions from a REIT to a tax-exempt entity do not constitute UBTI. Based on that ruling, and provided that (1) a tax-exempt stockholder has not held its Newcastle common stock as "debt financed property" within the meaning of the Internal Revenue Code (i.e. where the acquisition or holding of the property is financed through a borrowing by the tax-exempt stockholder), and (2) the Newcastle common stock is not otherwise used in an unrelated trade or business, distributions from Newcastle and income from the sale of the Newcastle common stock should not give rise to UBTI to a tax-exempt stockholder. To the extent, however, that Newcastle (or a part of Newcastle, or a disregarded subsidiary of Newcastle) is a TMP, or if Newcastle holds residual interests in a REMIC, a portion of the dividends paid to a tax-exempt stockholder that is allocable to excess inclusion income may be subject to tax as UBTI. See "Taxation of Newcastle -- Taxable Mortgage Pools".

Tax-exempt stockholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans exempt from federal income taxation under sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Internal Revenue Code, respectively, are subject to different UBTI rules, which generally will require them to characterize distributions from Newcastle as UBTI.

In certain circumstances, a pension trust that owns more than 10% of Newcastle's stock could be required to treat a percentage of the dividends from Newcastle as UBTI, if Newcastle is a "pension-held REIT". Newcastle will not be a pension-held REIT unless either (A) one pension trust owns more than 25% of the value of Newcastle's stock, or (B) a group of pension trusts, each individually holding more than 10% of the value of Newcastle's stock, collectively owns more than 50% of the such stock. The restrictions on ownership and transfer of Newcastle's stock as discussed above should prevent a tax-exempt entity from owning more than 10% of the value of Newcastle's stock, or Newcastle from becoming a pension-held REIT.

TAX-EXEMPT STOCKHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF AN INVESTMENT IN NEWCASTLE.

#### OTHER TAX CONSIDERATIONS

##### DIVIDEND REINVESTMENT PLAN

To the extent that a stockholder receives shares of Newcastle stock pursuant to a dividend reinvestment plan, the federal income tax treatment of the stockholder and Newcastle will generally be the same as if the distribution had been made in cash. See "Taxation of Stockholders" and "Taxation of Newcastle -- Annual Distribution Requirements."

#### LEGISLATIVE OR OTHER ACTIONS AFFECTING REITS

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the Treasury Department. Changes to the federal tax laws and interpretations of federal tax laws could adversely affect an investment in Newcastle.

## STATE, LOCAL AND FOREIGN TAXES

Newcastle and its subsidiaries and stockholders may be subject to state, local or foreign taxation in various jurisdictions, including those in which it or they transact business, own property or reside. Newcastle owns properties located in a number of jurisdictions, and may be required to file tax returns in some or all of those jurisdictions. The state, local or foreign tax treatment of Newcastle and its stockholders may not conform to the federal income tax treatment discussed above. Newcastle will pay foreign property taxes, and dispositions of foreign property or operations involving, or investments in, foreign property may give rise to foreign income or other tax liability. Consequently, prospective investors should consult their tax advisors regarding the application and effect of state, local and foreign income and other tax laws on an investment in Newcastle common stock.

## ERISA CONSIDERATIONS

A plan fiduciary considering an investment in the securities should consider, among other things, whether such an investment might constitute or give rise to a prohibited transaction under ERISA, the tax Internal Revenue Code or any substantially similar federal, state or local law. ERISA and the Internal Revenue Code impose restrictions on:

- employee benefit plans as defined in Section 3(3) of ERISA,
- plans described in Section 4975(e)(1) of the Internal Revenue Code, including retirement accounts and Keogh Plans,
- entities whose underlying assets include plan assets by reason of a plan's investment in such entities, and
- persons who have certain specified relationships to a plan described as "parties in interest" under ERISA and "disqualified persons" under the tax code.

## REGULATION UNDER ERISA AND THE TAX CODE

ERISA imposes certain duties on persons who are fiduciaries of a plan. Under ERISA, any person who exercises any authority or control over the management or disposition of a plan's assets is considered to be a fiduciary of that plan. Both ERISA and the tax code prohibit certain transactions involving "plan assets" between a plan and parties in interest or disqualified persons. Violations of these rules may result in the imposition of an excise tax or penalty

The term "plan assets" is not defined by ERISA or the tax code. However, a plan's assets may be deemed to include an interest in the underlying assets of an entity if the plan acquires an "equity interest" in such an entity such as the shares. In that event, the operations of such an entity could result in a prohibited transaction under ERISA and the tax code.

## REGULATION ISSUED BY THE DEPARTMENT OF LABOR

The Department of Labor issued a regulation that provides exceptions to this rule. Under this regulation, if a plan acquires a "publicly-offered security," the issuer of the security is not deemed to hold plan assets. A publicly-offered security is a security that:

- is freely transferable,
- is part of a class of securities that is owned by 100 or more investors independent of the issuer and of one another, and
- is either:
  - (i) part of a class of securities registered under Section 12(b) or 12(g) of the Exchange Act, or
  - (ii) sold to the plan as part of an offering of securities to the public pursuant to an effective registration statement under the Securities Act and the class of securities of which such security is part is registered under the Exchange Act within the requisite time.

## THE SHARES OF COMMON STOCK AS "PUBLICLY-OFFERED SECURITIES'

It is anticipated that the shares of common stock being offered here will meet the criteria of publicly-offered securities. Although no assurances can be given, the Underwriters expect that:

- there will be no restrictions imposed on the transfer of interests in the shares of common stock,

- shares of common stock will be held by at least 100 independent investors at the conclusion of the offering, and

124

- the shares of common stock will be sold as part of an offering pursuant to an effective registration statement under the Securities Act and then will be timely registered under the Exchange Act.

#### OTHER EXCEPTIONS IN THE REGULATIONS

In addition, the regulation provides another exception for Plan investments in a "venture capital operating company" or a "real estate operating company." To be a "venture capital operating company," an entity must have at least 50% of its assets (other than short term investments pending long-term commitment or distribution to investors), valued at cost, invested in "venture capital investments," which are defined as companies in the business of selling goods or services (other than the investment of capital) with respect to which the entity has or obtains management rights. To be a "real estate operating company," an entity must have at least 50% of its assets (other than short term investments pending long-term commitment or distribution to investors), valued at cost, invested in real estate that is managed or developed and with respect to which such entity has the right to substantially participate directly in the management and development. We believe that we constitute either a "venture capital operating company" or a "real estate operating company" for purposes of the regulations.

#### EXEMPTIONS TO PROHIBITED TRANSACTIONS

If the shares of common stock fail to meet the criteria of publicly-offered securities, or we fail to be a venture capital operating company or a real estate operating company, our assets may be deemed to include assets of plans that are stockholders. In that event, transactions involving our assets and parties in interest or disqualified persons with respect to such plans might be prohibited under ERISA and the tax code unless a statutory or administrative exemption exist and the plan satisfies all conditions for such exemptive relief.

There are five class exemptions issued by the Department of Labor that could apply in the event of a prohibited transaction. These Department of Labor Prohibited Transaction Class Exemptions apply to:

- plan asset transactions determined by independent qualified professional asset managers (PTE 84-14),
- certain transactions involving bank collective investment funds (PTE 91-38),
- certain transactions involving insurance company pooled separate accounts (PTE 90-1),
- certain transactions involving insurance company general accounts (PTE 95-60), and
- plan asset transactions determined by in-house asset manager (PTE 96-23).

However, there is no assurance that these exemptions or any other exemption will apply, even if all of the conditions specified are satisfied.

#### SPECIAL CONSIDERATIONS FOR INSURANCE COMPANIES

An insurance company considering an investment should consider whether its general account may be deemed to include assets of the plans investing in the general account, for example, through the purchase of an annuity contract. In *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank*, 510 U.S. 86 (1993), the United States Supreme Court held that assets held in an insurance company's general account may be deemed to be plan assets under certain circumstances. In that event, the insurance company might be treated as a party in interest under such plans. However, PTE 95-60 may exempt some or all of the transactions that could occur as the result of the acquisition of the common stock by an insurance company general account. Therefore, insurance company investors should analyze whether John Hancock and PTE 95-60 or any other exemption may have an impact with respect to their purchase of the common stock.

In addition, regulations were issued pursuant to Section 401(c) of ERISA relating to the status of the assets of insurance company general accounts under ERISA and Section 4975 of the tax code with respect

125

to insurance policies issued on or before December 31, 1998 that are supported by an insurer's general account. As a result of these regulations, assets of an insurance company general account will not be treated as "plan assets" for purposes of the fiduciary responsibility provisions of ERISA and Section 4975 of the Internal Revenue Code to the extent such assets relate to contracts issued



to employee benefit plans on or before December 31, 1998 and the insurer satisfies various conditions. The plan asset status of insurance company separate accounts is unaffected by new Section 401(c) of ERISA, and separate account assets continue to be treated as the plan assets of any such plan invested in a separate account.

GENERAL INVESTMENT CONSIDERATIONS

Prospective fiduciaries of a plan considering the purchase of common stock should consult with their legal advisors concerning the impact of ERISA and the tax code and the potential consequences of making an investment in the certificates with respect to their specific circumstances. Each plan fiduciary should take into account, among other considerations:

- whether the fiduciary has the authority to make the investment,
- the composition of the plan's portfolio with respect to diversification by type of asset,
- the plan's funding objectives,
- the tax effects of the investment,
- whether the assets of the trust which are represented by such interests would be considered plan assets, and
- whether, under the general fiduciary standards of investment prudence and diversification an investment in certificates of any series is appropriate for the plan taking into account the overall investment policy of the plan and the composition of the plan's investment portfolio.

Certain employee benefit plans, such as governmental plans and certain church plans are not subject to the provisions of Title I of ERISA and Section 4975 of the tax code. Accordingly, assets of such plans may be invested in the common stock without regard to the ERISA considerations described here, subject to the provisions of any other applicable federal and state law. It should be noted that any such plan that is qualified and exempt from taxation under the tax code is subject to the prohibited transaction rules set forth in the tax code.

UNDERWRITING

We intend to offer the shares of common stock being sold in this offering through the underwriters. Bear, Stearns & Co. Inc., Lehman Brothers Inc. and Banc of America Securities LLC are acting as representatives of the underwriters named below. Subject to the terms and conditions described in a underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us, the number of shares listed opposite their names below.

<Table> <Caption> UNDERWRITER	NUMBER OF SHARES
- -----	-----
<S>	<C>
Bear, Stearns & Co. Inc. ....	
Lehman Brothers Inc. ....	
Banc of America Securities LLC.....	
	-----
Total.....	=====

The underwriters have agreed to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased. If any underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against various liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The underwriters have reserved for sale, at the initial public offering

price, up to \_\_\_\_\_ shares of common stock for our officers and directors, officers and employees of the manager and their families, and other persons associated with us who express an interest in purchasing these shares of common stock in this offering. The number of shares available for sale to the general public in the offering will be reduced to the extent these persons purchase reserved shares. Any reserved shares not purchased by these persons will be offered by the underwriters to the general public on the same terms as the other shares offered in this offering.

COMMISSIONS AND DISCOUNTS

The representatives have advised us that the underwriters initially propose to offer the shares to the public at the initial public offering price on the cover page of this prospectus and to dealers at that price less a concession not in excess of \$ \_\_\_\_\_ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of \$ \_\_\_\_\_ per share to other dealers. After this offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriters of the overallotment option.

<Table>  
<Caption>

	PER SHARE	WITHOUT OPTION	WITH OPTION
	-----	-----	-----
<S>	<C>	<C>	<C>
Public offering price.....			
Underwriting discount.....			
Proceeds, before expenses, to us.....			

</Table>

The expenses of the offering, not including the underwriting discount, are estimated at \$2.0 million and are payable by us.

OVERALLOTMENT OPTION

We have granted an option to the underwriters to purchase up to \_\_\_\_\_ additional shares at the public offering price less the underwriting discount. The underwriters may exercise this option for 30 days from the date of this prospectus solely to cover any overallotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

NO SALES OF SIMILAR SECURITIES

We have agreed that, subject to specified exceptions (including issuances of shares of common stock in connection with acquisitions), without the consent of Bear Stearns, we will not, directly or indirectly, offer, sell or otherwise dispose of any shares of our common stock or any securities that may be converted into or exchanged for any shares of our common stock for a period of 180 days from the date of this prospectus. Our manager (including its executive officers and directors), our executive officers and our directors have agreed under lock-up agreements with Bear Stearns that, subject to specified exceptions (including existing pledges and refinancing thereof and transfers for charitable and estate planning purposes), without the prior written consent of Bear Stearns, they will not, directly or indirectly, offer for sale, sell, pledge, enter into any swap or other derivatives transaction that transfers to another any of the economic benefits or risks of ownership of our common stock, or otherwise dispose of any shares of our common stock or any securities that may be converted into or exchanged for any shares of common stock (collectively, "Transfer") for a period ending 365 days after the date of this prospectus or pursuant to an earlier release as provided in the lock-up agreements and as described under the heading "Shares Eligible For Future Sale -- Lock-up" in this prospectus. In addition, Newcastle Investment Holdings has agreed under a lock-up agreement with Bear Stearns that, subject to specified exceptions (including existing pledges and refinancings thereof), without the prior written consent of Bear Stearns, it will not, directly or indirectly, offer for sale, sell, pledge, enter into any swap or other derivatives transaction that transfers to another any of the economic benefits or risks of ownership of our common stock, or otherwise dispose of any shares of our common stock or any securities that may be converted into or exchanged for any shares of common stock (collectively, "Transfer") for a period ending 180 days after the date of this prospectus or pursuant to an earlier release as provided in the lock-up agreement and as described under the heading "Shares Eligible For Future Sale -- Lock-up" in this prospectus.

In connection with this offering, we will grant to our manager an option to purchase an additional \_\_\_\_\_ shares of our common stock, representing 10% of the number of shares being offered hereby, and subject to adjustment if

the underwriters' over-allotment option is exercised, at the offering price of our shares in this offering, which will result in an ownership of approximately % of our equity upon exercise of all options. The option shares are not registered in connection with this offering.

#### NEW YORK STOCK EXCHANGE LISTING

We will apply for listing on the New York Stock Exchange under the symbol "NCT." In order to meet the requirements for listing on the NYSE, the underwriters have undertaken that the shares will be sold to ensure that the NYSE distribution standards are met.

Prior to this offering, there has been no public market for the shares of our common stock. The initial public offering price has been negotiated between the representatives and us. The material factors

128

considered in determining the initial public offering price of our common stock, in addition to prevailing market conditions, were:

- our historical performance and capital structure;
- estimates of our business potential and earning prospects;
- an overall assessment of our management; and
- the above factors in relation to market valuation of companies in related businesses.

An active trading market for the shares may not develop. It is also possible that after the offering, the shares of our common stock will not trade in the public market at or above the initial public offering price.

The underwriters do not expect to sell more than 5% of the shares of our common stock in the aggregate to accounts over which they exercise discretionary authority.

#### PRICE STABILIZATION, SHORT POSITIONS AND PENALTY BIDS

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the representatives may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in our common stock in connection with this offering that is, if they sell more shares than are listed on the cover of this prospectus, the representatives may reduce that short position by purchasing shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the overallotment option described above. Purchases of our common stock to stabilize its price or to reduce a short position may cause the price of our common stock to be higher than it might be in the absence of those purchases.

The representatives may also impose a penalty bid on underwriters and selling group members. This means that if the representatives purchase shares in the open market to reduce the underwriters' short position or to stabilize the price of those shares, they may reclaim the amount of the selling concession from the underwriters and selling group members who sold those shares. The imposition of a penalty bid may also affect the price of the shares in that it discourages resales of those shares.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. In addition, neither we nor any of the underwriters makes any representation that the representatives or the lead managers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

#### OTHER RELATIONSHIPS

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us and our affiliates. They have received customary fees and commissions for these transactions. We intend to use the net proceeds of this offering to purchase a portfolio of mortgage loans from EMC Mortgage Corporation ("EMC"), an affiliate of Bear Stearns. We have also entered into a financing arrangement with an affiliate of Bear Stearns. See "Use of Proceeds." Bear Stearns Private Equity Opportunity Fund II, LP has committed to invest \$10 million in Fortress Investment Fund. Atlantic Equity Corporation, an affiliate of Banc of America Securities LLC, has committed to invest \$10 million in Fortress Investment Fund and owns 536,193 shares of common stock of Newcastle Investment Holdings Corp.

## LEGAL MATTERS

Certain legal matters will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, and Piper Rudnick LLP, Baltimore, Maryland and for the underwriters by Sidley Austin Brown & Wood LLP, New York, New York. Sidley Austin Brown & Wood LLP has represented us in the past and continues to represent us on a regular basis on a variety of matters.

## EXPERTS

The consolidated financial statements of Newcastle Investment Holdings Corp. (formerly Newcastle Investment Corp. and prior to that Fortress Investment Corp.) and subsidiaries at December 31, 2001 and 2000, and for each of the three years in the period ended December 31, 2001, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement, of which this prospectus is a part, on Form S-11 with the Securities and Exchange Commission (the "Commission") relating to this offering. This prospectus does not contain all of the information in the registration statement and the exhibits and financial statements included with the registration statement. References in this prospectus to any of our contracts, agreements or other documents are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contracts, agreements or documents. You may read and copy the registration statement, the related exhibits and other material we file with the Commission at the Commission's public reference room in Washington, D.C. at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You can also request copies of those documents, upon payment of a duplicating fee, by writing to the Commission. Please call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The Commission also maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file with the Commission. The website address is <http://www.sec.gov>. You may also request a copy of these filings, at no cost, by writing or telephoning us as follows: Newcastle Investment Corp., c/o Fortress Investment Group, 1251 Avenue of the Americas, New York, NY 10020, Attention: Secretary or (212) 798-6100.

Upon the effectiveness of the registration statement, we will be subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and, in accordance with the Securities Exchange Act of 1934, will file reports, proxy and information statements and other information with the Commission. Such annual, quarterly and special reports, proxy and information statements and other information can be inspected and copied at the locations set forth above. We will report our financial statements on a year ended December 31. We intend to furnish our stockholders with annual reports containing consolidated financial statements audited by our independent certified public accountants and with quarterly reports containing unaudited consolidated financial statements for each of the first three quarters of each fiscal year.

INDEX TO FINANCIAL STATEMENTS  
NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

## TABLE OF CONTENTS

<Table> <Caption>	PAGE ----
<S>	<C>
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Pro Forma Balance Sheet at March 31, 2002 (unaudited).....	F-3
Notes to Consolidated Pro Forma Balance Sheet at March 31, 2002 (unaudited).....	F-4
Consolidated Pro Forma Statement of Income for the Three Months Ended March 31, 2002 (unaudited).....	F-5
Notes to Consolidated Pro Forma Statement of Income for the Three Months Ended March 31, 2002 (unaudited).....	F-6
Consolidated Pro Forma Statement of Income for the Year Ended December 31, 2001 (unaudited).....	F-7
Notes to Consolidated Pro Forma Statement of Income for the Year Ended December 31, 2001 (unaudited).....	F-8
Consolidated Pro Forma Statement of Income for the Three Months Ended March 31, 2001 (unaudited).....	F-9

Notes to Consolidated Pro Forma Statement of Income for the Three Months Ended March 31, 2001 (unaudited).....	F-10
Consolidated Pro Forma Statement of Income for the Year Ended December 31, 2000 (unaudited).....	F-11
Notes to Consolidated Pro Forma Statement of Income for the Year Ended December 31, 2000 (unaudited).....	F-12
Consolidated Pro Forma Statement of Income for the Year Ended December 31, 1999 (unaudited).....	F-13
Notes to Consolidated Pro Forma Statement of Income for the Year Ended December 31, 1999 (unaudited).....	F-14
HISTORICAL CONSOLIDATED FINANCIAL STATEMENTS	
Report of Independent Auditors.....	F-15
Consolidated Balance Sheets at December 31, 2001 and 2000... Consolidated Statements of Income For The Years Ended December 31, 2001, 2000 and 1999.....	F-16 F-17
Consolidated Statements of Stockholders' Equity and Redeemable Preferred Stock For The Years Ended December 31, 2001, 2000 and 1999.....	F-18
Consolidated Statements of Cash Flows For The Years Ended December 31, 2001, 2000 and 1999.....	F-19
Notes to Consolidated Financial Statements For The Years Ended December 31, 2001, 2000 and 1999.....	F-20
Consolidated Balance Sheets at March 31, 2002 (unaudited) and December 31, 2001.....	F-46
Consolidated Statements of Income for the Three Months Ended March 31, 2002 and 2001 (unaudited).....	F-47
Consolidated Statements of Stockholders' Equity and Redeemable Preferred Stock for the Three Months Ended March 31, 2002 and 2001 (unaudited).....	F-48
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2002 and 2001 (unaudited).....	F-49
Notes to Consolidated Financial Statements for the Three Months Ended March 31, 2002 and 2001 (unaudited).....	F-50

</Table>

F-1

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The unaudited pro forma consolidated statements of income are presented as if the formation transactions had been consummated on January 1, 2002, 2001 or 2000, as applicable. The historical results of operations of the assets and liabilities to be retained by Newcastle Investment Holdings for the three months ended March 31, 2002 and 2001 and the year ended December 31, 2001 have been presented as discontinued operations, in the case of the GSA portfolio and the mortgage loans, or eliminated. The historical results of operations for the GSA portfolio and the mortgage loans have also been presented as discontinued operations for the years ended December 31, 2000 and 1999; the historical results of operations for the other assets and liabilities to be retained by Newcastle Investment Holdings have not been eliminated for these periods. Certain intercompany transactions between investments of Newcastle Investment Holdings and our investments which were historically eliminated in the consolidated financial statements of Newcastle Investment Holdings have not been eliminated for this presentation.

For purposes of this pro forma financial presentation, the formation transactions are adjusted to include: (1) the deposit for the CBO II collateral, but not the subsequent purchase of the CBO II collateral and the issuance of the CBO II securitization, which were consummated subsequent to March 31, 2002 in the ordinary course of our business and (2) the \$13.9 million investment in GSA portfolio mezzanine bonds which were completed as of March 31, 2002, but not any investment by us subsequent to March 31, 2002.

The unaudited pro forma consolidated balance sheet is presented as if the formation transactions had been consummated on March 31, 2002. Certain intercompany balances between investments of Newcastle Investment Holdings and our investments which were historically eliminated in the consolidated financial statements of Newcastle Investment Holdings have not been eliminated for this presentation.

The unaudited pro forma consolidated financial statements are presented for comparative purposes only, and are not necessarily indicative of what our actual financial position or our consolidated results of operations would have been for the periods presented, nor do they purport to represent the results of any future periods. In the opinion of management, all adjustments necessary to present fairly the unaudited pro forma financial information have been made.

The information below should be read in conjunction with "Management's Discussion and Analysis of Pro Forma Financial Condition and Results of Operations" and the financial statements and notes thereto included in this prospectus.

F-2

CONSOLIDATED PRO FORMA BALANCE SHEET  
MARCH 31, 2002  
(UNAUDITED)  
(IN THOUSANDS)

<Table>  
<Caption>

	HISTORICAL (A)	DISCONTINUED OPERATIONS (B)	OTHER (C)	PRO FORMA
--	<C>	<C>	<C>	<C>
<b>ASSETS</b>				
CBO collateral, net.....	\$ 519,086	\$ --	\$ 13,947	\$ 533,033
Operating real estate, net.....	521,077	(403,670)	--	117,407
Loans and mortgage pools receivable, net.....	3,824	(3,824)	--	--
Marketable securities, available for sale.....	14,975	--	(7,791)	7,184
Investments in unconsolidated subsidiaries.....	72,340	--	(72,340)	--
Cash and cash equivalents.....	25,780	(1,951)	(22,995)	834
Restricted cash.....	54,967	(6,028)	--	48,939
Due from (to) affiliates.....	9,198	--	(9,198)	--
Deferred costs, net.....	17,545	(5,032)	(1,015)	11,498
Receivables and other assets.....	23,695	(11,395)	(183)	12,117
	\$1,262,487	\$ (431,900)	\$ (99,575)	\$
731,012	=====	=====	=====	
<b>LIABILITIES, MINORITY INTEREST, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY</b>				
<b>LIABILITIES</b>				
CBO bonds payable.....	\$ 446,036	\$ --	--	\$ 446,036
Other bonds payable.....	316,007	(316,007)	--	--
Notes payable.....	108,953	(24,463)	--	84,490
Repurchase agreements.....	1,457	--	--	1,457
Credit facility.....	40,000	--	(40,000)	--
Deferred hedging liabilities.....	8,591	--	(1,743)	6,848
Dividends payable.....	10,531	--	(10,531)	--
Accrued expenses and other liabilities.....	12,060	(7,328)	(74)	4,658
	943,635	(347,798)	(52,348)	
543,489	-----	-----	-----	
<b>Commitments and contingencies</b>				
MINORITY INTEREST.....	6,050	(2,470)	(3,580)	--
Redeemable Preferred stock.....	20,410	--	(20,410)	--
<b>STOCKHOLDERS' EQUITY</b>				
Common stock.....	165	--	--	165
Additional paid-in capital.....	309,356	(79,295)	(34,900)	195,161
Dividends in excess of earnings.....	(17,427)	--	17,427	--
Accumulated other comprehensive income.....	298	(2,337)	(5,764)	(7,803)
	292,392	(81,632)	(23,237)	
187,523	-----	-----	-----	
	\$1,262,487	\$ (431,900)	\$ (99,575)	\$
731,012	=====	=====	=====	

</Table>

F-3

NEWCASTLE INVESTMENT HOLDINGS CORP.

NOTES TO CONSOLIDATED PRO FORMA BALANCE SHEET  
MARCH 31, 2002  
(UNAUDITED)

(A) Historical amounts were derived from our unaudited historical consolidated financial statements as of and for the three months ended March 31, 2002.

(B) Adjustments represent historical balances of assets and liabilities related to investments to be retained by Newcastle Investment Holdings which have been treated as discontinued operations, specifically the GSA portfolio and the mortgage loans.

(C) Adjustments represent historical balances related to other investments to be retained by Newcastle Investment Holdings, which have been eliminated. Certain intercompany balances between investments of Newcastle Investment Holdings and our investments, which were historically eliminated, have not been eliminated for this presentation.

F-4

NEWCASTLE INVESTMENT HOLDINGS CORP.

CONSOLIDATED PRO FORMA STATEMENT OF INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2002  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
<Caption>

	HISTORICAL (A)	DISCONTINUED OPERATIONS (B)	OTHER (C)	PRO FORMA
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<b>REVENUES</b>				
Interest and dividend income.....	\$ 13,010	\$ (37)	\$ (22)	\$12,951
Rental and escalation income.....	19,886	(14,323)	--	5,563
Gain (loss) on settlement of investments.....	3,105	(79)	--	3,026
Equity in earnings (losses) of unconsolidated subsidiaries.....	(452)	--	452	--
Incentive income.....	(12,810)	--	12,810	--
Other income.....	6	--	(2)	4
	-----	-----	-----	-----
	22,745	(14,439)	13,238	21,544
	-----	-----	-----	-----
<b>EXPENSES</b>				
Interest expense.....	14,100	(5,677)	(1,150)	7,273
Property operating expense.....	7,416	(4,960)	--	2,456
Loan servicing and REO expense.....	235	(147)	--	88
General and administrative expense.....	762	(158)	(173)	431
Management fees.....	1,363	--	(489)	874
Incentive return.....	840	--	(840)	--
Depreciation and amortization.....	3,571	(2,637)	(216)	718
	-----	-----	-----	-----
	28,287	(13,579)	(2,868)	11,840
	-----	-----	-----	-----
INCOME BEFORE MINORITY INTEREST.....	(5,542)	(860)	16,106	9,704
Minority interest in income of consolidated subsidiaries....	6,413	(8)	(6,405)	--
	-----	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS.....	\$ 871	\$ (868)	\$ 9,701	\$ 9,704
	=====	=====	=====	=====
Income from discontinued operations.....	\$ --			\$ 868
	=====			=====
Income from continuing operations per common share, basic and diluted.....	\$ 0.05			\$ 0.59
	=====			=====
Income from discontinued operations per common share, basic and diluted.....	\$ --			\$ 0.05
	=====			=====
Weighted average number of common shares outstanding, basic and diluted.....	16,489			16,489
	=====			=====

</Table>

F-5

NEWCASTLE INVESTMENT HOLDINGS CORP.

NOTES TO CONSOLIDATED PRO FORMA STATEMENT OF INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2002  
(UNAUDITED)

- (A) Historical amounts were derived from our unaudited historical consolidated financial statements as of and for the three months ended March 31, 2002.
- (B) Adjustments represent historical results of operations related to investments to be retained by Newcastle Investment Holdings which have been treated as discontinued operations, specifically the GSA portfolio and the mortgage loans.
- (C) Adjustments represent historical results of operations related to other investments to be retained by Newcastle Investment Holdings, which have been eliminated. Certain intercompany transactions between investments of Newcastle Investment Holdings and our investments, which were historically eliminated, have not been eliminated for this presentation. General and administrative expense and management fees have been allocated pro rata between continuing operations and operations related to assets to be retained by Newcastle Investment Holdings, based on pro forma equity;

incentive return has been allocated based on the investments which generated such return.

F-6

NEWCASTLE INVESTMENT HOLDINGS CORP.

CONSOLIDATED PRO FORMA STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2001  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
<Caption>

	HISTORICAL (A)	DISCONTINUED OPERATIONS (B)	OTHER (C)	PRO FORMA
	-----	-----	-----	-----
--				
<S>	<C>	<C>	<C>	<C>
REVENUES				
Interest and dividend income.....	\$ 53,430	\$ (4,491)	\$ (1,232)	\$47,707
Rental and escalation income.....	81,458	(58,341)	--	23,117
Gain (loss) on settlement of investments.....	10,386	(1,948)	(1,033)	7,405
Equity in earnings (losses) of unconsolidated subsidiaries.....	2,807	--	(2,807)	--
Incentive income.....	28,709	--	(28,709)	--
Other income.....	146	(78)	(25)	43
	-----	-----	-----	-----
-	176,936	(64,858)	(33,806)	78,272
	-----	-----	-----	-----
-				
EXPENSES				
Interest expense.....	62,767	(26,904)	(3,204)	32,659
Property operating expense.....	30,261	(20,320)	--	9,941
Loan servicing and REO expense.....	965	(711)	(11)	243
General and administrative expense.....	2,425	(804)	(330)	1,291
Management fees.....	5,746	--	(2,104)	3,642
Incentive return.....	2,834	--	(2,834)	--
Depreciation and amortization.....	13,996	(10,084)	(1,007)	2,905
	-----	-----	-----	-----
-	118,994	(58,823)	(9,490)	50,681
	-----	-----	-----	-----
-				
INCOME BEFORE MINORITY INTEREST.....	57,942	(6,035)	(24,316)	27,591
Minority interest in income of consolidated subsidiaries....	(14,271)	(83)	14,354	--
	-----	-----	-----	-----
-				
INCOME FROM CONTINUING OPERATIONS.....	\$ 43,671	\$ (6,118)	\$ (9,962)	\$27,591
	=====	=====	=====	=====
Income from discontinued operations.....	\$ --			\$ 6,118
	=====			=====
Income from continuing operations per common share, basic and diluted.....	\$ 2.65			\$ 1.67
	=====			=====
Income from discontinued operations per common share, basic and diluted.....	\$ --			\$ 0.37
	=====			=====
Weighted average number of common shares outstanding, basic and diluted.....	16,493			16,493
	=====			=====

</Table>

F-7

NEWCASTLE INVESTMENT HOLDINGS CORP.

NOTES TO CONSOLIDATED PRO FORMA STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2001  
(UNAUDITED)

- (A) Historical amounts were derived from our audited historical consolidated financial statements as of and for the year ended December 31, 2001.
- (B) Adjustments represent historical results of operations related to investments to be retained by Newcastle Investment Holdings which have been treated as discontinued operations, specifically the GSA portfolio and the mortgage loans.
- (C) Adjustments represent historical results of operations related to other investments to be retained by Newcastle Investment Holdings, which have been eliminated. Certain intercompany transactions between investments of Newcastle Investment Holdings and our investments, which were historically eliminated, have not been eliminated for this presentation. General and



administrative expense and management fees have been allocated pro rata between continuing operations and operations related to assets to be retained by Newcastle Investment Holdings, based on pro forma equity; incentive return has been allocated based on the investments which generated such return.

F-8

NEWCASTLE INVESTMENT HOLDINGS CORP.

CONSOLIDATED PRO FORMA STATEMENT OF INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2001  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
<Caption>

	HISTORICAL (A)	DISCONTINUED OPERATIONS (B)	OTHER (C)	PRO FORMA
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<b>REVENUES</b>				
Interest and dividend income.....	\$15,028	\$ (1,866)	\$ (621)	\$12,541
Rental and escalation income.....	20,804	(14,667)	--	6,137
Gain (loss) on settlement of investments.....	7,206	(1,505)	689	6,390
Equity in earnings (losses) of unconsolidated subsidiaries.....	(346)	--	346	--
Other income.....	78	(3)	(71)	4
	-----	-----	-----	-----
	42,770	(18,041)	343	25,072
	-----	-----	-----	-----
<b>EXPENSES</b>				
Interest expense.....	17,326	(7,503)	(1,125)	8,698
Property operating expense.....	7,930	(5,168)	--	2,762
Loan servicing and REO expense.....	242	(186)	--	56
General and administrative expense.....	605	(26)	(161)	418
Management fees.....	1,434	--	(641)	793
Depreciation and amortization.....	3,398	(2,482)	(180)	736
	-----	-----	-----	-----
	30,935	(15,365)	(2,107)	13,463
	-----	-----	-----	-----
INCOME BEFORE MINORITY INTEREST.....	11,835	(2,676)	2,450	11,609
Minority interest in income of consolidated subsidiaries....	(139)	139	--	--
	-----	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS.....	\$11,696	\$ (2,537)	\$ 2,450	\$11,609
	=====	=====	=====	=====
Income from discontinued operations.....	\$ --			\$ 2,537
	=====			=====
Income from continuing operations per common share, basic and diluted.....	\$ 0.71			\$ 0.70
	=====			=====
Income from discontinued operations per common share, basic and diluted.....	\$ --			\$ 0.16
	=====			=====
Weighted average number of common shares outstanding, basic and diluted.....	16,500			16,500
	=====			=====

</Table>

F-9

NEWCASTLE INVESTMENT HOLDINGS CORP.

NOTES TO CONSOLIDATED PRO FORMA STATEMENT OF INCOME  
FOR THE THREE MONTHS ENDED MARCH 31, 2001  
(UNAUDITED)

- (A) Historical amounts were derived from our unaudited historical consolidated financial statements as of and for the three months ended March 31, 2001.
- (B) Adjustments represent historical results of operations related to investments to be retained by Newcastle Investment Holdings which have been treated as discontinued operations, specifically the GSA portfolio and the mortgage loans.
- (C) Adjustments represent historical results of operations related to other investments to be retained by Newcastle Investment Holdings, which have been eliminated. General and administrative expense and management fees have been allocated pro rata between continuing operations and operations related to assets to be retained by Newcastle Investment Holdings, based on pro forma equity; incentive return has been allocated based on the investments which generated such return.

F-10

NEWCASTLE INVESTMENT HOLDINGS CORP.

CONSOLIDATED PRO FORMA STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2000  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
<Caption>

	HISTORICAL (A)	PRO FORMA ADJUSTMENTS (B)	PRO FORMA
	-----	-----	-----
<S>	<C>	<C>	<C>
<b>REVENUES</b>			
Interest and dividend income.....	\$ 65,389	\$ (14,400)	\$50,989
Rental and escalation income.....	80,641	(57,086)	23,555
Gain (loss) on settlement of investments.....	21,763	(927)	20,836
Equity in earnings (losses) of unconsolidated subsidiaries.....	(980)	--	(980)
Other income.....	1,006	(278)	728
	-----	-----	-----
	167,819	(72,691)	95,128
	-----	-----	-----
<b>EXPENSES</b>			
Interest expense.....	68,517	(31,620)	36,897
Property operating expense.....	29,552	(19,323)	10,229
Loan servicing and REO expense.....	2,325	(2,060)	265
General and administrative expense.....	3,988	(678)	3,310
Management fees.....	6,646	--	6,646
Depreciation and amortization.....	13,183	(9,920)	3,263
	-----	-----	-----
	124,211	(63,601)	60,610
	-----	-----	-----
INCOME BEFORE MINORITY INTEREST.....	43,608	(9,090)	34,518
Minority interest in income of consolidated subsidiaries....	(748)	748	--
	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS.....	\$ 42,860	\$ (8,342)	\$34,518
	=====	=====	=====
Income from discontinued operations.....	\$ --	--	\$ 8,342
	=====	=====	=====
Income from continuing operations per common share, basic and diluted.....	\$ 2.27	--	\$ 1.83
	=====	=====	=====
Income from discontinued operations per common share, basic and diluted.....	\$ --	--	\$ 0.44
	=====	=====	=====
Weighted average number of common shares outstanding, basic and diluted.....	18,892	--	18,892
	=====	=====	=====

</Table>

F-11

NEWCASTLE INVESTMENT HOLDINGS CORP.

NOTES TO CONSOLIDATED PRO FORMA STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2000  
(UNAUDITED)

- (A) Historical amounts were derived from our audited historical consolidated financial statements as of and for the year ended December 31, 2000.
- (B) Pro forma adjustments represent historical results of operations related to investments to be retained by Newcastle Investment Holdings which are treated as discontinued operations, specifically the GSA portfolio and the mortgage loans.

F-12

NEWCASTLE INVESTMENT HOLDINGS CORP.

CONSOLIDATED PRO FORMA STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 1999  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
<Caption>

	HISTORICAL (A)	PRO FORMA ADJUSTMENTS (B)	PRO FORMA
	-----	-----	-----
<S>	<C>	<C>	<C>
<b>REVENUES</b>			
Interest and dividend income.....	\$ 50,286	\$ (19,998)	\$30,288
Rental and escalation income.....	65,352	(48,265)	17,087

Gain (loss) on settlement of investments.....	(1,526)	3,291	1,765
Equity in earnings (losses) of unconsolidated subsidiaries.....	(3,615)	--	(3,615)
Other income.....	462	(393)	69
	-----	-----	-----
	110,959	(65,365)	45,594
	-----	-----	-----
EXPENSES			
Interest expense.....	46,778	(27,037)	19,741
Property operating expense.....	23,251	(14,823)	8,428
Loan servicing and REO expense.....	3,122	(3,010)	112
General and administrative expense.....	3,516	(433)	3,083
Management fees.....	7,407	(20)	7,387
Depreciation and amortization.....	10,474	(8,655)	1,819
	-----	-----	-----
	94,548	(53,978)	40,570
	-----	-----	-----
INCOME BEFORE MINORITY INTEREST.....	16,411	(11,387)	5,024
Minority interest in income of consolidated subsidiaries....	(1,258)	1,258	--
	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM.....	15,153	\$ (10,129)	\$ 5,024
		=====	=====
Extraordinary item -- loss on extinguishment of debt.....	(2,341)		
	-----		
INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE.....	12,812		
Cumulative effect of change in accounting principle -- write off of organizational costs.....	(513)		
	-----		
NET INCOME.....	\$ 12,299		
	=====		
Income from discontinued operations.....	\$ --		\$ 7,788
	=====		=====
Net Income per Common Share, basic and diluted.....	\$ 0.59		
	=====		
Income from continuing operations per common share, basic and diluted.....	\$ 0.72		\$ 0.24
	=====		=====
Income from discontinued operations per common share, basic and diluted.....	\$ --		\$ 0.37
	=====		=====
Income before extraordinary item per common share, basic and diluted.....	\$ 0.72		
	=====		
Effect of extraordinary item per common share, basic and diluted.....	\$ (0.11)		
	=====		
Effect of change in accounting principle per common share, basic and diluted.....	\$ (0.02)		
	=====		
Weighted average number of common shares outstanding, basic and diluted.....	20,917		20,917
	=====		=====

</Table>

F-13

NEWCASTLE INVESTMENT HOLDINGS CORP.

NOTES TO CONSOLIDATED PRO FORMA STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 1999  
(UNAUDITED)

- (A) Historical amounts were derived from our audited historical consolidated financial statements as of and for the year ended December 31, 1999.
- (B) Pro forma adjustments represent historical results of operations related to investments to be retained by Newcastle Investment Holdings which are treated as discontinued operations, specifically the GSA portfolio and the mortgage loans.

F-14

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of  
Newcastle Investment Holdings Corp.

We have audited the accompanying consolidated balance sheets of Newcastle Investment Holdings Corp. (formerly Newcastle Investment Corp. and prior to that Fortress Investment Corp.) and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. 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 generally accepted auditing standards. 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, such financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with general accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 1999 the Company adopted Statement of Position 98-5, "Reporting on the Costs of Start-up Activities" which required the expensing of unamortized organization costs.

As discussed in Note 2 to the consolidated financial statements, in 2001 the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Derivative Instruments and Certain Hedging Activities."

/s/ ERNST & YOUNG LLP

New York, New York  
March 15, 2002

F-15

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<Table>  
<Caption>

	DEC. 31, 2001	DEC. 31, 2000
	-----	-----
	(IN THOUSANDS)	
<S>	<C>	<C>
<b>ASSETS</b>		
Operating real estate, net -- Note 4.....	\$ 524,834	\$ 540,539
CBO collateral, net -- Note 5.....	522,258	509,729
Loans and mortgage pools receivable, net -- Note 3.....	10,675	106,957
Marketable securities, available for sale.....	14,467	40,491
Investments in unconsolidated subsidiaries -- Note 6.....	73,208	63,427
Cash and cash equivalents.....	31,360	10,575
Restricted cash.....	34,508	12,453
Due from (to) affiliates -- Note 12.....	25,688	(328)
Deferred costs, net.....	17,988	23,541
Receivables and other assets.....	21,487	23,702
	-----	-----
	\$1,276,473	\$1,331,086
	=====	=====
<b>LIABILITIES, MINORITY INTEREST, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
CBO bonds payable -- Note 10.....	\$ 445,514	\$ 424,972
Other bonds payable -- Note 10.....	319,303	380,663
Notes payable -- Note 9.....	111,116	120,727
Repurchase agreements -- Note 8.....	1,457	16,294
Credit facility -- Note 9.....	20,000	33,000
Deferred hedging liabilities.....	11,732	14,399
Dividends payable.....	8,882	149
Accrued expenses and other liabilities.....	10,633	12,134
	-----	-----
	928,637	1,002,338
	-----	-----
Commitments and contingencies -- Note 13		
MINORITY INTEREST.....	16,881	7,926
Redeemable preferred stock, par value \$.01 per share, 100,000,000 shares authorized; 1,020,517 shares issued and outstanding at December 31, 2001 and 2000.....	20,410	20,167
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$.01 par value, 500,000,000 shares authorized; 16,488,517 and 16,499,765 shares issued and outstanding at December 31, 2001 and 2000, respectively.....	165	165
Additional paid-in capital.....	309,356	309,551
Dividends in excess of earnings.....	(7,767)	(7,666)
Accumulated other comprehensive income (loss).....	8,791	(1,395)

-----	-----
310,545	300,665
-----	-----
\$1,276,473	\$1,331,086
=====	=====

</Table>

See notes to consolidated financial statements

F-16

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

<Table>  
<Caption>

	YEAR ENDED DEC. 31, 2001	YEAR ENDED DEC. 31, 2000	YEAR ENDED DEC. 31, 1999
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)		
<S>	<C>	<C>	<C>
<b>REVENUES:</b>			
Rental and escalation income.....	\$ 81,458	\$ 80,641	\$ 65,352
Interest and dividend income.....	53,430	65,389	50,286
Gain (loss) on settlement of investments.....	10,386	21,763	(1,526)
Equity in earnings (losses) of unconsolidated subsidiaries.....	2,807	(980)	(3,615)
Incentive income -- Note 6.....	28,709	--	--
Other income.....	146	1,006	462
	-----	-----	-----
	176,936	167,819	110,959
	-----	-----	-----
<b>EXPENSES:</b>			
Interest expense.....	62,767	68,517	46,778
Property operating expense.....	30,261	29,552	23,251
Loan servicing and REO expense.....	965	2,325	3,122
General and administrative expense.....	2,425	3,988	3,516
Management fee -- Note 12.....	5,746	6,646	7,407
Incentive return -- Note 12.....	2,834	--	--
Depreciation and amortization.....	13,996	13,183	10,474
	-----	-----	-----
	118,994	124,211	94,548
	-----	-----	-----
INCOME BEFORE MINORITY INTEREST.....	57,942	43,608	16,411
Minority interest in income of consolidated subsidiaries.....	(14,271)	(748)	(1,258)
	-----	-----	-----
INCOME BEFORE EXTRAORDINARY ITEM.....	43,671	42,860	15,153
Extraordinary item-loss on extinguishment of debt -- Note 9.....	--	--	(2,341)
	-----	-----	-----
INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE.....	43,671	42,860	12,812
Cumulative effect of change in accounting principle-write off of organizational costs.....	--	--	(513)
	-----	-----	-----
NET INCOME.....	43,671	42,860	12,299
	-----	-----	-----
Preferred dividends and related accretion.....	(2,540)	(2,084)	--
	-----	-----	-----
INCOME AVAILABLE FOR COMMON SHAREHOLDERS.....	\$ 41,131	\$ 40,776	\$ 12,299
	=====	=====	=====
NET INCOME PER COMMON SHARE, BASIC AND DILUTED.....	\$ 2.49	\$ 2.16	\$ 0.59
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED.....	16,492,708	18,892,232	20,916,739
	=====	=====	=====
Income before extraordinary item per common share, basic and diluted.....	\$ 2.49	\$ 2.16	\$ 0.72
	=====	=====	=====
Effect of extraordinary item per common share, basic and diluted.....	\$ --	\$ --	\$ (0.11)
	=====	=====	=====
Effect of change in accounting principle per common share, basic and diluted.....	\$ --	\$ --	\$ (0.02)
	=====	=====	=====

</Table>

See notes to consolidated financial statements

F-17

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK

<Table>  
<Caption>

TOTAL	REDEEMABLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PD. IN CAP.	DIV'S IN EXCESS OF EARNINGS	ACCUM. OTHER COMP. INCOME
	SHARES	AMOUNT	SHARES	AMOUNT			
(DOLLARS IN THOUSANDS)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>							
Stockholders' equity -- December 31, 1998.....	--	\$ --	20,916,739	\$209	\$388,045	\$ (864)	\$ (2,466)
\$384,924							
Dividends declared..... (42,671)	--	--	--	--	--	(42,671)	--
Comprehensive income Net income.....	--	--	--	--	--	12,299	--
12,299							
Unrealized loss on securities: reclassification adjustment.....	--	--	--	--	--	--	1,886
1,886							
Unrealized loss on securities.....	--	--	--	--	--	--	(1,981)
(1,981)							
Foreign currency translation.....	--	--	--	--	--	--	216
216							
Total comprehensive income.....							
12,420							
Stockholders' equity -- December 31, 1999.....	--	--	20,916,739	209	388,045	(31,236)	(2,345)
354,673							
Redemption of common shares.....	--	--	(2,210,540)	(22)	(32,204)	--	--
(32,226)							
Exchange of redeemable preferred stock for common shares.....	2,370,516	46,312	(2,206,434)	(22)	(46,290)	--	--
(46,312)							
Redemption of redeemable preferred stock.....	(1,349,999)	(26,999)	--	--	--	--	--
--							
Dividends declared..... (18,436)	--	--	--	--	--	(18,436)	--
Accretion of redeemable preferred stock.....	--	854	--	--	--	(854)	--
(854)							
Comprehensive income: Net income.....	--	--	--	--	--	42,860	--
42,860							
Unrealized loss on securities: reclassification adjustment.....	--	--	--	--	--	--	509
509							
Unrealized gain on securities.....	--	--	--	--	--	--	2,828
2,828							
Foreign currency translation: reclassification adjustment.....	--	--	--	--	--	--	257
257							
Foreign currency translation.....	--	--	--	--	--	--	(2,644)
(2,644)							

-----							
Total comprehensive income.....							
43,810							
-----							
Stockholders' equity -- December 31, 2000.....	1,020,517	20,167	16,499,765	165	309,551	(7,666)	(1,395)
300,655							
-----							
Redemption of common shares.....	--	--	(11,248)	--	(195)	--	--
(195)							
Dividends declared.....	--	--	--	--	--	(43,529)	--
(43,529)							
Accretion of redeemable preferred stock.....	--	243	--	--	--	(243)	--
(243)							
Translation adjustment -- deferred hedge gains and losses....	--	--	--	--	--	--	4,064
4,064							
Comprehensive income:							
Net income.....	--	--	--	--	--	43,671	--
43,671							
Unrealized loss on securities: reclassification adjustment.....	--	--	--	--	--	--	954
954							
Unrealized gain on securities.....	--	--	--	--	--	--	19,695
19,695							
Foreign currency translation: reclassification adjustment.....	--	--	--	--	--	--	29
29							
Foreign currency translation.....	--	--	--	--	--	--	(3,198)
(3,198)							
Unrealized loss on derivatives designated as cash flow hedges: reclassification adjustment.....	--	--	--	--	--	--	205
205							
Unrealized loss on derivatives designated as cash flow hedges....	--	--	--	--	--	--	(11,563)
(11,563)							
-----							
Total comprehensive income.....							
49,793							
-----							
Stockholders' equity -- December 31, 2001.....	1,020,517	\$20,410	16,488,517	\$165	\$309,356	\$ (7,767)	\$ 8,791
\$310,545							
=====							

See notes to consolidated financial statements.

F-18

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

<Table>  
<Caption>

	YEAR ENDED DEC. 31, 2001	YEAR ENDED DEC. 31, 2000	YEAR ENDED DEC. 31, 1999
	-----	-----	-----
		(IN THOUSANDS)	
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			

Net income.....	\$ 43,671	\$ 42,860	\$ 12,299
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	13,996	13,183	10,474
Accretion of discount and other amortization.....	(3,284)	(2,739)	(2,193)
Equity in (earning) loss of unconsolidated subsidiaries.....	(2,807)	980	3,615
Accrued incentive income.....	(26,069)	--	--
Minority interest.....	14,271	748	1,258
Deferred rent.....	(1,964)	(2,544)	(2,763)
(Gain)/loss on settlement of investments.....	(10,386)	(21,763)	1,526
Write off of organizational costs.....	--	--	513
Loss on extinguishment of debt.....	--	--	2,341
Change in:			
Restricted cash.....	1,308	537	8,373
Receivables and other assets.....	2,687	(627)	(3,474)
Accrued expenses and other liabilities.....	(555)	(5,582)	2,090
Due from affiliates.....	3,580	(230)	(1,225)
	-----	-----	-----
Net cash provided by operating activities.....	34,448	24,823	32,834
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase and improvement of operating real estate.....	(4,495)	(1,520)	(172,522)
Acquisitions of and advances on loans.....	--	(33,770)	(86,217)
Repayments of loan principal.....	75,324	62,891	66,610
Proceeds from settlement of loans and foreclosed real estate.....	29,069	22,239	87,782
Contributions to unconsolidated subsidiaries.....	(25,829)	(57,042)	(39,457)
Distributions from unconsolidated subsidiaries.....	25,814	11,170	29,845
Purchase of CBO collateral.....	(73,365)	(10,799)	(543,141)
Proceeds from sale of CBO collateral.....	105,722	10,543	43,410
Deposit on CBO collateral.....	(23,631)	--	--
Payment of deferred transaction costs.....	(5,150)	(1,319)	(5,126)
Settlement of foreign exchange future contracts.....	--	(137)	(3,184)
Purchase of marketable securities.....	(7,680)	(29,935)	(67,399)
Proceeds from sale of marketable securities.....	10,274	179,311	5,979
	-----	-----	-----
Net cash provided by (used in) investing activities...	106,053	151,632	(683,420)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under repurchase agreements.....	10,000	--	406,884
Repayments of repurchase agreements.....	(24,837)	(104,314)	(484,081)
Borrowings under notes payable.....	--	--	143,361
Repayments of notes payable.....	(4,157)	(541)	(252,776)
Issuance of CBO bonds payable.....	18,418	--	422,396
Issuance of other bonds payable.....	--	--	411,192
Repayment of other bonds payable.....	(64,175)	(17,899)	(12,655)
Draws under credit facility.....	21,000	74,000	--
Repayments of credit facility.....	(34,000)	(41,000)	--
Redemption of common stock.....	(195)	(32,226)	--
Redemption of redeemable preferred stock.....	--	(27,000)	--
Minority interest contributions (distributions).....	(5,090)	(1,485)	3,065
Dividends paid.....	(34,796)	(28,893)	(38,488)
Payment of deferred financing costs.....	(1,884)	(867)	(23,859)
Settlement of hedges of anticipated financings.....	--	--	13,563
Purchase of non-hedge derivatives.....	--	--	(3,022)
Sale of non-hedge derivatives.....	--	--	3,755
	-----	-----	-----
Net cash provided by (used in) financing activities...	(119,716)	(180,225)	589,335
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	20,785	(3,770)	(61,251)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD.....	10,575	14,345	75,596
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 31,360	\$ 10,575	\$ 14,345
	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for interest expense.....	\$ 61,640	\$ 66,141	\$ 45,772
	=====	=====	=====
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Loan foreclosures.....	\$ --	\$ (5,169)	\$ (945)
	=====	=====	=====
Common stock dividends declared but not paid.....	\$ 8,244	\$ --	\$ 10,458
	=====	=====	=====
Redeemable preferred stock dividends declared but not paid.....	\$ 638	\$ 149	\$ --
	=====	=====	=====
Deposits used in purchases of operating real estate.....	\$ --	\$ --	\$ 11,105
	=====	=====	=====
Issuance of redeemable preferred stock in exchange for common stock.....	\$ --	\$ (46,312)	\$ --
	=====	=====	=====
Repurchase agreements assumed.....	\$ --	\$ 94,776	\$ --
	=====	=====	=====
Transfer of interest in unconsolidated subsidiary.....	\$ --	\$ 5,169	\$ --
	=====	=====	=====



See notes to consolidated financial statements.

F-19

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001, 2000 AND 1999

(DOLLAR AMOUNTS IN TABLES SHOWN IN THOUSANDS, EXCEPT PER SHARE DATA)

1. ORGANIZATION

Newcastle Investment Holdings Corp. (formerly Newcastle Investment Corp. and prior to that Fortress Investment Corp.) ("Newcastle" or the "Company") is a Maryland corporation that invests in real estate-related assets on a global basis. Its primary businesses are (1) investing in marketable real estate-related debt securities, (2) investing in commercial properties leased to third parties, (3) investing in Fortress Investment Fund LLC (the "Fund"), and (4) investing in distressed, sub-performing and performing residential and commercial mortgage loans, or portfolios thereof, and related properties acquired in foreclosure or by deed-in-lieu of foreclosure.

The consolidated financial statements include the accounts of Newcastle and its controlled subsidiaries, which include Fortress Partners, L.P. (the "Operating Partnership"), its primary investment subsidiary.

Newcastle was incorporated on May 11, 1998 and was initially capitalized through the sale of 50 shares of common stock for \$1,000. In June 1998, Newcastle completed a private offering for the sale of 20,912,401 shares of common stock (the "Private Offering"), including an over-allotment option, for proceeds of approximately \$384.5 million, net of expenses. In addition, in July 1998, certain employees of Fortress Investment Group LLC (the "Manager") purchased 4,288 shares of common stock resulting in additional proceeds of approximately \$0.1 million. In 2000 and 2001, Newcastle repurchased 4,416,974 and 11,248 shares of common stock, respectively, for an aggregate of \$32.4 million of cash and \$46.3 million of Series A Cumulative Convertible Preferred Stock (the "Series A Preferred"). At December 31, 2001, Newcastle had 16,488,517 common shares issued and outstanding.

The Series A Preferred has a \$20 liquidation preference and pays dividends of \$2.00 per share for the year ended June 30, 2001, \$2.50 per share for the year ending June 30, 2002, and \$3.00 per share each year thereafter. The Series A Preferred is convertible during the period from June 30, 2002 through December 27, 2002 at a price of \$17 per common share and can also be redeemed by the holder at the liquidation preference amount at any time after June 30, 2002. Newcastle can redeem the Series A Preferred at \$20 per share at any time. Approximately \$20.4 million of the Series A Preferred remained outstanding at December 31, 2001.

Newcastle has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 (the "Code"). As such, Newcastle will generally not be subject to federal income tax on that portion of its income that is distributed to shareholders if it distributes at least 90% of its REIT taxable income to its shareholders by the due date of its federal income tax return and complies with various other requirements.

The Company has entered into a management agreement (the "Management Agreement," further described in Note 12) with the Manager under which the Manager advises the Company on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Company's board of directors. For its services, the Manager receives an annual management fee, as defined in the Management Agreement. In addition, an affiliate of the Manager holds an equity interest in the Operating Partnership which provides for an Incentive Return (Note 12).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING -- The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and include the accounts of Newcastle, the Operating Partnership, and their consolidated subsidiaries. All significant intercompany transactions and balances have been eliminated. The Company consolidates those entities in

F-20

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

which it has an investment of 50% or more and has control over significant operating, financial and investing decisions of the entity. For entities over which the Company exercises significant influence through its relationship with the Manager, but which do not meet the requirements for consolidation, the

Company uses the equity method of accounting. Minority interest represents the ownership in certain consolidated subsidiaries held by entities other than the Company.

The Company records incentive income from the Fund, which is one of its unconsolidated subsidiaries accounted for under the equity method. For a discussion of the Company's policy for recognition of such incentive income, see Note 6.

Certain prior year amounts have been reclassified to conform to the current year presentation.

RISKS AND UNCERTAINTIES -- In the normal course of business, the Company encounters primarily two significant types of economic risk: credit and market. Credit risk is the risk of default on the Company's securities, leases, and loans that results from a borrower's, lessee's or derivative counterparty's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of investments in securities, loans and real estate or in derivatives due to changes in interest rates or other market factors, including the value of the collateral underlying loans and securities and the valuation of real estate held by the Company. Concentrations of risks include the leasing of a substantial portion of the Company's operating real estate to two tenants as described in Note 4. Management believes that the carrying values of its investments are reasonable taking into consideration these risks along with estimated collateral values, payment histories, and other borrower information.

The Company also invests in real estate, or mortgage loans secured by real estate, located outside of the United States. The Company's international operations are subject to the same risks associated with its United States operations as well as additional risks, such as fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, heightened risk of political and economic instability, potential adverse tax consequences and the burden of complying with a wide variety of foreign laws.

Additionally, the Company 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 federal income tax on its taxable income at regular corporate rates, which could be material. Unless entitled to relief under certain provisions of the Code, Newcastle could also be disqualified from taxation as a REIT for the four taxable years following the year during which it failed to qualify as a REIT.

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.

FEDERAL INCOME TAXES -- Newcastle expects to qualify as a REIT under the Code. A REIT will generally not be subject to federal income taxation on that portion of its income that is distributed to shareholders if it distributes at least 90% (95% prior to 2001) of its REIT taxable income by the due date of its federal income tax return and complies with certain other requirements. Since the Company distributed 100% of its 2001, 2000 and 1999 taxable income, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

F-21  
NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Distributions relating to 1999, 2000 and 2001 were taxable as follows:

<Table>  
<Caption>

	DIVIDENDS PER SHARE	ORDINARY INCOME	CAPITAL GAINS	RETURN OF CAPITAL
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
1999.....	\$1.50	48.56%	--%	51.44%
2000.....	\$1.50	61.93%	--%	38.07%
2001.....	\$2.00	71.82%	28.18%	--%

</Table>

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH -- The Company considers all highly liquid short-term investments with maturities of 90 days or less when purchased to be cash equivalents. Restricted cash consisted of amounts held by third parties in margin accounts of \$1.6 million and \$1.5 million at December 31, 2001 and 2000, respectively, related to certain derivative hedge agreements, restricted property operating accounts of \$8.4 million and \$8.4 million at December 31, 2001 and 2000, respectively, cash held by trustees related to certain of the Company's investments of \$0.9 million and \$2.6 million at

December 31, 2001 and 2000, respectively, and cash held as a deposit on the CBO II Collateral (Note 5) of \$23.6 million at December 31, 2001. Certain amounts on deposit with major financial institutions exceed insured limits.

INVESTMENT IN MARKETABLE SECURITIES -- The Company has classified its investment in marketable 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. 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.

The Company held the following investments classified as marketable securities available for sale:

<Table>  
<Caption>

TYPE	COST BASIS		FAIR VALUE		UNREALIZED HOLDING LOSSES	
	12/31/01	12/31/00	12/31/01	12/31/00	12/31/01	12/31/00
<S>	<C>	<C>	<C>	<C>	<C>	<C>
REIT#1 common equity securities(a).....	\$ --	\$ 3,035	\$ --	\$ 2,080	\$--	\$955
CMBS#1(b).....	3,940	4,787	3,940	4,787	--	--
CMBS#2(b).....	--	6,504	--	6,504	--	--
CMBS#3(b).....	3,137	27,120	3,137	27,120	--	--
I/O security(c).....	7,430	--	7,390	--	40	--
	\$14,507	\$41,446	\$14,467	\$40,491	\$40	\$955

</Table>

(a) During 2000, the Company sold 55,900 shares of REIT #1 for net proceeds of approximately \$1.1 million at a loss of approximately \$0.5 million. In January 2001, the Company sold the remaining 105,675 shares of REIT #1 for net proceeds of approximately \$2.1 million at a loss of approximately \$1.0 million.

(b) Acquired from ICH (Note 6). CMBS #1 is encumbered by a \$1.5 million repurchase agreement at December 31, 2001. CMBS #1 has a maturity of November 2007, CMBS #2 was sold in May 2001 at a gain of \$1.4 million, and CMBS #3 has a maturity of August 2030. CMBS #3 was restructured in April 2001 and a \$23.7 million portion was transferred into the CBO securitization (Note 5).

(c) The I/O security matures in August 2018.

LOANS AND MORTGAGE POOLS RECEIVABLE AND CBO COLLATERAL -- The Company invests in performing, sub-performing, and non-performing individual loans, loan portfolios, and securities secured by loans or loan portfolios for prices generally at or below face value. Loans and mortgage pools receivable are

presented in the consolidated balance sheet net of any unamortized discount and an allowance for loan losses. Discounts are accreted into interest income based upon a comparison of actual collections and expected collections. Income is not accrued on non-performing loans; cash received on such loans is treated as income to the extent of interest previously accrued. Interest income with respect to non-discounted loans is recognized on an accrual basis. Deferred fees and costs are recognized as interest income over the terms of the loans using the interest method. Upon settlement of loans, the excess (or deficiency) of net proceeds over the net carrying value of the loan is recognized as a gain (or loss) in the period of settlement.

ALLOWANCE FOR LOAN AND MORTGAGE POOL LOSSES -- The Company periodically evaluates loans for impairment. Commercial and residential real estate loans are considered to be impaired, for financial reporting purposes, when it is probable that the Company will be unable to collect all principal or interest when due according to the contractual terms of the original loan agreements, or, for loans purchased at a discount for credit losses, when the Company determines that it is probable that it would be unable to collect as anticipated. Upon determination of impairment, the Company establishes specific valuation allowances, through provisions for losses, based on the estimated fair value of the underlying real estate collateral using a discounted cash flow analysis (see Note 7). The allowance for each loan pool is maintained at a level believed

adequate by management to absorb probable losses. It is the Company's policy to establish an allowance for uncollectible interest on performing 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 placed on non-accrual status and deemed to be non-performing. Actual losses may differ from the Company's estimates.

RENTAL AND ESCALATION INCOME -- Contractual minimum rental income is recognized on a straight-line basis over the terms of the related operating leases. The excess of straight-line rents above contractual amounts was \$2.0 million, \$2.5 million and \$2.8 million during 2001, 2000 and 1999, respectively. Expense recoveries are included in rental and escalation income.

INVESTMENT IN REAL ESTATE -- Investment in real estate is recorded at cost less accumulated depreciation. Depreciation is computed on a straight-line basis. Buildings are depreciated over 40 years. Major improvements are capitalized and depreciated over their estimated useful lives. Fees and costs incurred in the successful negotiation of leases are deferred and amortized on a straight-line basis over the terms of the respective leases. Expenditures for repairs and maintenance are expensed as incurred. Foreclosed real estate, held for sale, is recorded in Receivables and Other Assets at the lower of its cost or fair value less cost to sell and is not depreciated. The Company reviews its real estate assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No material impairment was recorded during 2001, 2000 or 1999. In August 2001, Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued, and will be effective in 2002. The Company does not expect the adoption of SFAS No. 144 to have a material effect on its financial position or results of operations.

DEFERRED COSTS -- Deferred costs consist primarily of costs incurred in obtaining financing (amortized over the term of such financing using the interest method) and external costs related to probable acquisitions and \$0.8 million related to a potential public offering of shares (Note 13). During 2001, 2000 and 1999, approximately \$1.9 million, \$2.5 million and \$0.9 million of financing costs were amortized into interest expense, respectively.

NET INCOME PER COMMON SHARE -- Net income per common share is calculated using net income available for common shareholders, on the basis of the weighted average number of common shares outstanding plus the additional dilutive effect of common stock equivalents during each period. The

F-23

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Company did not have any dilutive common stock equivalents during 2001, 2000 or 1999. Net income available for common shareholders is equal to net income less preferred dividends and accretion of the discount on the Series A Preferred.

STOCK OPTIONS -- The Company accounts for stock options granted to non-employees in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation." The fair value of the options issued as compensation to the Manager for its efforts in raising capital for the Company was recorded in 1998 as an increase in stockholders' equity with an offsetting reduction of capital proceeds received. No options were issued in 2001, 2000 or 1999.

DERIVATIVES AND HEDGING ACTIVITIES -- In January 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments. Specifically, SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either stockholders' equity or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as either a cash flow hedge, fair value hedge or a hedge of a net investment in a foreign operation.

Derivative transactions are entered into by the Company solely for risk-management 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 Internal Revenue Code among others. In determining whether to hedge a risk, the Company 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 the Company. Generally, all derivatives entered into are intended

to qualify as hedges under GAAP, unless specifically stated otherwise. To this end, terms of hedges are matched closely to the terms of hedged items.

Description of the risks being hedged:

1) Interest rate risk, existing positions -- The Company generally hedges the aggregate 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. The Company 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, the Company may enter into swap agreements whereby the Company would receive floating rate payments in exchange for fixed rate payments, effectively converting the borrowing to fixed rate. The Company may also enter into cap agreements whereby, in exchange for a fee, the Company would be reimbursed for interest paid in excess of a certain cap rate.

2) Interest rate risk, anticipated transactions -- The Company 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. The Company generally intends to hedge only the risk related to changes in the benchmark interest rate (LIBOR or a Treasury rate).

F-24

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In order to "lock in" the rate on the date of forecast, the Company may enter into swap agreements whereby the Company would receive fixed rate payments in exchange for floating rate payments. The value of such a swap should vary inversely with the expected proceeds of a given fixed rate borrowing in the future, assuming the terms of the swap and borrowing are properly matched. At the date the borrowing occurs, the swap is unwound at a gain or loss which should equal the change in expected proceeds between the date of forecast and the date of consummation which result from changes in market interest rates, effectively hedging such changes. At December 31, 2001, no such derivative transactions were outstanding.

3) Foreign currency rate risk, net investments -- The Company may hedge the aggregate risk of fluctuations in the exchange rate between a foreign currency, in which the Company has made a net investment, and the U.S. dollar.

In order to reduce the risk, the Company may maintain a short position in the applicable foreign currency. The amount of the position would be equal to the anticipated net equity in the foreign investment at a forward date, as denominated in the foreign currency. This effectively locks in the current exchange rate on the Company's net equity position for the period of such position. At December 31, 2001, no such derivative transactions were outstanding.

The Company has employed interest rate swaps primarily in four ways: (i) to hedge fluctuations in the fair value of the fixed lease payments underlying its revenue-producing real estate in Canada, (ii) to hedge the anticipated GSA Securitization (Note 10), which occurred in May 1999, (iii) to hedge the anticipated securitization of the CBO Collateral (Note 10), which occurred in July 1999, and (iv) to hedge its exposure to changes in market interest rates with respect to its floating rate debt. Approximately, \$224.5 million and \$216.4 million in principal amount of the Company's floating rate debt were designated as the hedged items to interest rate swap and cap agreements at December 31, 2001, respectively.

To qualify for cash flow hedge accounting, interest rate swaps and caps must meet certain criteria, including (1) the items to be hedged expose the Company to interest rate risk, (2) the interest rate swaps or caps are highly effective in reducing the Company'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.

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 is 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. No material ineffectiveness was recorded during the year ended December 31, 2001. Prior to the adoption of SFAS No. 133, these hedges were measured at historical cost which was amortized into interest expense on the interest method. Periodic net payments received or made on such hedges were also included in interest expense at such time.

With respect to interest rate swaps which were designated as hedges of the fair value of lease payments, periodic net payments and any gain or loss from fluctuations in the fair value of the interest rate swaps were capitalized as adjustments to deferred rent and are being recognized over the term of the leases as adjustments to rental income. Pursuant to SFAS No. 133, such net amounts were reclassified to accumulated other comprehensive income at January 1, 2001. The Company's hedge of such payments

F-25

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

was terminated in 1999. As of December 31, 2001 and 2000, \$1.6 million and \$1.9 million of such losses were deferred, net of amortization, respectively.

With respect to interest rate swaps which have been designated as hedges of anticipated refinancings, periodic net payments were recognized currently as adjustments to interest expense; any gain or loss from fluctuations in the fair value of the interest rate swaps was recorded as a deferred hedging gain or loss and treated as a component of the anticipated transaction at the time of such transaction. Pursuant to SFAS No. 133, such net amounts were reclassified to accumulated other comprehensive income at January 1, 2001. In the event the anticipated refinancing failed to occur as expected, the deferred hedging credit or charge was recognized currently in income. The Company's hedges of such refinancings were terminated upon the consummation of such refinancings. As of December 31, 2001 and 2000, \$9.1 million and \$13.7 million of such gains were deferred, net of amortization, respectively.

SFAS No. 133 has resulted in a change in the Company's method of accounting for interest rate caps and swaps used as hedges. As a result of this change, the Company recorded a transition gain adjustment to other comprehensive income of approximately \$4.1 million on January 1, 2001. During the year ended December 31, 2001, the Company recorded an aggregate \$11.4 million of loss to other comprehensive income and an aggregate of \$4.7 million of gain to earnings, as an adjustment to interest expense, related to such hedges. The Company expects to reclassify approximately \$0.4 million of net gain on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months due to differences in the present value of net interest payments associated with interest rate swaps and to changes in fair value associated with interest rate caps.

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 has been recognized currently in income.

The Company's derivative financial instruments contain credit risk to the extent that its bank counterparties may be unable to meet the terms of the agreements. The Company minimizes such risk by limiting its counterparties to major financial institutions with good credit ratings. 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. The Company does not require collateral.

FOREIGN CURRENCY OPERATIONS -- Assets and liabilities relating to foreign operations are translated using exchange rates as of the end of each reporting period. The results of the Company's foreign operations are translated at the weighted average exchange rate for each reporting period. Translation adjustments are included as a component of accumulated other comprehensive income.

Foreign exchange contracts are, from time to time, used to hedge the Company's net investments in its foreign operations. Gains and losses on foreign exchange contracts which qualify as hedges of net investments in foreign operations as well as changes in the market value of these instruments are included in accumulated other comprehensive income. Upon sale or liquidation of its investment in a foreign operation, the related amount in accumulated other comprehensive income is reclassified to transaction gain or loss in the period of such liquidation.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency, except those transactions which qualify as a hedge, are included currently in income.

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 the Company's purposes, comprehensive income

represents net income, as presented in the statements of operations, adjusted for net foreign currency

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

translation adjustments and unrealized gains or losses on marketable securities held for sale and derivatives designated as cash flow hedges. Accumulated other comprehensive income at December 31, 2001 and 2000 represented \$5.6 million and \$2.4 million of net foreign currency translation loss adjustments, respectively, \$21.7 million and \$1.0 million of net unrealized gains on marketable securities, respectively, and \$7.3 million and \$0.0 million of net unrealized losses on derivatives designated as cash flow hedges, respectively.

ORGANIZATION COSTS -- The AICPA has issued Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-up Activities." This SOP requires costs of start-up activities and organizational costs to be expensed as incurred and was effective for financial statements for fiscal years beginning after December 15, 1998. The initial application of this SOP has been recorded by the Company in 1999 as a cumulative effect of a change in accounting principle. The Company carried approximately \$0.5 million of net deferred organizational costs on its books as of December 31, 1998 that were written off in 1999.

3. LOAN PORTFOLIO

Loans and mortgage pools receivable consisted of the following at December 31, 2001 and 2000:

<Table>  
<Caption>

2001	TOTAL	LOAN POOLS	INDIVIDUAL LOANS
- - - - -	- - - - -	- - - - -	- - - - -
<S>	<C>	<C>	<C>
Residential real estate loans.....	\$ 17,002	\$ 17,002	\$ --
Commercial real estate loans.....	8,393	1,833	6,560
	-----	-----	-----
Total mortgage loans.....	25,395	18,835	6,560
Allowance for loan losses (a).....	(14,720)	(14,720)	--
	-----	-----	-----
Loans receivable, net.....	\$ 10,675	\$ 4,115	\$6,560
	=====	=====	=====

</Table>

- - - - -

(a) During 2001, the Company settled loans which had an aggregate allowance of approximately \$7.3 million on the date of settlement. The total allowance also increased \$0.5 million as a result of foreign currency fluctuations.

<Table>  
<Caption>

2000	TOTAL	LOAN POOLS	INDIVIDUAL LOANS
- - - - -	- - - - -	- - - - -	- - - - -
<S>	<C>	<C>	<C>
Residential real estate loans.....	\$ 48,596	\$ 48,596	\$ --
Commercial real estate loans.....	81,025	4,412	76,613
	-----	-----	-----
Total mortgage loans.....	129,621	53,008	76,613
Unaccreted discount.....	(1,095)	(1,095)	--
Allowance for loan losses (b).....	(21,569)	(21,404)	(165)
	-----	-----	-----
Loans receivable, net.....	\$106,957	\$ 30,509	\$76,448
	=====	=====	=====

</Table>

- - - - -

(b) During 2000, the Company recorded allowances on existing loan portfolios of approximately \$1.2 million (which is included in Gain (Loss) on Settlement of Investments) and settled and foreclosed loans which had an aggregate allowance of approximately \$5.0 million on the date of settlement. The total allowance also decreased \$1.2 million as a result of foreign currency fluctuations.

The average net balance of the Company's mortgage pools was approximately \$11.8 million and \$37.2 million during 2001 and 2000, respectively, on which the Company earned approximately \$1.6 million and \$5.7 million of gross revenues, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table sets forth certain information regarding individual mortgage loans:

LOAN #	COLLATERAL	LOCATION	INTEREST RATE	FINAL MATURITY DATE	PAYMENT TERMS
<S>	<C>	<C>	<C>	<C>	<C>
1	Retail Stores	19 States	LIBOR + 4.0%	Repaid January 2002	Interest Only
2	Residential Properties	California	10.75%	Repaid June 2001	Interest Only
3	Residential Properties	Wisconsin	9.25%	Repaid February 2001	Interest Only

<Table>  
<Caption>

LOAN #	PRIOR LIENS	FACE AMOUNT		CARRYING AMOUNT		ENCUMBRANCES	
		12/31/01	12/31/00	12/31/01	12/31/00	12/31/01	12/31/00
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1	None	\$6,560	\$75,391	\$6,560	\$75,391	None	\$48,862
2	None	\$ --	\$ 1,087	\$ --	\$ 928	None	None
3	None	\$ --	\$ 135	\$ --	\$ 129	None	None

The following table sets forth certain additional information regarding mortgage loan pools:

<Table>  
<Caption>

PRINCIPAL AMOUNT	12/31/2001			CARRYING AMOUNT (A)		OVER	
	RANGE OF LOAN		RANGE OF INTEREST	RANGE OF FINAL			PAST
	TYPE OF COLLATERAL	BALANCES	RATES	MATURITIES	12/31/2001	12/31/2000	
90 DAYS							
DUE AT							
12/31/2001							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Primarily Residential Portfolios	Under \$100				\$ --	\$12,504	\$
2,148	\$100-\$200	(B)	(B)		804	8,545	
14,855	Over \$200	(B)	(B)		3,268	8,786	
Subtotal					4,072	29,835	
17,003							
Primarily Commercial Portfolios	Under \$500				--	530	
--	\$500 - \$1,000				--	--	
1,583	Over \$1,000	(B)	(B)		43	144	
Subtotal					43	674	
1,583							
Total mortgage loan pool					\$4,115	\$30,509	
\$18,586					=====	=====	

(A) The primary residential portfolios were encumbered by \$14.5 million of debt at December 31, 2000.

(B) These loans have passed their stated maturities and are considered non-performing loans. The Company is in the process of restructuring or settling all of these loans and, as such, their stated interest rates are



not longer significant.

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

4. OPERATING REAL ESTATE

Investments in operating real estate consisted of the following commercial properties:

	12/31/01	12/31/00
<S>	<C>	<C>
Land.....	\$ 61,417	\$ 62,585
U.S. properties.....	395,066	392,154
Canadian properties.....	46,206	49,015
Belgian properties.....	61,093	63,169
Total.....	563,782	566,923
Accumulated depreciation.....	(38,948)	(26,384)
Investment in real estate, net.....	\$524,834	\$540,539

</Table>

The North American properties are primarily leased on a long-term basis to the General Services Administration of the U.S. Government ("GSA") (the "GSA Properties") and Bell Canada, a wholly-owned subsidiary of BCE, Inc. (the "Bell Canada Properties"). The Belgian properties (the "Belgian Properties") are leased to a variety of tenants, including the European Commission ("EC") which has leased approximately 46% of these properties by gross carrying value. For 2001, 2000 and 1999, approximately 71.9%, 67.9% and 66.8% of the Company's consolidated rental and escalation income was attributable to GSA, respectively, and approximately 19.4%, 20.6% and 25.0% was attributable to Bell Canada, respectively. The GSA leases expire over various dates through the year 2018 and the Bell Canada leases expire over various dates through the year 2007. Each Bell Canada lease contains one five-year lease renewal option and provides for a significant payment due upon expiration of the lease. These terminal payments have been included in the calculation of straight-line rental income assuming that each lease is renewed once.

In addition to minimum rent, GSA leases generally include an annual rental escalation based on the increase in the Consumer Price Index ("CPI") applied to the portion of the base rent attributable to operating expenses, as well as a provision requiring GSA to pay all increases in taxes over the base year. The leases to Bell Canada provide for the reimbursement of substantially all operating expenses and property taxes plus an administrative fee. The leases on the Belgian Properties provide for annual increases in base rent based on the change in the Sante Index, as well as payment of increases in operating expenses and real estate taxes over base year amounts. The following is a schedule by year of the future minimum rental payments to be received under the non-cancelable operating leases:

<S>	<C>
2002.....	\$ 54,552
2003.....	49,342
2004.....	46,017
2005.....	42,895
2006.....	41,180
Thereafter.....	129,684
	-----
	\$363,670
	=====

</Table>

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
DECEMBER 31, 2001, 2000 AND 1999

<Table>  
<Caption>

TYPE OF PROPERTY	LOCATION	INITIAL COSTS			GROSS CARRYING AMOUNT AT 12/31/01		
		LAND (A)	BLDG. AND IMPROV'S. (A)	COSTS CAP SUBSEQ. TO ACQ'S (A)	LAND	BLDG. AND IMPROV'S	TOTAL (B)
(DOLLAR AMOUNTS IN TABLES SHOWN IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)							

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Off.							
Bldg.	Aurora, CO	\$ 720	\$ 12,167	\$ 663	\$ 720	\$ 12,830	\$ 13,550
Warehouse	Burlington, NJ	4,850	89,390	741	4,850	90,131	94,981
Off.							
Bldg.	Philadelphia, PA	1,095	12,977	493	1,095	13,470	14,565
Off.							
Bldg.	Concord, MA	2,100	14,175	115	2,100	14,290	16,390
Off.							
Bldg.	Huntsville, AL	351	12,180	1,923	351	14,103	14,454
Off.							
Bldg.	Norfolk, VA	318	5,044	90	318	5,134	5,452
Off.							
Bldg.	Lakewood, CO	459	5,388	40	459	5,428	5,887
Off.							
Bldg.	Providence, RI	1,630	16,824	287	1,630	17,111	18,741
Off.							
Bldg.	Sacramento, CA	8,125	55,687	1,716	8,125	57,403	65,528
Off.							
Bldg.	Suffolk, VA	924	36,450	441	924	36,891	37,815
Off.							
Bldg.	Washington, DC	6,482	29,749	477	6,482	30,226	36,708
Off.							
Bldg.	Houston, TX	2,800	11,092	97	2,800	11,189	13,989
Off.							
Bldg.	San Diego, CA	1,600	25,254	164	1,600	25,418	27,018
Off.							
Bldg.	Kansas City, KS	5,679	32,179	25	5,679	32,204	37,883
Off.							
Bldg.	Kansas City, MO	5,152	29,202	35	5,152	29,237	34,389
Off.							
Bldg.	Etobicoke, ON	345	8,473	518	345	8,991	9,336
Off.							
Bldg.	London, ON	759	13,676	186	759	13,862	14,621
Off.							
Bldg.	Hamilton, ON	458	3,381	--	458	3,381	3,839
Industrial	Toronto, ON	6,768	18,414	94	6,768	18,508	25,276
Off.							
Bldg.	Kingston, ON	188	1,289	176	188	1,465	1,653
Off.							
Bldg.	G. Bijgaarden, BEL	1,310	7,088	176	1,310	7,264	8,574
Off.							
Bldg.	Brussels, BEL	3,531	19,603	10	3,531	19,613	23,144
Off.							
Bldg.	Brussels, BEL	593	3,298	279	593	3,577	4,170
Off.							
Bldg.	Brussels, BEL	1,512	8,417	23	1,512	8,440	9,952
Off.							
Bldg.	Waterloo, BEL	969	5,405	11	969	5,416	6,385
Off.							
Bldg.	Zaventem, BEL	867	4,835	50	867	4,885	5,752
Off.							
Bldg.	Brussels, BEL	703	3,940	94	703	4,034	4,737
Warehouse	Zaventem, BEL	479	2,673	4	479	2,677	3,156
Off.							
Bldg.	Brussels, BEL	650	3,657	1,530	650	5,187	5,837
		-----	-----	-----	-----	-----	-----
	TOTALS:	\$61,417	\$491,907	\$10,458	\$61,417	\$502,365	\$563,782
		=====	=====	=====	=====	=====	=====

<Caption>

UNAUDITED

12/31/2001

TYPE OF PROPERTY	ENCUMB.	ACCUM. DEPR.	OCC.	NET RENTABLE SQ. FT.	ACQ. DATE
(DOLLAR AMOUNTS IN TABLES SHOWN IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) 67					
<S>	<C>	<C>	<C>	<C>	<C>
Off.					
Bldg.	\$ 9,618	\$ 1,101	100%	116,500	7/98
Warehouse	76,928	7,814	100%	1,048,631	7/98
Off.					
Bldg.	11,098	1,135	100%	93,552	7/98
Off.					
Bldg.	14,217	1,229	100%	104,527	7/98
Off.					
Bldg.	10,432	1,171	100%	117,476	7/98
Off.					
Bldg.	4,092	459	100%	53,830	7/98
Off.					
Bldg.	5,618	478	73%	82,845	7/98
Off.					
Bldg.	16,254	1,516	100%	130,600	7/98

Off.					
Bldg.	50,207	4,969	78%	323,456	7/98
Off.					
Bldg.	27,928	3,242	100%	278,978	7/98
Off.					
Bldg.	30,927	2,577	100%	162,038	7/98
Off.					
Bldg.	10,451	976	96%	138,000	7/98
Off.					
Bldg.	21,318	1,774	100%	144,327	3/99
Off.					
Bldg.	30,216	1,981	100%	182,554	7/99
Off.					
Bldg.	24,555	1,553	100%	204,607	11/99
Off.					
Bldg.	5,153	694	100%	177,212	10/98
Off.					
Bldg.	8,436	1,113	96%	325,764	10/98
Off.					
Bldg.	2,243	271	100%	118,787	10/98
Industria	14,716	1,480	100%	624,786	10/98
Off.					
Bldg.	863	108	100%	45,691	10/98
Off.					
Bldg.	7,997	411	77%	81,763	11/99
Off.					
Bldg.	21,617	1,043	100%	119,781	11/99
Off.					
Bldg.	2,258	237	100%	26,651	11/99
Off.					
Bldg.	6,221	451	100%	53,421	11/99
Off.					
Bldg.	4,304	291	100%	46,231	11/99
Off.					
Bldg.	4,598	278	100%	65,175	11/99
Off.					
Bldg.	3,432	227	68%	28,180	11/99
Warehouse	1,427	142	100%	55,606	11/99
Off.					
Bldg.	3,295	227	0%	32,206	11/99
	-----	-----	---	-----	
	\$430,419	\$38,948	98%	4,983,175	
	=====	=====	===	=====	

</Table>

- -----

(A) Adjusted for changes in foreign, currency exchange rates, which aggregated \$7.6 million of loss and \$7.3 million of loss between land, building and improvements in 2001 and 2000, respectively.

F-30

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following is a reconciliation of operating real estate assets and accumulated depreciation:

<Table>  
<Caption>

	GROSS	ACCUMULATED DEPRECIATION	NET
	-----	-----	-----
<S>	<C>	<C>	<C>
Balance at December 31, 1999.....	\$572,664	\$ (13,815)	\$558,849
Improvements.....	1,520	--	1,520
Changes in foreign currency exchange rates.....	(7,261)	52	(7,209)
Depreciation.....	--	(12,621)	(12,621)
	-----	-----	-----
Balance at December 31, 2000.....	566,923	(26,384)	540,539
	-----	-----	-----
Improvements.....	4,495	--	4,495
Changes in foreign currency exchange rates.....	(7,636)	345	(7,291)
Depreciation.....	--	(12,909)	(12,909)
	-----	-----	-----
Balance at December 31, 2001.....	\$563,782	\$ (38,948)	\$524,834
	=====	=====	=====

</Table>

5. REAL ESTATE DEBT SECURITIES

During 1999, the Company purchased various commercial mortgage backed securities ("CMBS") and unsecured REIT loans (collectively, the "CBO

Collateral"). The CBO Collateral is summarized as follows:

	CARRYING AMOUNT		PRINCIPAL BALANCE		RANGE OF COUPON RATES	RANGE OF FINAL MATURITIES	DELINQUENCY STATUS
	12/31/01	12/31/00	12/31/01	12/31/00	12/31/01	12/31/01	12/31/01
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
CMBS							
Fixed.....	\$220,211	\$216,810	\$253,673	\$277,011	2.00 - 12.06%	11/07 - 6/32	Current
Floating.....	51,426	55,019	62,384	66,384	6.97 - 7.53%	4/12 - 9/33	Current
Unsecured REIT loans							
Fixed.....	225,392	228,050	219,515	234,815	6.70 - 8.88%	2/03 - 3/13	Current
Floating.....	--	9,850	--	9,850	N/A	N/A	N/A
Restricted cash(A).....	25,229	--	--	--	N/A	N/A	N/A
Total.....	\$522,258	\$509,729	\$535,572	\$588,060			

(A) Represents cash held in a temporary investment account by the trustee for reinvestment in securities.

The CBO Collateral was initially financed pursuant to a repurchase agreement, which had a balance of \$281.2 million immediately prior to the CBO securitization (Note 10). This agreement was satisfied with proceeds from the CBO Securitization.

In May 2000, pursuant to SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities," as amended, the Company transferred the CBO Collateral from its securities held to maturity category to its securities available for sale category. As a result, the CBO Collateral is marked to market (see Note 7).

In March and April 2001, the Company traded out of 5 collateral positions in its CBO securitization with an aggregate basis of approximately \$64.5 million in exchange for approximately \$23.7 million of privately issued CMBS from a subsidiary of the Company (representing a portion of the CMBS #3 securities as described in Note 2), \$25.6 million of publicly issued CMBS, and approximately \$12.6 million of unsecured REIT debt securities. As a result of the trade, the Company received gross proceeds of approximately \$71.1 million and recorded a gain on the sale of approximately \$6.4 million. The Company recognized an additional \$1.0 million in gains on sales of CBO Collateral during 2001.

F-31  
NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In October 2001, the Company entered into an agreement with a major investment bank whereby the Company has the right to purchase up to \$400 million, plus our deposit, of commercial mortgage backed securities, unsecured REIT debt and asset backed securities (the "CBO II Collateral"), which are specifically designated for a securitization transaction (the "CBO II Transaction"). As of December 31, 2001, \$181.2 million of the \$400 million had been accumulated. Should the Company choose not to purchase the CBO II Collateral, the Company's liability would be limited to the aggregate market decline in the CBO II Collateral, net of any aggregate gains on swaps entered into by the investment bank, to the extent of the Company's deposit. The balance of the deposit, if any, would then be refunded to the Company. Through December 31, 2001, there has been no material decline in the value of the collateral in the aggregate. At December 31, 2001, the Company had a deposit of \$23.6 million related to this agreement, which is recorded in Restricted Cash. The Company plans to finance the purchase of the CBO II Collateral with a securitization. There is no assurance, however, that the CBO II Transaction will be consummated.

6. INFORMATION REGARDING BUSINESS SEGMENTS

The Company conducts its business in four primary segments: revenue-producing real estate, real estate debt securities, real estate loans, and its investment in the Fund. Details of the Company's real estate debt securities are shown in Note 5. Details of the Company's real estate investments are shown in Note 4. Details of the Company's loan investments are shown in Note 3. The loan investments are secured by real estate or by loans that are in turn secured by real estate. The loan segment includes foreclosed property. The unallocated portion consists primarily of interest income on short-term investments, dividends on equity investments and expenses for professional and management fees and other overhead. The Company has combined two of its previously reported segments, loan pools and individual loans, into one segment, real estate loans. The Company's investment in the Fund is now shown separately, whereas it was previously included in the unallocated caption. These changes

have been made due to the settlement of a significant portion of the assets in the combined segments and the Company's increasing investment in the Fund.

F-32  
NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

<Table>  
<Caption>

	REAL ESTATE	RE DEBT SEC'S	REAL ESTATE LOANS	FUND	UNALLOCATED	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
2001						
Gross revenues.....	\$ 81,927	\$ 53,095	\$ 6,270	\$ 29,356	\$ 3,481	\$ 174,129
Operating expenses.....	(31,548)	(253)	(938)	--	(9,492)	(42,231)
Operating income.....	50,379	52,842	5,332	29,356	(6,011)	131,898
Interest expense.....	(29,449)	(26,793)	(3,234)	--	(3,291)	(62,767)
Depreciation and amortization.....	(12,989)	--	--	(560)	(447)	(13,996)
Equity in earnings of unconsolidated subsidiaries.....	--	--	--	5,360	(2,553)	2,807
Income before minority interest.....	7,941	26,049	2,098	34,156	(12,302)	57,942
Minority interest.....	(10)	--	93	(14,354)	--	(14,271)
Net Income.....	\$ 7,931	\$ 26,049	\$ 2,191	\$ 19,802	\$ (12,302)	\$ 43,671
Revenue derived from non-U.S. sources:						
Canada.....	\$ 16,092	\$ --	\$ (17)	\$ --	\$ --	\$ 16,075
Belgium.....	\$ 7,219	\$ --	\$ --	\$ --	\$ --	\$ 7,219
Italy.....	\$ --	\$ --	\$ 764	\$ --	\$ --	\$ 764
Total assets.....	\$565,481	\$560,155	\$ 12,920	\$ 97,562	\$ 40,355	\$1,276,473
Long lived assets outside the U.S.:						
Canada.....	\$ 51,060	\$ --	\$ --	\$ --	\$ --	\$ 51,060
Belgium.....	\$ 68,399	\$ --	\$ --	\$ --	\$ --	\$ 68,399

</Table>

F-33  
NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

<Table>  
<Caption>

	REAL ESTATE	RE DEBT SEC'S	REAL ESTATE LOANS	FUND	UNALLOCATED	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
2000						
Gross revenues.....	\$ 81,203	\$ 46,222	\$ 15,252	\$ --	\$ 26,122	\$ 168,799
Operating expenses.....	(30,744)	(343)	(2,296)	--	(9,128)	(42,511)
Operating income.....	50,459	45,879	12,956	--	16,994	126,288
Interest expense.....	(30,505)	(29,663)	(6,583)	--	(1,766)	(68,517)
Depreciation and amortization.....	(12,668)	--	--	--	(515)	(13,183)
Equity in earnings of unconsolidated subsidiaries.....	--	--	--	1,044	(2,024)	(980)
Income before minority interest.....	7,286	16,216	6,373	1,044	\$ 12,689	43,608
Minority interest.....	(10)	--	(738)	--	--	(748)
Net Income.....	\$ 7,276	\$ 16,216	\$ 5,635	\$ 1,044	\$ 12,689	\$ 42,860
Revenue derived from non-U.S. sources:						
Canada.....	\$ 16,742	\$ --	\$ (103)	\$ --	\$ --	\$ 16,639

Belgium.....	\$ 7,022	\$ --	\$ --	\$ --	\$ --	\$ 7,022
Italy.....	\$ --	\$ --	\$ 2,171	\$ --	\$ --	\$ 2,171
Total assets.....	\$576,728	\$527,989	\$112,507	\$ 50,694	\$ 63,168	\$1,331,086
Long lived assets outside the U.S.:						
Canada.....	\$ 55,404	\$ --	\$ --	\$ --	\$ --	\$ 55,404
Belgium.....	\$ 72,615	\$ --	\$ --	\$ --	\$ --	\$ 72,615

</Table>

F-34  
NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

<Table>  
<Caption>

	REAL ESTATE	RE DEBT SEC'S	REAL ESTATE LOANS	FUND	UNALLOCATED	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1999						
Gross revenues.....	\$ 66,272	\$ 28,277	\$ 16,279	\$ --	\$ 3,746	\$ 114,574
Operating expenses.....	(23,824)	(152)	(3,119)	--	(10,201)	(37,296)
Operating income.....	42,448	28,125	13,160	--	(6,455)	77,278
Interest expense.....	(23,568)	(17,342)	(5,868)	--	--	(46,778)
Depreciation and amortization.....	(10,003)	--	(10)	--	(461)	(10,474)
Equity in earnings of unconsolidated subsidiaries.....	--	--	(3,259)	--	(356)	(3,615)
Income before minority interest.....	8,877	10,783	4,023	--	(7,272)	16,411
Minority interest.....	--	--	(1,258)	--	--	(1,258)
Extraordinary item -- loss on debt extinguishment.....	(2,341)	--	--	--	--	(2,341)
Cumulative effect of change in acct. principle.....	--	--	--	--	(513)	(513)
Net Income.....	\$ 6,536	\$ 10,783	\$ 2,765	\$ --	\$ (7,785)	\$ 12,299
Revenue derived from non-U.S. sources:						
Canada.....	\$ 16,579	\$ --	\$ (2,444)	\$ --	\$ 20	\$ 14,155
Belgium.....	\$ 608	\$ --	\$ --	\$ --	\$ --	\$ 608
Italy.....	\$ --	\$ --	\$ 313	\$ --	\$ --	\$ 313
Total assets.....	\$594,248	\$523,660	\$172,990	\$ --	\$ 90,702	\$1,381,600
Long lived assets outside the U.S.:						
Canada.....	\$ 57,954	\$ --	\$ --	\$ --	\$ --	\$ 57,954
Belgium.....	\$ 80,835	\$ --	\$ --	\$ --	\$ --	\$ 80,835

</Table>

The managing member of the Fund is Fortress Fund MM LLC (the "Managing Member"), which is owned jointly, through subsidiaries, by the Company, approximately 94%, and the Manager, approximately 6%. The Company and its affiliates, including the Managing Member, have committed to contribute an aggregate of \$100 million, or approximately 11.5% of the Fund's total committed capital, to the Fund; in the aggregate, the Company and 21 unaffiliated investors (collectively, the "Investors") have committed approximately \$872.8 million (the "Capital Commitment") to the Fund over the three years ending April 28, 2003. The Company has committed to fund 100% of the capital commitments of its affiliates, including the Managing Member (which has committed \$8.7 million or approximately 1% of the Fund's total committed capital), to the Fund.

The Managing Member is entitled to an incentive return (the "Incentive Return") generally equal to 20% of the Fund's returns, as defined, subject to: 1) a 10% preferred return payable to the Investors and 2) a clawback provision which requires amounts previously distributed as Incentive Return to be returned to the Fund if, upon liquidation of the Fund, the amounts ultimately distributed



	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<S>								
Assets.....	\$ 7,947	\$21,259	\$ 31,370	\$--	\$ --	\$5,941	\$612,083	\$434,009
Liabilities.....	(2,353)	(7,207)	(17,482)	--	--	--	--	--
Minority interest.....	(352)	(590)	(896)	--	--	--	--	-
---								
Equity.....	\$ 5,242	\$13,462	\$ 12,992	\$--	\$ --	\$5,941	\$612,083	\$434,009
Equity held by								
Newcastle.....	\$ 4,977	\$12,733	\$ 12,327	\$--	\$ --	\$5,643	\$ 68,231	\$ 50,694
Revenues.....	\$(1,370)	\$ 2,675	\$ 2,444		\$ 234	\$ --	\$141,475	\$ 21,894
Expenses.....	(1,302)	(5,001)	(6,997)		(523)	(375)	(9,941)	(8,941)
Minority interest.....	(16)	484	1,123	--	--	--	--	-
---								
Net income (loss).....	\$(2,688)	\$(1,842)	\$( 3,430)	\$--	\$(289)	\$( 375)	\$131,534	\$ 12,953
Newcastle's equity in net income (loss).....	\$(2,553)	\$(1,749)	\$( 3,259)	\$--	\$(275)	\$( 356)	\$ 5,360	\$ 1,044

</Table>

(A) Fortress Investment Fund LLC's summary financial information is presented on a fair value basis, consistent with its internal basis of accounting, while Newcastle's equity is presented on a GAAP basis. Newcastle's equity in net income excludes its incentive income.

In 1998, the Company and Fortress Principal Investment Group LLC ("FPIG"), an affiliate of the Manager, formed Austin Holdings Corporation ("Austin"). FPIG contributed cash, and the Company contributed its interest in entities that owned certain assets, primarily non-performing loans and foreclosed real estate intended for sale, which were originally acquired as part of loan pool acquisitions. The assets the Company contributed, and any income generated from them, are not well suited to be held by a REIT because of the following reasons. If the assets were treated as inventory held for sale in the ordinary course of business, any gain from the sale of these assets would be subject to a 100% excise tax in the hands of a REIT. By holding these assets indirectly through Austin, a corporate entity, the Company instead receives dividend income from the corporation, which is not subject to the 100% excise tax, and is treated as qualifying income for purposes of the REIT 95% income test. The Company holds non-voting preferred stock of Austin. The Company's preferred stock in Austin represents a 95% economic ownership interest in Austin, and has a liquidation preference over the common stockholders. The Company's interest in Austin is accounted for under the equity method. As of December 31, 2001, the Company has no outstanding obligations to Austin. The Company and Austin have elected to treat Austin as a taxable REIT subsidiary ("TRS") as of January 1, 2001 in order to comply with the rule that REITs generally may not hold more than 10% of the voting securities or 10% of the value of securities of any corporation that is not a TRS. FPIG is the holder of all of the common stock which represents 100% of the vote and 5% of the economic ownership interest of Austin. FPIG's ownership interest was funded in part by a \$0.7 million loan from Austin in 2001.

Austin also owns 100% of the common stock of Ascend Residential Holdings, Inc. ("Ascend"), which has a net book value of \$3.9 million at December 31, 2001. Ascend's primary business is the acquisition, rehabilitation and sale of single-family residential properties.

In May 1999, the Company purchased from Impac Commercial Holdings, Inc. ("ICH"), a publicly traded mortgage REIT, approximately \$12 million of non-voting Series B Convertible Preferred Stock with

F-37

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

a coupon of 8.5%. The preferred stock was initially convertible into 1,683,635 shares of common stock of ICH. Subsequently, during 1999 and 2000, the Company purchased 832,400 shares of common stock of ICH. Additionally, FIC Management Inc. ("FICMI"), an unconsolidated subsidiary of Newcastle created for this purpose, purchased the management contract for ICH for \$6 million and subcontracted the management of ICH to the Manager. FICMI was entitled to an incentive fee under the management agreement, as defined, if certain minimum returns were achieved. During the third quarter of 2000, FICMI recognized incentive fee income of \$0.2 million based on ICH's achievement of such returns. During 2000 and 1999, ICH reimbursed the Manager for approximately \$0.7 million and \$1.6 million of expenses pursuant to such contract, respectively, and



reimbursed the Company for \$0.4 million of such expenses in 2000. These investments were included in the "Unallocated" category. FICMI had substantially the same legal structure as Austin. The Company and FICMI and Fortress Fund MM, Inc. (FFMMI) have made elections to treat FICMI and FFMMI as TRS's as of January 1, 2001.

In November 2000 a wholly-owned subsidiary of the Company completed a tender offer for all of the remaining outstanding common shares of ICH. The Company's basis in its investment in ICH was approximately \$22.1 million at the date of acquisition. In addition, the Company incurred approximately \$44.3 million in connection with its tender offer and assumed approximately \$95.7 million of ICH's liabilities, resulting in total assets acquired of \$162.1 million (including \$12.1 million of cash), based on the "purchase" method of accounting. As part of the transaction, the Company acquired ICH's net operating loss carry-forwards, subject to applicable tax law limitations. Subsequent to the acquisition, the Company sold \$108.9 million of the former ICH assets during 2000 for net proceeds of approximately \$130.2 million at a gain of approximately \$21.3 million, and repaid approximately \$92.8 million of the former ICH liabilities. The remaining, non-cash ICH assets at December 31, 2001 and 2000 were primarily included in Marketable Securities Available for Sale (Note 2). The Company's consolidated financial statements include ICH's results of operations for the period subsequent to the completion of the tender offer.

#### 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

For the majority of the Company's financial instruments, principally loans, fair values are not readily available since there are no active trading markets as characterized by current exchanges between willing parties. Accordingly, fair values can only be derived or estimated using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. 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 environments as of December 31, 2001 and do not take into consideration the effects of subsequent interest rate fluctuations.

F-38  
NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2001 are as follows:

<Table>  
<Caption>

	CARRYING AMOUNT	PRINCIPAL BALANCE OR NOTIONAL AMOUNT	ESTIMATED FAIR VALUE
<S>	----- <C>	----- <C>	----- <C>
<b>Assets:</b>			
Marketable securities, available for sale.....	\$ 14,467	N/A	\$ 14,467
CBO Collateral, net.....	522,258	\$ 535,572	522,258
Loans and mortgage pools receivable, net.....	10,675	25,395	10,864
Interest rate caps, treated as hedges, net(A)....	10,271	216,365	10,271
<b>Liabilities:</b>			
CBO bonds payable.....	445,514	455,000	466,521
Other bonds payable.....	319,303	360,029	388,306
Notes payable.....	111,116	111,116	111,424
Repurchase agreements.....	1,457	1,457	1,457
Credit facility.....	20,000	20,000	20,000
Interest rate swaps, treated as hedges, net(B)....	11,318	244,549	11,318
Non-hedge derivative obligations(B).....	304	See Below	304

</Table>

(A) Included in Deferred Costs, Net. The longest cap maturity is March 2009.

(B) Included in Deferred Hedging Liabilities. The longest swap maturity is July 2005.

The methodologies used and key assumptions made to estimate fair value are as follows:

**MARKETABLE SECURITIES AVAILABLE FOR SALE** -- The fair value of marketable securities is generally based upon quoted market price. The related unrealized holding gain or loss is reflected in accumulated other comprehensive income. The fair value of certain securities acquired from ICH, for which quoted market prices are not readily available, is estimated by means of price/yield analyses based on the Company's expected disposition strategies for such assets. Such assets include the Company's interest in a securitization executed by ICH (the "CMO Asset"). The CMO Asset has an estimated value of \$3.1 million at December

31, 2001 based on a discount rate of 20% and estimated credit losses of \$5.5 million. Increasing such estimated discount rate and credit losses to 25% and \$7.3 million, respectively, would decrease the estimated value by \$0.6 million and \$0.5 million, respectively. The gross securitized assets underlying the CMO Asset aggregate \$275.9 million (of which \$3.5 million is delinquent) at December 31, 2001, subject to \$264.3 million of debt.

CBO COLLATERAL, NET -- The fair value of the REIT unsecured loans and CMBS is estimated by obtaining broker quotations.

LOANS AND MORTGAGE POOLS RECEIVABLE, NET -- The fair value of floating-rate loans is estimated at their face amount. The fair value of fixed-rate or impaired loans is estimated by means of a discounted cash flow analysis, utilizing expected cash flows and discount rates estimated by management to approximate those that a willing buyer and seller might use.

INTEREST RATE CAP AND SWAP AGREEMENTS -- The fair value of these agreements is estimated using current broker quotations.

CBO AND OTHER BONDS PAYABLE -- For those bonds bearing floating rates at spreads over market indices, representing approximately \$341.4 million of the CBO Bonds Payable, management believes that for similar financial instruments with comparable credit risks, the effective rates at December 31, 2001 approximate market rates. Accordingly, the carrying amount outstanding on these bonds is believed to

F-39

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

approximate fair value. For those bonds bearing fixed interest rates, values were obtained by discounting expected future payments by a rate calculated by inferring a spread over a market index on the date of borrowing.

REPURCHASE AGREEMENTS, NOTES PAYABLE AND CREDIT FACILITY -- Management believes that for similar financial instruments with comparable credit risks, the stated interest rates at December 31, 2001 (all of which are floating rates at a spread over market indices) approximate market rates, with the exception of the Bell Canada Mortgage which bears interest at a fixed rate. Accordingly, the carrying amount outstanding is believed to approximate fair value except with respect to the Bell Canada Mortgage. The Bell Canada Mortgage was valued by discounting expected future payments by a rate calculated by inferring a spread over a market index on the date of borrowing.

NON-HEDGE DERIVATIVE OBLIGATIONS -- These obligations are valued by reference to current broker quotations on similar instruments. These obligations represent two essentially offsetting interest rate caps and two essentially offsetting interest rate swaps, each with notional amounts of \$32.5 million as of December 31, 2001, as well as an interest rate cap with a notional amount of \$17.5 million as of December 31, 2001. The longest maturity of these derivatives is July 2038.

8. REPURCHASE AGREEMENTS

The following table presents certain information regarding the Company's securities and loan pools (including foreclosed real estate) sold under agreements to repurchase:

		ASSET CARRYING VALUE		REPURCHASE OBLIGATION		CURRENT	CURRENT
Maturity	Type of Asset	12/31/2001	12/31/2000	12/31/2001	12/31/2000	Interest Rate	Maturity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
30 to 90 Days	Mortgage loans	\$3,940	\$17,855	\$1,457	\$ 6,827	LIBOR +1.35%	One-Month
Over 90 Days	Mortgage loans	--	11,575	--	9,467		
		-----	-----	-----	-----		
		\$3,940	\$29,430	\$1,457	\$16,294		
		=====	=====	=====	=====		

The repurchase agreements bore interest at weighted average rates of 3.26% and 8.94% at December 31, 2001 and 2000, respectively.

9. NOTES PAYABLE AND CREDIT FACILITY

The following table presents certain information regarding the Company's notes payable and credit facility:

<Table>  
<Caption>

NOTE	MATURITY	CARRYING AMOUNT		INTEREST RATE
		12/31/2001	12/31/2000	
<S>	<C>	<C>	<C>	<C>
Bell Canada Mortgage	April 2002	\$ 31,412	\$ 34,233	7.25%
Belgian Mortgage	November 2016	55,149	61,694	Euribor+1.49%
				(4.90% at December 31, 2001)
GSA Kansas City Mortgage	November 2002	24,555	24,800	LIBOR+1.40%
				(3.34% at December 31, 2001)
		-----	-----	
		\$111,116	\$120,727	
		=====	=====	
Credit Facility	July 2003	\$ 20,000	\$ 33,000	LIBOR+4.25%
				(6.38% at December 31, 2001)

</Table>

F-40  
NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Two previously existing mortgages totaling approximately \$252.8 million were repaid in May 1999 with proceeds from the GSA Securitization (Note 10) resulting in a loss on debt extinguishment of \$2.3 million (comprised of a prepayment penalty of \$0.8 million and the write off of deferred financing costs of \$1.5 million) which is classified as an extraordinary item on the Company's 1999 consolidated statement of operations.

In March 1999, the Company obtained debt financing (the "Bell Canada Mortgage") secured by the Bell Canada Properties. In November 1999, the Company obtained debt financing (the "Belgian Mortgage") secured by the Belgian Properties and a mortgage (the "GSA Kansas City Mortgage") secured by a newly acquired GSA Property. The Company has hedged its exposure to the risk of changes in market interest rates with respect to the Belgian Mortgage and the GSA Kansas City Mortgage by obtaining interest rate caps. In November 2001, the Company extended the term and modified the rate on the Belgian Mortgage and obtained a new interest rate cap related thereto.

In July 2000, the Company and Fortress Partners LP, its subsidiary, entered into a \$40 million revolving credit agreement (the "Credit Facility"). The Company has hedged its exposure to the risk of changes in market interest rates with respect to the Credit Facility by entering into an interest rate swap.

10. COLLATERALIZED BOND OBLIGATIONS ("CBO") AND BONDS PAYABLE

<Table>  
<Caption>

BOND ISSUE	FINAL STATED MATURITY	OUTSTANDING CARRYING AMOUNT	
		12/31/01	12/31/00
<S>	<C>	<C>	<C>
CBO Securitization.....	July 2038	\$445,514	\$424,972
		=====	=====
OTHER BONDS			
GSA Securitization.....	May 2011	\$319,303	\$331,801
Loan Portfolio Securitization.....		--	48,862
		-----	-----
		\$319,303	\$380,663
		=====	=====

</Table>

In July 1999, the Company completed a transaction (the "CBO Securitization") whereby the CBO Collateral (Note 5) was contributed to a consolidated subsidiary of the Company (the "CBO Trust") which issued \$437.5 million of investment grade senior securities and \$62.5 million of non-investment grade subordinated securities (collectively, the "CBO Securities") in a private placement. As a result of the CBO Securitization, the existing repurchase agreement on the CBO Collateral (Note 5) was repaid.

In November 2001, the Company sold, through its wholly-owned subsidiary, the retained subordinated \$17.5 million Class E Note (the "Note") issued by Fortress CBO Investments I, Ltd. for approximately \$18.5 million. The Note bears interest at a fixed rate of 8.0% and has a stated maturity of June 2038. The sale of the Note represents an issuance of debt and has been recorded as additional CBO Bonds Payable. The Company anticipates that the Note will become part of the CBO II Collateral (Note 5).

At December 31, 2001, the subordinated securities other than the Note were retained by the Company. The issued securities, which bore interest at a weighted average effective rate, including discount and cost amortization, of 4.50%, had an expected weighted average life of approximately 6.3 years at December 31, 2001. Two classes of the outstanding CBO Securities bear floating

interest rates. The Company has obtained an interest rate swap and cap in order to hedge its exposure to the risk of changes in market interest rates with respect to these securities, at an initial cost of approximately \$14.3 million. In addition, in connection with the sale of two classes of the CBO Securities, the Company entered into two interest rate swaps and three interest rate cap agreements that do not qualify for hedge accounting. Changes in the values of these instruments have been recorded currently in income.

F-41

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In May 1999, the Company executed a securitization (the "GSA Securitization") to finance fourteen of the GSA Properties (Note 4) on a long-term basis. The securitization was a two-prong financing pursuant to which the Company caused the issuance and sale of the following classes of securities: (1) \$223.2 million of "AAA" rated certificates which pay current interest and principal, amortize over the life of the transaction and are secured by a portion of the lease cash flows on the properties and (2) \$175.9 million of current interest paying certificates which have a bullet principal payment at maturity, ratings from "AA" to "BBB" and are secured primarily by the residual value of the properties. The securitization has a weighted average effective interest rate, including discount and cost amortization, of approximately 7.04%.

In November 1999, the Company securitized a US commercial mortgage loan portfolio by issuing \$55.6 million of bonds that bear interest at a weighted average stated rate of LIBOR +1.8%. The bonds were also secured by a \$15.0 million letter of credit, bearing interest at LIBOR +2.5%, with a maturity date of December 2004, under which no amounts were drawn. These bonds were fully repaid in December 2001.

The Company's long-term debt, including its repurchase agreements, notes payable, credit facility, CBO and bonds payable, matures as follows (gross of discounts of \$50.2 million):

<S>	<C>
2002.....	\$ 80,664
2003.....	36,097
2004.....	22,058
2005.....	23,689
2006.....	25,286
Thereafter.....	759,808
	-----
	\$947,602
	=====

</Table>

11. STOCK OPTION PLAN

In June 1998, the Company (with the approval of the board of directors) adopted a non-qualified stock option plan (the "Option Plan") for non-employee directors and the Manager. The non-employee directors were granted options in 1998 to acquire an aggregate of 6,000 shares of common stock at a price of \$20 per share, which were fully exercisable upon issuance. 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 the Company, the Manager was granted options in 1998 representing the right to acquire 2,091,673 shares of common stock (or, at the election of the Manager, units in the Operating Partnership) at an exercise price per share of common stock equal to \$20.00 at December 31, 2001, with such price 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 the Company). The 2,091,673 shares represented an amount equal to 10% of the shares of common stock and units of the Company outstanding after the Company's stock issuances in 1998.

The options granted to the Manager were fully vested upon issuance and were exercisable beginning on June 5, 1999. From and after such date, one thirtieth of the options became 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 the Company or the termination of the Management Agreement. The options expire on June 5, 2008.

The fair value of the options granted to the Manager at the date of grant was approximately \$3.6 million. The Company estimated this value by reference to the volatility and dividend yields of the

F-42

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Morgan Stanley REIT Index that were approximately 15.4% and 7.1%, respectively,

together with an expected life assumption of 5 years, and a risk-free rate assumption of 4.88%. Since the Company's common stock was not publicly traded at December 31, 2001 and the Option Plan has characteristics significantly different from those of traded options, the actual value of the options could vary materially from management's estimate.

## 12. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

The Company entered into the Management Agreement with the Manager in June 1998, which provides for an initial term of three years with automatic one-year extensions, subject to certain termination rights. After the initial three year term, the Manager's performance will be reviewed annually and the Management Agreement may be terminated by the Company by payment of a termination fee, as defined in the Management Agreement, 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 the Company's board of directors, will formulate investment strategies, arrange for the acquisition of assets, arrange for financing, monitor the performance of the Company's assets and provide certain advisory, administrative and managerial services in connection with the operations of the Company. For performing these services, the Company will pay the Manager an annual management fee equal to 1.5% of the gross equity of the Company, as defined. The management fee incurred in 2001, 2000 and 1999 was \$4.8 million, \$5.1 million and \$5.6 million, respectively.

An affiliate of the Manager holds units for a nominal percentage of the Operating Partnership. To provide an incentive for the Manager to enhance the value of the common stock, the Manager's affiliate is entitled to receive a quarterly incentive return (the "Incentive Return") on its units 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, as defined (before the Incentive Return) of the Company per share of common stock and per unit (based on the weighted average number of shares of common stock and units outstanding) plus (b) gains (or losses) from debt restructuring and from sales of property and other assets per share of common stock and per unit (based on the weighted average number of shares of common stock and units outstanding), exceed (2) an amount equal to (a) the weighted average of the price per share of common stock and units in the Private Offering, and in any subsequent offerings by the Company (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 and units outstanding. No Incentive Return was incurred for 2000 or 1999. During the year ended December 31, 2001, an Incentive Return of \$2.8 million was accrued. This amount is included in Incentive Return and Due to Affiliates.

The Management Agreement provides that the Company will reimburse the Manager for various expenses incurred by the Manager or its officers, employees and agents on the Company's behalf, including costs of legal, accounting, tax, auditing, administrative and other similar services rendered for the Company 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. The Company incurred \$0.9 million, \$1.6 million and \$1.8 million in 2001, 2000 and 1999, respectively, of reimbursement to the Manager for eligible services provided by the Manager's employees on behalf of the Company.

The Company has a \$68.2 million investment in the Fund and a \$5.0 million investment in Austin, which are accounted for under the equity method. The Company also owns an investment in the Managing Member of the Fund, which is consolidated. As a result of this investment, the Company is entitled to an Incentive Return from the Fund. The Manager of the Company also manages the Fund. For a more complete discussion of these relationships, see Note 6.

F-43

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In January 2001, an employee co-investment program was adopted whereby certain employees of the Manager and of Fortress Registered Investment Trust's ("FRIT") operating subsidiary will have the opportunity to invest in the Fund by purchasing part of the Company's investment. FRIT is the Fund's investment vehicle. The purpose of the program is to align the interests of FRIT's employees and the employees of the Manager with those of the Fund's Investors, including the Company, and to enable the Manager and FRIT to retain such employees and provide them with appropriate incentives and rewards for their performance. These employees are integral to the success of the Company and the Fund. Certain of the employees of the Manager are officers of the Company and the Fund and/or provide management services to the Company and the Fund. No employees of the Fund are officers of the Company or provide management services to the Company. The Company has set aside \$10.0 million of its commitment to the Fund for this program, of which \$6.9 million has been allocated, and will finance approximately 80% of the employee investments via non-recourse loans

through Austin, which are secured by such employees' interest in the Fund. The loans, which are included in Due from Affiliates, bear interest at 10%, which is payable currently from distributions from the Fund, and mature upon liquidation of the Fund. The principal balance of, and any unpaid interest on, these loans is payable at maturity. At December 31, 2001, Austin was owed \$3.2 million of principal and less than \$0.1 million of interest in connection with this financing. The Manager will fund up to \$0.1 million of the purchase price of these commitments on behalf of employees.

At December 31, 2001, Due From (To) Affiliates is comprised of \$26.1 million of Incentive Return receivable, \$3.2 million receivable from Austin primarily related to the co-investment program, \$2.8 million of Incentive Return payable, \$0.4 million of management fees payable and \$0.4 million of expense reimbursements payable.

HOLDINGS OF FORTRESS SECURITIES BY THE MANAGER -- The Manager holds options to purchase 2,091,673 shares of the common stock of the Company, as more fully described in Note 11. Additionally, an affiliate of the Manager owns 2,700,189 shares of the common stock of the Company. The principal owners and executive officers of the Manager also serve as directors and officers of the Company.

### 13. COMMITMENTS AND CONTINGENCIES

PRIVATE EQUITY FUND -- The Company and its affiliates have committed to contribute \$100 million to the Fund (see Note 6), along with other major institutional investors who, together with Newcastle and its affiliates, have committed approximately \$872.8 million to the Fund over the three years ending April 28, 2003. The portion of the expenses payable by the Company in connection with raising the Fund, including placement agent fees, printing costs and legal fees is approximately \$9.8 million, of which approximately \$4.0 million was paid during the year ended December 31, 2001. Such amount was recorded as an adjustment to the basis of the Company's investment in the Fund and is being amortized over the expected life of the Fund.

STOCKHOLDER RIGHTS AGREEMENT -- The Company has adopted a stockholder rights agreement (the "Rights Agreement"). Pursuant to the terms of the Rights Agreement, the Company will attach to each share of common stock one preferred stock purchase right (a "Right"). Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-hundredth of a share of Series A Junior Participation Preferred Stock, par value \$0.01 per share, at a purchase price of \$80 per unit. Initially, the Rights are not exercisable and are attached to and transfer and trade with the outstanding shares of common stock. The Rights will separate from the common stock and will become exercisable upon the acquisition or tender offer to acquire a 15% beneficial ownership interest by an acquiring person, as defined. The effect of the Rights Agreement will be to dilute the acquiring party's beneficial interest. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company.

F-44

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

REGISTRATION RIGHTS AGREEMENT -- In connection with the Private Offering, the Company entered into a registration rights agreement which, among other things, required the Company to (1) file a registration statement (the "Registration Statement") with respect to the resale of common stock issued in the Private Offering within 90 days following the First Closing Date, as defined, of the Private Offering, (2) use its best efforts to cause such Registration Statement to be declared effective by the Securities and Exchange Commission (the "Commission"), and (3) use its best efforts to cause such Registration Statement to remain continuously effective until the second anniversary of the First Closing Date. The Company filed a registration statement on Form S-11 in September 1998 and an amendment thereto in April 1999. In October 2001, the Company filed a new registration statement on Form S-11, which included a potential public offering of additional shares, and filed five amendments thereto between December 2001 and February 2002. The SEC had comments to Amendment No. 5 and the Company is currently evaluating another amendment.

PURCHASE AND SALE COMMITMENTS -- In the ordinary course of business, the Company enters into various commitments and letters of intent relating to the purchase and sale of loans and real estate. There can be no assurance that any of these transactions will ultimately be consummated. As of December 31, 2001, the Company was not subject to any such commitments.

LITIGATION -- The Company is a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability, if any, arising from such actions which existed at December 31, 2001 will not materially affect the Company's consolidated results of operations or financial position.

ENVIRONMENTAL COSTS -- As a commercial real estate owner, the Company is subject to potential environmental costs. At December 31, 2001, management of the Company is not aware of any environmental concerns that would have a

material adverse effect on the Company's consolidated financial position or results of operations.

DEBT COVENANTS -- The Company's long-term debt contains various customary loan covenants. Such covenants do not, in management's opinion, materially restrict the Company's investment strategy or ability to raise capital. The Company is in compliance with all of its loan covenants at December 31, 2001.

#### 14. EARNINGS PER SHARE

The Company is required to present both basic and diluted earnings per share ("EPS") on the face of its statement of operations. Basic EPS is calculated by dividing net income after preferred dividends and amortization by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by dividing net income after preferred dividends and amortization by the weighted average number of shares of common stock outstanding and the dilutive potential common shares related to outstanding stock options (Note 11). The option exercise price of \$20.00 per share equals the initial issuance price and is subject to adjustment pursuant to such option agreements (Note 11). In the absence of an active trading market, the Company uses net book value per common share (\$18.83, \$18.22 and \$16.96 at December 31, 2001, 2000 and 1999, respectively) to assess whether options are dilutive. Based upon the treasury stock method, the options are not dilutive for the periods ended December 31, 2001, 2000 or 1999.

#### 15. SUBSEQUENT EVENTS

In 2002, the Company has agreed to sell one of its GSA Properties (Note 4) with a net basis of \$32.8 million for a gross purchase price of \$34.5 million, subject to closing expenses, in the second quarter of 2002.

F-45

### NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

#### CONSOLIDATED BALANCE SHEETS (IN THOUSANDS)

<Table>  
<Caption>

	MARCH 31, 2002 ----- (UNAUDITED)	DECEMBER 31, 2001 -----
<S>	<C>	<C>
<b>ASSETS</b>		
Operating real estate, net.....	\$ 521,077	\$ 524,834
CBO collateral, net.....	519,086	522,258
Loans and mortgage pools receivable, net.....	3,824	10,675
Marketable securities, available for sale.....	14,975	14,467
Investments in unconsolidated subsidiaries.....	72,340	73,208
Cash and cash equivalents.....	25,780	31,360
Restricted cash.....	54,967	34,508
Due from (to) affiliates.....	9,198	25,688
Deferred costs, net.....	17,545	17,988
Receivables and other assets.....	23,695	21,487
	-----	-----
	\$1,262,487	\$1,276,473
	=====	=====
<b>LIABILITIES, MINORITY INTEREST, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
CBO bonds payable.....	\$ 446,036	\$ 445,514
Other bonds payable.....	316,007	319,303
Notes payable.....	108,953	111,116
Repurchase agreements.....	1,457	1,457
Credit facility.....	40,000	20,000
Deferred hedging liabilities.....	8,591	11,732
Dividends payable.....	10,531	8,882
Accrued expenses and other liabilities.....	12,060	10,633
	-----	-----
	943,635	928,637
	-----	-----
<b>MINORITY INTEREST.....</b>	<b>6,050</b>	<b>16,881</b>
Redeemable preferred stock, \$.01 par value, 100,000,000 shares authorized, 1,020,517 shares issued and outstanding.....	20,410	20,410
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$.01 par value, 500,000,000 shares authorized, 16,488,517 shares issued and outstanding at March 31, 2002 and December 31, 2001.....	165	165
Additional paid-in capital.....	309,356	309,356
Dividends in excess of earnings.....	(17,427)	(7,767)
Accumulated other comprehensive income.....	298	8,791
	-----	-----
	292,392	310,545

-----  
 \$1,262,487                      \$1,276,473  
 =====

</Table>

See notes to consolidated financial statements.  
 F-46

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
 (UNAUDITED)  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
 <Caption>

	THREE MONTHS ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
	-----	-----
<S>	<C>	<C>
REVENUES:		
Rental and escalation income.....	\$ 19,886	\$ 20,804
Interest and dividend income.....	13,010	15,028
Gain on settlement of investments.....	3,105	7,206
Equity in earnings (losses) of unconsolidated subsidiaries.....	(452)	(346)
Incentive income.....	(12,810)	--
Other income.....	6	78
	-----	-----
	22,745	42,770
	-----	-----
EXPENSES:		
Interest expense.....	14,100	17,326
Property operating expense.....	7,416	7,930
Loan servicing and REO expense.....	235	242
General and administrative expense.....	762	605
Management fees.....	1,363	1,434
Incentive return.....	840	--
Depreciation and amortization.....	3,571	3,398
	-----	-----
	28,287	30,935
	-----	-----
Income before minority interest.....	(5,542)	11,835
Minority Interest.....	6,413	(139)
	-----	-----
NET INCOME.....	871	11,696
	-----	-----
Preferred dividends and related accretion.....	(638)	(630)
	-----	-----
INCOME AVAILABLE FOR COMMON SHAREHOLDERS.....	\$ 233	\$ 11,066
	=====	=====
NET INCOME PER COMMON SHARE, BASIC AND DILUTED.....	\$ 0.01	\$ 0.67
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED.....	16,488,517	16,499,765
	=====	=====

</Table>

See notes to consolidated financial statements.  
 F-47

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK  
 (UNAUDITED)  
 FOR THE THREE MONTHS ENDED MARCH 31, 2002  
 (DOLLARS IN THOUSANDS)

<Table>  
 <Caption>

	REDEEMABLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PD.	DIVIDENDS IN EXCESS OF	ACCUM. OTHER COMP. INCOME
TOTAL STOCK- HOLDERS' EQUITY	SHARES	AMOUNT	SHARES	AMOUNT	IN CAPITAL	EARNINGS	INCOME
	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>							
STOCKHOLDERS' EQUITY -- DECEMBER 31, 2001.....	1,020,517	\$20,410	16,488,517	\$165	\$309,356	\$ (7,767)	\$ 8,791
\$310,545							



Dividends declared.....	--	--	--	--	--	(10,531)	--
(10,531)							
Comprehensive income:							
Net income.....	--	--	--	--	--	871	
871							
Unrealized (loss) on securities.....	--	--	--	--	--	--	(9,071)
(9,071)							
Foreign currency translation.....	--	--	--	--	--	--	(486)
(486)							
Unrealized gain on derivatives designated as cash flow hedges...	--	--	--	--	--	--	1,064
1,064							
-----							
Total comprehensive income.....							
(7,622)							
-----							
Stockholders' equity -- March 31, 2002.....	1,020,517	\$20,410	16,488,517	\$165	\$309,356	\$ (17,427)	\$ 298
\$292,392							
=====							
STOCKHOLDERS' EQUITY -- DECEMBER 31, 2000.....	1,020,517	\$20,167	16,499,765	\$165	\$309,551	\$ (7,666)	\$ (1,395)
\$300,655							
Dividends declared.....	--	--	--	--	--	(8,760)	--
(8,760)							
Accretion of redeemable preferred stock.....	--	120	--	--	--	(120)	--
(120)							
Transition adjustment -- deferred hedge gains and losses...	--	--	--	--	--	--	(1,795)
(1,795)							
Comprehensive income:							
Net income.....	--	--	--	--	--	11,696	--
11,696							
Unrealized gain on securities.....	--	--	--	--	--	--	2,242
2,242							
Unrealized loss on securities: reclassification adjustment.....	--	--	--	--	--	--	954
954							
Foreign currency translation.....	--	--	--	--	--	--	(2,827)
(2,827)							
Unrealized (loss) on derivatives designated as cash flow hedges...	--	--	--	--	--	--	(1,952)
(1,952)							
-----							
Total comprehensive income.....							
10,113							
-----							
Stockholders' equity -- March 31, 2001.....	1,020,517	\$20,287	16,499,765	\$165	\$309,551	\$ (4,850)	\$ (4,773)
\$300,093							
=====							

</Table>

See notes to consolidated financial statements.

F-48

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(IN THOUSANDS)

<Table>

<Caption>

	THREE MONTHS ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 871	\$ 11,696
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	3,571	3,398
Accretion of discount and other amortization.....	(1,060)	(458)
Equity in (earnings) loss of unconsolidated subsidiaries.....	452	346
Accrued incentive income.....	12,810	--
Minority interest.....	(6,413)	139
Deferred rent.....	(427)	(579)
(Gain)/loss on settlement of investments.....	(3,105)	(7,206)
Change in:		
Restricted cash.....	(926)	179
Receivables and other assets.....	(1,837)	(1,432)
Accrued expenses and other liabilities.....	1,493	2,350
Due from affiliates.....	3,819	(38)
	-----	-----
Net cash provided by operating activities.....	9,248	8,395
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase and improvement of operating real estate.....	(1,002)	(1,900)
Repayments of loan principal.....	7,569	6,908
Proceeds from settlement of loans and foreclosed real estate.....	289	25,369
Contributions to unconsolidated subsidiaries.....	(5,029)	(8,593)
Distributions from unconsolidated subsidiaries.....	3,450	4,706
Purchase of CBO collateral.....	(67,080)	--
Proceeds from sale of CBO collateral.....	65,940	22,624
Deposit on CBO collateral.....	(19,631)	--
Payment of deferred transaction costs.....	(491)	(4,358)
Purchase of marketable securities.....	(108)	--
Proceeds from sale of marketable securities.....	--	2,314
	-----	-----
Net cash provided by (used in) investing activities.....	(16,093)	47,070
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under repurchase agreements.....	--	10,000
Repayments of repurchase agreements.....	--	(9,181)
Repayments of notes payable.....	(1,027)	(204)
Repayments of other bonds payable.....	(4,038)	(17,672)
Draws under credit facility.....	20,000	7,000
Repayments of credit facility.....	--	(23,000)
Minority interest contributions (distributions).....	(4,369)	(4,086)
Dividends paid.....	(8,882)	(8,909)
Payment of deferred financing costs.....	(419)	(80)
	-----	-----
Net cash provided by (used in) financing activities.....	1,265	(46,132)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(5,580)	9,333
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD.....	31,360	10,575
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 25,780	\$ 19,908
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest expense.....	\$ 13,411	\$ 16,243
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock dividends declared but not paid.....	\$ 9,893	\$ --
Redeemable preferred stock dividends declared but not paid.....	\$ 638	\$ --

See notes to consolidated financial statements.

F-49

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
MARCH 31, 2002

1. GENERAL

Newcastle Investment Corp. (formerly Fortress Investment Corp.) ("Newcastle" or the "Company") is a Maryland corporation that invests in real estate-related assets on a global basis. Its primary businesses are (1) investing in marketable real estate-related debt securities, (2) investing in commercial properties leased to third parties, (3) investing in Fortress

Investment Fund LLC (the "Fund") and (4) investing in distressed, sub-performing and performing residential and commercial mortgage loans, or portfolios thereof, and related properties acquired in foreclosure or by deed-in-lieu of foreclosure.

The consolidated financial statements include the accounts of Newcastle and its controlled subsidiaries, which include Fortress Partners, L.P. (the "Operating Partnership"), its primary investment subsidiary. Capitalized terms used herein, and not otherwise defined, are defined in the Company's December 31, 2001 financial statements.

Newcastle was incorporated on May 11, 1998. During 1998, Newcastle sold 20,916,739 common shares for net proceeds of approximately \$384.7 million, including 4,288 shares sold to certain employees of Fortress Investment Group LLC (the "Manager") for proceeds of approximately \$0.1 million. In 2000 and 2001, Newcastle repurchased 4,428,222 shares of common stock for \$32.4 million of cash and \$46.3 million of Series A Cumulative Convertible Preferred Stock. At March 31, 2002, Newcastle had 16,488,517 common shares issued and outstanding.

Newcastle has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 (the "Code"). As such, Newcastle will generally not be subject to federal income tax on that portion of its income that is distributed to shareholders if it distributes at least 90% of its REIT taxable income to its shareholders by the due date of its federal income tax return and complies with various other requirements.

The Company has entered into a management agreement (the "Management Agreement") with the Manager under which the Manager advises the Company on various aspects of its business and manages its day-to-day operations, subject to the supervision of the Company's board of directors. For its services, the Manager receives an annual management fee, as defined in the Management Agreement. In addition, an affiliate of the Manager holds an equity interest in the Operating Partnership which provides for a Incentive Return.

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principals generally accepted in the United States for interim financial reporting. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under accounting principals generally accepted in the United States have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. These financial statements should be read in conjunction with the Company's financial statements for the year ended December 31, 2001.

## 2. INFORMATION REGARDING BUSINESS SEGMENTS

The Company conducts its business in four primary segments: revenue-producing real estate, real estate debt securities, real estate loans, and its investment in the Fund.

### F-50 NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

Summary financial data on the Company's segments is given below, together with a reconciliation to the same data for the Company as a whole (in thousands):

<Table>  
<Caption>

	REAL ESTATE	R.E. DEBT SECURITIES	REAL ESTATE LOANS	FUND	UNALLOCATED	TOTAL
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
MARCH 31, 2002 AND THE THREE MONTHS THEN ENDED						
Gross revenues.....	\$ 20,079	\$ 15,420	\$ 94	\$(12,832)	\$ 436	\$ 23,197
Operating expenses.....	(7,700)	(64)	(121)	--	(2,731)	(10,616)
	-----	-----	-----	-----	-----	-----
Operating income.....	12,379	15,356	(27)	(12,832)	(2,295)	12,581
Interest expense.....	(6,933)	(6,020)	--	--	(1,147)	(14,100)
Depreciation and amortization.....	(3,355)	--	--	(164)	(52)	(3,571)
Equity in earnings of unconsolidated subsidiaries.....	--	--	--	(479)	27	(452)
	-----	-----	-----	-----	-----	-----
Income before minority interest...	2,091	9,336	(27)	(13,475)	(3,467)	(5,542)
Minority interest.....	--	--	8	6,405	--	6,413
	-----	-----	-----	-----	-----	-----
Net Income.....	\$ 2,091	\$ 9,336	\$ (19)	\$(7,070)	\$(3,467)	\$ 871
	=====	=====	=====	=====	=====	=====

Revenue derived from non-US  
sources:

Canada.....	\$ 3,918	\$ --	\$ --	\$ --	\$ --	\$ 3,918
Belgium.....	\$ 1,680	\$ --	\$ --	\$ --	\$ --	\$ 1,680
Italy.....	\$ --	\$ --	\$ 88	\$ --	\$ --	\$ 88
Total assets.....	\$564,422	\$577,120	\$ 6,083	\$ 78,335	\$36,527	\$1,262,487
Long-lived assets outside the US:						
Canada.....	\$ 50,734	\$ --	\$ --	\$ --	\$ --	\$ 50,734
Belgium.....	\$ 66,673	\$ --	\$ --	\$ --	\$ --	\$ 66,673
DECEMBER 31, 2001						
Total assets.....	\$565,481	\$560,155	\$12,920	\$ 97,562	\$40,355	\$1,276,473
Long-lived assets outside the US:						
Canada.....	\$ 51,060	\$ --	\$ --	\$ --	\$ --	\$ 51,060
Belgium.....	\$ 68,399	\$ --	\$ --	\$ --	\$ --	\$ 68,399
THREE MONTHS ENDED MARCH 31, 2001						
Gross revenues.....	\$ 20,946	\$ 18,059	\$ 3,291	\$ 306	\$ 514	\$ 43,116
Operating expenses.....	(8,247)	(56)	(113)	--	(1,795)	(10,211)
Operating income.....	12,699	18,003	3,178	306	(1,281)	32,905
Interest expense.....	(7,545)	(7,206)	(1,419)	--	(1,156)	(17,326)
Depreciation and amortization.....	(3,218)	--	--	(67)	(113)	(3,398)
Equity in earnings of unconsolidated subsidiaries.....	--	--	--	723	(1,069)	(346)
Income before minority interest...	1,936	10,797	1,759	962	(3,619)	11,835
Minority interest.....	--	--	(139)	--	--	(139)
Net Income.....	\$ 1,936	\$ 10,797	\$ 1,620	\$ 962	\$ (3,619)	\$ 11,696

</Table>

F-51

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

<Table>  
<Caption>

	REAL ESTATE	R.E. DEBT SECURITIES	REAL ESTATE LOANS	FUND	UNALLOCATED	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenue derived from non-US sources:						
Canada.....	\$ 4,415	\$ --	\$ 71	\$ --	\$ --	\$ 4,486
Belgium.....	\$ 1,781	\$ --	\$ --	\$ --	\$ --	\$ 1,781
Italy.....	\$ --	\$ --	\$ 463	\$ --	\$ --	\$ 463

</Table>

Summarized financial information related to the Company's unconsolidated subsidiaries was as follows (in thousands):

<Table>  
<Caption>

	AUSTIN HOLDINGS		FORTRESS INVESTMENT FUND LLC (A)	
	3/31/02	12/31/01	3/31/02	12/31/01
<S>	<C>	<C>	<C>	<C>
Assets.....	\$ 7,616	\$ 7,947	\$600,746	\$612,083
Liabilities.....	(2,501)	(2,353)	--	--
Minority Interest.....	(365)	(352)	--	--
Equity.....	\$ 4,750	\$ 5,242	\$600,746	\$612,083
Equity held by Newcastle.....	\$ 4,512	\$ 4,977	\$ 67,828	\$ 68,231

</Table>

<Table>  
<Caption>

	THREE MONTHS ENDED 3/30/02	THREE MONTHS ENDED 3/30/01	THREE MONTHS ENDED 3/30/02	THREE MONTHS ENDED 3/30/01
<S>	<C>	<C>	<C>	<C>

Revenues.....	\$ 305	\$ (415)	\$ (27,003)	\$ 24,008
Expenses.....	(262)	(748)	(2,235)	(3,235)
Minority interest.....	(15)	38	--	--
	-----	-----	-----	-----
Net income.....	\$ 28	\$ (1,125)	\$ (29,238)	\$ 20,773
	=====	=====	=====	=====
Newcastle's equity in net income.....	\$ 27	\$ (1,069)	\$ (479)	\$ 723
	=====	=====	=====	=====

</Table>

- - - - -

(A) Fortress Investment Fund LLC's summary financial information is presented on a fair value basis, consistent with its internal basis of accounting, while Newcastle's equity is presented on a GAAP basis. Newcastle's equity in net income excludes its incentive income.

### 3. RECENT ACTIVITIES

In March 2002, the Company declared a common dividend of \$0.60 per common share which was paid in April 2002.

In April 2002, the Company completed the CBO II Transaction whereby a consolidated subsidiary of the Company issued \$444.0 million of investment grade senior securities and \$56.0 million of non-investment grade subordinated securities (the "CBO II Securities") in a private placement. The senior securities were issued for net proceeds of \$438.8 million after issue costs. The subordinated securities have been retained by the Company. The CBO II Securities are collateralized by (i) the Company's purchase, via a forward purchase arrangement with a large U.S. investment bank, of a portfolio of CMBS, unsecured REIT debt, asset-backed securities, and a limited amount of other securities with an aggregate principal balance of \$411.3 million for approximately \$399.1 million and (ii) restricted cash, which will be included in CBO Collateral, of \$85.1 million (collectively, the "CBO II Collateral"). The senior securities, which bear interest at a weighted average effective rate, including discount and cost amortization, of approximately 3.69%, have an expected weighted average life of approximately 8.04 years. One class of the senior securities bears a floating interest rate. The Company obtained an interest rate swap and cap in

F-52

## NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

order to hedge its exposure to the changes in market interest rates with respect to this security, at an initial cost of \$1.2 million.

In April 2002, a wholly owned subsidiary of the Company repurchased the \$17.5 million Class E Note (the "Note") issued by Fortress CBO Investments I, Ltd. The repurchase of the Note represents a repayment of debt and will be recorded as a reduction of CBO Bonds Payable. The Note is included in the CBO II Collateral which was purchased in connection with the CBO II Transaction. The Note will be eliminated in consolidation.

In April 2002, the Company refinanced the Bell Canada Properties by issuing approximately \$37.6 million of investment grade debt securities in a private placement. The issued securities, which bear interest at a weighted average effective rate, including cost amortization, of approximately 6.70%, have an expected weighted average life of approximately 5.1 years. The Company has retained one class of the issued securities. The proceeds from the issued securities were used, in part, to repay the Bell Canada Mortgage.

In May 2002, the Company sold one of its GSA Properties with a net basis of \$32.7 million for a net purchase price of approximately \$34.1 million.

In May 2002, a wholly owned subsidiary of the Company sold its commercial property located in Brussels, Belgium. The gross proceeds from the sale aggregated approximately \$8.6 million. The Company expects to realize a loss on the sale of the property of approximately \$0.8 million.

### 4. DERIVATIVE INSTRUMENTS

The following table summarizes the notional amounts and fair (carrying) values of the Company's derivative financial instruments as of March 31, 2002 (in thousands).

<Table>

<Caption>

	NOTIONAL AMOUNT	FAIR VALUE	LONGEST MATURITY
	-----	-----	-----
<S>	<C>	<C>	<C>
Interest rate caps treated as hedges, net(A).....	\$229,547	\$ 9,421	March 2009
Interest rate swaps, treated as hedges, net(B).....	\$230,278	\$ (8,285)	July 2005
Non-hedge derivative obligations.....	(C)	\$ (179)	July 2038

</Table>

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- (A) Included in Deferred Costs, Net.
- (B) Included in Deferred Hedging Liabilities.
- (C) Represents two essentially offsetting interest rate caps and two essentially offsetting interest rate swaps, each with notional amounts of \$32.5 million as of March 31, 2002, as well as an interest rate cap with a notional amount of \$17.5 million as of March 31, 2002.

F-53

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PROSPECTIVE INVESTORS MAY RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. NEITHER NEWCASTLE, NOR ANY UNDERWRITER HAS AUTHORIZED ANYONE TO PROVIDE PROSPECTIVE INVESTORS WITH DIFFERENT OR ADDITIONAL INFORMATION. THIS PROSPECTUS IS NOT AN OFFER TO SELL NOR IS IT SEEKING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS CORRECT ONLY AS OF THE DATE OF THIS PROSPECTUS, REGARDLESS OF THE TIME OF THE DELIVERY OF THIS PROSPECTUS OR ANY SALE OF THESE SECURITIES.

UNTIL \_\_\_\_\_, 2002, (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS THAT BUY, SELL OR TRADE OUR COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS REQUIREMENT IS IN ADDITION TO THE DEALERS' OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

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 TABLE OF CONTENTS  
 -----

<Table>  
<Caption>

	PAGE
	----
<S>	<C>
Prospectus Summary.....	1
Risk Factors.....	16
Cautionary Statement Regarding Forward- looking Statements.....	28
Use of Proceeds.....	29
Distribution Policy.....	29
Capitalization.....	32
Dilution.....	33
Selected Pro Forma Consolidated Financial Information.....	34
Selected Historical Consolidated Financial Information.....	37
Management's Discussion and Analysis of Pro Forma Financial Condition and Results of Operations.....	41
Management's Discussion and Analysis of Historical Financial Condition and Results of Operations.....	50
Newcastle Investment Corp.....	64
Our Manager and the Management Agreement... Management.....	81 90
Certain Relationships and Related Party Transactions.....	94
Security Ownership of Certain Beneficial Owners and Management.....	95
Description of Capital Stock.....	97
Shares Eligible for Future Sale.....	103
Important Provisions of Maryland Law and of Our Charter and Bylaws.....	105
Federal Income Tax Considerations.....	108
ERISA Considerations.....	124
Underwriting.....	127
Legal Matters.....	130
Experts.....	130
Where You Can Find More Information.....	130
Index to Financial Statements.....	F-1

</Table>

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Newcastle Logo

NEWCASTLE  
INVESTMENT CORP.  
SHARES

COMMON STOCK

PROSPECTUS

BEAR, STEARNS & CO. INC.

LEHMAN BROTHERS

BANC OF AMERICA  
SECURITIES LLC  
, 2002

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 31. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the costs and expenses expected to be incurred in connection with the sale and distribution of the securities being registered.

<S>	<C>
Securities and Exchange Commission registration fee.....	\$10,580.00
National Association of Securities Dealers, Inc. and Blue Sky Registration Fees.....	*
Printing and engraving expenses.....	*
Legal Fees and Expenses.....	*
Accounting Fees and Expenses.....	*
Miscellaneous.....	*
Total.....	\$ *

</Table>

\* To be filed by amendment.

ITEM 32. SALES TO SPECIAL PARTIES.

See Item 33.

ITEM 33. RECENT SALES OF UNREGISTERED SECURITIES

On June , 2002 we issued 1,000 shares of our common stock to Newcastle Investment Holdings for \$ . Prior to the closing of the offering of which this registration statement relates, we will issue to Newcastle Investment Holdings shares of our common stock in exchange for certain assets.

In May 1999, a special purpose subsidiary, Government Lease Trust (formed by Fortress GSA Securities L.L.C.), issued approximately \$400 million face amount of securities in transactions exempt from the registration requirements of the Securities Act pursuant to Rule 144A and Regulation S thereunder to qualified institutional buyers and persons outside the United States.

In July 1999, Newcastle Investment Holdings, through special purpose subsidiaries, Fortress CBO Investments I, Limited, and Fortress CBO Investments I Corp., issued approximately \$500 million of collateralized bond obligations in transactions exempt from the registration requirements of the Securities Act pursuant to Rule 144A and Regulation S thereunder to qualified institutional buyers and persons outside the United States.

In April 2002, Fortress Asset Trust issued approximately \$70 million face amount of securities secured by the lease payments and by the five Bell Canada properties in a transaction exempt from the registration requirements of the U.S. Securities laws pursuant to Rule 144A and Regulation S thereunder to qualified institutional buyers and persons outside the United States.

On April 25, 2002, Newcastle CDO I Limited and Newcastle CDO I Corp. issued \$500 million face amount of collateralized bond obligations and other securities in a transaction exempt from the registration requirements of the Securities Act pursuant to Rule 144A and Regulation S thereunder to qualified institutional buyers and persons outside the United States.

ITEM 34. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active

II-1

and deliberate dishonesty established by a final judgment and which is material to the cause of action. The Company's Charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law.

The Charter authorizes the Company, to the maximum extent permitted by Maryland law, to indemnify any present or former director or officer or any individual who, while a director of the Company and at the request of the Company, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer of the Company and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The Bylaws obligate the Company, to the maximum extent permitted by Maryland law, to indemnify any present or former director or officer or any individual who, while a director of the Company and at the request of the Company, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made a party to the proceeding by reason of his service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status as a present or former director or officer of the Company and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The Charter and Bylaws also permit the Company to indemnify and advance expenses to any person who served a predecessor of the Company in any of the capacities described above and any employee or agent of the Company or a predecessor of the Company.

Maryland law requires a corporation (unless its charter provides otherwise, which the Company's charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he is made a party by reason of his service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his good faith belief that he has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or on his behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

ITEM 35. TREATMENT OF PROCEEDS FROM STOCK BEING REGISTERED.

Not applicable.

II-2

ITEM 36. FINANCIAL STATEMENTS AND EXHIBITS.

(a) The following financial statements are being filed as part of this Registration Statement:

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS



Consolidated Pro Forma Balance Sheet at March 31, 2002 (unaudited)

Notes to Consolidated Pro Forma Balance Sheet at March 31, 2002 (unaudited)

Consolidated Pro Forma Statement of Income for the Three Months Ended March 31, 2002 (unaudited)

Notes to Consolidated Pro Forma Statement of Income for the Three Months Ended March 31, 2002 (unaudited)

Consolidated Pro Forma Statement of Income for the Year Ended December 31, 2001 (unaudited)

Notes to Consolidated Pro Forma Statement of Income for the Year Ended December 31, 2001 (unaudited)

Consolidated Pro Forma Statement of Income for the Three Months Ended March 31, 2001 (unaudited)

Notes to Consolidated Pro Forma Statement of Income for the Three Months Ended March 31, 2001 (unaudited)

Consolidated Pro Forma Statement of Income for the Year Ended December 31, 2000 (unaudited)

Notes to Consolidated Pro Forma Statement of Income for the Year Ended December 31, 2000 (unaudited)

Consolidated Pro Forma Statement of Income for the Year Ended December 31, 1999 (unaudited)

Notes to Consolidated Pro Forma Statement of Income for the Year Ended December 31, 1999 (unaudited)

#### HISTORICAL CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors

Consolidated Balance Sheets at December 31, 2001 and 2000

Consolidated Statements of Income for the Years Ended December 31, 2001, 2000 and 1999

Consolidated Statements of Stockholders' Equity and Redeemable Preferred Stock for the Years Ended December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999

Notes to Consolidated Financial Statements for the Years Ended December 31, 2001, 2000 and 1999

Consolidated Balance Sheets at March 31, 2002 (unaudited) and December 31, 2001

Consolidated Statements of Income for the Three Months Ended March 31, 2002 and 2001 (unaudited)

Consolidated Statements of Stockholders' Equity and Redeemable Preferred Stock for the Three Months Ended March 31, 2002 and 2001 (unaudited)

Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2002 and 2001 (unaudited)

Notes to Consolidated Financial Statements for the Three Months Ended March 31, 2002 and 2001 (unaudited)

II-3

(b) The following is a list of exhibits filed as part of this Registration Statement.

<Table>  
<Caption>

EXHIBIT  
NUMBER

DESCRIPTION

- - - - -  
<C> <S>

1.1	Form of Underwriting Agreement*
3.1	Articles of Incorporation of the Registrant
3.2	By-laws of the Registrant
4.1	Form of Certificate for Common Stock

4.2	Form of Rights Agreement between the Registrant and American Stock Transfer & Trust Company, as Rights Agent
5.1	Opinion of Piper Rudnick LLP relating to the legality of the common stock*
8.1	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP*
10.1	Management and Advisory Agreement, dated as of _____, 2002 by and among the Registrant and Fortress Investment Group LLC*
10.2	Limited Liability Company Agreement of Fortress Investment Group LLC, dated February 6, 1998
10.3	Investment Guidelines
10.4	Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan*
10.5	Form of Stock Option Agreement*
21.1	Subsidiaries of the Registrant*
23.1	Consent of Ernst & Young LLP
23.2	Consent of Piper Rudnick LP (contained in Exhibit 5.1)
23.3	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (contained in Exhibit 8.1)
23.4	Consent of David Grain
23.5	Consent of Stuart McFarland

</Table>

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\* To be filed by amendment.

ITEM 37. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(i) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1)

II-4

or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purposes determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

II-5

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on June 14, 2002.

NEWCASTLE INVESTMENT CORP.

By: /s/ WESLEY R. EDENS

-----  
Name: Wesley R. Edens  
Title: Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

<Table>  
<Caption>

SIGNATURE -----	TITLE -----	DATE -----
<S>	<C>	<C>
/s/ WESLEY R. EDENS ----- Wesley R. Edens	Chief Executive Officer and Chairman of the Board	June 14, 2002
/s/ KENNETH M. RIIS ----- Kenneth M. Riis	President	June 14, 2002
/s/ MICHAEL I. WIRTH ----- Michael I. Wirth	Chief Financial Officer (Principal Financial and Accounting Officer)	June 14, 2002
/s/ RANDAL A. NARDONE ----- Randal A. Nardone	Director	June 14, 2002

</Table>

NEWCASTLE INVESTMENT CORP.  
ARTICLES OF INCORPORATION

THIS IS TO CERTIFY THAT:

ARTICLE I  
INCORPORATOR

The undersigned, Tracy A. Bacigalupo, whose address is c/o Piper Rudnick LLP, 6225 Smith Avenue, Baltimore, Maryland 21209, being at least 18 years of age, does hereby form a corporation under the general laws of the State of Maryland.

ARTICLE II  
NAME

The name of the corporation (which is hereinafter called the "Corporation") is:

Newcastle Investment Corp.

ARTICLE III  
PURPOSE

The purposes for which the Corporation is formed are to engage in any lawful act or activity (including, without limitation or obligation, engaging in business as a real estate investment trust under the Internal Revenue Code of 1986, as amended, or any successor statute (the "Code")) for which corporations may be organized under the general laws of the State of Maryland as now or hereafter in force. For purposes of these Articles, "REIT" means a real estate investment trust under Sections 856 through 860 of the Code.

ARTICLE IV  
PRINCIPAL OFFICE IN STATE AND RESIDENT AGENT

The address of the principal office of the Corporation in the State of Maryland is c/o Piper Rudnick LLP, 6225 Smith Avenue, Baltimore, Maryland 21209, Attention: Tracy A. Bacigalupo. The name of the resident agent of the Corporation in the State of Maryland is Tracy A. Bacigalupo, whose post address is c/o Piper Rudnick LLP, 6225 Smith Avenue, Baltimore, Maryland 21209. The resident agent is a citizen of and resides in the State of Maryland.

ARTICLE V  
PROVISIONS FOR DEFINING, LIMITING  
AND REGULATING CERTAIN POWERS OF THE  
CORPORATION AND OF THE STOCKHOLDERS AND DIRECTORS

Section 5.1 Number and Classification of Directors. The business and affairs of the Corporation shall be managed under the direction of the Board of Directors. The number of directors of the Corporation initially shall be two (2), which number may be increased or decreased pursuant to the Bylaws, but shall never be less than the minimum number required by the Maryland General Corporation Law. The names of the initial directors who shall serve until their successors are duly elected and qualified are:

<TABLE>	
<S>	<C>
Randal A. Nardone	Class I
Wesley R. Edens	Class III
</TABLE>	

The directors may increase the number of directors and may fill any vacancy, whether resulting from an increase in the number of directors or otherwise, on the Board of Directors occurring before the first annual meeting of stockholders in the manner provided in the Bylaws.

The directors (other than any director elected solely by holders of one or more classes or series of Preferred Stock) shall be classified, with respect to the terms for which they severally hold office, into three classes, as nearly equal in number as possible, the Class I directors to hold office initially for a term expiring at the annual meeting of stockholders in 2003, the Class II directors to hold office initially for a term expiring at the annual meeting of

stockholders in 2004 and the Class III directors to hold office initially for a term expiring at the annual meeting of stockholders in 2005, with the members of each class to hold office until their successors are duly elected and qualify. At each annual meeting of the stockholders, the successors to the class of directors whose term expires at such meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualify.

Section 5.2 Extraordinary Actions. Except as specifically provided in Section 5.8 (relating to removal of directors), notwithstanding any provision of law permitting or requiring any action to be taken or approved by the affirmative vote of the holders of shares entitled to cast a greater number of votes, any such action shall be effective and valid if taken or approved by the affirmative vote of holders of shares entitled to cast a majority of all the votes entitled to be cast on the matter.

Section 5.3 Authorization by Board of Stock Issuance. The Board of Directors may authorize the issuance from time to time of shares of stock of the Corporation of any class or series, whether now or hereafter authorized, or securities or rights convertible into shares of its stock of any class or series, whether now or hereafter authorized, for such consideration as the Board of Directors may deem advisable (or without consideration in the case of a stock split or

-3-

stock dividend), subject to such restrictions or limitations, if any, as may be set forth in the charter of the Corporation (the "Charter") or the Bylaws of the Corporation (the "Bylaws").

Section 5.4 Preemptive Rights. Except as may be provided by the Board of Directors in setting the terms of classified or reclassified shares of stock pursuant to Section 6.4, or as may otherwise be provided by contract, no holder of shares of stock of the Corporation shall, as such holder, have any preemptive right to purchase or subscribe for any additional shares of stock of the Corporation or any other security of the Corporation which it may issue or sell.

Section 5.5. Indemnification. The Corporation shall have the power, to the maximum extent permitted by Maryland law in effect from time to time, to obligate itself to indemnify, and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to, (a) any individual who is a present or former director or officer of the Corporation or (b) any individual who, while a director of the Corporation and at the request of the Corporation, serves or has served as a director, officer, partner or trustee of another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or any other enterprise from and against any claim or liability to which such person may become subject or which such person may incur by reason of his status as a present or former director or officer of the Corporation. The Corporation shall have the power, with the approval of the Board of Directors, to provide such indemnification and advancement of expenses to a person who served a predecessor of the Corporation in any of the capacities described in (a) or (b) above and to any employee or agent of the Corporation or a predecessor of the Corporation.

Section 5.6 Determinations by Board. The determination as to any of the following matters, made in good faith by or pursuant to the direction of the Board of Directors consistent

-4-

with the Charter and in the absence of actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a court, shall be final and conclusive and shall be binding upon the Corporation and every holder of shares of its stock: the amount of the net income of the Corporation for any period and the amount of assets at any time legally available for the payment of dividends, redemption of its stock or the payment of other distributions on its stock; the amount of paid-in surplus, net assets, other surplus, annual or other net profit, net assets in excess of capital, undivided profits or excess of profits over losses on sales of assets; the amount, purpose, time of creation, increase or decrease, alteration or cancellation of any reserves or charges and the propriety thereof (whether or not any obligation or liability for which such reserves or charges shall have been created shall have been paid or discharged); the fair value, or any sale, bid or asked price to be applied in determining the fair value, of any asset owned or held by the Corporation; any matter relating to the acquisition, holding and disposition of any assets by the Corporation; or any matter relating to the business and affairs of the Corporation.

Section 5.7 REIT Qualification. The Corporation shall seek to elect and maintain status as a REIT under Sections 856-860 of the Code. The Board of Directors shall use its reasonable best efforts to cause the Corporation to satisfy the requirements for qualification as a REIT under the Code, including, but not limited to, the ownership of its outstanding stock, the nature of its assets, the sources of its income, and the amount and timing of its

distributions to its stockholders; however, if the Board of Directors determines that it is no longer in the best interests of the Corporation to continue to be qualified as a REIT, the Board of Directors may revoke or otherwise terminate the Corporation's REIT election. The Board of Directors also may

-5-

determine that compliance with any restriction or limitation on stock ownership and transfers set forth in Article VII is no longer required for REIT qualification.

Section 5.8 Removal of Directors. Subject to the rights of holders of one or more classes or series of Preferred Stock to elect or remove one or more directors, any director, or the entire Board of Directors, may be removed from office at any time, but only for cause and then only by the affirmative vote of at least two thirds of the votes entitled to be cast generally in the election of directors. For the purpose of this paragraph, "cause" shall mean, with respect to any particular director, a final judgment of a court of competent jurisdiction holding that such director caused demonstrable, material harm to the Corporation through bad faith or active and deliberate dishonesty.

Section 5.9 Advisor Agreements. Subject to such approval of stockholders and other conditions, if any, as may be required by any applicable statute, rule or regulation, the Board of Directors may authorize the execution and performance by the Corporation of one or more agreements with any person, corporation, association, company, trust, partnership (limited or general) or other organization (including, without limitation, any affiliate of the Corporation and/or its directors) whereby, subject to the supervision and control of the Board of Directors, any such other person, corporation, association, company, trust, partnership (limited or general) or other organization (including, without limitation, any affiliate of the Corporation and/or its directors) shall render or make available to the Corporation managerial, investment, advisory and/or related services, office space and other services and facilities (including, if deemed advisable by the Board of Directors, the management or supervision of the investments of the Corporation) upon such terms and conditions as may be provided in such agreement or

-6-

agreements (including, if deemed fair and equitable by the Board of Directors, the compensation payable thereunder by the Corporation).

## ARTICLE VI

### STOCK

Section 6.1 Authorized Shares. The Corporation has authority to issue 600,000,000 shares of stock, consisting of 500,000,000 shares of Common Stock, \$0.01 par value per share ("Common Stock"), and 100,000,000 shares of Preferred Stock, \$0.01 par value per share ("Preferred Stock"). The aggregate par value of all authorized shares of stock having par value is \$6,000,000. If shares of one class of stock are classified or reclassified into shares of another class of stock pursuant to Sections 6.2, 6.3 or 6.4 of this Article VI, the number of authorized shares of the former class shall be automatically decreased and the number of shares of the latter class shall be automatically increased, in each case by the number of shares so classified or reclassified, so that the aggregate number of shares of stock of all classes that the Corporation has authority to issue shall not be more than the total number of shares of stock set forth in the first sentence of this paragraph.

Section 6.2. Common Stock. Subject to the provisions of Article VII, each share of Common Stock shall entitle the holder thereof to one vote. The Board of Directors may reclassify any unissued shares of Common Stock from time to time in one or more classes or series of stock.

Section 6.3 Preferred Stock. The Board of Directors may classify any unissued shares of Preferred Stock and reclassify any previously classified but unissued shares of Preferred Stock of any series from time to time, in one or more classes or series of stock.

-7-

Section 6.4 Classified or Reclassified Shares. Prior to issuance of classified or reclassified shares of any class or series, the Board of Directors by resolution shall: (a) designate that class or series to distinguish it from all other classes and series of stock of the Corporation; (b) specify the number of shares to be included in the class or series; (c) set or change, subject to the provisions of Article VII and subject to the express terms of any class or series of stock of the Corporation outstanding at the time, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series; and (d) cause the Corporation to file articles supplementary with the State Department of Assessments and Taxation of Maryland ("SDAT"). Any of the terms of any class or series of stock set or changed pursuant to clause (c) of this Section 6.4 may be made dependent upon

facts or events ascertainable outside the Charter (including determinations by the Board of Directors or other facts or events within the control of the Corporation) and may vary among holders thereof, provided that the manner in which such facts, events or variations shall operate upon the terms of such class or series of stock is clearly and expressly set forth in the articles supplementary filed with the SDAT.

Section 6.5 Charter and Bylaws. All persons who shall acquire stock in the Corporation shall acquire the same subject to the provisions of the Charter and the Bylaws.

## ARTICLE VII

### RESTRICTIONS ON TRANSFER AND OWNERSHIP OF SHARES

Section 7.1 Definitions. For the purpose of this Article VII, the following terms shall have the following meanings:

Aggregate Stock Ownership Limit. The term "Aggregate Stock Ownership Limit" shall mean not more than 9.8 percent of the aggregate value of the outstanding shares of any class or

-8-

series of Capital Stock. The value of the outstanding shares of Capital Stock shall be determined by the Board of Directors of the Corporation in good faith, which determination shall be conclusive for all purposes hereof.

Beneficial Ownership. The term "Beneficial Ownership" shall mean ownership of Capital Stock by a Person, whether the interest in the shares of Capital Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code. The terms "Beneficial Owner," "Beneficially Owns" and "Beneficially Owned" shall have the correlative meanings.

Business Day. The term "Business Day" shall mean any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions in New York City are authorized or required by law, regulation or executive order to close.

Capital Stock. The term "Capital Stock" shall mean all classes or series of stock of the Corporation, including, without limitation, Common Stock and Preferred Stock.

Charitable Beneficiary. The term "Charitable Beneficiary" shall mean one or more beneficiaries of a Trust as determined pursuant to Section 7.3.6, provided that each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code.

Charter. The term "Charter" shall mean the charter of the Corporation, as that term is defined in the MGCL.

-9-

Code. The term "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

Constructive Ownership. The term "Constructive Ownership" shall mean ownership of Capital Stock by a Person, whether the interest in the shares of Capital Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms "Constructive Owner," "Constructively Owns" and "Constructively Owned" shall have the correlative meanings.

Excepted Holder. The term "Excepted Holder" shall mean a stockholder of the Corporation for whom an Excepted Holder Limit is created by these Articles or by the Board of Directors pursuant to Section 7.2.7.

Excepted Holder Limit. The term "Excepted Holder Limit" shall mean, provided that the affected Excepted Holder agrees to comply with the requirements established by the Board of Directors pursuant to Section 7.2.7, and subject to adjustment pursuant to Section 7.2.8, the percentage limit established by the Board of Directors for such Excepted Holder pursuant to Section 7.2.7.

Initial Date. The term "Initial Date" shall mean the date upon which the Amended Articles of Incorporation containing this Article VII are filed with the SDAT.

Market Price. The term "Market Price" on any date shall mean, with respect to any class or series of outstanding shares of Capital Stock, the Closing Price for such Capital Stock on such date. The "Closing Price" on any

date shall mean the last sale price for such Capital Stock, regular way, or, in case no such sale takes place on such day, the average of the closing bid and

-10-

asked prices, regular way, for such Capital Stock, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the NYSE or, if such Capital Stock is not listed or admitted to trading on the NYSE, as reported on the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such Capital Stock is listed or admitted to trading or, if such Capital Stock is not listed or admitted to trading on any national securities exchange, the last quoted price, or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer in use, the principal other automated quotation system that may then be in use or, if such Capital Stock is not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such Capital Stock selected by the Board of Directors of the Corporation or, in the event that no trading price is available for such Capital Stock, the fair market value of the Capital Stock, as determined in good faith by the Board of Directors of the Corporation.

MGCL. The term "MGCL" shall mean the Maryland General Corporation Law, as amended from time to time.

NYSE. The term "NYSE" shall mean the New York Stock Exchange, Inc.

Person. The term "Person" shall mean an individual, corporation, partnership, estate, trust (including a trust qualified under Sections 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a)

-11-

of the Code, joint stock company or other entity and also includes a group as that term is used for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended.

Prohibited Owner. The term "Prohibited Owner" shall mean, with respect to any purported Transfer, any Person who, but for the provisions of Section 7.2.1, would Beneficially Own or Constructively Own shares of Capital Stock, and if appropriate in the context, shall also mean any Person who would have been the record owner of the shares that the Prohibited Owner would have so owned.

REIT. The term "REIT" shall mean a real estate investment trust within the meaning of Section 856 of the Code.

Restriction Termination Date. The term "Restriction Termination Date" shall mean the first day after the Initial Date on which the Corporation determines pursuant to Section 5.7 of the Charter that it is no longer in the best interests of the Corporation to attempt to, or continue to, qualify as a REIT or that compliance with the restrictions and limitations on Beneficial Ownership, Constructive Ownership and Transfers of shares of Capital Stock set forth herein is no longer required in order for the Corporation to qualify as a REIT.

Transfer. The term "Transfer" shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event that causes any Person to acquire Beneficial Ownership or Constructive Ownership, or any agreement to take any such actions or cause any such events, of Capital Stock or the right to vote or receive dividends on Capital Stock, including (a) the granting or exercise of any option (or any disposition of any option), (b) any disposition of any securities or rights convertible into or exchangeable for Capital Stock or any interest in Capital Stock or any exercise of any such conversion or exchange right and (c)

-12-

Transfers of interests in other entities that result in changes in Beneficial or Constructive Ownership of Capital Stock; in each case, whether voluntary or involuntary, whether owned of record, Constructively Owned or Beneficially Owned and whether by operation of law or otherwise. The terms "Transferring" and "Transferred" shall have the correlative meanings.

Trust. The term "Trust" shall mean any trust provided for in Section 7.3.1.

Trustee. The term "Trustee" shall mean the Person unaffiliated with the Corporation and a Prohibited Owner that is appointed by the Corporation to serve as trustee of a Trust.

Section 7.2 Capital Stock.



Section 7.2.1. Ownership Limitations. During the period commencing on the Initial Date and prior to the Restriction Termination Date:

(a) Basic Restrictions.

(i) (1) No Person, other than an Excepted Holder, shall Beneficially Own or Constructively Own shares of Capital Stock in excess of the Aggregate Stock Ownership Limit and (2) no Excepted Holder shall Beneficially Own or Constructively Own shares of Capital Stock in excess of the Excepted Holder Limit for such Excepted Holder.

(ii) No Person shall Beneficially or Constructively Own shares of Capital Stock to the extent that such Beneficial or Constructive Ownership of Capital Stock would result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of a taxable year), or would otherwise result in the Corporation failing to qualify as a REIT (including, but not limited to, Beneficial or Constructive Ownership that would result in the Corporation owning (actually or Constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the

-13-

Code if the income derived by the Corporation from such tenant would cause the Corporation to fail to satisfy any of the gross income requirements of Section 856(c) of the Code).

(iii) Notwithstanding any other provisions contained herein, any Transfer of shares of Capital Stock (whether or not such Transfer is the result of a transaction entered into through the facilities of the NYSE or any other national securities exchange or automated inter-dealer quotation system) that, if effective, would result in the Capital Stock being beneficially owned by less than 100 Persons (determined under the principles of Section 856(a)(5) of the Code) shall be void ab initio, and the intended transferee shall acquire no rights in such shares of Capital Stock.

(b) Transfer in Trust. If any Transfer of shares of Capital Stock (whether or not such Transfer is the result of a transaction entered into through the facilities of the NYSE or any other national securities exchange or automated inter-dealer quotation system) occurs which, if effective, would result in any Person Beneficially Owning or Constructively Owning shares of Capital Stock in violation of Section 7.2.1(a)(i), (ii) or (iii),

(i) then that number of shares of the Capital Stock the Beneficial or Constructive Ownership of which otherwise would cause such Person to violate Section 7.2.1(a)(i), (ii) or (iii) (rounded to the nearest whole share) shall be automatically transferred to a Trust for the benefit of a Charitable Beneficiary, as described in Section 7.3, effective as of the close of business on the Business Day prior to the date of such Transfer, and such Person shall acquire no rights in such shares; or

(ii) if the transfer to the Trust described in clause (i) of this sentence would not be effective for any reason to prevent the violation of Section 7.2.1(a)(i) or

-14-

(ii), then the Transfer of that number of shares of Capital Stock that otherwise would cause any Person to violate Section 7.2.1(a)(i) or (ii) shall be void ab initio, and the intended transferee shall acquire no rights in such shares of Capital Stock.

Section 7.2.2 Remedies for Breach. If the Board of Directors of the Corporation or any duly authorized committee thereof shall at any time determine in good faith that a Transfer or any other event has taken place that results in a violation of Section 7.2.1 or that a Person intends to acquire or has attempted to acquire Beneficial or Constructive Ownership of any shares of Capital Stock in violation of Section 7.2.1 (whether or not such violation is intended), the Board of Directors or a committee thereof shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or other event, including, without limitation, causing the Corporation to redeem shares, refusing to give effect to such Transfer on the books of the Corporation or instituting proceedings to enjoin such Transfer or other event; provided, however, that any Transfer or attempted Transfer or other event in violation of Section 7.2.1 shall automatically result in the transfer to the Trust described above, and, where applicable, and subject to the first sentence of Section 7.4, such Transfer (or other event) shall be void ab initio as provided above irrespective of any action (or non-action) by the Board of Directors or a committee thereof.

Section 7.2.3. Notice of Restricted Transfer. Any Person who acquires or attempts or intends to acquire Beneficial Ownership or Constructive Ownership of shares of Capital Stock that will or may violate Section 7.2.1(a) or any Person who would have owned shares of Capital Stock that resulted in a

transfer to the Trust pursuant to the provisions of Section 7.2.1(b) shall immediately give written notice to the Corporation of such event, or in the

-15-

case of such a proposed or attempted transaction, give at least 15 days prior written notice, and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Transfer on the Corporation's status as a REIT.

Section 7.2.4 Owners Required To Provide Information. From the Initial Date and prior to the Restriction Termination Date:

(a) every owner of more than five percent (or such lower percentage as required by the Code or the Treasury Regulations promulgated thereunder) of the outstanding shares of Capital Stock, within 30 days after the end of each taxable year, shall give written notice to the Corporation stating the name and address of such owner, the number of shares of Capital Stock Beneficially Owned and a description of the manner in which such shares are held. Each such owner shall provide to the Corporation such additional information as the Corporation may request in order to determine the effect, if any, of such Beneficial Ownership on the Corporation's status as a REIT and to ensure compliance with the Aggregate Stock Ownership Limit; and

(b) each Person who is a Beneficial or Constructive Owner of Capital Stock and each Person (including the stockholder of record) who is holding Capital Stock for a Beneficial or Constructive Owner shall provide to the Corporation such information as the Corporation may request, in good faith, in order to determine the Corporation's status as a REIT and to comply with requirements of any taxing authority or governmental authority or to determine such compliance.

Section 7.2.5 Remedies Not Limited. Subject to Section 5.7 of the Charter, nothing contained in this Section 7.2 shall limit the authority of the Board of Directors of the

-16-

Corporation to take such other action as it deems necessary or advisable to protect the Corporation and the interests of its stockholders in preserving the Corporation's status as a REIT.

Section 7.2.6 Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Section 7.2, Section 7.3 or any definition contained in Section 7.1, the Board of Directors of the Corporation shall have the power to determine the application of the provisions of this Section 7.2 or Section 7.3 or any such definition with respect to any situation based on the facts known to it. In the event Section 7.2 or 7.3 requires an action by the Board of Directors and the Charter fails to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Sections 7.1, 7.2 or 7.3.

Section 7.2.7. Exceptions.

(a) Subject to Section 7.2.1(a) (ii), the Board of Directors of the Corporation, in its sole discretion, may exempt a Person from the Aggregate Stock Ownership Limit with respect to one or more classes or series of Capital Stock and may establish or increase an Excepted Holder Limit for such Person if:

(i) the Board of Directors obtains such representations and undertakings from such Person as are reasonably necessary to ascertain that no individual's Beneficial or Constructive Ownership of such shares of Capital Stock will violate Section 7.2.1(a) (ii) or otherwise adversely affect the Corporation's ability to qualify as a REIT;

(ii) such Person does not and represents that it will not own, actually or Constructively, an interest in a tenant of the Corporation (or a tenant of any entity owned or controlled by the Corporation) that would cause the Corporation to own, actually or

-17-

Constructively, more than a 9.9% interest (as set forth in Section 856(d) (2) (B) of the Code) in such tenant and the Board of Directors obtains such representations and undertakings from such Person as are reasonably necessary to ascertain this fact (for this purpose, a tenant from whom the Corporation (or an entity owned or controlled by the Corporation) derives (and is expected to continue to derive) a sufficiently small amount of revenue such that, in the opinion of the Board of Directors of the Corporation, rent from such tenant would not adversely affect the Corporation's ability to qualify as a REIT, shall not be treated as a tenant of the Corporation); and

(iii) such Person agrees that any violation

or attempted violation of such representations or undertakings (or other action which is contrary to the restrictions contained in Sections 7.2.1 through 7.2.6) will result in such shares of Capital Stock being automatically transferred to a Trust in accordance with Sections 7.2.1(b) and 7.3.

(b) Prior to granting any exception pursuant to Section 7.2.7(a), the Board of Directors of the Corporation may require a ruling from the Internal Revenue Service, or an opinion of counsel, in either case in form and substance satisfactory to the Board of Directors in its sole discretion, as it may deem necessary or advisable in order to determine or ensure the Corporation's status as a REIT. Notwithstanding the receipt of any ruling or opinion, the Board of Directors may impose such conditions or restrictions as it deems appropriate in connection with granting such exception.

(c) Subject to Section 7.2.1(a) (ii), an underwriter which participates in a public offering or a private placement of Capital Stock (or securities convertible into or exchangeable for Capital Stock) may Beneficially Own or Constructively Own shares of Capital

-18-

Stock (or securities convertible into or exchangeable for Capital Stock) in excess of the Aggregate Stock Ownership Limit, but only to the extent necessary to facilitate such public offering or private placement.

(d) The Board of Directors may only reduce the Excepted Holder Limit for an Excepted Holder: (1) with the written consent of such Excepted Holder at any time, or (2) pursuant to the terms and conditions of the agreements and undertakings entered into with such Excepted Holder in connection with the establishment of the Excepted Holder Limit for that Excepted Holder. No Excepted Holder Limit with respect to a class or series of Capital Stock shall be reduced to a percentage that is less than the Aggregate Stock Ownership Limit.

Section 7.2.8 Legend. Each certificate for shares of Capital Stock shall bear substantially the following legend:

The shares represented by this certificate are subject to restrictions on Beneficial and Constructive Ownership and Transfer for the purpose of the Corporation's maintenance of its status as a Real Estate Investment Trust under the Internal Revenue Code of 1986, as amended (the "Code"). Subject to certain further restrictions and except as expressly provided in the Corporation's Charter, (i) no Person may Beneficially or Constructively Own shares of any class or series of the Corporation's Capital Stock in excess of 9.8 percent of the aggregate value of the outstanding shares of any such class or series of Capital Stock unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (ii) no Person may Beneficially or Constructively Own Capital Stock that would result in the Corporation being "closely held" under Section 856(h) of the Code or otherwise cause the Corporation to fail to qualify as a REIT; and (iii) no Person may Transfer shares of Capital Stock if such Transfer would result in the Capital Stock of the Corporation being owned by fewer than 100 Persons. Any Person who Beneficially or Constructively Owns or attempts to Beneficially or Constructively Own shares of Capital Stock which causes or will cause a Person to Beneficially or Constructively Own shares of Capital Stock in excess or in violation of the above limitations

-19-

must immediately notify the Corporation. If any of the restrictions on transfer or ownership are violated, the shares of Capital Stock represented hereby will be automatically transferred to a Trustee of a Trust for the benefit of one or more Charitable Beneficiaries. In addition, upon the occurrence of certain events, attempted Transfers in violation of the restrictions described above may be void ab initio. All capitalized terms in this legend have the meanings defined in the charter of the Corporation, as the same may be amended from time to time, a copy of which, including the restrictions on transfer and ownership, will be furnished to each holder of Capital Stock of the Corporation on request and without charge.

Instead of the foregoing legend, the certificate may state that the Corporation will furnish a full statement about certain restrictions on transferability to a stockholder on request and without charge.

Section 7.3 Transfer of Capital Stock in Trust.

Section 7.3.1 Ownership in Trust. Upon any purported Transfer or other event described in Section 7.2.1(b) that would result in a transfer of shares of Capital Stock to a Trust, such shares of Capital Stock shall be deemed to have been transferred to a Trustee as trustee of such Trust for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in the transfer to the Trust pursuant to Section 7.2.1(b). The Trustee shall be appointed by the Corporation and shall be a Person unaffiliated with the Corporation and any Prohibited Owner. Each Charitable Beneficiary shall be designated by the Corporation as provided in Section 7.3.6.

Section 7.3.2 Status of Shares Held by the Trustee. Shares of Capital Stock held by the Trustee shall be issued and outstanding shares of Capital Stock of the Corporation. The Prohibited Owner shall have no rights in the shares held by the Trustee. The Prohibited Owner

-20-

shall not benefit economically from ownership of any shares held in trust by the Trustee, shall have no rights to dividends or other distributions and shall not possess any rights to vote or other rights attributable to the shares held in the Trust.

Section 7.3.3 Dividend and Voting Rights. The Trustee shall have all voting rights and rights to dividends or other distributions with respect to shares of Capital Stock held in the Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or other distribution paid prior to the discovery by the Corporation that the shares of Capital Stock have been transferred to the Trustee shall be paid by the recipient of such dividend or distribution to the Trustee upon demand and any dividend or other distribution authorized but unpaid shall be paid when due to the Trustee. Any dividend or distribution so paid to the Trustee shall be held in trust for the Charitable Beneficiary. The Prohibited Owner shall have no voting rights with respect to shares held in the Trust and, subject to Maryland law, effective as of the date that the shares of Capital Stock have been transferred to the Trustee, the Trustee shall have the authority (at the Trustee's sole discretion) (i) to rescind as void any vote cast by a Prohibited Owner prior to the discovery by the Corporation that the shares of Capital Stock have been transferred to the Trustee and (ii) to recast such vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary; provided, however, that if the Corporation has already taken irreversible corporate action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding the provisions of this Article VII, until the Corporation has received notification that shares of Capital Stock have been transferred into a Trust, the Corporation shall be entitled to rely on its share transfer and other

-21-

stockholder records for purposes of preparing lists of stockholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of stockholders.

Section 7.3.4 Sale of Shares by Trustee. Within 20 days of receiving notice from the Corporation that shares of Capital Stock have been transferred to the Trust, the Trustee of the Trust shall sell the shares held in the Trust to a person, designated by the Trustee, whose ownership of the shares will not violate the ownership limitations set forth in Section 7.2.1(a) or otherwise adversely affect the Corporation's ability to qualify as a REIT. Upon such sale, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and to the Charitable Beneficiary as provided in this Section 7.3.4. The Prohibited Owner shall receive the lesser of (1) the price paid by the Prohibited Owner for the shares or, if the Prohibited Owner did not give value for the shares in connection with the event causing the shares to be held in the Trust (e.g., in the case of a gift, devise or other such transaction), the Market Price of the shares on the day of the event causing the shares to be held in the Trust and (2) the price per share received by the Trustee from the sale or other disposition of the shares held in the Trust. Any net sales proceeds in excess of the amount payable to the Prohibited Owner shall be immediately paid to the Charitable Beneficiary. If, prior to the discovery by the Corporation that shares of Capital Stock have been transferred to the Trustee, such shares are sold by a Prohibited Owner, then (i) such shares shall be deemed to have been sold on behalf of the Trust and (ii) to the extent that the Prohibited Owner received an amount for such shares that exceeds the amount that such Prohibited Owner was entitled to receive pursuant to this Section 7.3.4, such excess shall be paid to the Trustee upon demand.

-22-

Section 7.3.5. Purchase Right in Stock Transferred to the Trustee. Shares of Capital Stock transferred to the Trustee shall be deemed to have been offered for sale to the Corporation, or its designee, at a price per

share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the Trust (or, in the case of a devise or gift, the Market Price at the time of such devise or gift) and (ii) the Market Price on the date the Corporation, or its designee, accepts such offer. The Corporation shall have the right to accept such offer until the Trustee has sold the shares held in the Trust pursuant to Section 7.3.4. Upon such a sale to the Corporation, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner.

Section 7.3.6 Designation of Charitable Beneficiaries. By written notice to the Trustee, the Corporation shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the Trust such that (i) the shares of Capital Stock held in the Trust would not violate the restrictions set forth in Section 7.2.1(a) in the hands of such Charitable Beneficiary and (ii) each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code.

Section 7.4 NYSE Transactions. Nothing in this Article VII shall preclude the settlement of any transaction entered into through the facilities of the NYSE or any other national securities exchange or automated inter-dealer quotation system. Subject to the preceding sentence, the fact that the settlement of any transaction is so permitted shall not negate the effect of any other provision of this Article VII and any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article VII.

-23-

Section 7.5 Enforcement. The Corporation is authorized specifically to seek equitable relief, including injunctive relief, to enforce the provisions of this Article VII.

Section 7.6 Non-Waiver. No delay or failure on the part of the Corporation or the Board of Directors in exercising any right hereunder shall operate as a waiver of any right of the Corporation or the Board of Directors, as the case may be, except to the extent specifically waived in writing.

#### ARTICLE VIII

##### ERISA RESTRICTIONS ON TRANSFER AND OWNERSHIP OF SHARES

Section 8.1 Definitions. For the purpose of this Article VIII, the following terms shall have the following meanings:

Benefit Plan Investor. The term "Benefit Plan Investor" shall mean (i) an employee benefit plan (as defined by Section 3(3) of ERISA), whether or not it is subject to Title I of ERISA; (ii) a plan as described in Section 4975 of the Code; (iii) an entity whose underlying assets include the assets of any plan described in clause (i) or (ii) by reason of the plan's investment in such entity (including but not limited to an insurance company general account); or (iv) an entity that otherwise constitutes a "benefit plan investor" within the meaning of the Plan Asset Regulation.

Capital Stock. The term "Capital Stock" shall mean all classes or series of stock of the Corporation, including, without limitation, Common Stock and Preferred Stock.

Code. The term "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

-24-

Fair Market Value. The term "Fair Market Value" shall mean the fair market value as determined in good faith at the sole discretion of the Chief Executive Officer or the Board of Directors of the Corporation.

Initial Date. The term "Initial Date" shall mean the date upon which the Amended Articles of Incorporation containing this Article VIII are filed with the SDAT.

Plan Asset Regulation. The term "Plan Asset Regulation" shall mean the plan asset regulation promulgated by the Department of Labor under ERISA at 29 C.F.R. 2510.3-101.

Shares-in-Trust. The term "Shares-in-Trust" shall mean shares of Capital Stock automatically transferred to a Trustee of a Trust for the benefit of one or more Charitable Beneficiaries as set forth in Article VII of the Charter.

25% Threshold. The term "25% Threshold" shall mean ownership by Benefit Plan Investors, in the aggregate, of 25 percent or more of the value of any class of equity interest in the Corporation (calculated by excluding the value

of any interest held by any person, other than a Benefit Plan Investor, who has discretionary authority or control with respect to the assets of the Corporation or any person who provides investment advice to the Corporation for a fee (direct or indirect) with respect to such assets, or any affiliate of such person).

Section 8.2. Ownership Limitations. Commencing on the Initial Date and terminating as provided in Section 8.5, no Benefit Plan Investor may acquire shares of Capital Stock without the Corporation's prior written consent (which consent may be withheld in the Corporation's sole and absolute discretion). Prior to shares of Capital Stock qualifying as a class of "publicly-offered securities" or the availability of another exception to the "look-through" rule (i.e., the provisions of paragraph (a)(2) of the Plan Asset Regulation), transfers of shares of Capital Stock

-25-

to Benefit Plan Investors that would increase aggregate Benefit Plan Investor ownership of shares of Capital Stock to a level that would meet or exceed the 25% Threshold will be void ab initio. In addition, in the event that the aggregate number of shares of Capital Stock owned by Benefit Plan Investors, but for the operation of this sentence, would meet or exceed the 25% Threshold, (i) shares of Capital Stock held by Benefit Plan Investors shall be deemed to be Shares-in-Trust, pro rata, to the extent necessary to reduce aggregate Benefit Plan Investor ownership of shares of Capital Stock below the 25% Threshold, (ii) such number of shares of Capital Stock (rounded up, in the case of each holder, to the nearest whole share) shall be transferred automatically and by operation of law to a Trust (as described in Article VII of the Charter) to be held in accordance with this Article VIII and otherwise in accordance with applicable provisions of Article VII of the Charter, provided that any references therein to ownership limitations shall be deemed references to the ownership limitations set forth in this Section 8.2, and (iii) the Benefit Plan Investors previously owning such Shares-in-Trust shall submit such number of shares of Capital Stock for registration in the name of the Trust. Such transfer to a Trust and the designation of shares of Capital Stock as Shares-in-Trust shall be effective as of the close of business on the business day prior to the date of the event that otherwise would have caused aggregate Benefit Plan Investor ownership of shares of Capital Stock to meet or exceed the 25% Threshold.

Section 8.3 Transfers to Non-Benefit Plan Investors. During the period prior to the discovery of the existence of the Trust, any transfer of shares of Capital Stock by a Benefit Plan Investor to a non-Benefit Plan Investor shall reduce the number of Shares-in-Trust on a one-for-one basis, and to that extent such shares shall cease to be designated as Shares-in-Trust and shall

-26-

be returned, effective at exactly the time of the transfer to the non-Benefit Plan Investor, automatically and without further action by the Corporation or the Benefit Plan Investor, to all Benefit Plan Investors (or the transferee, if applicable), pro rata, in accordance with the Benefit Plan Investors' prior holdings. After the discovery of the existence of the Trust, but prior to the redemption of all discovered Shares-in-Trust and/or the submission of all discovered Shares-in-Trust for registration in the name of the Trust, any transfer of shares of Capital Stock by a Benefit Plan Investor to a non-Benefit Plan Investor shall reduce the number of Shares-in-Trust on a one-for-one basis, and to that extent such shares shall cease to be designated as Shares-in-Trust and shall be returned, automatically and without further action by the Corporation or the Benefit Plan Investor, to the transferring Benefit Plan Investor (or its transferee, if applicable).

Section 8.4 Corporation's Right to Redeem Shares-in-Trust. In the event that any shares of Capital Stock are deemed "Shares-in-Trust" pursuant to this Article VIII, the holder shall cease to own any right or interest with respect to such shares and the Corporation will have the right to redeem such Shares-in-Trust for an amount equal to their Fair Market Value, which proceeds shall be payable to the purported owner.

Section 8.5 Termination. This Article VIII shall cease to apply and all Shares-in-Trust shall cease to be designated as Shares-in-Trust and shall be returned, automatically and by operation of law, to their purported owners, all of which shall occur at such time as shares of Capital Stock qualify as a class of "publicly-offered securities" or if another exception to the "look-through" rule under the Plan Asset Regulation applies.

-27-

ARTICLE IX

AMENDMENTS

The Corporation reserves the right from time to time to make any amendment to the Charter, now or hereafter authorized by law, including any amendment altering the terms or contract rights, as expressly set forth in the Charter, of any shares of outstanding stock. All rights and powers conferred by

the Charter on stockholders, directors and officers are granted subject to this reservation.

ARTICLE X

LIMITATION OF LIABILITY

To the maximum extent that Maryland law in effect from time to time permits limitation of the liability of directors and officers of a corporation, no director or officer of the Corporation shall be liable to the Corporation or its stockholders for money damages. Neither the amendment nor repeal of this Article IX, nor the adoption or amendment of any other provision of the Charter or the Bylaws inconsistent with this Article IX, shall apply to or affect in any respect the applicability of the preceding sentence with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption.

IN WITNESS WHEREOF, I have signed these Articles of Incorporation and acknowledge the same to be my act on this 6 day of June, 2002.

/s/ Tracy A. Bacigalupo

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Tracy A. Bacigalupo  
Sole Incorporator

## NEWCASTLE INVESTMENT CORP.

## BYLAWS

## ARTICLE I

## OFFICES

Section 1. PRINCIPAL OFFICE. The principal office of the Corporation in the State of Maryland shall be located at such place as the Board of Directors may designate.

Section 2. ADDITIONAL OFFICES. The Corporation may have additional offices, including a principal executive office, at such places as the Board of Directors may from time to time determine or the business of the Corporation may require.

## ARTICLE II

## MEETINGS OF STOCKHOLDERS

Section 1. PLACE. All meetings of stockholders shall be held at the principal executive office of the Corporation or at such other place as shall be set by the Board of Directors and stated in the notice of the meeting.

Section 2. ANNUAL MEETING. An annual meeting of the stockholders for the election of directors and the transaction of any business within the powers of the Corporation shall be held on a date and at the time set by the Board of Directors during the month of May in each year.

## Section 3. SPECIAL MEETINGS.

(a) General. The chairman of the board, president, chief executive officer or Board of Directors may call a special meeting of the stockholders. Subject to subsection (b) of this Section 3, a special meeting of stockholders shall also be called by the secretary of the Corporation upon the written request of the stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

(b) Stockholder Requested Special Meetings. (1) Any stockholder of record seeking to have stockholders request a special meeting shall, by sending written notice to the secretary (the "Record Date Request Notice") by registered mail, return receipt requested, request the Board of Directors to fix a record date to determine the stockholders entitled to request a special meeting (the "Request Record Date"). The Record Date Request Notice shall set forth the purpose of the meeting and the matters proposed to be acted on at it, shall be signed by one or more stockholders of record as of the date of signature (or their duly authorized agents), shall bear the date of signature of each such stockholder (or other agent) and shall set forth all information relating to each such stockholder that must be disclosed in solicitations of proxies for election of directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a-11 thereunder. Upon receiving the Record Date Request Notice, the Board of Directors may fix a Request Record Date. The Request Record Date shall not precede and shall not be more than ten days after the close of business on the date on which the resolution fixing the Request Record Date is adopted by the Board of Directors. If the Board of Directors, within ten days after the date on which a valid Record Date Request Notice is received, fails to adopt a resolution fixing the Request Record Date and make a public announcement of such Request Record Date, the Request Record Date shall be the close of business on the tenth day after the first date on which the Record Date Request Notice is received by the secretary.

(2) In order for any stockholder to request a special meeting, one or more written requests for a special meeting signed by stockholders of record (or their duly authorized agents) as of the Request Record Date entitled to cast not less than a majority (the "Special Meeting Percentage") of all of the votes entitled to be cast at such meeting (the "Special Meeting Request") shall be delivered to the secretary. In addition, the Special Meeting Request shall set forth the purpose of the meeting and the matters proposed to be acted on at it (which shall be limited to the matters set forth in the Record Date Request Notice received by the secretary), shall bear the date of signature of each such stockholder (or other agent) signing the Special Meeting Request, shall set forth the name and address, as they appear in the Corporation's books, of each stockholder signing such request (or on whose behalf the Special Meeting Request is signed) and the class and number of shares of stock of the Corporation which are owned of record and beneficially by each such stockholder, shall be sent to the secretary by registered mail, return receipt requested, and shall be received by the secretary within 60 days after the Request Record Date. Any requesting stockholder may revoke his, her or its request for a special meeting at any time by written revocation delivered to the secretary.



(3) The secretary shall inform the requesting stockholders of the reasonably estimated cost of preparing and mailing the notice of meeting (including the Corporation's proxy materials). The secretary shall not be required to call a special meeting upon stockholder request and such meeting shall not be held unless, in addition to the documents required by paragraph (2) of this Section 3(b), the secretary receives payment of such reasonably estimated cost prior to the mailing of any notice of the meeting.

(4) Except as provided in the next sentence, any special meeting shall be held at such place, date and time as may be designated by the chairman of the Board of Directors, the president, the chief executive officer or the Board of Directors, whoever has called the meeting. In the case of any special meeting called by the secretary upon the request of stockholders (a "Stockholder Requested Meeting"), such meeting shall be held at such place, date and time as may be designated by the Board of Directors; provided, however, that the date of any Stockholder Requested Meeting shall be not more than 90 days after the record date for such

2

meeting (the "Meeting Record Date"); and provided further that if the Board of Directors fails to designate, within ten days after the date that a valid Special Meeting Request is actually received by the secretary (the "Delivery Date"), a date and time for a Stockholder Requested Meeting, then such meeting shall be held at 2:00 p.m. local time on the 90th day after the Meeting Record Date or, if such 90th day is not a Business Day (as defined below), on the first preceding Business Day; and provided further that in the event that the Board of Directors fails to designate a place for a Stockholder Requested Meeting within ten days after the Delivery Date, then such meeting shall be held at the principal executive offices of the Corporation. In fixing a date for any special meeting, the president, chief executive officer or Board of Directors may consider such factors as he, she or it deems relevant within the good faith exercise of business judgment, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for meeting and any plan of the Board of Directors to call an annual meeting or a special meeting. In the case of any Stockholder Requested Meeting, if the Board of Directors fails to fix a Meeting Record Date that is a date within 30 days after the Delivery Date, then the close of business on the 30th day after the Delivery Date shall be the Meeting Record Date.

(5) If at any time as a result of written revocations of requests for the special meeting, stockholders of record (or their duly authorized agents) as of the Request Record Date entitled to cast less than the Special Meeting Percentage shall have delivered and not revoked requests for a special meeting, the secretary may refrain from mailing the notice of the meeting or, if the notice of the meeting has been mailed, the secretary may revoke the notice of the meeting at any time before ten days before the meeting if the secretary has first sent to all other requesting stockholders written notice of such revocation and of intention to revoke the notice of the meeting. Any request for a special meeting received after a revocation by the secretary of a notice of a meeting shall be considered a request for a new special meeting.

(6) The chairman of the Board of Directors, the president, the chief executive officer or the Board of Directors may appoint regionally or nationally recognized independent inspectors of elections to act as the agent of the Corporation for the purpose of promptly performing a ministerial review of the validity of any purported Special Meeting Request received by the secretary. For the purpose of permitting the inspectors to perform such review, no such purported request shall be deemed to have been delivered to the secretary until the earlier of (i) ten Business Days after receipt by the secretary of such purported request and (ii) such date as the independent inspectors certify to the Corporation that the valid requests received by the secretary represent at least a majority of the issued and outstanding shares of stock that would be entitled to vote at such meeting. Nothing contained in this paragraph (6) shall in any way be construed to suggest or imply that the Corporation or any stockholder shall not be entitled to contest the validity of any request, whether during or after such ten-Business Day period, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

(7) For purposes of these Bylaws, "Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of Maryland are authorized or obligated by law or executive order to close.

3

Section 4. NOTICE. Not less than ten nor more than 90 days before each meeting of stockholders, the secretary shall give to each stockholder entitled to vote at such meeting and to each stockholder not entitled to vote who is entitled to notice of the meeting written or printed notice stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by any statute, the purpose for which the meeting is called, either by mail, by presenting it to such stockholder personally, by leaving it at the

stockholder's residence or usual place of business or by any other means permitted by Maryland law. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the stockholder at the stockholder's address as it appears on the records of the Corporation, with postage thereon prepaid.

Any business of the Corporation may be transacted at an annual meeting of stockholders without being specifically designated in the notice, except such business as is required by any statute to be stated in such notice. No business shall be transacted at a special meeting of stockholders except as specifically designated in the notice.

Section 5. ORGANIZATION AND CONDUCT. Every meeting of stockholders shall be conducted by an individual appointed by the Board of Directors to be chairman of the meeting or, in the absence of such appointment, by the chairman of the board or, in the case of a vacancy in the office or absence of the chairman of the board, by one of the following officers present at the meeting: the vice chairman of the board, if there be one, the president, the vice presidents in their order of rank and seniority, or, in the absence of such officers, a chairman chosen by the stockholders by the vote of a majority of the votes cast by stockholders present in person or by proxy. The secretary, or, in the secretary's absence, an assistant secretary, or in the absence of both the secretary and assistant secretaries, a person appointed by the Board of Directors or, in the absence of such appointment, a person appointed by the chairman of the meeting shall act as secretary. In the event that the secretary presides at a meeting of the stockholders, an assistant secretary shall record the minutes of the meeting. The order of business and all other matters of procedure at any meeting of stockholders shall be determined by the chairman of the meeting. The chairman of the meeting may prescribe such rules, regulations and procedures and take such action as, in the discretion of such chairman, are appropriate for the proper conduct of the meeting, including, without limitation, (a) restricting admission to the time set for the commencement of the meeting; (b) limiting attendance at the meeting to stockholders of record of the Corporation, their duly authorized proxies or other such persons as the chairman of the meeting may determine; (c) limiting participation at the meeting on any matter to stockholders of record of the Corporation entitled to vote on such matter, their duly authorized proxies or other such persons as the chairman of the meeting may determine; (d) limiting the time allotted to questions or comments by participants; (e) maintaining order and security at the meeting; (f) removing any stockholder or any other person who refuses to comply with meeting procedures, rules or guidelines as set forth by the chairman of the meeting; and (g) recessing or adjourning the meeting to a later date and time and place announced at the meeting. Unless otherwise determined by the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

4

Section 6. QUORUM. At any meeting of stockholders, the presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at such meeting shall constitute a quorum; but this section shall not affect any requirement under any statute or the charter of the Corporation for the vote necessary for the adoption of any measure. If, however, such quorum shall not be present at any meeting of the stockholders, the chairman of the meeting or the stockholders entitled to vote at such meeting, present in person or by proxy, shall have the power to adjourn the meeting from time to time to a date not more than 120 days after the original record date without notice other than announcement at the meeting. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

The stockholders present either in person or by proxy, at a meeting which has been duly called and convened, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 7. VOTING. A plurality of all the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to elect a director. Each share may be voted for as many individuals as there are directors to be elected and for whose election the share is entitled to be voted. A majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to approve any other matter which may properly come before the meeting, unless more than a majority of the votes cast is required by statute or by the charter of the Corporation. Unless otherwise provided in the charter, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders.

Section 8. PROXIES. A stockholder may cast the votes entitled to be cast by the shares of stock owned of record by the stockholder in person or by proxy executed by the stockholder or by the stockholder's duly authorized agent in any manner permitted by law. Such proxy or evidence of authorization of such proxy shall be filed with the secretary of the Corporation before or at the meeting. No proxy shall be valid more than eleven months after its date unless otherwise provided in the proxy.

Section 9. VOTING OF STOCK BY CERTAIN HOLDERS. Stock of the Corporation registered in the name of a corporation, partnership, trust or other entity, if entitled to be voted, may be voted by the president or a vice president, a general partner or trustee thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other person who has been appointed to vote such stock pursuant to a bylaw or a resolution of the governing body of such corporation or other entity or agreement of the partners of a partnership presents a certified copy of such bylaw, resolution or agreement, in which case such person may vote such stock. Any director or other fiduciary may vote stock registered in his or her name as such fiduciary, either in person or by proxy.

Shares of stock of the Corporation directly or indirectly owned by it shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares entitled to be voted at any given time, unless they are held by it in a fiduciary capacity, in

5

which case they may be voted and shall be counted in determining the total number of outstanding shares at any given time.

The Board of Directors may adopt by resolution a procedure by which a stockholder may certify in writing to the Corporation that any shares of stock registered in the name of the stockholder are held for the account of a specified person other than the stockholder. The resolution shall set forth the class of stockholders who may make the certification, the purpose for which the certification may be made, the form of certification and the information to be contained in it; if the certification is with respect to a record date or closing of the stock transfer books, the time after the record date or closing of the stock transfer books within which the certification must be received by the Corporation; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt of such certification, the person specified in the certification shall be regarded as, for the purposes set forth in the certification, the stockholder of record of the specified stock in place of the stockholder who makes the certification.

Section 10. INSPECTORS. The Board of Directors, in advance of any meeting, may, but need not, appoint one or more individual inspectors or one or more entities that designate individuals as inspectors to act at the meeting or any adjournment thereof. If an inspector or inspectors are not appointed, the person presiding at the meeting may, but need not, appoint one or more inspectors. In case any person who may be appointed as an inspector fails to appear or act, the vacancy may be filled by appointment made by the Board of Directors in advance of the meeting or at the meeting by the chairman of the meeting. The inspectors, if any, shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, and determine the result, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. Each such report shall be in writing and signed by him or her or by a majority of them if there is more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be prima facie evidence thereof.

Section 11. ADVANCE NOTICE OF STOCKHOLDER NOMINEES FOR DIRECTOR AND OTHER STOCKHOLDER PROPOSALS.

(a) Annual Meetings of Stockholders. (1) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who was a stockholder of record both at the time of giving of notice provided for in this Section 11(a) and at the time of the annual meeting, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 11(a).

6

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (a)(1) of this Section 11, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for action by the stockholders. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than 90 days nor more than 120 days prior to the first anniversary of the date of mailing of the notice for the preceding year's annual meeting; provided, however, that in the event that the date of the mailing of the notice for the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of mailing of the

notice for the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the 120th day prior to the date of mailing of the notice for such annual meeting and not later than the close of business on the later of the 90th day prior to the date of mailing of the notice for such annual meeting or the tenth day following the day on which disclosure of the date of mailing of the notice for such meeting is first made. In no event shall the public announcement of a postponement or adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director, (A) the name, age, business address and residence address of such person, (B) the class and number of shares of stock of the Corporation that are beneficially owned by such person and (C) all other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act and the rules thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder (including any anticipated benefit to the stockholder therefrom) and of each beneficial owner, if any, on whose behalf the proposal is made; and (iii) as to the stockholder giving the notice and each beneficial owner, if any, on whose behalf the nomination or proposal is made, (x) the name and address of such stockholder, as they appear on the Corporation's stock ledger and current name and address, if different, and of such beneficial owner, and (y) the class and number of shares of each class of stock of the Corporation which are owned beneficially and of record by such stockholder and owned beneficially by such beneficial owner.

(3) Notwithstanding anything in this subsection (a) of this Section 11 to the contrary, in the event the Board of Directors increases or decreases the maximum or minimum number of directors in accordance with Article III, Section 2 of these Bylaws, and there is no announcement of such action at least 100 days prior to the first anniversary of the date of mailing of the preceding year's annual meeting, a stockholder's notice required by this Section 11(a) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

7

(b) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) provided that the Board of Directors has determined that directors shall be elected at such special meeting, by any stockholder of the Corporation who is a stockholder of record both at the time of giving of notice provided for in this Section 11 and at the time of the special meeting, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Section 11. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder may nominate a person or persons (as the case may be) for election as a director as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (a) (2) of this Section 11 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of a postponement or adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

(c) General. (1) Upon written request by the secretary or the Board of Directors or any committee thereof, any stockholder proposing a nominee for election as a director or any proposal for other business at a meeting of stockholders shall provide, within three business days of delivery of such request (or such other period as may be specified in such request), written verification, satisfactory to the secretary or the Board or any committee thereof, in his, her or its sole discretion, of the accuracy of any information submitted by the stockholder pursuant to this Section 11. If a stockholder fails to provide such written verification within such period, the secretary or the Board of Directors or any committee thereof may treat the information as to which written verification was requested as not having been provided in accordance with the procedures set forth in this Section 11.

(2) Only such persons who are nominated in accordance with the procedures set forth in this Section 11 of these Bylaws shall be eligible to serve as directors, and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 11. The chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Section 11 and, if any proposed nomination or business is not in compliance with this Section 11, to declare that such defective nomination or proposal be disregarded.

(3) For purposes of this Section 11, (a) the "date of mailing of the notice" shall mean the date of the proxy statement for the solicitation of proxies for election of directors and (b) "public announcement" shall mean disclosure (i) in a press release reported by the Dow Jones

8

News Service, Associated Press or comparable news service or (ii) in a document publicly filed by the Corporation with the United States Securities and Exchange Commission pursuant to the Exchange Act or the Investment Company Act.

(4) Notwithstanding the foregoing provisions of this Section 11, a stockholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 11. Nothing in this Section 11 shall be deemed to affect any right of a stockholder to request inclusion of a proposal in, nor the right of the Corporation to omit a proposal from, the Corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act.

Section 12. VOTING BY BALLOT. Voting on any question or in any election may be viva voce unless the presiding officer shall order or any stockholder shall demand that voting be by ballot.

Section 13. CONTROL SHARE ACQUISITION ACT. Notwithstanding any other provision of the charter of the Corporation or these Bylaws, Title 3, Subtitle 7 of the Maryland General Corporation Law (the "MGCL"), or any successor statute, shall not apply to any acquisition by any person of shares of stock of the Corporation. This section may be repealed, in whole or in part, at any time, whether before or after an acquisition of control shares and, upon such repeal, may, to the extent provided by any successor bylaw, apply to any prior or subsequent control share acquisition.

### ARTICLE III

#### DIRECTORS

Section 1. GENERAL POWERS. The business and affairs of the Corporation shall be managed under the direction of its Board of Directors.

Section 2. NUMBER AND TENURE. At any regular meeting or at any special meeting called for that purpose, a majority of the entire Board of Directors may establish, increase or decrease the number of directors, provided that the number thereof shall never be less than the minimum number required by the MGCL, nor more than 15, and further provided that the tenure of office of a director shall not be affected by any decrease in the number of directors.

Section 3. ANNUAL AND REGULAR MEETINGS. An annual meeting of the Board of Directors shall be held immediately after and at the same place as the annual meeting of stockholders, no notice other than this Bylaw being necessary. In the event such meeting is not so held, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors. Regular meetings of the Board of Directors shall be held from time to time at such places and times as provided by the Board of Directors by resolution, without notice other than such resolution.

Section 4. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the chairman of the board, the chief executive

9

officer, the president or by a majority of the directors then in office. The person or persons authorized to call special meetings of the Board of Directors may fix any place as the place for holding any special meeting of the Board of Directors called by them. The Board of Directors may provide, by resolution, the time and place for the holding of special meetings of the Board of Directors without notice other than such resolution.

Section 5. NOTICE. Notice of any special meeting of the Board of Directors shall be delivered personally or by telephone, electronic mail, facsimile transmission, United States mail or courier to each director at his or her business or residence address. Notice by personal delivery, telephone,

electronic mail or facsimile transmission shall be given at least 24 hours prior to the meeting. Notice by United States mail shall be given at least three days prior to the meeting. Notice by courier shall be given at least two days prior to the meeting. Telephone notice shall be deemed to be given when the director or his or her agent is personally given such notice in a telephone call to which the director or his or her agent is a party. Electronic mail notice shall be deemed to be given upon transmission of the message to the electronic mail address given to the Corporation by the director. Facsimile transmission notice shall be deemed to be given upon completion of the transmission of the message to the number given to the Corporation by the director and receipt of a completed answer-back indicating receipt. Notice by United States mail shall be deemed to be given when deposited in the United States mail properly addressed, with postage thereon prepaid. Notice by courier shall be deemed to be given when deposited with or delivered to a courier properly addressed. Neither the business to be transacted at, nor the purpose of, any annual, regular or special meeting of the Board of Directors need be stated in the notice, unless specifically required by statute or these Bylaws.

Section 6. QUORUM. A majority of the directors shall constitute a quorum for transaction of business at any meeting of the Board of Directors, provided that, if less than a majority of such directors are present at said meeting, a majority of the directors present may adjourn the meeting from time to time without further notice, and provided further that if, pursuant to the charter of the Corporation or these Bylaws, the vote of a majority of a particular group of directors is required for action, a quorum must also include a majority of such group.

The directors present at a meeting which has been duly called and convened may continue to transact business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum.

Section 7. VOTING. The action of the majority of the directors present at a meeting at which a quorum is present shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable statute or the charter. If enough directors have withdrawn from a meeting to leave less than a quorum but the meeting is not adjourned, the action of the majority of the directors still present at such meeting shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable statute or the charter.

Section 8. ORGANIZATION. At each meeting of the Board of Directors, the chairman of the board or, in the absence of the chairman, the vice chairman of the board, if any,

10

shall act as Chairman. In the absence of both the chairman and vice chairman of the board, the chief executive officer or in the absence of the chief executive officer, the president or in the absence of the president, a director chosen by a majority of the directors present, shall act as Chairman. The secretary or, in his or her absence, an assistant secretary of the Corporation, or in the absence of the secretary and all assistant secretaries, a person appointed by the Chairman, shall act as Secretary of the meeting.

Section 9. TELEPHONE MEETINGS. Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

Section 10. WRITTEN CONSENT BY DIRECTORS. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if a consent in writing to such action is signed by each director and such written consent is filed with the minutes of proceedings of the Board of Directors.

Section 11. VACANCIES. If for any reason any or all the directors cease to be directors, such event shall not terminate the Corporation or affect these Bylaws or the powers of the remaining directors hereunder (even if fewer than three directors remain). Any vacancy on the Board of Directors for any cause other than an increase in the number of directors shall be filled by a majority of the remaining directors, even if such majority is less than a quorum. Any vacancy in the number of directors created by an increase in the number of directors may be filled by a majority vote of the entire Board of Directors. Any individual so elected as director shall hold office until the next annual meeting of stockholders and until his or her successor is elected and qualifies.

Section 12. COMPENSATION. Directors shall not receive any stated salary for their services as directors but, by resolution of the Board of Directors, may receive compensation per year and/or per meeting and/or per visit to real property or other facilities owned or leased by the Corporation and for any service or activity they performed or engaged in as directors. Directors may be reimbursed for expenses of attendance, if any, at each annual, regular or special meeting of the Board of Directors or of any committee thereof and for their expenses, if any, in connection with each property visit and any other

service or activity they performed or engaged in as directors; but nothing herein contained shall be construed to preclude any directors from serving the Corporation in any other capacity and receiving compensation therefor.

Section 13. LOSS OF DEPOSITS. No director shall be liable for any loss which may occur by reason of the failure of the bank, trust company, savings and loan association, or other institution with whom moneys or stock have been deposited.

Section 14. SURETY BONDS. Unless required by law, no director shall be obligated to give any bond or surety or other security for the performance of any of his or her duties.

11

Section 15. RELIANCE. Each director, officer, employee and agent of the Corporation shall, in the performance of his or her duties with respect to the Corporation, be fully justified and protected with regard to any act or failure to act in reliance in good faith upon the books of account or other records of the Corporation, upon an opinion of counsel or upon reports made to the Corporation by any of its officers or employees or by the adviser, accountants, appraisers or other experts or consultants selected by the Board of Directors or officers of the Corporation, regardless of whether such counsel or expert may also be a director.

Section 16. CERTAIN RIGHTS OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS. The directors shall have no responsibility to devote their full time to the affairs of the Corporation. Any director or officer, employee or agent of the Corporation, in his or her personal capacity or in a capacity as an affiliate, employee, or agent of any other person, or otherwise, may have business interests and engage in business activities similar to or in addition to or in competition with those of or relating to the Corporation.

#### ARTICLE IV

#### COMMITTEES

Section 1. NUMBER, TENURE AND QUALIFICATIONS. The Board of Directors may appoint from among its members an Executive Committee, an Audit Committee and other committees, composed of one or more directors, to serve at the pleasure of the Board of Directors.

Section 2. POWERS. The Board of Directors may delegate to committees appointed under Section 1 of this Article any of the powers of the Board of Directors, except as prohibited by law.

Section 3. MEETINGS. Notice of committee meetings shall be given in the same manner as notice for special meetings of the Board of Directors. A majority of the members of the committee shall constitute a quorum for the transaction of business at any meeting of the committee. The act of a majority of the committee members present at a meeting shall be the act of such committee. The Board of Directors may designate a chairman of any committee, and such chairman or, in the absence of a chairman, any two members of any committee (if there are at least two members of the Committee) may fix the time and place of its meeting unless the Board shall otherwise provide. In the absence of any member of any such committee, the members thereof present at any meeting, whether or not they constitute a quorum, may appoint another director to act in the place of such absent member. Each committee shall keep minutes of its proceedings.

Section 4. TELEPHONE MEETINGS. Members of a committee of the Board of Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting.

12

Section 5. WRITTEN CONSENT BY COMMITTEES. Any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting, if a consent in writing to such action is signed by each member of the committee and such written consent is filed with the minutes of proceedings of such committee.

Section 6. VACANCIES. Subject to the provisions hereof, the Board of Directors shall have the power at any time to change the membership of any committee, to fill all vacancies, to designate alternate members to replace any absent or disqualified member or to dissolve any such committee.

#### ARTICLE V

#### OFFICERS

Section 1. GENERAL PROVISIONS. The officers of the Corporation shall include a president, a secretary and a treasurer and may include a chairman of the board, a vice chairman of the board, a chief executive officer, one or more

vice presidents, a chief operating officer, a chief financial officer, one or more assistant secretaries and one or more assistant treasurers. In addition, the Board of Directors may from time to time elect such other officers with such powers and duties as they shall deem necessary or desirable. The officers of the Corporation shall be elected annually by the Board of Directors, except that the chief executive officer or president may from time to time appoint one or more vice presidents, assistant secretaries, assistant treasurers or other officers. Each officer shall hold office until his or her successor is elected and qualifies or until death, resignation or removal in the manner hereinafter provided. Any two or more offices except president and vice president may be held by the same person. Election of an officer or agent shall not of itself create contract rights between the Corporation and such officer or agent.

Section 2. REMOVAL AND RESIGNATION. Any officer or agent of the Corporation may be removed, with or without cause, by the Board of Directors if in its judgment the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer of the Corporation may resign at any time by giving written notice of his or her resignation to the Board of Directors, the chairman of the board, the president or the secretary. Any resignation shall take effect immediately upon its receipt or at such later time specified in the notice of resignation. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation. Such resignation shall be without prejudice to the contract rights, if any, of the Corporation.

Section 3. VACANCIES. A vacancy in any office may be filled by the Board of Directors for the balance of the term.

Section 4. CHIEF EXECUTIVE OFFICER. The Board of Directors may designate a chief executive officer. In the absence of such designation, the chairman of the board shall be the chief executive officer of the Corporation. The chief executive officer shall have

13

general responsibility for implementation of the policies of the Corporation, as determined by the Board of Directors, and for the management of the business and affairs of the Corporation.

Section 5. CHIEF OPERATING OFFICER. The Board of Directors may designate a chief operating officer. The chief operating officer shall have the responsibilities and duties as set forth by the Board of Directors or the chief executive officer.

Section 6. CHIEF FINANCIAL OFFICER. The Board of Directors may designate a chief financial officer. The chief financial officer shall have the responsibilities and duties as set forth by the Board of Directors or the chief executive officer.

Section 7. CHAIRMAN OF THE BOARD. The Board of Directors shall designate a chairman of the board. The chairman of the board shall preside over the meetings of the Board of Directors and of the stockholders at which he or she shall be present. The chairman of the board shall perform such other duties as may be assigned to him or her by the Board of Directors.

Section 8. PRESIDENT. In the absence of a designation of a chief operating officer by the Board of Directors, the president shall be the chief operating officer. He or she may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of president and such other duties as may be prescribed by the Board of Directors from time to time.

Section 9. VICE PRESIDENTS. In the absence of the president or in the event of a vacancy in such office, the vice president (or in the event there be more than one vice president, the vice presidents in the order designated at the time of their election or, in the absence of any designation, then in the order of their election) shall perform the duties of the president and when so acting shall have all the powers of and be subject to all the restrictions upon the president; and shall perform such other duties as from time to time may be assigned to such vice president by the president or by the Board of Directors. The Board of Directors may designate one or more vice presidents as executive vice president or as vice president for particular areas of responsibility.

Section 10. SECRETARY. The secretary shall (a) keep the minutes of the proceedings of the stockholders, the Board of Directors and committees of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (c) be custodian of the corporate records and of the seal of the Corporation; (d) keep a register of the post office address of each stockholder which shall be furnished to the secretary by such stockholder; (e) have general charge of the stock transfer books of the Corporation; and (f) in general perform such other duties as from time to time may be assigned to him by



the chief executive officer, the president or by the Board of Directors.

14

Section 11. TREASURER. The treasurer shall have the custody of the funds and securities of the Corporation and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. In the absence of a designation of a chief financial officer by the Board of Directors, the treasurer shall be the chief financial officer of the Corporation.

The treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the president and Board of Directors, at the regular meetings of the Board of Directors or whenever it may so require, an account of all his or her transactions as treasurer and of the financial condition of the Corporation.

If required by the Board of Directors, the treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, moneys and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

Section 12. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or treasurer, respectively, or by the president or the Board of Directors. The assistant treasurers shall, if required by the Board of Directors, give bonds for the faithful performance of their duties in such sums and with such surety or sureties as shall be satisfactory to the Board of Directors.

Section 13. SALARIES. The salaries and other compensation of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary or other compensation by reason of the fact that he or she is also a director.

#### ARTICLE VI

##### CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 1. CONTRACTS. The Board of Directors may authorize any officer or agent to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document shall be valid and binding upon the Corporation when authorized or ratified by action of the Board of Directors and executed by an authorized person.

Section 2. CHECKS AND DRAFTS. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or agent of the Corporation in such manner as shall from time to time be determined by the Board of Directors.

15

Section 3. DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may designate.

#### ARTICLE VII

##### STOCK

Section 1. CERTIFICATES; REQUIRED INFORMATION. In the event that the Corporation issues shares of stock represented by certificates, such certificates shall be signed by the officers of the Corporation in the manner permitted by the MGCL and contain the statements and information required by the MGCL. In the event that the Corporation issues shares of stock without certificates, the Corporation shall provide to holders of such shares a written statement of the information required by the MGCL to be included on stock certificates.

Section 2. TRANSFERS WHEN CERTIFICATES ISSUED. Upon surrender to the Corporation or the transfer agent of the Corporation of a stock certificate duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Corporation shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

The Corporation shall be entitled to treat the holder of record of any share of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Maryland.

Notwithstanding the foregoing, transfers of shares of any class of stock will be subject in all respects to the charter of the Corporation and all of the terms and conditions contained therein.

Section 3. REPLACEMENT CERTIFICATE. The president, the secretary, the treasurer or any officer designated by the Board of Directors may direct a new certificate to be issued in place of any certificate previously issued by the Corporation alleged to have been lost, stolen or destroyed upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. When authorizing the issuance of a new certificate, an officer designated by the Board of Directors may, in his or her discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or the owner's legal representative to advertise the same in such manner as he or she shall require and/or to give bond, with sufficient surety, to the Corporation to indemnify it against any loss or claim which may arise as a result of the issuance of a new certificate.

Section 4. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE. The Board of Directors may set, in advance, a record date for the purpose of determining stockholders entitled to notice of or to vote at any meeting of stockholders or determining

16

stockholders entitled to receive payment of any dividend or the allotment of any other rights, or in order to make a determination of stockholders for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall be not more than 90 days and, in the case of a meeting of stockholders, not less than ten days, before the date on which the meeting or particular action requiring such determination of stockholders of record is to be held or taken.

In lieu of fixing a record date, the Board of Directors may provide that the stock transfer books shall be closed for a stated period but not longer than 20 days. If the stock transfer books are closed for the purpose of determining stockholders entitled to notice of or to vote at a meeting of stockholders, such books shall be closed for at least ten days before the date of such meeting.

If no record date is fixed and the stock transfer books are not closed for the determination of stockholders, (a) the record date for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day on which the notice of meeting is mailed or the 30th day before the meeting, whichever is the closer date to the meeting; and (b) the record date for the determination of stockholders entitled to receive payment of a dividend or an allotment of any other rights shall be the close of business on the day on which the resolution of the directors, declaring the dividend or allotment of rights, is adopted.

When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided in this section, such determination shall apply to any adjournment thereof, except when (i) the determination has been made through the closing of the transfer books and the stated period of closing has expired or (ii) the meeting is adjourned to a date more than 120 days after the record date fixed for the original meeting, in either of which case a new record date shall be determined as set forth herein.

Section 5. STOCK LEDGER. The Corporation shall maintain at its principal office or at the office of its counsel, accountants or transfer agent, an original or duplicate share ledger containing the name and address of each stockholder and the number of shares of each class held by such stockholder.

Section 6. FRACTIONAL STOCK; ISSUANCE OF UNITS. The Board of Directors may issue fractional stock or provide for the issuance of scrip, all on such terms and under such conditions as they may determine. Notwithstanding any other provision of the charter or these Bylaws, the Board of Directors may issue units consisting of different securities of the Corporation. Any security issued in a unit shall have the same characteristics as any identical securities issued by the Corporation, except that the Board of Directors may provide that for a specified period securities of the Corporation issued in such unit may be transferred on the books of the Corporation only in such unit.

17

ARTICLE VIII

ACCOUNTING YEAR

The Board of Directors shall have the power, from time to time, to fix the

fiscal year of the Corporation by a duly adopted resolution.

#### ARTICLE IX

##### DISTRIBUTIONS

Section 1. AUTHORIZATION. Dividends and other distributions upon the stock of the Corporation may be authorized by the Board of Directors, subject to the provisions of law and the charter of the Corporation. Dividends and other distributions may be paid in cash, property or stock of the Corporation, subject to the provisions of law and the charter.

Section 2. CONTINGENCIES. Before payment of any dividends or other distributions, there may be set aside out of any assets of the Corporation available for dividends or other distributions such sum or sums as the Board of Directors may from time to time, in its absolute discretion, think proper as a reserve fund for contingencies, for equalizing dividends or other distributions, for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors shall determine to be in the best interest of the Corporation, and the Board of Directors may modify or abolish any such reserve.

#### ARTICLE X

##### INVESTMENT POLICY

Subject to the provisions of the charter of the Corporation, the Board of Directors may from time to time adopt, amend, revise or terminate any policy or policies with respect to investments by the Corporation as it shall deem appropriate in its sole discretion.

#### ARTICLE XI

##### SEAL

Section 1. SEAL. The Board of Directors may authorize the adoption of a seal by the Corporation. The seal shall contain the name of the Corporation and the year of its incorporation and the words "Incorporated Maryland." The Board of Directors may authorize one or more duplicate seals and provide for the custody thereof.

Section 2. AFFIXING SEAL. Whenever the Corporation is permitted or required to affix its seal to a document, it shall be sufficient to meet the requirements of any law, rule or regulation relating to a seal to place the word "(SEAL)" adjacent to the signature of the person authorized to execute the document on behalf of the Corporation.

#### 18

#### ARTICLE XII

##### INDEMNIFICATION AND ADVANCE OF EXPENSES

To the maximum extent permitted by Maryland law in effect from time to time, the Corporation shall indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, shall pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (a) any individual who is a present or former director or officer of the Corporation and who is made a party to the proceeding by reason of his or her service in that capacity or (b) any individual who, while a director of the Corporation and at the request of the Corporation, serves or has served as a director, officer, partner or trustee of another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made a party to the proceeding by reason of his or her service in that capacity. The Corporation may, with the approval of its Board of Directors, provide such indemnification and advance for expenses to a person who served a predecessor of the Corporation in any of the capacities described in (a) or (b) above and to any employee or agent of the Corporation or a predecessor of the Corporation.

Neither the amendment nor repeal of this Article, nor the adoption or amendment of any other provision of the Bylaws or charter of the Corporation inconsistent with this Article, shall apply to or affect in any respect the applicability of the preceding paragraph with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption.

#### ARTICLE XIII

##### WAIVER OF NOTICE

Whenever any notice is required to be given pursuant to the charter of the Corporation or these Bylaws or pursuant to applicable law, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at nor the purpose of any

meeting need be set forth in the waiver of notice, unless specifically required by statute. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

ARTICLE XIV

AMENDMENT OF BYLAWS

The Board of Directors shall have the exclusive power to adopt, alter or repeal any provision of these Bylaws and to make new Bylaws.

FORM OF CERTIFICATE FOR  
COMMON STOCK

NEW CASTLE INVESTMENT CORP.

A CORPORATION FORMED UNDER THE LAWS OF THE STATE OF MARYLAND

THIS CERTIFICATE IS TRANSFERABLE IN THE CITY OF NEW YORK

SEE REVERSE FOR IMPORTANT NOTICE  
ON TRANSFER RESTRICTIONS AND  
OTHER INFORMATION

CUSIP

SEE REVERSE FOR CERTAIN DEFINITIONS

THIS CERTIFIES THAT

,or its registered assigns,  
is the owner of

FULLY PAID AND NONASSESSABLE SHARES OF COMMON STOCK, \$.01 PAR VALUE PER SHARE,  
OF

NEWCASTLE INVESTMENT CORP.  
("THE CORPORATION")

CERTIFICATE OF STOCK

transferable on the books of the Corporation by the holder hereof in person or  
by its duly authorized attorney, upon surrender of this Certificate properly  
endorsed. This Certificate and the shares represented hereby are issued and  
shall be held subject to the laws of the State of Maryland and to all of the  
provisions of the charter of the Corporation (the "Charter") and the Bylaws of  
the Corporation and any amendments thereto. This Certificate is not valid  
unless countersigned and registered by the Transfer Agent and Registrar.

In Witness Whereof, the Corporation has caused this Certificate to be  
executed on its behalf by its duly authorized officers.

Dated:

COUNTERSIGNED AND REGISTERED:  
AMERICAN STOCK TRANSFER & TRUST COMPANY  
TRANSFER AGENT  
AND REGISTRAR

BY:

AUTHORIZED SIGNATURE

(SIGNATURE TO COME)

(SIGNATURE TO COME)

SECRETARY

PRESIDENT

NEWCASTLE INVESTMENT CORP.  
A CORPORATION FORMED UNDER THE LAWS OF THE STATE OF MARYLAND  
THIS CERTIFICATE IS TRANSFERABLE IN THE CITY OF NEW YORK

SEE REVERSE FOR IMPORTANT NOTICE  
ON TRANSFER RESTRICTIONS AND  
OTHER INFORMATION

CUSIP  
SEE REVERSE FOR CERTAIN DEFINITIONS

THIS CERTIFIES THAT

, or its registered assigns,  
is the owner of

FULLY PAID AND NONASSESSABLE SHARES OF COMMON STOCK, \$.01 PAR VALUE  
PER SHARE, OF  
NEWCASTLE INVESTMENT CORP.  
(THE "CORPORATION")

transferable on the books of the Corporation by the holder hereof in person or  
by its duly authorized attorney, upon surrender of this Certificate properly  
endorsed. This Certificate and the shares represented hereby are issued and  
shall be held subject to the laws of the State of Maryland and to all of the  
provisions of the charter of the Corporation (the "Charter") and the Bylaws of  
the Corporation and any amendments thereto. This Certificate is not valid  
unless countersigned and registered by the Transfer Agent and Registrar.

In Witness Whereof, the Corporation has caused this Certificate to be  
executed on its behalf by its duly authorized officers.

Dated:

(SIGNATURE TO COME)

(SIGNATURE TO COME)

SECRETARY

PRESIDENT

COUNTERSIGNED AND REGISTERED:

AMERICAN STOCK TRANSFER & TRUST COMPANY

TRANSFER AGENT  
AND REGISTRAR

BY:

AUTHORIZED SIGNATURE

THE CORPORATION WILL FURNISH TO ANY STOCKHOLDER, ON REQUEST AND WITHOUT  
CHARGE, A FULL STATEMENT OF THE INFORMATION REQUIRED BY SECTION 2-211(B) OF THE  
CORPORATIONS AND ASSOCIATIONS ARTICLE OF THE ANNOTATED CODE OF MARYLAND WITH  
RESPECT TO THE DESIGNATIONS AND ANY PREFERENCES, CONVERSION AND OTHER RIGHTS,  
VOTING POWERS, RESTRICTIONS, LIMITATIONS AS TO DIVIDENDS AND OTHER  
DISTRIBUTIONS, QUALIFICATIONS, AND TERMS AND CONDITIONS OF REDEMPTION OF THE  
STOCK OF EACH CLASS WHICH THE CORPORATION HAS AUTHORITY TO ISSUE AND (I) THE  
DIFFERENCES IN THE RELATIVE RIGHTS AND PREFERENCES BETWEEN THE SHARES OF EACH  
SERIES TO THE EXTENT SET, AND (II) THE AUTHORITY OF THE BOARD OF DIRECTORS TO  
SET SUCH RIGHTS AND PREFERENCES OF SUBSEQUENT SERIES. THE FOREGOING SUMMARY  
DOES NOT PURPORT TO BE COMPLETE AND IS SUBJECT TO AND QUALIFIED IN ITS ENTIRETY  
BY REFERENCE TO THE CHARTER OF THE CORPORATION (THE "CHARTER"), AS MAY BE  
AMENDED FROM TIME TO TIME, A COPY OF WHICH WILL BE SENT WITHOUT CHARGE TO EACH  
STOCKHOLDER WHO SO REQUESTS. SUCH REQUEST MUST BE MADE TO THE SECRETARY OF THE  
CORPORATION AT ITS PRINCIPAL OFFICE OR TO THE TRANSFER AGENT.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON  
BENEFICIAL AND CONSTRUCTIVE OWNERSHIP AND TRANSFER FOR THE PURPOSE OF THE  
CORPORATION'S MAINTENANCE OF ITS STATUS AS A REAL ESTATE INVESTMENT TRUST  
("REIT") UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE").  
SUBJECT TO CERTAIN FURTHER RESTRICTIONS AND EXCEPT AS EXPRESSLY PROVIDED IN THE  
CHARTER, (I) NO PERSON MAY BENEFICIALLY OR CONSTRUCTIVELY OWN SHARES OF ANY  
CLASS OR SERIES OF THE CORPORATION'S CAPITAL STOCK IN EXCESS OF 9.8 PERCENT OF  
THE AGGREGATE VALUE OF THE OUTSTANDING SHARES OF ANY CLASS OR SERIES OF CAPITAL  
STOCK OF THE CORPORATION UNLESS SUCH PERSON IS AN EXCEPTED HOLDER (IN WHICH  
CASE THE EXCEPTED HOLDER LIMIT SHALL BE APPLICABLE); (II) NO PERSON MAY  
BENEFICIALLY OR CONSTRUCTIVELY OWN CAPITAL STOCK THAT WOULD RESULT IN THE  
CORPORATION BEING "CLOSELY HELD" UNDER SECTION 856(H) OF THE CODE OR OTHERWISE  
CAUSE THE CORPORATION TO FAIL TO QUALIFY AS A REIT; AND (III) NO PERSON MAY  
TRANSFER SHARES OF CAPITAL STOCK IF SUCH TRANSFER WOULD RESULT IN THE CAPITAL  
STOCK OF THE CORPORATION BEING OWNED BY FEWER THAN 100 PERSONS. ANY PERSON WHO  
BENEFICIALLY OR CONSTRUCTIVELY OWNS OR ATTEMPTS TO BENEFICIALLY OR  
CONSTRUCTIVELY OWN SHARES OF CAPITAL STOCK WHICH CAUSES OR WILL CAUSE A PERSON  
TO BENEFICIALLY OR CONSTRUCTIVELY OWN SHARES OF CAPITAL STOCK IN EXCESS OR IN  
VIOLATION OF THE ABOVE LIMITATIONS MUST IMMEDIATELY NOTIFY THE CORPORATION. IF  
ANY OF THE RESTRICTIONS ON TRANSFER OR OWNERSHIP ARE VIOLATED, THE SHARES OF  
CAPITAL STOCK REPRESENTED HEREBY WILL BE AUTOMATICALLY TRANSFERRED TO A TRUSTEE  
OF A TRUST FOR THE BENEFIT OF ONE OR MORE CHARITABLE BENEFICIARIES. IN  
ADDITION, UPON THE OCCURRENCE OF CERTAIN EVENTS, ATTEMPTED TRANSFERS IN  
VIOLATION OF THE RESTRICTIONS DESCRIBED ABOVE MAY BE VOID AB INITIO. ALL TERMS  
IN THIS LEGEND HAVE THE MEANINGS DEFINED IN THE CHARTER, AS THE SAME MAY BE  
AMENDED FROM TIME TO TIME, A COPY OF WHICH, INCLUDING THE RESTRICTIONS ON  
TRANSFER AND OWNERSHIP, WILL BE FURNISHED TO EACH HOLDER OF CAPITAL STOCK OF

THE CORPORATION ON REQUEST AND WITHOUT CHARGE.

THIS CERTIFICATE ALSO EVIDENCES AND ENTITLES THE HOLDER HEREOF TO CERTAIN RIGHTS AS SET FORTH IN THE RIGHTS AGREEMENT BETWEEN THE CORPORATION AND AMERICAN STOCK TRANSFER & TRUST COMPANY (THE "RIGHTS AGENT"), DATED AS JUNE 4, 1998 (THE "RIGHTS AGREEMENT"), THE TERMS OF WHICH ARE HEREBY INCORPORATED HEREIN BY REFERENCE AND A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE CORPORATION. UNDER CERTAIN CIRCUMSTANCES, AS SET FORTH IN THE RIGHTS AGREEMENT, SUCH RIGHTS WILL BE EVIDENCED BY SEPARATE CERTIFICATES AND WILL NO LONGER BE EVIDENCED BY THIS CERTIFICATE. THE CORPORATION WILL MAIL TO THE HOLDER OF THIS CERTIFICATE A COPY OF THE RIGHTS AGREEMENT, AS IN EFFECT ON THE DATE OF MAILING, WITHOUT CHARGE, PROMPTLY AFTER RECEIPT OF A WRITTEN REQUEST THEREFOR. UNDER CERTAIN CIRCUMSTANCES SET FORTH IN THE RIGHTS AGREEMENT, RIGHTS ISSUED TO, OR HELD BY, ANY PERSON WHO IS, WAS OR BECOMES AN ACQUIRING PERSON OR ANY AFFILIATE OR ASSOCIATE THEREOF (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT), WHETHER CURRENTLY HELD BY OR ON BEHALF OF SUCH PERSON OR BY AN SUBSEQUENT HOLDER, MAY BECOME NULL AND VOID.

KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN, OR DESTROYED, THE CORPORATION WILL REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	-as tenants in common	UNIF GIFT	
TEN ENT	-as tenants by the entireties	MIN ACT-	Custodian _____
JT TEN	-as joint tenants with right of survivorship and not as tenants in common		(Cust) _____ (Minor) _____
			under Uniform Gifts to Minors Act _____
			(State)

Additional abbreviations may also be used though not in the above list.

For value received, \_\_\_\_\_ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

Additional abbreviations may also be used though not in the above list.

For value received, \_\_\_\_\_ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

\_\_\_\_\_ shares of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

\_\_\_\_\_ Attorney to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated \_\_\_\_\_

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.

SIGNATURES (S) GUARANTEED: THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.





FORM OF RIGHTS AGREEMENT

BETWEEN

NEWCASTLE INVESTMENT CORP.

AND

AMERICAN STOCK TRANSFER & TRUST COMPANY,

AS RIGHTS AGENT

DATED AS OF JUNE \_\_, 2002

TABLE OF CONTENTS

Section 1.	Certain Definitions.....	1
Section 2.	Appointment of Rights Agent.....	8
Section 3.	Issuance of Rights Certificates.....	8
Section 4.	Form of Rights Certificates.....	10
Section 5.	Countersignature and Registration .....	11
Section 6.	Transfer, Split-Up, Combination and Exchange of Rights Certificates; Mutilated, Destroyed, Lost or Stolen Rights Certificates.....	12
Section 7.	Exercise of Rights; Purchase Price; Expiration Date of Rights.....	14
Section 8.	Cancellation and Destruction of Rights Certificates....	17
Section 9.	Reservation and Availability of Capital Stock.....	17
Section 10.	Preferred Stock Record Date.....	19
Section 11.	Adjustment of Purchase Price, Number and Kind of Shares or Number of Rights.....	20
Section 12.	Certificate of Adjusted Purchase Price or Number of Shares.....	32
Section 13.	Consolidation, Merger or Sale or Transfer of Assets Cash Flow or Earning Power.....	33
Section 14.	Fractional Rights and Fractional Shares.....	37
Section 15.	Rights of Action.....	38
Section 16.	Agreement of Rights Holders.....	39
Section 17.	Rights Certificate Holder Not Deemed a Stockholder.....	40
Section 18.	Concerning the Rights Agent.....	40
Section 19.	Merger or Consolidation or Change of Name of Rights Agent.....	41
Section 20.	Duties of Rights Agent.....	42
Section 21.	Change of Rights Agent.....	45
Section 22.	Issuance of New Rights Certificates.....	46
Section 23.	Redemption and Termination.....	47
Section 24.	Exchange.....	48

Section 25. Notice of Certain Events.....	50
Section 26. Notices.....	51
Section 27. Supplements and Amendments.....	52
Section 28. Successors.....	52
Section 29. Determinations and Actions by the Board of Directors, etc.....	53
Section 30. Benefits of this Agreement.....	53
Section 31. Severability.....	53
Section 32. Governing Law.....	54
Section 33. Counterparts.....	54
Section 34. Descriptive Headings.....	54

EXHIBITS

- Exhibit A -- Form of Articles Supplementary of  
Series A Junior Participating Preferred Stock
- Exhibit B -- Form of Rights Certificates
- Exhibit C -- Form of Summary of Rights

ii  
RIGHTS AGREEMENT

RIGHTS AGREEMENT, dated as of June \_\_, 2002 (the "Agreement"), between Newcastle Investment Corp., a Maryland corporation (the "Company"), and American Stock Transfer & Trust Company, a New York corporation (the "Rights Agent").

W I T N E S S E T H

WHEREAS, on June \_\_, 2002 (the "Rights Dividend Declaration Date"), the Board of Directors of the Company authorized and declared a dividend distribution of one Right (as hereinafter defined) for each share of common stock, par value \$.01 per share, of the Company (the "Common Stock") outstanding at the close of business on June \_\_, 2002(1) (the "Record Date"), and has authorized the issuance of one Right (as such number may hereinafter be adjusted pursuant to the provisions of Section 11(p) hereof) for each share of Common Stock of the Company issued between the Record Date (whether originally issued or delivered from the Company's treasury) and the Distribution Date (as hereinafter defined) each Right initially representing the right to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock of the Company (the "Preferred Stock") having the rights, powers and preferences set forth in the form of Articles Supplementary of Series A Junior Participating Preferred Stock attached hereto as Exhibit A, upon the terms and subject to the conditions hereinafter set forth (the "Rights");

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Certain Definitions. For purposes of this Agreement, the following terms have the meanings indicated:

(a) "Acquiring Person" shall mean any Person who or which, together with all Affiliates and Associates of such Person, shall be, at any time after

- -----  
(1) Offering Closing Date.  
the Record Date, the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding, but shall not include (i) the Company, (ii) any Subsidiary of the Company, (iii) any employee benefit plan of the Company, or of any Subsidiary of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan, or (iv) any Person who becomes the Beneficial Owner of fifteen percent (15%) or more of the shares of Common Stock then outstanding as a result of a reduction in the number of shares of Common Stock outstanding due to the repurchase of shares of Common Stock by the Company unless and until such Person, after becoming aware that such Person has become the Beneficial Owner of fifteen percent (15%) or more of the then outstanding shares of Common Stock, acquires beneficial ownership of additional shares of Common Stock representing one percent (1%) or more of the shares of Common Stock then outstanding, (v) any such Person who has reported or is required to report such ownership (but less than 20%) on Schedule 13G under the Securities and Exchange Act of 1934, as amended and in effect on the date of the Agreement (the "Exchange Act") (or any comparable or successor report) or on Schedule 13D under the Exchange Act (or

any comparable or successor report) which Schedule 13D does not state any intention to or reserve the right to control or influence the management or policies of the Company or engage in any of the actions specified in Item 4 of such schedule (other than the disposition of the Common Stock) and, within 10 Business Days of being requested by the Company to advise it regarding the same, certifies to the Company that such Person acquired shares of Common Stock in excess of 14.9% inadvertently or without knowledge of the terms of the Rights and who, together with all Affiliates and Associates, thereafter does not acquire additional shares of Common Stock while the Beneficial Owner of 15% or more of the shares of Common Stock then outstanding; provided, however, that if the Person requested to so certify fails to do so within 10 Business Days, then such Person shall become an Acquiring Person immediately after such 10-Business-Day period, or (vi) any of the Exempt Persons.

(b) "Act" shall mean the Securities Act of 1933.

2

(c) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Exchange Act.

(d) A Person shall be deemed the "Beneficial Owner" of, and shall be deemed to "beneficially own," any securities:

(i) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," (A) securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange, (B) securities issuable upon exercise of Rights at any time prior to the occurrence of a Triggering Event (as hereinafter defined), or (C) securities issuable upon exercise of Rights from and after the occurrence of a Triggering Event which Rights were acquired by such Person or any of such Person's Affiliates or Associates prior to the Distribution Date (as hereinafter defined) or pursuant to Section 3(a) or Section 22 hereof (the "Original Rights") or pursuant to Section 11(i) hereof in connection with an adjustment made with respect to any Original Rights;

(ii) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act), including pursuant to any agree-

3

ment, arrangement or understanding, whether or not in writing; provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own," any security under this subparagraph (ii) as a result of an agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding: (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act, and (B) is not reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) which are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person's Affiliates or Associates) has any agreement, arrangement or understanding (whether or not in writing), for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to subparagraph (ii) of this paragraph (d)) or disposing of any voting securities of the Company; provided, however, that nothing in this paragraph (d) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of, or to "beneficially own," any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition, and then only if such securities continue to be owned by such Person at such expiration of forty days and provided further, however, that any stockholder of the Company, with affiliate(s), associate(s) or other person(s) who may be deemed representatives of it serving as director(s) of the Company, shall not be deemed to beneficially own securities held by other Persons as a result of (i) persons affiliated or otherwise associated with such stock holder serving as directors or taking any action in connection

therewith, (ii) discussing the status of its shares with the Company or other stockholders of the Company similarly situated or (iii) voting or acting in a manner similar to other stockholders similarly situated, absent a specific finding by the Board of Directors of an express agreement among such stockholders to act in concert with one another as stockholders so as to cause, in the good faith judgment of the Board of Directors, each such stockholder to be the Beneficial Owner of the shares held by the other stockholder(s).

(e) "Business Day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

(f) "Close of business" on any given date shall mean 5:00 P.M., New York City time, on such date; provided, however, that if such date is not a Business Day, it shall mean 5:00 P.M., New York City time, on the next succeeding Business Day.

(g) "Common Stock" shall mean the common stock, par value \$.01 per share, of the Company, except that "Common Stock" when used with reference to any Person other than the Company shall mean the capital stock of such Person with the greatest voting power, or the equity securities or other equity interest having power to control or direct the management, of such Person.

(h) "Common Stock Equivalents" shall have the meaning set forth in Section 11(a)(iii) hereof.

(i) "Current Market Price" shall have the meaning set forth in Section 11(d)(i) hereof.

(j) "Current Value" shall have the meaning set forth in Section 11(a)(iii) hereof.

(k) "Distribution Date" shall have the meaning set forth in Section 3(a) hereof.

(l) "Equivalent Preferred Stock" shall have the meaning set forth in Section 11(b) hereof.

(m) "Exchange Act" shall mean the Securities and Exchange Act of 1934.

(n) "Exchange Ratio" shall have the meaning set forth in Section 24 hereof.

(o) "Exempt Persons", shall mean Newcastle Investment Holdings Corp., Fortress Investment Group LLC, Fortress Principal Investment Holdings LLC and Fortress Principal Investment Group LLC, each a Delaware limited liability company, or any of the holders of the equity interests of such entities, including but not limited to Wesley R. Edens, Robert I. Kauffman, Randal A. Nardone and Erik P. Nygaard (including any person who shall receive interests from any of them pursuant to the laws of descent and distribution).

(p) "Expiration Date" shall have the meaning set forth in Section 7(a) hereof.

(q) "Final Expiration Date" shall have the meaning set forth in Section 7(a) hereof.

(r) "Person" shall mean any individual, firm, corporation, partnership or other entity.

(s) "Preferred Stock" shall mean shares of Series A Junior Participating Preferred Stock, par value \$.01 per share, of the Company, and, to the extent that there are not a sufficient number of shares of Series A Junior Participating Preferred Stock authorized to permit the full exercise of the Rights, any other series of preferred stock of the Company designated for such purpose containing terms substantially similar to the terms of the Series A Junior Participating Preferred Stock.

(t) "Principal Party" shall have the meaning set forth in Section 13(b) hereof.

(u) "Purchase Price" shall have the meaning set forth in Section 4(a)(ii) hereof.

(v) "Qualified Offer" shall have the meaning set forth in Section 11(a)(ii) hereof.

(w) "Record Date" shall have the meaning set forth in the WHEREAS clause at the beginning of this Agreement.

(x) "Rights" shall have the meaning set forth in the WHEREAS clause at the beginning of this Agreement.

(y) "Rights Agent" shall have the meaning set forth in the parties clause at the beginning of this Agreement.

(z) "Rights Certificate" shall have the meaning set forth in Section 3(a) hereof.

(aa) "Rights Dividend Declaration Date" shall have the meaning set forth in the WHEREAS clause at the beginning of this Agreement.

(bb) "Section 11(a) (ii) Event" shall mean any event described in Section 11(a) (ii) hereof.

(cc) "Section 13 Event" shall mean any event described in clauses (x), (y) or (z) of Section 13(a) hereof.

((dd)) "Spread" shall have the meaning set forth in Section 11(a) (iii) hereof.

((ee)) "Stock Acquisition Date" shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed or amended pursuant to Section 13(d) under the Exchange Act) by the Company or an Acquiring Person that an Acquiring Person has become such other than pursuant to a Qualified Offer.

((ff)) "Subsidiary" shall mean, with reference to any Person, any corporation of which an amount of voting securities sufficient to elect at least a majority of the directors of such corporation is beneficially owned, directly or indirectly, by such Person, or otherwise controlled by such Person.

7

((gg)) "Substitution Period" shall have the meaning set forth in Section 11(a) (iii) hereof.

(hh) "Summary of Rights" shall have the meaning set forth in Section 3(b) hereof.

(ii) "Trading Day" shall have the meaning set forth in Section 11(d) (i) hereof.

(jj) "Triggering Event" shall mean any Section 11(a) (ii) Event or any Section 13 Event.

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company and the holders of the Rights (who, in accordance with Section 3 hereof, shall prior to the Distribution Date also be the holders of the Common Stock) in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such co-rights agents as it may deem necessary or desirable.

### Section 3. Issuance of Rights Certificates.

(a) Until the earlier of (i) the close of business on the tenth Business Day after the Stock Acquisition Date, or (ii) the close of business on the tenth Business Day (or such later date as the Board shall determine) after the date that a tender or exchange offer by any Person is first published or sent or given within the meaning of Rule 14d-2(a) of the General Rules and Regulations under the Exchange Act, if upon consummation thereof, such Person would become an Acquiring Person, in either instance other than pursuant to a Qualified Offer (the earlier of (i) and (ii) being herein referred to as the "Distribution Date"), (x) the Rights will be evidenced (subject to the provisions of paragraph (b) of this Section 3) by the certificates for the Common Stock registered in the names of the holders of the Common Stock (which certificates for Common Stock shall be deemed also to be certificates for Rights) and not by separate certificates, and (y) the Rights will be transferable only in connection with the transfer of the underlying shares of Common Stock (including a transfer to the Company). As soon as practicable after the Dis-

8

tribution Date, the Rights Agent will send by first-class, insured, postage-prepaid mail, to each record holder of the Common Stock as of the close of business on the Distribution Date, at the address of such holder shown on the records of the Company, one or more right certificates, in substantially the form of Exhibit B hereto (the "Rights Certificates"), evidencing one Right for each share of Common Stock so held, subject to adjustment as provided herein. In the event that an adjustment in the number of Rights per share of Common Stock

has been made pursuant to Section 11(p) hereof, at the time of distribution of the Rights Certificates, the Company shall make the necessary and appropriate rounding adjustments (in accordance with Section 14(a) hereof) so that Rights Certificates representing only whole numbers of Rights are distributed and cash is paid in lieu of any fractional Rights. As of and after the Distribution Date, the Rights will be evidenced solely by such Rights Certificates.

(b) The Company will make available, as promptly as practicable following the Record Date, a copy of a Summary of Rights, in substantially the form attached hereto as Exhibit C (the "Summary of Rights") to any holder Rights who may so request from time to time prior to the Expiration Date. With respect to certificates for the Common Stock outstanding as of the Record Date, or issued subsequent to the Record Date, unless and until the Distribution Date shall occur, the Rights will be evidenced by such certificates for the Common Stock and the registered holders of the Common Stock shall also be the registered holders of the associated Rights. Until the earlier of the Distribution Date or the Expiration Date (as such term is defined in Section 7(a) hereof), the transfer of any certificates representing shares of Common Stock in respect of which Rights have been issued shall also constitute the transfer of the Rights associated with such shares of Common Stock.

(c) Rights shall be issued in respect of all shares of Common Stock which are issued (whether originally issued or from the Company's treasury) after the Record Date but prior to the earlier of the Distribution Date or the Expiration Date. Certificates representing such shares of Common Stock shall also be deemed to be certificates for Rights, and shall bear the follow-

9

ing legend if such certificates are issued after the Record Date but prior to the earlier of the Distribution Date or the Expiration Date:

This certificate also evidences and entitles the holder hereof to certain Rights as set forth in the Rights Agreement between Newcastle Investment Corp. (the "Company") and the Rights Agent thereunder (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal offices of the Company. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. The Company or the Rights Agent will mail to the holder of this certificate a copy of the Rights Agreement, as in effect on the date of mailing, without charge, promptly after receipt of a written request therefor. Under certain circumstances set forth in the Rights Agreement, Rights issued to, or held by, any Person who is, was or becomes an Acquiring Person or any Affiliate or Associate thereof (as such terms are defined in the Rights Agreement), whether currently held by or on behalf of such Person or by any subsequent holder, may become null and void.

With respect to such certificates containing the foregoing legend, until the earlier of (i) the Distribution Date or (ii) the Expiration Date, the Rights associated with the Common Stock represented by such certificates shall be evidenced by such certificates alone and registered holders of Common Stock shall also be the registered holders of the associated Rights, and the transfer of any of such certificates shall also constitute the transfer of the Rights associated with the Common Stock represented by such certificates.

#### Section 4. Form of Rights Certificates.

(a) The Rights Certificates (and the forms of election to purchase and of assignment to be printed on the reverse thereof) shall each be substan-

10

tially in the form set forth in Exhibit B hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the Rights may from time to time be listed, or to conform to usage. Subject to the provisions of Section 11 and Section 22 hereof, the Rights Certificates, whenever distributed, shall be dated as of the Record Date and on their face shall entitle the holders thereof to purchase such number of one one-hundredths of a share of Preferred Stock as shall be set forth therein at the price set forth therein (such exercise price per one one-hundredth of a share, the "Purchase Price"), but the amount and type of securities purchasable upon the exercise of each Right and the Purchase Price thereof shall be subject to adjustment as provided herein.

(b) Any Rights Certificate issued pursuant to Section 3(a), Section 11(i) or Section 22 hereof that represents Rights beneficially owned by: (i) an Acquiring Person or any Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate)

who becomes a transferee after the Acquiring Person becomes such, or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom such Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which the Board of Directors of the Company has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect avoidance of Section 7(e) hereof, and any Rights Certificate issued pursuant to Section 6 or Section 11 hereof upon transfer, exchange, replacement or adjustment of any other Rights Certificate referred to in this sentence, shall contain (to the extent feasible) the following legend:

11

The Rights represented by this Rights Certificate are or were beneficially owned by a Person who was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person (as such terms are defined in the Rights Agreement). Accordingly, this Rights Certificate and the Rights represented hereby may become null and void in the circumstances specified in Section 7(e) of the Rights Agreement.

#### Section 5. Countersignature and Registration.

(a) The Rights Certificates shall be executed on behalf of the Company by its Chairman of the Board, its President or any Vice President, either manually or by facsimile signature, and shall have affixed thereto the Company's seal or a facsimile thereof which shall be attested by the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. The Rights Certificates shall be countersigned by the Rights Agent, either manually or by facsimile signature and shall not be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed any of the Rights Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Rights Certificates, nevertheless, may be countersigned by the Rights Agent and issued and delivered by the Company with the same force and effect as though the person who signed such Rights Certificates had not ceased to be such officer of the Company; and any Rights Certificates may be signed on behalf of the Company by any person who, at the actual date of the execution of such Rights Certificate, shall be a proper officer of the Company to sign such Rights Certificate, although at the date of the execution of this Rights Agreement any such person was not such an officer.

(b) Following the Distribution Date, the Rights Agent will keep, or cause to be kept, at its principal office or offices designated as the appropriate place for surrender of Rights Certificates upon exercise or transfer, books for registration and transfer of the Rights Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of

12

the Rights Certificates, the number of Rights evidenced on its face by each of the Rights Certificates and the date of each of the Rights Certificates.

#### Section 6. Transfer, Split-Up, Combination and Exchange of Rights Certificates; Mutilated, Destroyed, Lost or Stolen Rights Certificates.

(a) Subject to the provisions of Section 4(b), Section 7(e) and Section 14 hereof, at any time after the close of business on the Distribution Date, and at or prior to the close of business on the Expiration Date, any Rights Certificate or Certificates (other than Rights Certificates representing Rights that may have been exchanged pursuant to Section 24 hereof) may be transferred, split up, combined or exchanged for another Rights Certificate or Certificates, entitling the registered holder to purchase a like number of one one-hundredths of a share of Preferred Stock (or, following a Triggering Event, Common Stock, other securities, cash or other assets, as the case may be) as the Rights Certificate or Certificates surrendered then entitles such holder (or former holder in the case of a transfer) to purchase. Any registered holder desiring to transfer, split up, combine or exchange any Rights Certificate or Certificates shall make such request in writing delivered to the Rights Agent, and shall surrender the Rights Certificate or Certificates to be transferred, split up, combined or exchanged at the principal office or offices of the Rights Agent designated for such purpose. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Rights Certificate until the registered holder shall have completed and signed the certificate contained in the form of assignment on the reverse side of such Rights Certificate and shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request. Thereupon the Rights Agent shall, subject to Section 4(b), Section 7(e), Section 14 hereof and Section 24 hereof, countersign and deliver to the Person entitled thereto a Rights Certificate or Rights Certificates, as the case may be, as so requested. The Company may require payment of a sum sufficient to cover any tax

or governmental charge that may be imposed in connection

13

with any transfer, split up, combination or exchange of Rights Certificates.

(b) Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Rights Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Rights Certificate if mutilated, the Company will execute and deliver a new Rights Certificate of like tenor to the Rights Agent for countersignature and delivery to the registered owner in lieu of the Rights Certificate so lost, stolen, destroyed or mutilated.

Section 7. Exercise of Rights; Purchase Price; Expiration Date of Rights.

(a) Subject to Section 7(e) hereof, at any time after the Distribution Date the registered holder of any Rights Certificate may exercise the Rights evidenced thereby (except as otherwise provided herein including, without limitation, the restrictions on exercisability set forth in Section 9(c), Section 11(a)(iii) and Section 23(a) hereof) in whole or in part upon surrender of the Rights Certificate, with the form of election to purchase and the certificate on the reverse side thereof duly executed, to the Rights Agent at the principal office or offices of the Rights Agent designated for such purpose, together with payment of the aggregate Purchase Price with respect to the total number of one one-hundredths of a share (or other securities, cash or other assets, as the case may be) as to which such surrendered Rights are then exercisable, at or prior to the earlier of (i) 5:00 P.M., New York City time, on June \_\_, 2012, or such later date as may be established by the Board of Directors prior to the expiration of the Rights (such date, as it may be extended by the Board, the "Final Expiration Date"), or (ii) the time at which the Rights are redeemed or exchanged as provided in Section 23 and Section 24 hereof (the earlier of (i) and (ii) being herein referred to as the "Expiration Date").

14

(b) The Purchase Price for each one one-hundredth of a share of Preferred Stock pursuant to the exercise of a Right shall initially be \$70, and shall be subject to adjustment from time to time as provided in Section 11 and Section 13(a) hereof and shall be payable in accordance with paragraph (c) below.

(c) Upon receipt of a Rights Certificate representing exercisable Rights, with the form of election to purchase and the certificate duly executed, accompanied by payment, with respect to each Right so exercised, of the Purchase Price per one one-hundredth of a share of Preferred Stock (or other shares, securities, cash or other assets, as the case may be) to be purchased as set forth below and an amount equal to any applicable transfer tax, the Rights Agent shall, subject to Section 20(k) hereof, thereupon promptly (i) (A) requisition from any transfer agent of the shares of Preferred Stock (or make available, if the Rights Agent is the transfer agent for such shares) certificates for the total number of one one-hundredths of a share of Preferred Stock to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests, or (B) if the Company shall have elected to deposit the total number of shares of Preferred Stock issuable upon exercise of the Rights hereunder with a depository agent, requisition from the depository agent depository receipts representing such number of one one-hundredths of a share of Preferred Stock as are to be purchased (in which case certificates for the shares of Preferred Stock represented by such receipts shall be deposited by the transfer agent with the depository agent) and the Company will direct the depository agent to comply with such request, (ii) requisition from the Company the amount of cash, if any, to be paid in lieu of fractional shares in accordance with Section 14 hereof, (iii) after receipt of such certificates or depository receipts, cause the same to be delivered to or, upon the order of the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder, and (iv) after receipt thereof, deliver such cash, if any, to or upon the order of the registered holder of such Rights Certificate. The payment of the Purchase Price (as such amount may be reduced pursuant to Section 11(a)(iii) hereof) shall be made in cash or by certified bank check or bank draft payable to the order of the Company. In the event

15

that the Company is obligated to issue other securities (including Common Stock) of the Company, pay cash and/or distribute other property pursuant to Section 11(a) hereof, the Company will make all arrangements necessary so that such other securities, cash and/or other property are available for distribution by the Rights Agent, if and when appropriate. The Company reserves the right to require prior to the occurrence of a Triggering Event that, upon any exercise of Rights, a number of Rights be exercised so that only whole shares of Preferred Stock would be issued.



((d)) In case the registered holder of any Rights Certificate shall exercise less than all the Rights evidenced thereby, a new Rights Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent and delivered to, or upon the order of, the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder, subject to the provisions of Section 14 hereof.

((e)) Notwithstanding anything in this Agreement to the contrary, from and after the first occurrence of a Section 11(a)(ii) Event, any Rights beneficially owned by (i) an Acquiring Person or an Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such, or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom the Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which the Board of Directors of the Company have determined is part of a plan, arrangement or understanding which has as a primary purpose or effect the avoidance of this Section 7(e), shall become null and void without any further action and no holder of such Rights shall have any rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise. The Company shall use

16

all reasonable efforts to insure that the provisions of this Section 7(e) and Section 4(b) hereof are complied with, but shall have no liability to any holder of Rights Certificates or any other Person as a result of its failure to make any determinations with respect to an Acquiring Person or its Affiliates, Associates or transferees hereunder.

((f)) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder upon the occurrence of any purported exercise as set forth in this Section 7 unless such registered holder shall have (i) completed and signed the certificate contained in the form of election to purchase set forth on the reverse side of the Rights Certificate surrendered for such exercise, and (ii) provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request.

Section 8. Cancellation and Destruction of Rights Certificates. All Rights Certificates surrendered for the purpose of exercise, transfer, split-up, combination or exchange shall, if surrendered to the Company or any of its agents, be delivered to the Rights Agent for cancellation or in cancelled form, or, if surrendered to the Rights Agent, shall be cancelled by it, and no Rights Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Rights Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all cancelled Rights Certificates to the Company, or shall, at the written request of the Company, destroy such cancelled Rights Certificates, and in such case shall deliver a certificate of destruction thereof to the Company.

Section 9. Reservation and Availability of Capital Stock.

17

(a) The Company covenants and agrees that it will cause to be reserved and kept available out of its authorized and unissued shares of Preferred Stock (and, following the occurrence of a Triggering Event, out of its authorized and unissued shares of Common Stock and/or other securities or out of its authorized and issued shares held in its treasury), the number of shares of Preferred Stock (and, following the occurrence of a Triggering Event, Common Stock and/or other securities) that, as provided in this Agreement including Section 11(a)(iii) hereof, will be sufficient to permit the exercise in full of all outstanding Rights.

(b) So long as the shares of Preferred Stock (and, following the occurrence of a Triggering Event, Common Stock and/or other securities) issuable and deliverable upon the exercise of the Rights may be listed on any national securities exchange, the Company shall use its best efforts to cause, from and after such time as the Rights become exercisable, all shares reserved for such issuance to be listed on such exchange upon official notice of issuance upon such exercise.

(c) The Company shall use its best efforts to (i) file, as soon as practicable following the earliest date after the first occurrence of a Section 11(a)(ii) Event on which the consideration to be delivered by the Company upon exercise of the Rights has been determined in accordance with Section 11(a)(iii) hereof, a registration statement under the Act, with respect

to the securities purchasable upon exercise of the Rights on an appropriate form, (ii) cause such registration statement to become effective as soon as practicable after such filing, and (iii) cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Act) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities, and (B) the date of the expiration of the Rights. The Company will also take such action as may be appropriate under, or to ensure compliance with, the securities or "blue sky" laws of the various states in connection with the exercisability of the Rights. The Company may temporarily suspend, for a period of time not to exceed ninety (90) days after the date set forth in clause (i) of the first sentence of this Section 9(c), the exercisability of the Rights in

18

order to prepare and file such registration statement and permit it to become effective. Upon any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension has been rescinded. In addition, if the Company shall determine that a registration statement is required following the Distribution Date, the Company may temporarily suspend the exercisability of the Rights until such time as a registration statement has been declared effective. Notwithstanding any provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction if the requisite qualification in such jurisdiction shall not have been obtained, the exercise thereof shall not be permitted under applicable law, or a registration statement shall not have been declared effective.

(d) The Company covenants and agrees that it will take all such action as may be necessary to ensure that all one one-hundredths of a share of Preferred Stock (and, following the occurrence of a Triggering Event, Common Stock and/or other securities) delivered upon exercise of Rights shall, at the time of delivery of the certificates for such shares (subject to payment of the Purchase Price), be duly and validly authorized and issued and fully paid and nonassessable.

(e) The Company further covenants and agrees that it will pay when due and payable any and all federal and state transfer taxes and charges which may be payable in respect of the issuance or delivery of the Rights Certificates and of any certificates for a number of one one-hundredths of a share of Preferred Stock (or Common Stock and/or other securities, as the case may be) upon the exercise of Rights. The Company shall not, however, be required to pay any transfer tax which may be payable in respect of any transfer or delivery of Rights Certificates to a Person other than, or the issuance or delivery of a number of one one-hundredths of a share of Preferred Stock (or Common Stock

19

and/or other securities, as the case may be) in respect of a name other than that of the registered holder of the Rights Certificates evidencing Rights surrendered for exercise or to issue or deliver any certificates for a number of one one-hundredths of a share of Preferred Stock (or Common Stock and/or other securities, as the case may be) in a name other than that of the registered holder upon the exercise of any Rights until such tax shall have been paid (any such tax being payable by the holder of such Rights Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such tax is due.

Section 10. Preferred Stock Record Date. Each person in whose name any certificate for a number of one one-hundredths of a share of Preferred Stock (or Common Stock and/or other securities, as the case may be) is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of such fractional shares of Preferred Stock (or Common Stock and/or other securities, as the case may be) represented thereby on, and such certificate shall be dated, the date upon which the Rights Certificate evidencing such Rights was duly surrendered and payment of the Purchase Price (and all applicable transfer taxes) was made; provided, however, that if the date of such surrender and payment is a date upon which the Preferred Stock (or Common Stock and/or other securities, as the case may be) transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares (fractional or otherwise) on, and such certificate shall be dated, the next succeeding Business Day on which the Preferred Stock (or Common Stock and/or other securities, as the case may be) transfer books of the Company are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Rights Certificate shall not be entitled to any rights of a stockholder of the Company with respect to shares for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. Adjustment of Purchase Price, Number and Kind of Shares or Number of Rights. The Purchase Price, the number and kind of shares covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a) (i) In the event the Company shall at any time after the date of this Agreement (A) declare a dividend on the Preferred Stock payable in shares of Preferred Stock, (B) subdivide the outstanding Preferred Stock, (C) combine the outstanding Preferred Stock into a smaller number of shares, or (D) issue any shares of its capital stock in a reclassification of the Preferred Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), except as otherwise provided in this Section 11(a) and Section 7(e) hereof, the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification, and the number and kind of shares of Preferred Stock or capital stock, as the case may be, issuable on such date, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be entitled to receive, upon payment of the Purchase Price then in effect, the aggregate number and kind of shares of Preferred Stock or capital stock, as the case may be, which, if such Right had been exercised immediately prior to such date and at a time when the Preferred Stock transfer books of the Company were open, such holder would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification. If an event occurs which would require an adjustment under both this Section 11(a) (i) and Section 11(a) (ii) hereof, the adjustment provided for in this Section 11(a) (i) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a) (ii) hereof.

(ii) In the event: any Person shall, at any time after the Record Date, become an Acquiring Person, unless the event causing the Person to become an Acquiring Person is a transaction set forth in Section 13(a) hereof, or is an acquisition of shares of Com-

mon Stock pursuant to a tender offer or an exchange offer for all outstanding shares of Common Stock at a price and on terms determined by at least a majority of the members of the Board of Directors who are not officers of the Company and who are not representatives, nominees, Affiliates or Associates of an Acquiring Person after receiving advice from one or more investment banking firms, to be (a) at a price which is fair and not inadequate (taking into account all factors which such members of the Board deem relevant, including, without limitation, prices which could reasonably be achieved if the Company or its assets were sold on an orderly basis designed to realize maximum value) and (b) otherwise in the best interests of the Company and its stockholders (a "Qualified Offer"),

then, promptly following the occurrence of such event, proper provision shall be made so that each holder of a Right (except as provided below and in Section 7(e) hereof) shall thereafter have the right to receive, upon exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, in lieu of a number of one one-hundredths of a share of Preferred Stock, such number of shares of Common Stock of the Company as shall equal the result obtained by (x) multiplying the then current Purchase Price by the then number of one one-hundredths of a share of Preferred Stock for which a Right was exercisable immediately prior to the first occurrence of a Section 11(a) (ii) Event, and (y) dividing that product (which, following such first occurrence, shall thereafter be referred to as the "Purchase Price" for each Right and for all purposes of this Agreement) by 50% of the Current Market Price (determined pursuant to Section 11(d) hereof) per share of Common Stock on the date of such first occurrence (such number of shares, the "Adjustment Shares").

(iii) In the event that the number of shares of Common Stock which are authorized by the Company's Restated Articles of Incorporation, but which are not outstanding or reserved for issuance for purposes other than upon exercise of the Rights, are not

sufficient to permit the exercise in full of the Rights in accordance with the foregoing subparagraph (ii) of this Section 11(a), the Company shall (A) determine the value of the Adjustment Shares issuable upon the exercise of a Right (the "Current Value"), and (B) with respect to each Right (subject to Section 7(e) hereof), make adequate provision to substitute for the Adjustment Shares, upon the exercise of a Right and payment of the applicable Purchase Price, (1) cash, (2) a reduction in the Purchase Price, (3) Common Stock or other equity securities of the Company (including, without limitation, shares, or units of shares, of preferred stock, such as the Preferred Stock, which the Board has deemed to have essentially the same value or economic rights as shares of Common Stock (such shares of preferred stock being referred to as "Common Stock Equivalents")), (4) debt securities of the Company, (5) other assets, or (6) any combination of the foregoing, having an aggregate value equal to the Current Value (less the amount of any reduction in the Purchase Price), where such aggregate value has been determined by the Board based upon the advice of a nationally recognized investment banking firm selected by the Board; provided, however, that if the Company shall not

have made adequate provision to deliver value pursuant to clause (B) above within thirty (30) days following the later of (x) the first occurrence of a Section 11(a)(ii) Event and (y) the date on which the Company's right of redemption pursuant to Section 23(a) expires (the later of (x) and (y) being referred to herein as the "Section 11(a)(ii) Trigger Date"), then the Company shall be obligated to deliver, upon the surrender for exercise of a Right and without requiring payment of the Purchase Price, shares of Common Stock (to the extent available) and then, if necessary, cash, which shares and/or cash have an aggregate value equal to the Spread. For purposes of the preceding sentence, the term "Spread" shall mean the excess of (i) the Current Value over (ii) the Purchase Price. If

23

the Board determines in good faith that it is likely that sufficient additional shares of Common Stock could be authorized for issuance upon exercise in full of the Rights, the thirty (30) day period set forth above may be extended to the extent necessary, but not more than ninety (90) days after the Section 11(a)(ii) Trigger Date, in order that the Company may seek shareholder approval for the authorization of such additional shares (such thirty (30) day period, as it may be extended, is herein called the "Substitution Period"). To the extent that action is to be taken pursuant to the first and/or third sentences of this Section 11(a)(iii), the Company (1) shall provide, subject to Section 7(e) hereof, that such action shall apply uniformly to all outstanding Rights, and (2) may suspend the exercisability of the Rights until the expiration of the Substitution Period in order to seek such shareholder approval for such authorization of additional shares and/or to decide the appropriate form of distribution to be made pursuant to such first sentence and to determine the value thereof. In the event of any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. For purposes of this Section 11(a)(iii), the value of each Adjustment Share shall be the current market price per share of the Common Stock on the Section 11(a)(ii) Trigger Date and the per share or per unit value of any Common Stock Equivalent shall be deemed to equal the current market price per share of the Common Stock on such date.

(b) In case the Company shall fix a record date for the issuance of rights, options or warrants to all holders of Preferred Stock entitling them to subscribe for or purchase (for a period expiring within forty-five (45) calendar days after such record date) Preferred Stock (or shares having the same rights, privileges and preferences as the shares of Preferred Stock

24

("Equivalent Preferred Stock")) or securities convertible into Preferred Stock or Equivalent Preferred Stock at a price per share of Preferred Stock or per share of Equivalent Preferred Stock (or having a conversion price per share, if a security convertible into Preferred Stock or Equivalent Preferred Stock) less than the Current Market Price (as determined pursuant to Section 11(d) hereof) per share of Preferred Stock on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Preferred Stock outstanding on such record date, plus the number of shares of Preferred Stock which the aggregate offering price of the total number of shares of Preferred Stock and/or Equivalent Preferred Stock so to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such Current Market Price, and the denominator of which shall be the number of shares of Preferred Stock outstanding on such record date, plus the number of additional shares of Preferred Stock and/or Equivalent Preferred Stock to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible). In case such subscription price may be paid by delivery of consideration, part or all of which may be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of the Rights. Shares of Preferred Stock owned by or held for the account of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed, and in the event that such rights or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(c) In case the Company shall fix a record date for a distribution to all holders of Preferred Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing corporation), cash (other than

25

a regular quarterly cash dividend out of the earnings or retained earnings of the Company), assets (other than a dividend payable in Preferred Stock, but including any dividend payable in stock other than Preferred Stock) or evidences of indebtedness, or of subscription rights or warrants (excluding those

referred to in Section 11(b) hereof), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the Current Market Price (as determined pursuant to Section 11(d) hereof) per share of Preferred Stock on such record date, less the fair market value (as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent) of the portion of the cash, assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to a share of Preferred Stock, and the denominator of which shall be such Current Market Price (as determined pursuant to Section 11(d) hereof) per share of Preferred Stock. Such adjustments shall be made successively whenever such a record date is fixed, and in the event that such distribution is not so made, the Purchase Price shall be adjusted to be the Purchase Price which would have been in effect if such record date had not been fixed.

(d) (i) For the purpose of any computation hereunder, other than computations made pursuant to Section 11(a) (iii) hereof, the Current Market Price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices per share of such Common Stock for the thirty (30) consecutive Trading Days immediately prior to such date, and for purposes of computations made pursuant to Section 11(a) (iii) hereof, the Current Market Price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices per share of such Common Stock for the ten (10) consecutive Trading Days immediately following such date; provided, however, that in the event that the Current Market Price per share of the Common Stock is determined during a period following the announcement by the issuer of such Common Stock of (A) a dividend or distribution on such Common Stock payable in shares of such Common Stock or securities convertible into shares

26

of such Common Stock (other than the Rights), or (B) any subdivision, combination or reclassification of such Common Stock, and the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification shall not have occurred prior to the commencement of the requisite thirty (30) Trading Day or ten (10) Trading Day period, as set forth above, then, and in each such case, the Current Market Price shall be properly adjusted to take into account ex-dividend trading. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the shares of Common Stock are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if the shares of Common Stock are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers Automated Quotation System ("NASDAQ") or such other system then in use, or, if on any such date the shares of Common Stock are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Common Stock selected by the Board. If on any such date no market maker is making a market in the Common Stock, the fair value of such shares on such date as determined in good faith by the Board shall be used. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading is open for the transaction of business or, if the shares of Common Stock are not listed or admitted to trading on any national securities exchange, a Business Day. If the Common Stock is not publicly held or not so listed or traded, Current Market Price per share shall mean the fair value per share as determined in good faith by the Board, whose determination shall be described in a statement filed

27

with the Rights Agent and shall be conclusive for all purposes.

(ii) For the purpose of any computation hereunder, the Current Market Price per share of Preferred Stock shall be determined in the same manner as set forth above for the Common Stock in clause (i) of this Section 11(d) (other than the last sentence thereof). If the Current Market Price per share of Preferred Stock cannot be determined in the manner provided above or if the Preferred Stock is not publicly held or listed or traded in a manner described in clause (i) of this Section 11(d), the Current Market Price per share of Preferred Stock shall be conclusively deemed to be an amount equal to 100 (as such number may be appropriately adjusted for such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock occurring after the date of this Agreement) multiplied by the Current Market Price per share of the Common Stock. If neither the Common Stock nor the Preferred Stock is publicly held or so listed or traded, Current Market Price per share of the Preferred Stock shall mean the fair value per share as determined in good faith by the Board, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all

purposes. For all purposes of this Agreement, the Current Market Price of a Unit shall be equal to the Current Market Price of one share of Preferred Stock divided by 100.

(e) Anything herein to the contrary notwithstanding, no adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least one percent (1%) in the Purchase Price; provided, however, that any adjustments which by reason of this Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest ten-thousandth of a share of Common Stock or other share or one-millionth of a share of Preferred

28

Stock, as the case may be. Notwithstanding the first sentence of this Section 11(e), any adjustment required by this Section 11 shall be made no later than the earlier of (i) three (3) years from the date of the transaction which mandates such adjustment, or (ii) the Expiration Date.

(f) If as a result of an adjustment made pursuant to Section 11(a)(ii) or Section 13(a) hereof, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock other than Preferred Stock, thereafter the number of such other shares so receivable upon exercise of any Right and the Purchase Price thereof shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Preferred Stock contained in Sections 11(a), (b), (c), (e), (g), (h), (i), (j), (k) and (m), and the provisions of Sections 7, 9, 10, 13 and 14 hereof with respect to the Preferred Stock shall apply on like terms to any such other shares.

(g) All Rights originally issued by the Company subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of one one-hundredths of a share of Preferred Stock purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Company shall have exercised its election as provided in Section 11(i), upon each adjustment of the Purchase Price as a result of the calculations made in Sections 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of one one-hundredths of a share of Preferred Stock (calculated to the nearest one-millionth) obtained by (i) multiplying (x) the number of one one-hundredths of a share covered by a Right immediately prior to this adjustment, by (y) the Purchase Price in effect immediately prior to such adjustment of the Purchase Price, and (ii) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

29

(i) The Company may elect on or after the date of any adjustment of the Purchase Price to adjust the number of Rights, in lieu of any adjustment in the number of one one-hundredths of a share of Preferred Stock purchasable upon the exercise of a Right. Each of the Rights outstanding after the adjustment in the number of Rights shall be exercisable for the number of one one-hundredths of a share of Preferred Stock for which a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest one-ten-thousandth) obtained by dividing the Purchase Price in effect immediately prior to adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Purchase Price is adjusted or any day thereafter, but, if the Rights Certificates have been issued, shall be at least ten (10) days later than the date of the public announcement. If Rights Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i), the Company shall, as promptly as practicable, cause to be distributed to holders of record of Rights Certificates on such record date Rights Certificates evidencing, subject to Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Rights Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Rights Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Rights Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Company, the adjusted Purchase Price) and shall be registered in the names of the holders of record of Rights Certificates on the record date specified in the public announcement.

30

(j) Irrespective of any adjustment or change in the Purchase

Price or the number of one one-hundredths of a share of Preferred Stock issuable upon the exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the Purchase Price per one one-hundredth of a share and the number of one one-hundredth of a share which were expressed in the initial Rights Certificates issued hereunder.

(k) Before taking any action that would cause an adjustment reducing the Purchase Price below the then stated value, if any, of the number of one one-hundredths of a share of Preferred Stock issuable upon exercise of the Rights, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and nonassessable such number of one one-hundredths of a share of Preferred Stock at such adjusted Purchase Price.

(l) In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuance to the holder of any Right exercised after such record date the number of one one-hundredths of a share of Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise over and above the number of one one-hundredths of a share of Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise on the basis of the Purchase Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares (fractional or otherwise) or securities upon the occurrence of the event requiring such adjustment.

(m) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that in their good faith judgment the Board of Directors of the Company shall

31

determine to be advisable in order that any (i) consolidation or subdivision of the Preferred Stock, (ii) issuance wholly for cash of any shares of Preferred Stock at less than the Current Market Price, (iii) issuance wholly for cash of shares of Preferred Stock or securities which by their terms are convertible into or exchangeable for shares of Preferred Stock, (iv) stock dividends or (v) issuance of rights, options or warrants referred to in this Section 11, hereafter made by the Company to holders of its Preferred Stock shall not be taxable to such stockholders.

(n) The Company covenants and agrees that it shall not, at any time after the Distribution Date, (i) consolidate with any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), (ii) merge with or into any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), or (iii) sell or transfer (or permit any Subsidiary to sell or transfer), in one transaction, or a series of related transactions, assets, cash flow or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company and/or any of its Subsidiaries in one or more transactions each of which complies with Section 11(o) hereof), if (x) at the time of or immediately after such consolidation, merger or sale there are any rights, warrants or other instruments or securities outstanding or agreements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights or (y) prior to, simultaneously with or immediately after such consolidation, merger or sale, the shareholders of the Person who constitutes, or would constitute, the "Principal Party" for purposes of Section 13(a) hereof shall have received a distribution of Rights previously owned by such Person or any of its Affiliates and Associates.

(o) The Company covenants and agrees that, after the Distribution Date, it will not, except as permitted by Section 23 or Section 26 hereof, take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise

32

eliminate the benefits intended to be afforded by the Rights.

(p) Anything in this Agreement to the contrary notwithstanding, in the event that the Company shall at any time after the Rights Dividend Declaration Date and prior to the Distribution Date (i) declare a dividend on the outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, the number of Rights associated with each share of Common Stock then outstanding, or issued or delivered thereafter but prior to the Distribution Date, shall be proportionately adjusted so that the number of Rights thereafter associated with each share of Common Stock following any such event shall equal the result obtained by multiplying the number of Rights associated with each share of Common Stock immediately prior to such event by a fraction the numerator which

shall be the total number of shares of Common Stock outstanding immediately prior to the occurrence of the event and the denominator of which shall be the total number of shares of Common Stock outstanding immediately following the occurrence of such event.

Section 12. Certificate of Adjusted Purchase Price or Number of Shares. Whenever an adjustment is made as provided in Section 11 and Section 13 hereof, the Company shall (a) promptly prepare a certificate setting forth such adjustment and a brief statement of the facts accounting for such adjustment, (b) promptly file with the Rights Agent, and with each transfer agent for the Preferred Stock and the Common Stock, a copy of such certificate and (c) if a Distribution Date has occurred, mail a brief summary thereof to each holder of a Rights Certificate (or, if prior to the Distribution Date, to each holder of a Certificate representing shares of Common Stock) in accordance with Section 27 hereof. The

33

Rights Agent shall be fully protected in relying on any such certificate and on any adjustment therein contained.

Section 13. Consolidation, Merger or Sale or Transfer of Assets Cash Flow or Earning Power.

(a) In the event that, following the Stock Acquisition Date, directly or indirectly, (x) the Company shall consolidate with, or merge with and into, any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), and the Company shall not be the continuing or surviving corporation of such consolidation or merger, (y) any Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof) shall consolidate with, or merge with or into, the Company, and the Company shall be the continuing or surviving corporation of such consolidation or merger and, in connection with such consolidation or merger, all or part of the outstanding shares of Common Stock shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, or (z) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one transaction or a series of related transactions, assets, cash flow or earning power aggregating more than 50% of the assets, cash flow or earning power of the Company and its Subsidiaries (taken as a whole) to any Person or Persons (other than the Company or any Subsidiary of the Company in one or more transactions each of which complies with Section 11(o) hereof), then, and in each such case (except as may be contemplated by Section 13(d) hereof), proper provision shall be made so that: (i) each holder of a Right, except as provided in Section 7(e) hereof, shall thereafter have the right to receive, upon the exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, such number of validly authorized and issued, fully paid, non-assessable and freely tradeable shares of Common Stock of the Principal Party (as such term is hereinafter defined), not subject to any liens, encumbrances, rights of first refusal or other adverse claims, as shall be equal to the result obtained by (1) multiplying the then current Purchase Price by the number of one one-hundredths of a share of Preferred Stock for which a Right is exercisable immediately prior to the first

34

occurrence of a Section 13 Event (or, if a Section 11(a)(ii) Event has occurred prior to the first occurrence of a Section 13 Event, multiplying the number of such one one-hundredths of a share for which a Right was exercisable immediately prior to the first occurrence of a Section 11(a)(ii) Event by the Purchase Price in effect immediately prior to such first occurrence), and dividing that product (which, following the first occurrence of a Section 13 Event, shall be referred to as the "Purchase Price" for each Right and for all purposes of this Agreement) by (2) 50% of the Current Market Price (determined pursuant to Section 11(d)(i) hereof) per share of the Common Stock of such Principal Party on the date of consummation of such Section 13 Event; (ii) such Principal Party shall thereafter be liable for, and shall assume, by virtue of such Section 13 Event, all the obligations and duties of the Company pursuant to this Agreement; (iii) the term "Company" shall thereafter be deemed to refer to such Principal Party, it being specifically intended that the provisions of Section 11 hereof shall apply only to such Principal Party following the first occurrence of a Section 13 Event; (iv) such Principal Party shall take such steps (including, but not limited to, the reservation of a sufficient number of shares of its Common Stock) in connection with the consummation of any such transaction as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to its shares of Common Stock thereafter deliverable upon the exercise of the Rights; and (v) the provisions of Section 11(a)(ii) hereof shall be of no effect following the first occurrence of any Section 13 Event.

(b) "Principal Party" shall mean:

(i) in the case of any transaction described in clause (x) or (y) of the first sentence of Section 13(a), the Person that is the issuer of any securities into which shares of Common Stock of the Company are converted in such merger or consolidation, and if no securities are so issued, the Person that is the other party to such merger or



consolidation; and

35

(ii) in the case of any transaction described in clause (z) of the first sentence of Section 13(a), the Person that is the party receiving the greatest portion of the assets, cash flow or earning power transferred pursuant to such transaction or transactions;

provided, however, that in any such case, (1) if the Common Stock of such Person is not at such time and has not been continuously over the preceding twelve (12) month period registered under Section 12 of the Exchange Act, and such Person is a direct or indirect Subsidiary of another Person the Common Stock of which is and has been so registered, "Principal Party" shall refer to such other Person; and (2) in case such Person is a Subsidiary, directly or indirectly, of more than one Person, the Common Stocks of two or more of which are and have been so registered, "Principal Party" shall refer to whichever of such Persons is the issuer of the Common Stock having the greatest aggregate market value.

(c) The Company shall not consummate any such consolidation, merger, sale or transfer unless the Principal Party shall have a sufficient number of authorized shares of its Common Stock which have not been issued or reserved for issuance to permit the exercise in full of the Rights in accordance with this Section 13 and unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement providing for the terms set forth in paragraphs (a) and (b) of this Section 13 and further providing that, as soon as practicable after the date of any consolidation, merger or sale of assets mentioned in paragraph (a) of this Section 13, the Principal Party will

(i) prepare and file a registration statement under the Act, with respect to the Rights and the securities purchasable upon exercise of the Rights on an appropriate form, and will use its best efforts to cause such registration statement to (A) become effective as soon as practicable after such filing and (B) remain effective (with a prospectus at all times meeting the requirements of the Act) until the Expiration Date; and

36

(ii) take such all such other action as may be necessary to enable the Principal Party to issue the securities purchasable upon exercise of the Rights, including but not limited to the registration or qualification of such securities under all requisite securities laws of jurisdictions of the various states and the listing of such securities on such exchanges and trading markets as may be necessary or appropriate; and

(iii) will deliver to holders of the Rights historical financial statements for the Principal Party and each of its Affiliates which comply in all respects with the requirements for registration on Form 10 under the Exchange Act.

The provisions of this Section 13 shall similarly apply to successive mergers or consolidations or sales or other transfers. In the event that a Section 13 Event shall occur at any time after the occurrence of a Section 11(a)(ii) Event, the Rights which have not theretofore been exercised shall thereafter become exercisable in the manner described in Section 13(a).

(d) Notwithstanding anything in this Agreement to the contrary, Section 13 shall not be applicable to a transaction described in subparagraphs (x) and (y) of Section 13(a) if (i) such transaction is consummated with a Person or Persons who acquired shares of Common Stock pursuant to a tender offer or exchange offer for all outstanding shares of Common Stock which is a Qualified Offer as such term is defined in Section 11(a)(ii)(B) hereof (or a wholly owned subsidiary of any such Person or Persons), (ii) the price per share of Common Stock offered in such transaction is not less than the price per share of Common Stock paid to all holders of shares of Common Stock whose shares were purchased pursuant to such tender offer or exchange offer and (iii) the form of consideration being offered to the remaining holders of shares of Common Stock pursuant to such transaction is the same as the form of consideration paid pursuant to such tender offer or exchange offer. Upon

37

consummation of any such transaction contemplated by this Section 13(d), all Rights hereunder shall expire.

#### Section 14. Fractional Rights and Fractional Shares.

(a) The Company shall not be required to issue fractions of Rights, except prior to the Distribution Date as provided in Section 11(p) hereof, or to distribute Rights Certificates which evidence fractional Rights. In lieu of such fractional Rights, the Company shall pay to the registered holders of the Rights Certificates with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole Right. For purposes of this Section 14(a), the

current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable. The closing price of the Rights for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Rights are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Rights are listed or admitted to trading, or if the Rights are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by NASDAQ or such other system then in use or, if on any such date the Rights are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Rights, selected by the Board of Directors of the Company. If on any such date no such market maker is making a market in the Rights, the fair value of the Rights on such date as determined in good faith by the Board of Directors of the Company shall be used.

38

(b) The Company shall not be required to issue fractions of shares of Preferred Stock (other than fractions which are integral multiples of one one-hundredth of a share of Preferred Stock) upon exercise of the Rights or to distribute certificates which evidence fractional shares of Preferred Stock (other than fractions which are integral multiples of one one-hundredth of a share of Preferred Stock). In lieu of fractional shares of Preferred Stock that are not integral multiples of one one-hundredth of a share of Preferred Stock, the Company may pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one one-hundredth of a share of Preferred Stock. For purposes of this Section 14(b), the current market value of one one-hundredth of a share of Preferred Stock shall be one one-hundredth of the closing price of a share of Preferred Stock (as determined pursuant to Section 11(d)(ii) hereof) for the Trading Day immediately prior to the date of such exercise.

(c) Following the occurrence of a Triggering Event, the Company shall not be required to issue fractions of shares of Common Stock upon exercise of the Rights or to distribute certificates which evidence fractional shares of Common Stock. In lieu of fractional shares of Common Stock, the Company may pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one (1) share of Common Stock. For purposes of this Section 14(c), the current market value of one share of Common Stock shall be the closing price of one share of Common Stock (as determined pursuant to Section 11(d)(i) hereof) for the Trading Day immediately prior to the date of such exercise.

(d) The holder of a Right by the acceptance of the Rights expressly waives his right to receive any fractional Rights or any fractional shares upon exercise of a Right, except as permitted by this Section 14.

Section 15. Rights of Action. All rights of action in respect of this Agreement are vested in the

39

respective registered holders of the Rights Certificates (and, prior to the Distribution Date, the registered holders of the Common Stock); and any registered holder of any Rights Certificate (or, prior to the Distribution Date, of the Common Stock), without the consent of the Rights Agent or of the holder of any other Rights Certificate (or, prior to the Distribution Date, of the Common Stock), may, in his own behalf and for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his right to exercise the Rights evidenced by such Rights Certificate in the manner provided in such Rights Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and shall be entitled to specific performance of the obligations hereunder and injunctive relief against actual or threatened violations of the obligations hereunder of any Person subject to this Agreement.

Section 16. Agreement of Rights Holders. Every holder of a Right by accepting the same consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) prior to the Distribution Date, the Rights will be transferable only in connection with the transfer of Common Stock;

(b) after the Distribution Date, the Rights Certificates are transferable only on the registry books of the Rights Agent if surrendered at

the principal office or offices of the Rights Agent designated for such purposes, duly endorsed or accompanied by a proper instrument of transfer and with the appropriate forms and certificates fully executed;

(c) subject to Section 6(a) and Section 7(f) hereof, the Company and the Rights Agent may deem and treat the person in whose name a Rights Certificate (or, prior to the Distribution Date, the associated Common Stock certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the

40

Rights Certificates or the associated Common Stock certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent, subject to the last sentence of Section 7(e) hereof, shall be required to be affected by any notice to the contrary; and

(d) notwithstanding anything in this Agreement to the contrary, neither the Company nor the Rights Agent shall have any liability to any holder of a Right or other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation; provided, however, the Company must use its best efforts to have any such order, decree or ruling lifted or otherwise overturned as soon as possible.

Section 17. Rights Certificate Holder Not Deemed a Stockholder. No holder, as such, of any Rights Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the number of one one-hundredths of a share of Preferred Stock or any other securities of the Company which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Rights Certificate be construed to confer upon the holder of any Rights Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in Section 25 hereof), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Rights Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent.

41

(a) The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and disbursements and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability in the premises.

(b) The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement in reliance upon any Rights Certificate or certificate for Common Stock or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons.

Section 19. Merger or Consolidation or Change of Name of Rights Agent.

(a) Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any corporation succeeding to the corporate trust or stock transfer powers or performance of the shareholder services business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto; but only if such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 21 hereof. In case at

42

the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Rights Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of a predecessor Rights Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, any successor Rights Agent may countersign such Rights Certificates either in the name of the predecessor or in the name of the successor Rights Agent; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

(b) In case at any time the name of the Rights Agent shall be changed and at such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

(a) The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter (including, without limitation, the identity of any Acquiring Person and the determination of Current Market Price)

43

be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by the Chairman of the Board, the President, any Vice President, the Treasurer, any Assistant Treasurer, the Secretary or any Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable here under only for its own negligence, bad faith or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Rights Certificates or be required to verify the same (except as to its countersignature on such Rights Certificates), but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Rights Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Rights Certificate; nor shall it be responsible for any adjustment required under the provisions of Section 11, Section 13 or Section 24 hereof or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights evidenced by Rights Certificates after actual notice of any such adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Common Stock or Preferred Stock to be issued pursuant to this Agreement or any Rights Certificate or as to whether any shares of Common Stock or Preferred

44

Stock will, when so issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from the Chairman of the Board, the President, any Vice President, the Secretary, any

Assistant Secretary, the Treasurer or any Assistant Treasurer of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered to be taken by it in good faith in accordance with instructions of any such officer.

(h) The Rights Agent and any stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct; provided, however, reasonable care was exercised in the selection and continued employment thereof.

(j) No provision of this Agreement shall require the Rights Agent to expend or risk its own funds

45

or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights if there shall be reasonable grounds for believing that repayment of such funds or adequate indemnification against such risk or liability is not reasonably assured to it.

(k) If, with respect to any Rights Certificate surrendered to the Rights Agent for exercise or transfer, the certificate attached to the form of assignment or form of election to purchase, as the case may be, has either not been completed or indicates an affirmative response to clause 1 and/or 2 thereof, the Rights Agent shall not take any further action with respect to such requested exercise or transfer without first consulting with the Company.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon thirty (30) days' notice in writing mailed to the Company, and to each transfer agent of the Common Stock and Preferred Stock, by registered or certified mail, and, if such resignation occurs after the Distribution Date, to the registered holders of the Rights Certificates by first-class mail. The Company may remove the Rights Agent or any successor Rights Agent upon thirty (30) days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Stock and Preferred Stock, by registered or certified mail, and, if such removal occurs after the Distribution Date, to the holders of the Rights Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Rights Certificate (who shall, with such notice, submit his Rights Certificate for inspection by the Company), then any registered holder of any Rights Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company

46

or by such a court, shall be (a) a legal business entity organized and doing business under the laws of the United States or one of the United States, in good standing, having a principal office in the State of New York, which is authorized under such laws to exercise corporate trust or stock transfer powers or perform shareholder services and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$10,000,000 or (b) an affiliate of a legal business entity described in clause (a) of this sentence. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Stock and the Preferred Stock, and, if such appointment occurs after the Distribution Date, mail a notice thereof in writing to the registered holders of the Rights Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. Issuance of New Rights Certificates. Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the

Company may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by the Board of Directors to reflect any adjustment or change in the Purchase Price and the number or kind or class of shares or other securities or property purchasable under the Rights Certificates made in accordance with the provisions of this Agreement. In addition, in connection with the issuance or sale of shares of Common Stock following the Distribution Date and prior to the redemption or expiration of the Rights, the Company (a) shall, with respect to shares of Common Stock so issued or sold

47

pursuant to the exercise of stock options or under any employee plan or arrangement, granted or awarded as of the Distribution Date, or upon the exercise, conversion or exchange of securities hereinafter issued by the Company, and (b) may, in any other case, if deemed necessary or appropriate by the Board of Directors of the Company, issue Rights Certificates representing the appropriate number of Rights in connection with such issuance or sale; provided, however, that (i) no such Rights Certificate shall be issued if, and to the extent that, the Company shall be advised by counsel that such issuance would create a significant risk of material adverse tax consequences to the Company or the Person to whom such Rights Certificate would be issued, and (ii) no such Rights Certificate shall be issued if, and to the extent that, appropriate adjustment shall otherwise have been made in lieu of the issuance thereof.

#### Section 23. Redemption and Termination.

(a) The Board of Directors of the Company may, at its option, at any time prior to the earlier of (i) the close of business on the tenth Business Day following the Stock Acquisition Date (or, if the Stock Acquisition Date shall have occurred prior to the Record Date, the close of business on the tenth Business Day following the Record Date), or (ii) the Final Expiration Date, redeem all but not less than all of the then outstanding Rights at a redemption price of \$.01 per Right, as such amount may be appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such redemption price being hereinafter referred to as the "Redemption Price"). Notwithstanding anything contained in this Agreement to the contrary, the Rights shall not be exercisable after the first occurrence of a Section 11(a)(ii) Event until such time as the Company's right of redemption hereunder has expired. The Company may, at its option, pay the Redemption Price in cash, shares of Common Stock (based on the Current Market Price, as defined in Section 11(d)(i) hereof, of the Common Stock at the time of redemption) or any other form of consideration deemed appropriate by the Board of Directors.

(b) Immediately upon the action of the Board of Directors of the Company ordering the redemption

48

of the Rights, evidence of which shall have been filed with the Rights Agent and without any further action and without any notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price for each Right so held. Promptly after the action of the Board of Directors ordering the redemption of the Rights, the Company shall give notice of such redemption to the Rights Agent and the holders of the then outstanding Rights by mailing such notice to all such holders at each holder's last address as it appears upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the transfer agent for the Common Stock. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made.

#### Section 24. Exchange.

(a) The Board of Directors of the Company may, at its option, at any time after any Person becomes an Acquiring Person, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become void pursuant to the provisions of Section 7(e) hereof) for Common Stock at an exchange ratio of one share of Common Stock per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such exchange ratio being hereinafter referred to as the "Exchange Ratio"). Notwithstanding the foregoing, the Board of Directors of the Company shall not be empowered to effect such exchange at any time after any Person (other than the Company, any Subsidiary of the Company, any employee benefit plan of the Company or any such Subsidiary, or any entity holding Common Stock for or pursuant to the terms of any such plan), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of 50% or more of the Common Stock then outstanding.

(b) Immediately upon the action of the Board of Directors of the Company ordering the exchange of any Rights pursuant to subsection (a) of this Section 24 and without any further action and without any notice,

49

the right to exercise such Rights shall terminate and the only right thereafter

of a holder of such Rights shall be to receive that number of shares of Common Stock equal to the number of such Rights held by such holder multiplied by the Exchange Ratio. The Company shall promptly give public notice of any such exchange; provided, however, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Company promptly shall mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of the Common Stock for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to the provisions of Section 7(e) hereof) held by each holder of Rights.

(c) In any exchange pursuant to this Section 24, the Company, at its option, may substitute Preferred Stock (or Equivalent Preferred Stock, as such term is defined in paragraph (b) of Section 11 hereof) for Common Stock exchangeable for Rights, at the initial rate of one one-hundredth of a share of Preferred Stock (or Equivalent Preferred Stock) for each share of Common Stock, as appropriately adjusted to reflect stock splits, stock dividends and other similar transactions after the date hereof.

(d) In the event that there shall not be sufficient shares of Common Stock issued but not outstanding or authorized but unissued to permit any exchange of Rights as contemplated in accordance with this Section 24, the shares of Company shall take all such actions as may be necessary to authorize additional shares of Common Stock for issuance upon exchange of the Rights.

(e) The Company shall not be required to issue fractions of shares of Common Stock or to distribute certificates which evidence fractional shares of Common Stock. In lieu of such fractional shares of

50

Common Stock, there shall be paid to the registered holders of the Rights Certificates with regard to which such fractional shares of Common Stock would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole share of Common Stock. For the purposes of this subsection (e), the current market value of a whole share of Common Stock shall be the closing price of a share of Common Stock (as determined pursuant to the second sentence of Section 11(d)(i) hereof) for the Trading Day immediately prior to the date of exchange pursuant to this Section 24.

#### Section 25. Notice of Certain Events.

(a) In case the Company shall propose, at any time after the Distribution Date, (i) to pay any dividend payable in stock of any class to the holders of Preferred Stock or to make any other distribution to the holders of Preferred Stock (other than a regular quarterly cash dividend out of earnings or retained earnings of the Company), or (ii) to offer to the holders of Preferred Stock rights or warrants to subscribe for or to purchase any additional shares of Preferred Stock or shares of stock of any class or any other securities, rights or options, or (iii) to effect any reclassification of its Preferred Stock (other than a reclassification involving only the subdivision of outstanding shares of Preferred Stock), or (iv) to effect any consolidation or merger into or with any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), or to effect any sale or other transfer (or to permit one or more of its Subsidiaries to effect any sale or other transfer), in one transaction or a series of related transactions, of more than 50% of the assets, cash flow or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company and/or any of its Subsidiaries in one or more transactions each of which complies with Section 11(o) hereof), or (v) to effect the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall give to each holder of a Rights Certificate, to the extent feasible and in accordance with Section 26 hereof, a notice of such proposed action, which shall specify the record date for the purposes of such stock dividend, distribution of rights or warrants, or the date on which

51

such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution, or winding up is to take place and the date of participation therein by the holders of the shares of Preferred Stock, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (i) or (ii) above at least twenty (20) days prior to the record date for determining holders of the shares of Preferred Stock for purposes of such action, and in the case of any such other action, at least twenty (20) days prior to the date of the taking of such proposed action or the date of participation therein by the holders of the shares of Preferred Stock whichever shall be the earlier.

(b) In case any of the events set forth in Section 11(a)(ii) hereof shall occur, then, in any such case, (i) the Company shall as soon as practicable there after give to each holder of a Rights Certificate, to the extent feasible and in accordance with Section 26 hereof, a notice of the

occurrence of such event, which shall specify the event and the consequences of the event to holders of Rights under Section 11(a)(ii) hereof, and (ii) all references in the preceding paragraph to Preferred Stock shall be deemed thereafter to refer to Common Stock and/or, if appropriate, other securities.

Section 26. Notices. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Rights Certificate to or on the Company shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing by the Rights Agent with the Company) as follows:

Newcastle Investment Corp.  
1251 Avenue of the Americas  
New York, New York 10020  
Attention: Corporate Secretary

Subject to the provisions of Section 21, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Rights Certificate to or on the Rights Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing by the Rights Agent with the Company) as follows:

52

American Stock Transfer & Trust Company  
40 Wall Street  
New York, New York 10005  
Attention: Corporate Trust Department

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Rights Certificate (or, if prior to the Distribution Date, to the holder of certificates representing shares of Common Stock) shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 27. Supplements and Amendments. Prior to the Distribution Date, the Company and the Rights Agent shall, if the Company so directs, supplement or amend any provision of this Agreement without the approval of any holders of certificates representing shares of Common Stock. From and after the Distribution Date, the Company and the Rights Agent shall, if the Company so directs, supplement or amend this Agreement without the approval of any holders of Rights Certificates in order (i) to cure any ambiguity, (ii) to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, (iii) to shorten or lengthen any time period hereunder, or (iv) to change or supplement the provisions hereunder in any manner which the Company may deem necessary or desirable and which shall not adversely affect the interests of the holders of Rights Certificates (other than an Acquiring Person or an Affiliate or Associate of an Acquiring Person); provided, this Agreement may not be supplemented or amended to lengthen any time period hereunder, pursuant to clause (iii) of this sentence, (A) a time period relating to when the Rights may be redeemed at such time as the Rights are not then redeemable, or (B) any other time period unless such lengthening is for the purpose of protecting, enhancing or clarifying the rights of, and/or the benefits to, the holders of Rights. Upon the delivery of a certificate from an appropriate officer of the Company which states that the proposed supplement or amendment is in compliance with the terms of this Section 27, the Rights Agent shall execute such supplement or amendment unless the Rights Agent shall have determined in good faith that such supplement or amendment would

53

increase its duties or obligations or limit its rights or benefits under this Agreement. Prior to the Distribution Date, the interests of the holders of Rights shall be deemed coincident with the interests of the holders of Common Stock. Notwithstanding anything herein to the contrary, this Agreement may not be amended at a time when the Rights are not redeemable.

Section 28. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns here under.

Section 29. Determinations and Actions by the Board of Directors, etc. For all purposes of this Agreement, any calculation of the number of shares of Common Stock outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding shares of Common Stock of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) of the General Rules and Regulations under the Exchange Act. The Board of Directors of the Company shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically granted to the Board or to the Company, or as may be necessary or advisable in the administration of this Agreement, including, without limitation, the right and power to (i) interpret the provisions of this Agreement, and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including a determination to redeem or not redeem the Rights or to amend the Agreement. All



such actions, calculations, interpretations and determinations (including, for purposes of clause (y) below, all omissions with respect to the foregoing) which are done or made by the Board in good faith, shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights and all other parties, and (y) not subject the Board, or any of the directors on the Board to any liability to the holders of the Rights.

Section 30. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the

54

registered holders of the Rights Certificates (and, prior to the Distribution Date, registered holders of the Common Stock) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, registered holders of the Common Stock).

Section 31. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated; provided, however, that notwithstanding anything in this Agreement to the contrary, if any such term, provision, covenant or restriction is held by such court or authority to be invalid, void or unenforceable and the Board of Directors of the Company determines in its good faith judgment that severing the invalid language from this Agreement would adversely affect the purpose or effect of this Agreement, the right of redemption set forth in Section 23 hereof shall be reinstated and shall not expire until the close of business on the tenth Business Day following the date of such determination by the Board of Directors. Without limiting the foregoing, if any provision requiring the approval of certain members of the Board of Directors of the Company is held to be invalid, void or unenforceable, such determination shall then be made by the Board of Directors of the Company in accordance with applicable law and the Company's Restated Articles of Incorporation and By-laws.

Section 32. Governing Law. This Agreement, each Right and each Rights Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Maryland and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts made and to be performed entirely within such State, except that the rights and obligations of the Rights Agent shall be governed by the laws of the State of New York.

55

Section 33. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 34. Descriptive Headings. Descriptive headings of the several sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, all as of the day and year first above written.

Attest: NEWCASTLE INVESTMENT CORP.

By \_\_\_\_\_ Name: Title: By \_\_\_\_\_ Name: Title:

Attest: AMERICAN STOCK TRANSFER & TRUST COMPANY

By \_\_\_\_\_ Name: Title: By \_\_\_\_\_ Name: Title:

56

FORM OF  
ARTICLES SUPPLEMENTARY OF SERIES A  
JUNIOR PARTICIPATING PREFERRED STOCK

of

NEWCASTLE INVESTMENT CORP.

ARTICLES SUPPLEMENTARY

Newcastle Investment Corp., a Maryland corporation (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: Under a power contained in Article VI of the charter of the Corporation (the "Charter"), the Board of Directors of the Corporation (the "Board of Directors"), by [resolution duly adopted at a meeting duly called held on] [unanimous written consent dated] \_\_\_\_\_, 2002, classified and designated 1,000,000 shares (the "Shares") of Preferred Stock (as defined in the Charter) as shares of Series A Junior Participating Preferred Stock, with the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption as set forth below.

SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

Section 1. Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" and the number of shares constituting such series shall be 1,000,000.

Section 2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series A Junior Participating Preferred Stock shall be entitled to receive, when, as and if authorized and declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the 1st day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$1 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or other wise), declared on the Common Stock, par value \$.01 per share, of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. In the event the Corporation shall at any time after June \_\_, 2002 (the "Rights Record Date") (i) authorize and declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall authorize and declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in Paragraph (A) above immediately after it authorizes and declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been authorized and declared on the Common Stock during

2

the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$1 per share on the Series A Junior Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock, unless the date of issue of such shares

is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution authorized and declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after the Rights Record

3

Date (i) authorize and declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, the holders of shares of Series A Junior Participating Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) (i) If at any time dividends on any Series A Junior Participating Preferred Stock shall be in arrears in an amount equal to six (6) quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series A Junior Participating Preferred Stock then outstanding shall have been authorized and declared and paid or set apart for payment. During each default period, all holders of Preferred Stock (including holders of the Series A Junior Participating Preferred Stock) with dividends in arrears in an amount equal to six (6) quarterly dividends thereon, voting as a class, irrespective of series, shall have the right to elect two (2) directors.

(ii) During any default period, such voting right of the holders of Series A Junior Participating Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(C) or at any annual meeting of stockholders, and thereafter at annual meetings of stockholders, provided that neither such voting right nor the

4

right of the holders of any other series of Preferred Stock, if any, to increase, in certain cases, the authorized number of directors shall such voting right shall not be exercised unless the holders of ten percent (10%) in number of shares of Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Preferred Stock of such voting right. At any meeting at which the holders of Preferred Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect directors to fill such vacancies, if any, in the Board of Directors as may then exist up to two (2) directors or, if such right is exercised at an annual meeting, to elect two (2) directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Preferred Stock shall have the right to make such increase in the number of directors as shall be necessary to permit the election by them of the required number. After the holders of the Preferred Stock shall have exercised their right to elect directors in any default period and during the continuance of such period, the number of directors shall not be increased or decreased except by vote of the holders of

Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or paripassu with the Series A Junior Participating Preferred Stock.

(iii) Unless the holders of Preferred Stock shall, during an existing default period, have previously exercised their right to elect directors, the Board of Directors may order, or any stockholder or stockholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Preferred Stock, which meeting shall thereupon be called by the President, a Vice-President or the Secretary of the Corporation. Notice of such meeting and of

5

any annual meeting at which holders of Preferred Stock are entitled to vote pursuant to this Paragraph (C) (iii) shall be given to each holder of record of Preferred Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any stockholder or stockholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding. Notwithstanding the provisions of this Paragraph (C) (iii), no such special meeting shall be called during the period within 60 days immediately preceding the date or the first day of the period, as the case may be, fixed by the Bylaws of the Corporation for the next annual meeting of the stockholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation if applicable, shall continue to be entitled to elect the whole number of directors until the holders of Preferred Stock shall have exercised their right to elect two (2) directors voting as a class, after the exercise of which right (x) the directors so elected by the holders of Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, whichever happens first, and (y) any vacancy in the Board of Directors may (except as provided in Paragraph (C) (ii) of this Section 3) be filled by vote of a majority of the remaining directors theretofore elected by the holders of the class of stock which elected the director whose office shall have become vacant. References in this Paragraph (C) to directors elected by the holders of a particular class of stock shall include directors elected by such directors to fill vacancies as provided in clause (y) of the foregoing sentence.

6

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Preferred Stock as a class to elect directors shall cease, (y) the term of any directors elected by the holders of Preferred Stock as a class shall terminate, and (z) the number of directors shall be such number as may be provided for in the charter or Bylaws irrespective of any increase made pursuant to the provisions of Paragraph (C) (ii) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in the charter or Bylaws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining directors.

(D) Except as set forth herein, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

#### Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not authorized or declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) authorize or declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) authorize or declare or pay dividends on or make any

other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquida-

7

tion, dissolution or winding up) with the Series A Junior Participating Preferred Stock, except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Participating Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock, or any shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under Paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Recquired Shares. Any shares of Series A Junior Participating Preferred Stock purchased

8

or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. Liquidation, Dissolution or Winding Up. (A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received an amount equal to \$100 per share of Series A Participating Preferred Stock, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not authorized or declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) 100 (as appropriately adjusted as set forth in subparagraph (C) below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Junior Participating Preferred Stock and Common Stock, respectively, holders of Series A Junior Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a per share basis, respectively. The merger or consolidation of the Corporation, regardless of whether the Corporation is the surviving entity in such merger or

9

consolidation, shall not be deemed to be the liquidation, dissolution or winding up of the Corporation.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of preferred stock, if any,

which rank on a parity with the Series A Junior Participating Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Corporation shall at any time after the Rights Record Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. If the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Record Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstand-

10

ing Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Junior Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The shares of Series A Junior Participating Preferred Stock shall not be redeemable.

Section 9. Ranking. (a) The Series A Junior Participating Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

(b) The liquidation preference of the outstanding shares of Series A Junior Participating Preferred Stock will not be added to the liabilities of the Corporation for the purpose of determining whether under the Maryland General Corporation Law a distribution may be made to stockholders of the Corporation whose preferential rights upon dissolution of the Corporation are junior to those of holders of Series A Junior Participating Preferred Stock.

Section 10. Amendment. At any time when any shares of Series A Junior Participating Preferred Stock are outstanding, neither the charter nor these Articles Supplementary shall be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series A Junior Participating Preferred Stock, voting separately as a class; provided that none of (i) the creation or issuance of (A) additional shares of Series A Junior Participating Preferred Stock or (B) shares of any class or series of Preferred Stock ranking junior to or on parity with the Series A Junior Participating Preferred Stock as to the payment of dividends and the distribution of assets, (ii)

11

a merger or consolidation in which the Corporation is the surviving entity and the Series A Junior Participating Preferred Stock remains outstanding with no material adverse change in its powers, preferences and special rights, or (iii) a merger or consolidation in which the Corporation is not the surviving entity and the holders of the Series A Junior Participating Preferred Stock receive in exchange therefor a substantially identical security of the surviving entity, shall be considered to materially adversely alter or change the powers, preferences or special powers of the Series A Junior Participating Preferred Stock.

Section 11. Fractional Shares. Series A Junior Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all

other rights of holders of Series A Junior Participating Preferred Stock.

SECOND: The Shares have been classified and designated by the Board of Directors under authority contained in the Charter.

THIRD: These Articles Supplementary have been approved by the Board of Directors in the manner and by the vote required by law.

FOURTH: The undersigned Chairman of the Board of the Corporation acknowledges these Articles Supplementary to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned Chairman of the Board acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

IN WITNESS WHEREOF, the Corporation has caused these Articles Supplementary to be executed under seal in its name and on its behalf by its President and attested to by its Secretary on this \_\_\_\_ of \_\_\_\_\_, 2002.

ATTEST: Newcastle INVESTMENT CORP.

12 By: \_\_\_\_\_ (SEAL)  
Wesley K. Edens, Chairman  
of the Board of Directors

- -----  
Randal A. Nardone,  
Secretary

13 Exhibit B

[Form of Rights Certificate]

Certificate No. R- \_\_\_\_\_ Rights

NOT EXERCISABLE AFTER JUNE \_\_ 2012 UNLESS EXTENDED PRIOR THERETO BY THE BOARD OF DIRECTORS OR EARLIER IF REDEEMED BY THE COMPANY. THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE COMPANY, AT \$.01 PER RIGHT ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. UNDER CERTAIN CIRCUMSTANCES, RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON (AS SUCH TERM IS DEFINED IN THE RIGHTS AGREEMENT) AND ANY SUBSEQUENT HOLDER OF SUCH RIGHTS MAY BECOME NULL AND VOID. [THE RIGHTS REPRESENTED BY THIS RIGHTS CERTIFICATE ARE OR WERE BENEFICIALLY OWNED BY A PERSON WHO WAS OR BECAME AN ACQUIRING PERSON OR AN AFFILIATE OR ASSOCIATE OF AN ACQUIRING PERSON (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT). ACCORDINGLY, THIS RIGHTS CERTIFICATE AND THE RIGHTS REPRESENTED HEREBY MAY BECOME NULL AND VOID IN THE CIRCUMSTANCES SPECIFIED IN SECTION 7(e) OF SUCH AGREEMENT.] (2)

Rights Certificate

NEWCASTLE INVESTMENT CORP.

This certifies that \_\_\_\_\_, or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Rights Agreement, dated as of June \_\_, 2002 (the "Rights Agreement"), between Newcastle Invest-

- -----  
(2) The portion of the legend in brackets shall be inserted only if applicable and shall replace the preceding sentence.  
ment Corp., a Maryland corporation (the "Company"), and American Stock Transfer & Trust Company, a New York corporation (the "Rights Agent"), to purchase from the Company at any time prior to 5:00 P.M. (New York City time) on June \_\_, 2012 (unless such date is extended prior thereto by the Board of Directors) at the office or offices of the Rights Agent designated for such purpose, or its successors as Rights Agent, one one-hundredth of a fully paid, non-assessable share of Series A Junior Participating Preferred Stock (the "Preferred Stock") of the Company, at a purchase price of \$70 per one one-hundredth of a share (the "Purchase Price"), upon presentation and surrender of this Rights Certificate with the Form of Election to Purchase and related Certificate duly executed. The number of Rights evidenced by this Rights Certificate (and the number of shares which may be purchased upon exercise thereof) set forth above, and the Purchase Price per share set forth above, are the number and Purchase Price as of May \_\_, 2002, based on the Preferred Stock as constituted at such date. The Company reserves the right to require prior to the occurrence of a Triggering Event (as such term is defined in the Rights Agreement) that a number of Rights be

exercised so that only whole shares of Preferred Stock will be issued.

Upon the occurrence of a Section 11(a)(ii) Event (as such term is defined in the Rights Agreement), if the Rights evidenced by this Rights Certificate are beneficially owned by (i) an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined in the Rights Agreement), (ii) a transferee of any such Acquiring Person, Associate or Affiliate, or (iii) under certain circumstances specified in the Rights Agreement, a transferee of a person who, after such transfer, became an Acquiring Person, or an Affiliate or Associate of an Acquiring Person, such Rights shall become null and void and no holder hereof shall have any right with respect to such Rights from and after the occurrence of such Section 11(a)(ii) Event.

As provided in the Rights Agreement, the Purchase Price and the number and kind of shares of Preferred Stock or other securities, which may be purchased upon the exercise of the Rights evidenced by this Rights Certificate are subject to modification and adjustment upon the happening of certain events, including Triggering Events.

2

This Rights Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Rights Certificates, which limitations of rights include the temporary suspension of the exercisability of such Rights under the specific circumstances set forth in the Rights Agreement. Copies of the Rights Agreement are on file at the above-mentioned office of the Rights Agent and are also available upon written request to the Rights Agent.

This Rights Certificate, with or without other Rights Certificates, upon surrender at the principal office or offices of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificates of like tenor and date evidencing Rights entitling the holder to purchase a like aggregate number of one one-hundredths of a share of Preferred Stock as the Rights evidenced by the Rights Certificate or Rights Certificates surrendered shall have entitled such holder to purchase. If this Rights Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Certificate may be redeemed by the Company at its option at a redemption price of \$.01 per Right at any time prior to the earlier of the close of business on (i) the tenth Business Day following the Stock Acquisition Date (as such time period may be extended pursuant to the Rights Agreement), and (ii) the Final Expiration Date. In addition, under certain circumstances following the Stock Acquisition Date, the Rights may be exchanged, in whole or in part, for shares of the Common Stock, or shares of preferred stock of the Company having essentially the same value or economic rights as such shares. Immediately upon the action of the Board of Directors of the Company authorizing any such exchange, and without any further action or any notice, the Rights (other than Rights which are not subject to such exchange) will terminate and the Rights

3

will only enable holders to receive the shares issuable upon such exchange.

No fractional shares of Preferred Stock will be issued upon the exercise of any Right or Rights evidenced hereby (other than fractions which are integral multiples of one one-hundredth of a share of Preferred Stock, which may, at the election of the Company, be evidenced by depositary receipts), but in lieu thereof a cash payment will be made, as provided in the Rights Agreement. The Company, at its election, may require that a number of Rights be exercised so that only whole shares of Preferred Stock would be issued.

No holder of this Rights Certificate shall be entitled to vote or receive dividends or be deemed for any purpose the holder of shares of Preferred Stock or of any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give consent to or withhold consent from any corporate action, or, to receive notice of meetings or other actions affecting stockholders (except as provided in the Rights Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Rights Certificate shall have been exercised as provided in the Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.



WITNESS the facsimile signature of the proper officers of the Company and its corporate seal.

Dated as of \_\_\_\_\_, \_\_\_\_\_.

ATTEST: NEWCASTLE INVESTMENT CORP.

By

\_\_\_\_\_  
Secretary

\_\_\_\_\_  
Title:

Countersigned:

AMERICAN STOCK TRANSFER & TRUST COMPANY

By \_\_\_\_\_

Authorized Signature

[Form of Reverse Side of Rights Certificate]

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Rights Certificate.)

FOR VALUE RECEIVED

-----  
hereby sells, assigns and transfers unto -----  
-----

(Please print name and address of transferee)

-----  
this Rights Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney, to transfer the within Rights Certificate on the books of the within named Company, with full power of substitution.

Dated: \_\_\_\_\_, \_\_\_\_\_

-----  
Signature

Signature Guaranteed:

Certificate

The undersigned hereby certifies by checking the appropriate boxes that:

(1) this Rights Certificate [ ] is [ ] is not being sold, assigned and transferred by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined pursuant to the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it [ ] did [ ] did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate of an Acquiring Person.

Dated: \_\_\_\_\_, \_\_\_\_\_

-----  
Signature

Signature Guaranteed:

NOTICE

The signature to the foregoing Assignment and Certificate must correspond to the name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.  
FORM OF ELECTION TO PURCHASE

(To be executed if holder desires to exercise Rights represented by the Rights Certificate.)

To: NEWCASTLE INVESTMENT CORP.:

The undersigned hereby irrevocably elects to exercise Rights represented by this Rights Certificate to purchase the shares of Preferred Stock issuable upon the exercise of the Rights (or such other securities of the Company or of any other person which may be issuable upon the exercise of the Rights) and requests that certificates for such shares be issued in the name of and delivered to:

Please insert social security or other identifying number

-----  
(Please print name and address)  
-----

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance of such Rights shall be registered in the name of and delivered to:

Please insert social security or other identifying number

-----  
(Please print name and address)  
-----

Dated: \_\_\_\_\_, \_\_\_\_\_

-----  
Signature

Signature Guaranteed: \_\_\_\_\_  
Certificate

The undersigned hereby certifies by checking the appropriate boxes that:

(1) the Rights evidenced by this Rights Certificate [ ] are [ ] are not being exercised by or on behalf of a Person who is or was an Acquiring Person or an Affiliate or Associate of any such Acquiring Person (as such terms are defined pursuant to the Rights Agreement);

(2) after due inquiry and to the best knowledge of the undersigned, it [ ] did [ ] did not acquire the Rights evidenced by this Rights Certificate from any Person who is, was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person.

Dated: \_\_\_\_\_, \_\_\_\_\_

-----  
Signature

Signature Guaranteed: \_\_\_\_\_  
NOTICE

The signature to the foregoing Election to Purchase and Certificate must correspond to the name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.  
Exhibit C

## PREFERRED STOCK

On June \_\_, 2002, the Board of Directors of Newcastle Investment Corp. (the "Company") declared a dividend distribution of one Right for each outstanding share of Company Common Stock to stockholders of record at the close of business on June \_\_, 2002 (the "Record Date"). Each Right entitles the registered holder to purchase from the Company a unit consisting of one one-hundredth of a share (a "Unit") of Series A Junior Participating Preferred Stock, par value \$.01 per share (the "Preferred Stock") at a Purchase Price of \$70 per Unit, subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement") between the Company and American Stock Transfer & Trust Company, as Rights Agent.

Initially, the Rights will be attached to all Common Stock certificates representing shares then outstanding, and no separate Rights Certificates will be distributed. Subject to certain exceptions specified in the Rights Agreement, the Rights will separate from the Common Stock and a Distribution Date will occur upon the earlier of (i) 10 business days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of Common Stock (the "Stock Acquisition Date"), other than as a result of repurchases of stock by the Company or certain inadvertent actions by institutional or certain other stockholders or (ii) 10 business days (or such later date as the Board shall determine) following the commencement of a tender offer or exchange offer that would result in a person or group becoming an Acquiring Person. Until the Distribution Date, (i) the Rights will be evidenced by the Common Stock certificates and will be transferred with and only with such Common Stock certificates, (ii) new Common Stock certificates issued after the Record Date will contain a notation incorporating the Rights Agreement by reference and (iii) the surrender for transfer of any certificates for Common Stock outstanding will also constitute the transfer of the Rights associated with the Common Stock represented by such certificate. Pursuant to the Rights Agreement, the Company reserves the right to require prior to the occurrence of a Triggering Event (as defined below) that, upon any exercise of Rights, a number of Rights be exercised so that only whole shares of Preferred Stock will be issued.

The Rights are not exercisable until the Distribution Date and will expire at 5:00 P.M. (New York City time) on June \_\_, 2012, unless earlier redeemed or exchanged by the Company as described below.

As soon as practicable after the Distribution Date, Rights Certificates will be mailed to holders of record of the Common Stock as of the close of business on the Distribution Date and, thereafter, the separate Rights Certificates alone will represent the Rights. Except as otherwise determined by the Board of Directors, only shares of Common Stock issued prior to the Distribution Date will be issued with Rights.

In the event that a Person becomes an Acquiring Person, except pursuant to an offer for all outstanding shares of Common Stock which the independent directors determine to be at a price which is fair and not inadequate and to otherwise be in the best interests of the Company and its stockholders, after receiving advice from one or more investment banking firms (a "Qualified Offer"), each holder of a Right will thereafter have the right to receive, upon exercise, Common Stock (or, in certain circumstances, cash, property or other securities of the Company) having a value equal to two times the exercise price of the Right. The Exercise Price is the Purchase Price times the number of shares of Common Stock associated with each Right. Notwithstanding any of the foregoing, following the occurrence of the event set forth in this paragraph, all Rights that are, or (under certain circumstances specified in the Rights Agreement) were, beneficially owned by any Acquiring Person will be null and void. However, Rights are not exercisable following the occurrence of the event set forth above until such time as the Rights are no longer redeemable by the Company as set forth below.

For example, at an exercise price of \$70 per Right, each Right not owned by an Acquiring Person (or by certain related parties) following an event set forth in the preceding paragraph would entitle its holder to purchase \$160 worth of Common Stock (or other consideration, as noted above) for \$70. Assuming that the Common

2

Stock had a per share value of \$20 at such time, the holder of each valid Right would be entitled to purchase 8 shares of Common Stock for \$70.

In the event that, at any time following the Stock Acquisition Date, (i) the Company engages in a merger or other business combination transaction in which the Company is not the surviving corporation (other than with an entity which acquired the shares pursuant to a Qualified Offer), (ii) the Company engages in a merger or other business combination transaction in which the Company is the surviving corporation and the Common Stock of the Company is changed or exchanged, or (iii) 50% or more of the Company's assets or cash flow

is sold or transferred, each holder of a Right (except Rights which have previously been voided as set forth above) shall thereafter have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the Right. The events set forth in this paragraph and in the second preceding paragraph are referred to as the "Triggering Events."

At any time after a person becomes an Acquiring Person and prior to the acquisition by such person or group of fifty percent (50%) or more of the outstanding Common Stock, the Board may exchange the Rights (other than Rights owned by such person or group which have become void), in whole or in part, at an exchange ratio of one share of Common Stock, or one one-hundredth of a share of Preferred Stock (or of a share of a class or series of the Company's preferred stock having equivalent rights, preferences and privileges), per Right (subject to adjustment).

At any time until ten business days following the Stock Acquisition Date, the Company may redeem the Rights in whole, but not in part, at a price of \$.01 per Right (payable in cash, Common Stock or other consideration deemed appropriate by the Board of Directors). Immediately upon the action of the Board of Directors ordering redemption of the Rights, the Rights will terminate and the only right of the holders of Rights will be to receive the \$.01 redemption price.

Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote

3

or to receive dividends. While the distribution of the Rights will not be taxable to stockholders or to the Company, stockholders may, depending upon the circumstances, recognize taxable income in the event that the Rights become exercisable for Common Stock (or other consideration) of the Company or for common stock of the acquiring company or in the event of the redemption of the Rights as set forth above.

Any of the provisions of the Rights Agreement may be amended by the Board of Directors of the Company prior to the Distribution Date. After the Distribution Date, the provisions of the Rights Agreement may be amended by the Board in order to cure any ambiguity, to make changes which do not adversely affect the interests of holders of Rights, or to shorten or lengthen any time period under the Rights Agreement. The foregoing notwithstanding, no amendment may be made at such time as the Rights are not redeemable.

A copy of the Rights Agreement is available free of charge from the Rights Agent. This summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, which is incorporated herein by reference.

LIMITED LIABILITY COMPANY AGREEMENT  
OF  
FORTRESS INVESTMENT GROUP LLC

Dated as of February 6, 1998  
TABLE OF CONTENTS

<TABLE>  
<CAPTION>

	Page
-----	
<S>	<C>
ARTICLE I	
DEFINITIONS.....	1
SECTION 1.1 Definitions.....	1
ARTICLE II	
GENERAL PROVISIONS.....	8
SECTION 2.1 Company Name.....	8
SECTION 2.2 Registered Office, Registered Agent.....	8
SECTION 2.3 Certificates.....	9
SECTION 2.4 Nature of Business; Permitted Powers.....	9
SECTION 2.5 Fiscal Year.....	9
SECTION 2.6 Perpetual Existence.....	9
SECTION 2.7 Limitation on Member Liability.....	9
SECTION 2.8 Indemnification.....	9
SECTION 2.9 Exculpation.....	10
SECTION 2.10 Fiduciary Duty.....	10
SECTION 2.11 Insurance.....	11
ARTICLE III	
CLASSES OF INTERESTS AND ADMISSION OF MEMBERS.....	12
SECTION 3.1 Classes.....	12
SECTION 3.2 Admission of Initial Members.....	12
SECTION 3.3 Admission of Additional Members.....	12
SECTION 3.4 Schedule A.....	13
ARTICLE IV	
OFFICERS.....	13
SECTION 4.1 Designation; Term; Qualifications.....	13
SECTION 4.2 Removal and Resignation.....	13
SECTION 4.3 Vacancies.....	14
SECTION 4.4 Compensation.....	14
SECTION 4.5 Acts of the Officers.....	14

</TABLE>

<TABLE>  
<CAPTION>

	Page
-----	
<S>	<C>
ARTICLE V	
VOTING AND MANAGEMENT.....	14
SECTION 5.1 Class A Member Voting Rights.....	14
SECTION 5.2 Class B Member Voting Rights.....	14
SECTION 5.3 Management of the Company.....	15
SECTION 5.4 Acts of the Directors, Management Procedures and Delegation.....	15
SECTION 5.5 Compensation of the Directors.....	16
SECTION 5.6 Books and Records; Accounting.....	16
SECTION 5.7 Reliance by Third Parties; Officers.....	16
SECTION 5.8 Expenses.....	16
SECTION 5.9 Company Tax and Information Returns.....	17
ARTICLE VI	
CONTRIBUTIONS AND CAPITAL ACCOUNTS.....	17
SECTION 6.1 Capital Contributions.....	17
SECTION 6.2 Capital Accounts.....	18
SECTION 6.3 Withdrawal of Capital; Return of Capital; Deficit Balance in Capital Account.....	19
ARTICLE VII	

ARTICLE VII

ALLOCATIONS.....	19
SECTION 7.1 Allocation of Net Operating Profits and Net Operating Losses for Book Accounting Purposes.....	19
SECTION 7.2 Allocation of Net Disposition Profits and Net Disposition Losses for Book Accounting Purposes.....	20

ARTICLE VIII

DISTRIBUTIONS.....	20
SECTION 8.1 Distributions from Operations.....	20
SECTION 8.2 Distributions of Capital Receipts.....	20
SECTION 8.3 Treatment of Insufficiency.....	20
SECTION 8.4 Distributions in Kind.....	21

</TABLE>

<TABLE>  
<CAPTION>

Page

<S>

<C>

ARTICLE IX

SPECIAL ALLOCATION RULES.....	21
SECTION 9.1 Certain Definitions.....	21
SECTION 9.2 Allocations.....	24

ARTICLE X

RESIGNATION AND ASSIGNMENT OF INTERESTS.....	28
SECTION 10.1 Resignation of Member.....	28
SECTION 10.2 No Distribution Upon Resignation.....	29
SECTION 10.3 Assignment of Interests.....	29
SECTION 10.4 Right of Assignee to Become a Substitute Member.....	30
SECTION 10.5 Recognition of Transfer by Company.....	30

ARTICLE XI

DISSOLUTION.....	31
SECTION 11.1 Duration and Dissolution.....	31
SECTION 11.2 Winding Up.....	31
SECTION 11.3 Distribution of Assets.....	31
SECTION 11.4 Notice of Liquidation.....	32

ARTICLE XII

MISCELLANEOUS.....	32
SECTION 12.1 Tax Reports and Financial Statements.....	32
SECTION 12.2 Amendment to the Agreement.....	32
SECTION 12.3 Successors, Counterparts.....	32
SECTION 12.4 Governing Law; Severability.....	32
SECTION 12.5 Filings.....	33
SECTION 12.6 Power of Attorney.....	33
SECTION 12.7 Headings.....	34
SECTION 12.8 Additional Documents.....	34
SECTION 12.9 Notices.....	34
SECTION 12.10 Waiver of Right to Partition and Bill of Accounting.....	34

</TABLE>

<TABLE>  
<CAPTION>

Page

<S>

<C>

SCHEDULE A

INITIAL MEMBERS.....	35
----------------------	----

SCHEDULE B

INITIAL DIRECTORS.....	36
------------------------	----

SCHEDULE C

INITIAL OFFICERS.....	37
-----------------------	----

</TABLE>

THIS LIMITED LIABILITY COMPANY AGREEMENT of FORTRESS INVESTMENT GROUP LLC, a Delaware limited liability company (the "Company"), is made as of February 6, 1998, among the undersigned and the other Persons (as defined below) who become members of the Company from time to time in accordance with the provisions hereof (collectively, the "Members").

WHEREAS, the Members have formed the Company under the Delaware Act (as defined below) by causing to be filed a Certificate of Formation of the Company with the Office of the Secretary of State of the State of Delaware on February 6, 1998; and

WHEREAS, the Members desire to set forth their respective rights and obligations as Members of the Company and to provide for the management of the Company and its affairs and for the conduct of the business of the Company;

NOW, THEREFORE, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Members hereby agree as follows:

## ARTICLE I

### DEFINITIONS

SECTION 1.1 Definitions. As used herein, the following terms shall have the following meanings:

"Additional Member" has the meaning specified in Section 3.3 of this Agreement.

"Affiliate" means, with respect to a Person, another Person that directly or indirectly controls, is controlled by or is under common control with such first Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to vote a majority of the securities having voting power for the election of Directors of such Person or otherwise to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise.

"Agreement" means this Limited Liability Company Agreement of the Company, as amended, modified, supplemented or restated from time to time.

"Capital Account" means the capital account established for each Member in accordance with Section 6.2(a).

"Capital Asset" means any asset described in Section 1221 or 1231 of the Code, or any other asset of the Company or of any partnership or limited liability company in which the Company holds a direct or indirect interest, the sale or other disposition of which at a gain would result in long term capital gain within the meaning of Section 1222(3) of the Code.

"Capital Receipts" means the gross cash proceeds received by the Company from the sale, exchange or any other disposition of any Capital Asset of the Company, or of all or substantially all of the assets of the Company (including without limitation in any Liquidation of the Company) or of any partnership or limited liability company in which the Company holds a direct or indirect interest, or from the incurrence of any Indebtedness (but excluding capital contributions received by the Company), reduced by the sum of (i) all expenditures made by the Company or by any partnership or limited liability company in which the Company holds a direct or indirect interest, in connection with such sale, exchange or other disposition, (ii) debt service payments made from such gross cash proceeds, and (iii) amounts set aside as reserves therefrom by the Directors.

"Capitalized Lease" as to any Person means (i) any lease of property, real or personal, the obligations under which are capitalized on the consolidated balance sheet of such Person and its subsidiaries, (ii) any other such lease to the extent that the then present value of the minimum rental commitment thereunder should, in accordance with GAAP, be capitalized on a balance sheet of the lessee, and (iii) any lease of property, real or personal, which is treated as indebtedness for Federal income tax purposes.

"Cash Flow" means, with respect to any period, the amount by which (i) all cash receipts received by the Company during such period from whatever source derived (including, without limitation, cash from operations and funds released during such period from cash reserves previously established from cash from operations, but

disbursements of cash by the Company during such period, including, without limitation, payment of operating expenses, capital expenditures, payment of principal and interest on the Company's Indebtedness except to the extent taken into account under the definition of Capital Receipts, and reserves established by the Directors, but excluding distributions to Members, expenses and additions to reserves relating to any Capital Receipts.

"Certificate of Formation" means the Certificate of Formation referred to in the first recital of this Agreement and any and all amendments thereto and restatements thereof filed on behalf of the Company with the office of the Secretary of State of the State of Delaware pursuant to the Delaware Act.

"Class A Approval" means the prior written consent of the holders of Class A Membership Interests representing in the aggregate more than 50% of the total number of Class A Membership Interests outstanding on the date of determination.

"Class A Member" means a Member that holds one or more Class A Membership Interests.

"Class A Membership Interests" means the Interests in the Company designated as Class A Membership Interests as provided in Section 3.1(a) of this Agreement having the terms provided in this Agreement.

"Class B Approval" means the prior written consent of the holders of Class B Membership Interests representing in the aggregate more than 50% of the total number of Class B Membership Interests outstanding on the date of determination.

"Class B Member" means a Member that holds one or more Class B Membership Interests.

"Class B Membership Interests" means the Interests in the Company designated as Class B Membership Interests as provided in Section 3.1(a) of this Agreement having the terms provided in this Agreement.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or any corresponding federal tax statute enacted after the date of this Agreement. A reference to a specific section of the Code refers not only to such specific section but also to any corresponding provision of any federal tax statute enacted after the date of this Agreement, as such specific section or corresponding provision is in effect and

3

applicable on the date of the application of the provisions of this Agreement containing such reference.

"Company" has the meaning specified in the Preamble to this Agreement.

"Contingent Obligation" as to any Person means any obligation of such Person guaranteeing or intended to guarantee any Indebtedness, leases (including Capitalized Leases), dividends or other obligations ("primary obligations") of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of such Person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (x) for the purchase or payment of any such primary obligation or (y) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth, solvency or other financial condition of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of such primary obligation against loss in respect thereof; provided, however, that the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business or obligations of such Person which would not be required to be disclosed under GAAP as liabilities or footnoted on such Person's financial statement. The amount of any accrued or accruable Contingent Obligation shall be determined in accordance with GAAP.

"Control" means (a) in the case of a corporation, ownership, directly or through ownership of other entities, of at least ten percent of all the voting stock (exclusive of stock which is voting only as required by applicable law or in the event of nonpayment of dividends and pays dividends only on a nonparticipating basis at a fixed or floating rate), and (b) in the case of any entity, ownership, directly or through ownership of other entities, of at least ten percent of all of the beneficial equity interests therein (calculated by a method that excludes from equity interests, ownership interests that are nonvoting (except as required by applicable law or in the event of nonpayment of dividends or distributions) and pay dividends or distributions only on a non-participating basis at a fixed or floating rate) or, in any case (c) the power directly or indirectly, to direct or control, or cause the direction of, the management policies of another Person, whether through the ownership of voting securities, general partnership interests, common Directors, trustees,



officers by contract or otherwise. The terms "controlled" and "controlling" shall have meanings correlative to the foregoing definition of "control."

4

"Covered Person" means the Organizer, the Members, the Directors, Officers, any Affiliate of a Member or a Director, or any officers, managers, members, employees, representatives or agents of a Member or a Director, or any employee or agent of the Company or its Affiliates.

"Damage" has the meaning set forth in Section 2.7.

"Delaware Act" means the Delaware Limited Liability Company Act, 6 Del. C. Section 18- 101, et. seq., as amended from time to time.

"Director" means any Person hereafter elected to act as a manager of the Company as provided in this Agreement (each in the capacity as a manager of the Company) but does not include any Person who has ceased to be a manager of the Company.

"Encumbrance" shall mean any security interest, mortgage, lien, charge, adverse claim, or restriction of any kind including, but not limited to, any restriction on the use, voting, transfer, receipt of income or other exercise of any attribute of ownership.

"Fiscal Year" has the meaning set forth in Section 2.4.

"Fortress REIT" means Fortress Investment Corp., a Maryland corporation.

"GAAP" means generally accepted accounting principles.

"incur" means to issue, assume, guarantee, incur or otherwise become liable for; "incurrence" has the correlative meaning.

"Indebtedness" of any Person means, without duplication, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, (ii) all indebtedness of such Person evidenced by a note, bond, debenture or similar instrument, (iii) the face amount of all letters of credit issued for the account of such Person and, without duplication, all unreimbursed amounts drawn thereunder, (iv) all indebtedness of any other Person secured by any Lien on any property owned by such Person, whether or not such indebtedness has been assumed, (v) all Contingent Obligations of such Person, (vi) all payment obligations of such Person under any hedge agreement or currency swaps or similar agreements, (vii) all indebtedness and liabilities secured by any lien or mortgage on any property of such Person, whether or not the same would be classified as a liability on a balance sheet, (viii) the liability of such Person in respect of banker's acceptances and the estimated liability under any participating

5

mortgage, convertible mortgage or similar arrangement, (ix) the present value of the aggregate amount of rentals or other consideration payable by such Person in accordance with GAAP over the remaining unexpired term of all Capitalized Leases, (x) all judgments or decrees by a court, (xi) all indebtedness, payment obligations and contingent obligations of any partnership in which such Person holds a general partnership interest, (xii) all convertible debt and subordinated debt, (xiii) all preferred stock of such Person that is redeemable for cash, a cash equivalent, a note receivable or similar instrument or are convertible to Indebtedness as defined herein (other than Indebtedness described in clause (iii), (ix), (x) or (xiii) of this definition), and (xiv) all obligations, liabilities, reserves and any other items which are listed as a liability on a balance sheet of such Person determined on a consolidated basis in accordance with GAAP, but excluding all general contingency reserves and reserves for deferred income taxes and investment credit.

"Interest" means a limited liability company interest in the Company, including the right of the holder thereof to any and all benefits to which a Member may be entitled as provided in this Agreement together with the obligations of a Member to comply with all of the terms and provisions of this Agreement.

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment, conditional sale agreement, deposit arrangement, security interest, encumbrance, lien (statutory or other), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever in respect of any property of a Person, whether granted voluntarily or imposed by law, and includes the interest of a lessor under a capital lease or under any financing lease having substantially the same economic effect as any of the foregoing, inchoate liens arising under the Employment Retirement Income Security Act of 1974, as amended, and the filing of any financing statement or similar notice (other than a financing statement filed by a "true" lessor or consignor pursuant to Section 9-408 of the Uniform Commercial Code), naming the owner of such property as debtor, under the Uniform Commercial Code or other

comparable law of any jurisdiction.

"Liquidation" means any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary. For the purpose of this definition, the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, interests, units or other consideration) of all or substantially all the property or assets of the Company shall be deemed a voluntary liquidation, dissolution or winding up of the Company, but a consolidation or merger of the Company with one or more other limited liability companies, corporations or other Persons shall not be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary.

6

"Majority of the Directors" means more than 50% of the votes of the Directors who are then elected and qualified. For purposes of taking any action or voting on any matter coming before the Directors, each Director shall have one vote.

"Member" means any Person that holds an Interest in the Company, is admitted as a member of the Company pursuant to the provisions of this Agreement and named as a member of the Company on Schedule A hereto and includes any Person admitted as an Additional Member or a Substitute Member pursuant to the provisions of this Agreement, in such Person's capacity as a member of the Company. For purposes of the Delaware Act, the Class A Members and the Class B Members shall constitute separate classes or groups of Members.

"Net Disposition Profits" and "Net Disposition Losses" means for each taxable year of the Company an amount equal to the Company's net gain or loss for such year resulting from transactions described in the definition of Capital Receipts, determined in accordance with the Federal income tax accounting methods and rules used by the Company on its Federal Partnership Information Return.

"Net Operating Profits" and "Net Operating Losses" means for each taxable year of the Company an amount equal to the Company's net income or loss for such year as determined in accordance with the Federal income tax accounting methods and rules used by the Company on its Federal Partnership Information Return, but excluding Net Disposition Profits and Net Disposition Losses, and increased by any non-taxable income received by the Company and decreased by any non-deductible expenses incurred by the Company.

"Organizer" has the meaning specified in Section 2.3 of this Agreement.

"Officer" means any officer appointed by the Directors or the Chairman pursuant to Article IV hereof.

"Person" means an individual, a corporation, a partnership, a limited liability company, a joint venture, an association, a joint-stock company, a trust, a business trust, a government or any agency or any political subdivision, any unincorporated organization or any other entity of whatever nature.

"Proportionate Share" means, with respect to any Class B Member, a fraction, the numerator of which is the aggregate number of Class B Membership Interests held by such Member and the denominator of which is the total number of Class B Membership Interests outstanding on the date of determination.

7

"Regulations" means the regulations proposed or promulgated under the Code, as amended from time to time, or any federal income tax regulations promulgated after the date of this Agreement. A reference to a specific Regulation refers not only to such specific Regulation but also to any corresponding provision of any federal tax regulation enacted after the date of this Agreement, as such specific Regulation or corresponding provision is in effect and applicable on the date of application of the provisions of this Agreement containing such reference.

"Substitute Member" means a Person who is admitted to the Company as a Member pursuant to Section 10.5 hereof, and who is named as a Member on Schedule A to this Agreement.

"Tax Matters Partner" means the Person designated as such in Section 5.9.

"Transfer" has the meaning set forth in Section 10.3(a).

## ARTICLE II

### GENERAL PROVISIONS

SECTION 2.1 Company Name. The name of the Company is "Fortress Investment Group LLC." The name of the Company may be changed from time to time by the Directors in their sole discretion.

SECTION 2.2 Registered Office, Registered Agent. The Company shall maintain a registered office in the State of Delaware at, and the name and address of the Company's registered agent in the State of Delaware is, The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801. Such office and such agent may be changed from time to time by the Directors in their discretion.

SECTION 2.3 Certificates. Christopher Chee, as an authorized person, within the meaning of the Act (the "Organizer"), shall execute, deliver and file the certificate of formation of the Company (and any amendments and/or restatements thereof) and any other certificates (and any amendments and/or restatements thereof) necessary for the Company to qualify to do business in a jurisdiction in which the Company may wish to conduct business.

SECTION 2.4 Nature of Business; Permitted Powers. The purposes of the Company shall be to manage the business and operations of the Fortress REIT and to

8

engage in any lawful act or activity for which limited liability companies may be formed under the Delaware Act.

SECTION 2.5 Fiscal Year. Unless and until otherwise determined by the Directors, the fiscal year of the Company for federal income tax purposes shall, except as otherwise required in accordance with the Code, end on December 31 of each year (each, a "Fiscal Year").

SECTION 2.6 Perpetual Existence. The Company shall have a perpetual existence unless dissolved in accordance with the provisions of Article XI of this Agreement.

SECTION 2.7 Limitation on Member Liability.

(a) Except as otherwise expressly required by law, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and neither the Organizer nor any Member shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being the Organizer or a Member.

(b) Except as otherwise expressly required by law, a Member, in its capacity as a Member, shall have no liability to any Person hereunder in excess of (i) its obligation to make payments expressly provided for in this Agreement and (ii) the amount of any distributions wrongfully distributed to it.

SECTION 2.8 Indemnification. To the fullest extent permitted by applicable law, any Covered Person shall be indemnified and held harmless by the Company for and from any liabilities, demands, claims, actions or causes of action, regulatory, legislative or judicial proceedings or investigations, assessments, levies, losses, fees, penalties, damages, costs and expenses, including, without limitation, reasonable attorneys', accountants', investigators', and experts' fees and expenses (collectively, "Damages") sustained or incurred by such Covered Person by reason of any act performed or omitted by such Covered Person in good faith and in a manner reasonably believed by the Covered Person to be in or not opposed to the best interests of the Company; provided, however, that any indemnity under this Section 2.8 shall be provided out of and to the extent of Company assets only, and no Member shall have any personal liability on account thereof. The right of indemnification pursuant to this Section 2.8 shall include the right to be paid, in advance, or reimbursed by the Company for the reasonable expenses incurred by a Covered Person who was, is, or is threatened to be made a named defendant or respondent in a proceeding provided that the Covered

9

Person shall have given a written undertaking to reimburse the Company in the event it is subsequently determined that he, she or it is not entitled to such indemnification.

SECTION 2.9 Exculpation.

(a) No Covered Person shall be liable to the Company or any Member for any Damages incurred by reason of any act performed or omitted by such Covered Person in good faith on behalf of the Company in a manner reasonably believed to be in or not opposed to the best interests of the Company.

(b) A Covered Person shall be fully protected in relying in good faith upon the records of the Company and upon such information, opinions, reports or statements presented to the Company by any Person as to matters the Covered Person reasonably believes are within such other Person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits, losses, or any

other facts pertinent to the existence and amount of assets from which distributions to Members might properly be paid.

#### SECTION 2.10 Fiduciary Duty.

(a) To the extent that, at law or in equity, a Covered Person has duties (including fiduciary duties) and liabilities relating thereto to the Company or to any Member, a Covered Person acting under this Agreement shall not be liable to the Company or to any Member for its good faith reliance on the provisions of this Agreement. The duties and liabilities of a Covered Person shall be as expressly set forth in this Agreement, and the parties hereto agree that such duties and liabilities replace any duties and liabilities of a Covered Person which would otherwise exist at law or equity.

(b) Unless otherwise expressly provided herein, (i) whenever a conflict of interest exists or arises between any Member and the Company or another Member, or (ii) whenever this Agreement or any other agreement contemplated herein or therein provides that a Member shall act in a manner that is, or provide terms that are, fair and reasonable to the Company or any other Member, the Member shall resolve such conflict of interest, take such action or provide such terms, considering in each case the relative interest of each party (including its own interest) to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interests, any customary or accepted industry practices, and any applicable generally accepted accounting practices or principles. In the absence of bad faith by a Member, the resolution, action or term so made, taken or provided by such Member shall not

10

constitute a breach of this Agreement or any other agreement contemplated herein or of any duty or obligation of such Member at law or in equity or otherwise.

(c) Whenever in this Agreement a Member is permitted or required to make a decision, the Member shall be entitled to make such decision in its sole discretion and to consider such interests and factors as it desires, including its own interests, and shall have no duty or obligation to give any consideration to any interest or factors affecting the Company or any other Person. If in this Agreement a Member is permitted or required to make a decision in its "good faith" or under another express standard, the Covered Person shall act under such express standard and shall not be subject to any other or different standard imposed by this Agreement or other applicable law.

SECTION 2.11 Insurance. The Company may purchase and maintain insurance, to the extent and in such amounts as the Directors shall, in their sole discretion, deem reasonable, on behalf of Covered Persons and such other Persons as the Directors shall determine, against any liability that may be asserted against or expenses that may be incurred by any such Person in connection with the activities of the Company regardless of whether the Company would have the power to indemnify such Person against such liability under the provisions of this Agreement. The Company may enter into indemnity contracts with Covered Persons and such other Persons as the Directors shall determine and adopt written procedures pursuant to which arrangements are made for the advancement of expenses and the funding of obligations under this Section 2.10 and containing such other procedures regarding indemnification as are appropriate and consistent with this Agreement.

### ARTICLE III

#### CLASSES OF INTERESTS AND ADMISSION OF MEMBERS

##### SECTION 3.1 Classes.

(a) Subject to Section 3.1(b), the Interests of the Company shall be divided into two classes, Class A Membership Interests and Class B Membership Interests, each having the relative rights, powers and duties set forth in this Agreement.

(b) Notwithstanding Section 3.1(a), but subject to Sections 3.1(c) and 10.3(b), the Directors are hereby expressly authorized to take any action, including without limitation amending this Agreement, to create any class or series of Interests

11

that was not previously outstanding, each having such relative rights, powers and duties and interests in profits, losses, allocations and distributions of the Company as may be determined by the Directors and to cause holders of such Interests to be admitted as Additional Members of the Company as provided in Section 3.3. Subject to Sections 3.1(c) and 10.3(b), the total number of Class A Membership Interests and Class B Membership Interests and units of any other class or series of Interests created pursuant to this Section 3.1(b) which the Directors shall have the authority to cause the Company to issue shall not be limited.

(c) Any class or series of Interests created by the Directors

shall dilute the financial interests of the Class A Membership Interests and Class B Membership Interests proportionately.

SECTION 3.2 Admission of Initial Members. The initial members of the Company are those Persons executing this Agreement as of the date of this Agreement as members, each of which is admitted to the Company as the member effective as of the date of this Agreement. The Company shall issue the Class A Membership Interests and Class B Membership Interests listed on Schedule A attached hereto to the Members listed on Schedule A hereto. The name of each such Member and the amount contributed by such Member to the capital of the Company is listed on Schedule A attached hereto.

SECTION 3.3 Admission of Additional Members. Subject to Section 10.3(b), the Directors are authorized to admit any Person as an additional member of the Company (each, an "Additional Member" and collectively, the "Additional Members"), and issue to such Additional Members Interests of any other class or series of Interests established by the Directors pursuant to Section 3.1(b) of this Agreement. Each such Person shall be admitted as an Additional Member at the time such Person (i) executes this Agreement and (ii) is named as a Member on Schedule A hereto. Except as set forth in Section 10.3(b), no consent of any Member shall be required for the admission of an Additional Member.

SECTION 3.4 Schedule A. The Directors shall update Schedule A from time to time as necessary to reflect accurately the information therein and shall send each Member prompt written notice of each such update to Schedule A. Any amendment or revision to Schedule A made in accordance with this Agreement shall not be deemed an amendment to this Agreement. Any reference in this Agreement to Schedule A shall be deemed to be a reference to Schedule A as amended and in effect from time to time.

12  
ARTICLE IV

OFFICERS

SECTION 4.1 Designation; Term; Qualifications. The Directors or the Chairman may, from time to time, designate one or more Persons to be Officers of the Company. The names of the Persons designated as the initial Officers of the Company are set forth in Schedule C, such Persons to serve in such offices until resignation or removal by the Directors. Any Officer so designated shall have such authority and perform such duties as the Directors or the Chairman may, from time to time, delegate to such Person. The Directors and the Chairman may assign titles to particular Officers, and unless the Directors or the Chairman decide otherwise, the assignment of such title shall constitute the delegation to such Officer of the authority and duties that are normally associated with that office, subject to any specific delegation of authority and duties made to such Officer by the Mangers or the Chairman pursuant to this Section 4.1. Each Officer shall hold office for the term for which such Officer is designated and until its successor shall be duly designated and shall qualify or until its death, resignation or removal as provided in this Agreement. Any Person may hold any number of offices. No Officer need be a Director, a Member, a Delaware resident, or a Unites States citizen. Designation of such a Person as an Officer of the Company shall not of itself create any contract rights.

SECTION 4.2 Removal and Resignation. Any Officer of the Company may be removed as such, with or without cause, by a Majority of the Directors or the Chairman whenever in the judgement of such Directors or the Chairman, as applicable, the best interests of the Company will be served thereby; provided, however, that such removal shall be without prejudice to the contract rights, if any, of the Person so removed. Any Officer of the Company may resign as such at any time upon written notice to the Company. Such resignation shall be made in writing and shall take effect at the time specified therein, or if no time is specified therein, at the time of its receipt by the Chairman. The acceptance of a resignation shall not be necessary to make it effective unless expressly so provided in the resignation.

SECTION 4.3 Vacancies. Any vacancy occurring in any office of the Company may be filled by the person designated by a majority of the Directors or the Chairman.

SECTION 4.4 Compensation. The compensation, if any, of the Officers of the Company shall be fixed from time to time by the Directors; provided, however, that the Directors may delegate to one or more Directors, who may be Officers of the Company, the authority to fix such compensation.

13

SECTION 4.5 Acts of the Officers. Each Officer of the Company is an agent of the Company for the purpose of the business of the Company, and the act of each Officer for apparently carrying on in the usual the business of the Company binds the Company, unless (i) the Officer so acting has in fact no authority to act for the Company in the particular matter and (ii) the Person with whom such Officer is dealing has knowledge of the fact that such Officer has no such authority. An act of an Officer which is not apparently for the carrying on of the business of the Company in the usual way does not bind the

Company unless authorized by a Majority of the Directors.

## ARTICLE V

### VOTING AND MANAGEMENT

SECTION 5.1 Class A Member Voting Rights. Class A Members holding Class A Membership Interests shall be entitled to one vote for each such Class A Membership Interest upon all matters upon which Class A Members have the right to vote. All Class A Members shall have the right to vote separately as a class on any matter on which the Class A Members have the right to vote regardless of the voting rights of any other class or series of Interests.

SECTION 5.2 Class B Member Voting Rights. Except as provided in Section 12.2, Class B Members holding Class B Membership Interests shall have, with respect to such Class B Membership Interests, no right or power to vote on any question or matter or in any proceeding or to be represented at, or to receive notice of, any meeting of Members.

SECTION 5.3 Management of the Company. The business and affairs of the Company shall be managed solely and exclusively by the Directors and the Officers, if so delegated by the Directors, as provided herein. The Directors shall have all rights and powers on behalf and in the name of the Company to perform all acts necessary and desirable to the objects and purposes of the Company. The Members, in such capacity, shall have no part in the management of the Company and shall have no authority or right to act on behalf of or bind the Company in connection with any matter, except certain tax matters as set forth in Section 5.9 or as deemed necessary or appropriate by the Directors. The Members agree that all determinations, decisions and actions made or taken by the Directors (or their designee(s)) shall be conclusive and binding upon the Company, the Members and their respective successors, assigns and personal representatives.

14

On the date hereof, there shall be the number of Directors as are set forth in Schedule B hereto (one of which shall be the Chairman), which number shall be determined from time to time by the Class A Members. The persons listed on Schedule B hereto as Directors, and the Director designated as the Chairman, are hereby chosen by the Class A Members and designated as the Directors, and the Chairman, of the Company on the date hereof. A Director need not be a Member, a Delaware resident or a United States Citizen.

SECTION 5.4 Acts of the Directors, Management Procedures and Delegation.

(a) An act of a Director which is not apparently for the carrying on of the business of the Company in the usual way does not bind the Company unless authorized by a Majority of the Directors.

(b) Any Director may exercise any of the authority provided hereunder to the Directors or under the Delaware Act to one or more managers.

(c) The Directors may (but need not) exercise their authority hereunder by resolution in such manner as they may determine. A resolution of the Directors certified by a Director, the Secretary or an Assistant Secretary of the Company to have been adopted in accordance with this Agreement and contained in the books and records of the Company shall be conclusive evidence of the act of the Directors set forth therein.

(d) The Directors on behalf of the Company shall have the power and authority to designate one or more Persons for the Company (who may be designated as Officers, agents, employees, representatives or otherwise) who shall have such authority as may be conferred upon them by the Directors and who may perform any of the duties, and exercise any of the powers and authority, conferred upon the Directors, subject to the supervision and control of the Directors.

SECTION 5.5 Compensation of the Directors. No Director shall be entitled to any compensation for services as Director. Each Director shall be entitled to reimbursement for reasonable and, necessary out-of-pocket expenses incurred by such Director during the course of conducting the business of the Company. Notwithstanding the foregoing, the Directors may compensate and reimburse from the funds of the Company, the Directors and their designees and representatives, agents, employees and Officers appointed by the Directors in furtherance of the business or purposes of the Company.

15

SECTION 5.6 Books and Records; Accounting. The Directors shall keep or cause to be kept at the principal office of the Company (or at such other place as the Directors shall advise the Members in writing) true and complete books and records regarding the status of the business and financial condition and results of operations of the Company. The books and records of the Company shall be kept in accordance with the Federal income tax accounting methods and rules

determined by the Directors, which methods and rules shall reflect all Company transactions and be appropriate and adequate for the Company's business. The Company shall also keep books and records in accordance with GAAP.

SECTION 5.7 Reliance by Third Parties; Officers. Persons dealing with the Company are entitled to rely conclusively upon the power and authority of the Directors as set forth herein and upon a certificate of any Secretary or Assistant Secretary as to the incumbency of any Director, Officer or other personnel of the Company.

SECTION 5.8 Expenses. Except as otherwise provided in this Agreement, the Company shall be responsible for all and shall pay out of funds of the Company determined by the Directors to be available for such purpose, all expenses and obligations of the Company, including those incurred by the Company or the Directors or their respective Affiliates in connection with the formation, operation or management of the Company, in organizing the Company and preparing, negotiating, executing, delivering, amending and modifying this Agreement.

SECTION 5.9 Company Tax and Information Returns.

(a) The Tax Matters Partner shall cause to be prepared and timely filed all tax and information returns required to be filed for the Company. The Tax Matters Partner may, in its discretion, make or refrain from making any federal, state, local or foreign income or other tax elections for the Company that it deems necessary or advisable, including, without limitation: (i) any election under Section 754 of the Code or any successor provision, and (ii) any election under Regulations Section 301.7701-3 or any successor provision; provided, however, that the Tax Matters Partner may not elect to have the Company treated as a corporation for tax purposes without the Class A Approval.

(b) Fortress Investment Holdings LLC is hereby designated as the Company's "Tax Matters Partner" under the Section 6231(a)(7) of the Code and shall have all the powers and responsibilities of such position as provided in the Code. Fortress Investment Holdings LLC is specifically directed and authorized to take

16

whatever steps Fortress Investment Holdings LLC, in its discretion, deems necessary or desirable to perfect such designation, including filing any forms or documents with the Internal Revenue Service and taking such other action as may from time to time be required under the Regulations. Expenses incurred by the Tax Matters Partner, in its capacity as such, will be borne by the Company.

## ARTICLE VI

### CONTRIBUTIONS AND CAPITAL ACCOUNTS

SECTION 6.1 Capital Contributions.

(a) Each Class A Member is, concurrently with its execution of this Agreement, contributing to the capital of the Company the amount set forth opposite such Member's name on Schedule A attached hereto. Each Class B Member is, concurrently with the execution of this Agreement, contributing to the capital of the Company the amount set forth opposite its name on Schedule A attached hereto. The capital contributions made or deemed to have been made by each Additional Member shall be determined by the Directors and set forth on Schedule A attached hereto. No Member shall be required to make any additional capital contribution to the Company. However, a Member may make additional capital contributions to the Company with the written consent of the Directors.

(b) Each Class B Member shall have the right, but not the obligation, to participate in any additional capital contribution to be made by one or more Class B Members pursuant to clause (a) above (and proportionally in the number of Class B Interests issued in consideration therefor) in an amount equal to (I) the aggregate amount of capital to be contributed times (II) the Proportionate Share of such Class B Member divided by (III) the sum of the Proportionate Shares of all of the Class B Members who chose to participate.

(c) If one or more Members participating in a capital contribution specifies a maximum capital contribution to be made, first, an amount equal to the lesser of (I) the amount of capital to be contributed by all Class B Members and (II) the lowest of the amounts, calculated for each Class B Member participating in the capital contribution, of (1) the maximum capital specified to be contributed by such Class B Member participating in the capital contribution divided by (2) such Class B Member's Proportionate Share shall be made as a capital contribution by the participating Class B Members in accordance with clause (b) and then any remaining capital to be contributed

17

will be allocated among the Class B Members in accordance with clause (b) and this clause (c) as if it were a separate capital contribution, but without the

participation of any Member or Members who have already contributed the maximum amount so specified.

#### SECTION 6.2 Capital Accounts.

(a) There shall be established for each Member on the books of the Company a capital account (a "Capital Account"), which shall be maintained and adjusted as provided in the Regulations. The Capital Account of a Member shall be credited with the amount of all cash contributed by such Member to the Company. The Capital Account of a Member shall be increased by (i) the amount of any additional cash and the fair market value of any property contributed (or deemed contributed under the Code) by such Member to the Company and (ii) the amount of any Net Operating Profits or Net Disposition Profits allocated to such Member pursuant to Articles VII and IX of this Agreement, and decreased by (i) the amount of any Net Operating Losses or Net Disposition Losses allocated to such Member pursuant to Articles VII and IX of this Agreement, (ii) the amount of any cash distributed (or deemed distributed under the Code) to such Member, and (iii) the fair market value of any assets (other than cash) distributed to such Member. The Capital Account of each Member shall also be charged or credited with the amounts allocated to the Member pursuant to Sections 9.2(c) and (d), and shall be adjusted appropriately to reflect any other adjustment required pursuant to Regulations Sections 1.704-1 or 1.704-2.

(b) Upon the occurrence of any event specified in Regulations Section 1.704-1(b) (2) (iv) (f), the Directors may cause the Capital Accounts of the Members to be adjusted to reflect the fair market value of the Company's assets at such time as determined in good faith by the Directors. The adjustments shall reflect the manner in which the unrealized income, gains, loss, or deduction inherent in such property would be allocated among the Members if there were a taxable disposition of such property for such fair market value determined in good faith by the Directors on the date of the occurrence of such event.

#### SECTION 6.3 Withdrawal of Capital; Return of Capital; Deficit Balance in Capital Account.

(a) Except as otherwise specifically set forth in this Agreement, no Member shall have the right to (i) withdraw such Member's capital contribution or to demand or receive the return of a capital contribution or make any claim to any portion of Company capital or (ii) demand or receive property other than cash in return for a

18

capital contribution or to receive any distribution in return for a capital contribution that is not required by this Agreement.

(b) Except as expressly provided in this Agreement, no Member shall have personal liability to make any capital contribution.

(c) A deficit Capital Account of a Member shall not be deemed to be a liability of such Member or an asset or property of the Company or any other Member. Furthermore, no Member shall have any obligation to the Company or any other Member for any deficit balance in such Member's Capital Account.

### ARTICLE VII

#### ALLOCATIONS

#### SECTION 7.1 Allocation of Net Operating Profits and Net Operating Losses for Book Accounting Purposes.

(a) Net Operating Profits shall be allocated for book accounting purposes to the Class B Members, in proportion to their Proportionate Shares.

(b) Net Operating Losses shall be allocated for book accounting purposes to the Class B Members, in proportion to their Proportionate Shares.

#### SECTION 7.2 Allocation of Net Disposition Profits and Net Disposition Losses for Book Accounting Purposes.

(a) Net Disposition Profits shall be allocated for book accounting purposes to the Class B Members, in proportion to their Proportionate Shares.

(b) Net Disposition Losses shall be allocated for book accounting purposes to the Class B Members, in accordance with their Proportionate Shares.

19

### ARTICLE VIII

#### DISTRIBUTIONS



SECTION 8.1 Distributions from Operations. Subject to Sections 8.3 and 11.1, Cash Flow for any period shall be distributed to the Class B Members, at times determined by the Directors, in accordance with their Proportionate Shares.

SECTION 8.2 Distributions of Capital Receipts. Subject to Sections 8.3 and 11.1, Capital Receipts shall be distributed to the Class B Members, at times, and in cash or in kind (as determined by the Directors but subject to Section 8.5), in accordance with their Proportionate Shares.

SECTION 8.3 Treatment of Insufficiency. If the amounts available for distribution pursuant to Section 8.1 or 8.2 hereof are not sufficient to allow for the distribution to each Class B Member of the amounts provided for in such Sections, then the amount distributable pursuant to each such Section shall be apportioned among the Class B Members in proportion to the amounts that would be distributed to them under that Section if the amounts available for distribution thereunder were sufficient to allow for the distribution to the Class B Members of the amounts required to be distributed pursuant to such Section.

SECTION 8.4 Distributions in Kind. The Directors may cause the Company to make distributions of assets in kind only after obtaining Class A Approval. Whenever the distribution provided for in Section 8.1 or Section 8.2 shall be payable in property other than cash, the value of such distribution shall be the fair market value of such property determined by the Directors in good faith, and in the event of such a distribution there shall be allocated to the Members in accordance with Article VI the amount of Net Operating Profits or Losses and the amount of Net Disposition Profits or Losses that would result if the distributed asset had been sold for an amount in cash equal to its fair market value at the time of the distribution. No Member shall have the right to demand that the Company distribute any assets in kind to such Member.

20  
ARTICLE IX

SPECIAL ALLOCATION RULES

SECTION 9.1 Certain Definitions. The following terms have the definitions hereinafter indicated whenever used in this Article IX with initial capital letters:

(a) "Adjusted Capital Account Deficit" means, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant Fiscal Year or other period, after giving effect to the following adjustments:

(i) Credit to such Capital Account any amounts which such Member is treated as obligated to restore to the Company pursuant to Section 1.704-1(b)(2)(ii)(c) of the Regulations or is deemed to be obligated to restore pursuant to Section 1.704-2(g)(1) or Section 1.704-2(i)(5) of the Regulations; and

(ii) Debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), (d)(5), and (d)(6) of the Regulations.

The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Section 1.704-1(b)(2)(ii)(d) of the Regulations and shall be interpreted consistently therewith.

(b) "Company Minimum Gain" means the aggregate gain, if any, that would be realized by the Company for purposes of computing Profits and Losses with respect to each Company asset if each Company asset subject to a Nonrecourse Liability were disposed of for the amount outstanding on the Nonrecourse Liability by the Company in a taxable transaction. Company Minimum Gain with respect to each Company asset shall be further determined in accordance with Regulations Section 1.704-2(d) and any subsequent rule or regulation governing the determination of minimum gain. A Member's share of Company Minimum Gain at the end of any Fiscal Year shall equal the aggregate Nonrecourse Deductions allocated to such Member (or its predecessors in interest) up to that time, less such Member's (and predecessors') aggregate share of decreases in Company Minimum Gain determined in accordance with Regulations Section 1.704-2(g).

(c) "Depreciation" means, for each Fiscal Year, an amount equal to the federal income tax depreciation, amortization or other cost recovery deduction

purposes at the beginning of such year or other period, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization or other cost recovery deduction for such year bears to such beginning adjusted tax basis; provided that if the federal income tax depreciation, amortization, or other cost recovery deductions for such year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Directors.

(d) "Gross Asset Value" means, with respect to any asset of the Company, such asset's adjusted basis for federal income tax purposes, except as follows:

(i) the initial Gross Asset Value of any asset contributed by a Member to the Company shall be the gross fair market value of such asset at the time of contribution determined by the Directors using such reasonable method of valuation as they may adopt;

(ii) in the discretion of the Directors, the Gross Asset Values of all the Company's assets shall be adjusted to equal their respective gross fair market values, as reasonably determined by the Directors, immediately prior to the following events:

(A) the making of a capital contribution (other than a de minimis capital contribution) to the Company by a new or existing Member as consideration for an Interest;

(B) the distribution by the Company to a Member of more than a de minimis amount of Company property as consideration for the redemption of an Interest; and

(C) the liquidation of the Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); and

(iii) the Gross Asset Values of the Company assets distributed to any Member shall be the gross fair market values of such assets as reasonably determined by the Directors as of the date of distribution.

At all times, Gross Asset Values shall be adjusted by any Depreciation taken into account with respect to the Company's assets for purposes of computing Profits and

22

Losses. Gross Asset Values shall be further adjusted to reflect adjustments to Capital Accounts pursuant to Regulations Section 1.704-1(b)(2)(iv)(m) to the extent not otherwise reflected in adjustments to Gross Asset Values. Any adjustment to the Gross Asset Values of the Company property shall require an adjustment to the Members' Capital Accounts as described in the definition of Capital Account.

(e) "Nonrecourse Deductions" means the nonrecourse deductions as defined in Regulations Section 1.704-2(b)(1). The amount of nonrecourse deductions for a Fiscal Year equals the net increase, if any, in the amount of Company Minimum Gain during such Fiscal Year reduced by any distributions during such Fiscal Year of proceeds of a Nonrecourse Liability that are allocable to an increase in Company Minimum Gain, determined according to the provisions of Regulations Sections 1.704-2(c) and 1.704-2(h).

(f) "Nonrecourse Liability" means a nonrecourse liability as defined in Regulations Section 1.704-2(b)(3).

(g) "Member Minimum Gain" means an amount, with respect to each Member Nonrecourse Debt, equal to Company Minimum Gain that would result if such Member Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Regulations Section 1.704-2(i)(3).

(h) "Member Nonrecourse Debt" means a liability as defined in Regulations Section 1.704-2(b)(4).

(i) "Member Nonrecourse Deductions" means the "partner nonrecourse deductions" as defined in Regulations Section 1.704-2(i)(2). The amount of Member Nonrecourse Deductions with respect to a Member Nonrecourse Debt for a Fiscal Year equals the net increase, if any, in the amount of Member Minimum Gain during such Fiscal Year attributable to such Member Nonrecourse Debt, reduced by any distributions during that Fiscal Year to the Member that bears the economic risk of loss for such Member Nonrecourse Debt to the extent that such distributions are from the proceeds of such Member Nonrecourse Debt and are allocable to an increase in Member Minimum Gain attributable to such Member Nonrecourse Debt, determined according to the provisions of Regulations Sections 1.704-2(h) and 1.704-2(i).

(j) "Profits" and "Losses" shall mean, respectively, Net Operating Profits plus Net Disposition Profits, and Net Operating Losses plus Net

SECTION 9.2 Allocations. The following provisions are incorporated in the Agreement.

(a) Allocations for U.S. Federal Income Tax Purposes.

(i) For each Fiscal Year or other relevant period, except as otherwise provided in this Section 9.2(a), for federal income tax purposes, each item of income, gain, loss and deduction shall be allocated among the Class B Members in the same manner as its correlative item of Net Operating Profits, Net Operating Losses, Net Disposition Profits or Net Disposition Losses is allocated pursuant to Article VII of this Agreement.

(ii) In accordance with Code Sections 704(b) and 704(c) and the Regulations thereunder, income, gain, loss and deduction with respect to any property contributed to the capital of the Company shall, solely for federal income tax purposes, be allocated among the Class B Members so as to take into account any variation between the adjusted basis of such property to the Company for federal income tax purposes and the initial Gross Asset Value of such property.

(iii) If the Gross Asset Value of any Company property is adjusted as described in the definition of Gross Asset Value, subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and the Gross Asset Value of such asset in the manner prescribed under Code Sections 704(b) and 704(c) and the Regulations thereunder. In furtherance of the foregoing, the Company shall employ any reasonable method selected by the Directors. The Directors are specifically authorized to select the traditional method described in Regulation Section 1.704-3(b).

(b) Allocations with Respect to Transferred or Additional Interests. Profits and Losses allocable to an Interest assigned, issued or reissued during a Fiscal Year shall be allocated to each Person who was the holder of such Interest during such Fiscal Year on the basis of an interim closing of the books of the Company.

(c) Mandatory Allocations for Federal Income Tax Purposes.

(i) No Excess Deficit. To the extent that any Class B Member has or would have, as a result of an allocation of Loss (or item thereof), an Adjusted Capital Account Deficit, such amount of Loss (or item thereof) shall be allocated to the other Class B Members in accordance with Section 9.2(a), but in a manner which will not produce an Adjusted Capital Account Deficit as to such Class B Members. To the extent such allocation would result in all Class B Members having Adjusted Capital Account Deficits, such Loss shall be allocated to the Class B Members in the manner required by the Regulations under Section 704 of the Code. Where the Company is entitled to select an allocation method under such Regulations, the method shall be selected by the Directors.

(ii) Minimum Gain Chargeback. Notwithstanding any other provision of this Article IX, if there is a net decrease in Company Minimum Gain during any Fiscal Year, then, subject to the exceptions set forth in Regulations Sections 1.704-2(f)(2), (3), (4) and (5), each Class B Member shall be specially allocated items of the Company income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Class B Member's share of the net decrease in Company Minimum Gain, as determined under Regulations Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Class B Member pursuant thereto. The items to be so allocated shall be determined in such section of the Regulations in accordance with Regulations Section 1.704-2(f). This Section 9.2(c)(ii) is intended to comply with the minimum gain chargeback requirements in Regulations Section 1.704-2(f) and shall be interpreted consistently therewith.

(iii) Member Minimum Gain Chargeback. Notwithstanding any other provision of this Article IX except Section 9.2(c)(ii), if there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Debt during any Fiscal Year, then, subject to the exceptions set forth in Regulations Section 1.704-2(i)(4), each Member who has a share of the Member Minimum Gain attributable to such Member Nonrecourse Debt,

determined in accordance with Regulations Section 1.704-2(i)(5), shall be specially allocated items of the Company income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Member's share of the net decrease in Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in

25

accordance with Regulations Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(i)(4). This Section 9.2(c)(iii) is intended to comply with the minimum gain chargeback requirement in such Section of the Regulations and shall be interpreted consistently therewith.

(iv) Qualified Income Offset. Notwithstanding any other provision of this Article IX, except Sections 9.2(c)(ii) and 9.2(c)(iii), in the event any Class B Member receives any adjustments, allocations or distributions described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4), (5), or (6), that cause or increase an Adjusted Capital Account Deficit of such Class B Member, items of Company income and gain shall be specially allocated to such Member in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account Deficit of such Class B Member as quickly as possible.

(v) Member Nonrecourse Deductions. Any Member Nonrecourse Deductions for any Fiscal Year shall be specially allocated to the Member who bears the economic risk of loss with respect to the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable in accordance with Regulations Section 1.704-2(i)(1).

(vi) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code Section 734(b) or 743(b) is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such item of gain or loss shall be specially allocated to the Members in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Regulations.

Each Class B Member hereby agrees to provide the Company with all information necessary to give effect to an election made under Code Section 754 if the Tax Matters Partner determines to make such an election; provided that the cost

26

associated with such an election shall be borne by the Company as a whole. With respect to such election:

(A) Any change in the amount of the depreciation deducted by the Company and any change in the gain or loss of the Company, for federal income tax purposes, resulting from an adjustment pursuant to Code Section 743(b) shall be allocated entirely to the transferee of the Interest or portion thereof so transferred. Neither the capital contribution obligations of, nor the Interest of, nor the amount of any cash distributions to, the Class B Members shall be affected as a result of such election, and except as provided in Regulations Section 1.704-1(b)(2)(iv)(m), the making of such election shall have no effect except for federal and (if applicable) state and local income tax purposes.

(B) Solely for federal and (if applicable) state and local income tax purposes and not for the purpose of maintaining the Members' Capital Accounts (except as provided in Regulations Section 1.704-1(b)(2)(iv)(m)), the Company shall keep a written record for those assets, the bases of which are adjusted as a result of such election, and the amount at which such assets are carried on such record shall be debited (in the case of an increase in basis) or credited (in the case of a decrease in basis) by the amount of such basis adjustment. Any change in the amount of the depreciation deducted by the Company and any change in the gain or loss of the Company, for federal and (if applicable) state and local income tax purposes, attributable to the basis adjustment made as a result of such election shall be debited or credited, as the case may be, on such record.

(vii) Curative Allocations. The allocations set forth in this Section 9.2 (the "Regulatory Allocations") are intended to comply with certain requirements of Regulations Section 1.704-1(b). The Regulatory

Allocations shall be taken into account for the purpose of equitably adjusting subsequent allocations of Profits and Losses, and items of income, gain, loss, and deduction among the Class B Members so that, to the extent possible, the net amount of such allocations of Profits and Losses and other items to each Class B Member shall be equal to the net amount that would have been allocated to each such Class B Member if the Regulatory Allocations had not occurred.

27

(viii) Nonrecourse Debt Distribution. To the extent permitted by Regulations Sections 1.704-2(h)(3) and 1.704-2(i)(6), the Directors shall endeavor to treat distributions as having been made from the proceeds of Nonrecourse Liabilities or Member Nonrecourse Debt only to the extent that such distributions would cause or increase a deficit balance in any Class B Member's Capital Account that exceeds the amount such Class B Member is otherwise obligated to restore (within the meaning of Regulations Section 1.704-1(b)(2)(ii)(c)) as of the end of the Company's taxable year in which the distribution occurs.

## ARTICLE X

### RESIGNATION AND ASSIGNMENT OF INTERESTS

SECTION 10.1 Resignation of Member. A Member may resign from the Company prior to the dissolution and winding up of the Company only upon, and shall be deemed to have resigned upon, any redemption, exchange or other repurchase by the Company or an assignment of its interests in compliance with the provisions of Section 10.3 and Section 10.4.

SECTION 10.2 No Distribution Upon Resignation. Upon resignation, no resigning Member shall be entitled to receive any distribution or otherwise be entitled to receive the fair value of its Interest; provided, however, that upon any redemption, exchange or other repurchase by the Company, such Member shall be entitled to receive the amount payable by the Company in connection with such redemption, exchange or other repurchase.

SECTION 10.3 Assignment of Interests.

(a) General. No Transfer of all or any portion of a Member's Interest (including some or all of its rights or obligations hereunder) may be made except as permitted by this Section 10.3. For purposes of this Agreement, "Transfer" shall mean any sale, exchange, assignment, bequeath, creation of an encumbrance, or any other transfer or disposition of any kind, whether voluntary or involuntary. No Transfer of all or any portion of a Member's Interest (including some or all of its rights or obligations hereunder) may be made without Class A Approval.

(b) The Company shall not recognize for any purpose any purported Transfer of all or any portion of a Member's Class A Membership Interests or Class B

28

Membership Interests (including some or all of its rights or obligations hereunder) unless:

(i) the Directors shall have been furnished with the documents effecting such Transfer executed and acknowledged by both transferor and transferee, together with the written agreement of the transferee to become a party to and be bound by this Agreement, all of which shall be in form and substance reasonably satisfactory to the Directors;

(ii) such Transfer shall have been made in accordance with all applicable laws and regulations and all necessary governmental consents shall have been obtained and requirements satisfied, including without limitation, compliance with the Securities Act of 1933, as amended, and applicable state blue sky and securities laws;

(iii) such Transfer will not cause the Company to have more than 100 partners (as determined for purposes of Treasury Regulations Section-1.7704-1(h)(1)(ii));

(iv) all necessary instruments reflecting such admission shall have been filed in each jurisdiction in which such filing is necessary in order to qualify the Company to conduct business or to preserve the limited liability of the Members; and

(v) such transfer or assignment will not cause the Company to be required to register as an "investment company" under the Investment Company Act of 1940.

SECTION 10.4 Right of Assignee to Become a Substitute Member. If the provisions of Section 10.3 have been complied with, such Transfer shall, nevertheless, not entitle the assignee to become a Member or to be entitled to exercise or receive any of the rights, powers or benefits of a Member other than the right to receive distributions to which the assigning Member would be entitled, unless (i) the assigning Member designates, in a written instrument delivered to the Directors, its assignee to become a Substitute Member, and (ii) the transferee has executed and acknowledged such instruments, in form and substance reasonably satisfactory to the Directors, as the Directors reasonably deem necessary or desirable in their sole discretion to effectuate such admission and to confirm the agreement of such transferee to be bound by all the terms and provisions of this Agreement with respect to any rights and/or obligations

29

represented by the Class A Membership Interests or Class B Membership Interests acquired by such transferee. The admission of any transferee of a Member as a Substitute Member shall not require the approval of any Member, provided that the transferor and transferee have complied, to the Directors' reasonable satisfaction, with the provisions of Section 10.3 and this Section 10.4. If a Member assigns all of its Class A Membership Interests or Class B Membership Interests and the assignee of such Class A Membership Interests or Class B Membership Interests is entitled to become a Substitute Member pursuant to this Section 10.4, such assignee shall be admitted to the Company effective immediately prior to the effective date of the assignment, and, immediately following such admission, the assigning Member shall cease to be a member of the Company.

SECTION 10.5 Recognition of Transfer by Company. No Transfer, or any part thereof, that is in violation of this Article X shall be valid or effective, and neither the Company nor the Directors shall recognize the same for the purpose of making distributions pursuant to Article VIII hereof with respect to Class B Membership Interests or part thereof. Neither the Company nor the Directors shall incur any liability as a result of refusing to make any such distributions to the assignee of any such invalid assignment. In the event that a Transfer of a Class B Membership Interest is made in compliance with Article X, the transferee shall succeed to the portion of the Capital Account of the assigning Member attributable to the Class B Membership Interests or portion thereof transferred or assigned, and, except as provided in Section 8.3, to the right to receive distributions and allocations attributable to the Class B Membership Interests or the portion thereof transferred or assigned, made or allocated after the date of the interim closing of the books of the Company relating to such transfer or assignment.

#### ARTICLE XI

#### DISSOLUTION

SECTION 11.1 Duration and Dissolution. The Company shall be dissolved and its affairs shall be wound up upon the first to occur of the following:

- (a) the entry of a decree of judicial dissolution of the Company under Section 18-802 of the Delaware Act; and
- (b) the dissolution or liquidation of Fortress Investment Holdings LLC, if Fortress Investment Holdings LLC is then a Member, unless the business of the

30

Company is continued by the consent of all remaining Members within 90 days following the occurrence of such event. The remaining Members agree that they shall continue the Company.

Except as provided in clause (b) above, the death, retirement, resignation, expulsion, bankruptcy or dissolution of any Member or the occurrence of any other event which terminates the continued membership of any Member in the Company shall not cause the Company to be dissolved or its affairs wound up.

SECTION 11.2 Winding Up. Subject to the provisions of the Delaware Act, the Directors shall have the exclusive right to wind up the Company's affairs in accordance with Section 18-803 of the Delaware Act (and shall promptly do so upon dissolution of the Company), and shall also have the exclusive right to act as or to appoint a liquidating trustee in connection therewith.

SECTION 11.3 Distribution of Assets. Upon the winding up of the Company, the assets shall be distributed to the Members in accordance with their positive capital account balances, subject to the applicable terms of Section 18-804 of the Delaware Act.

SECTION 11.4 Notice of Liquidation. The Directors shall give each of the

Members at least 10 days' prior written notice of any Liquidation.

## ARTICLE XII

### MISCELLANEOUS

SECTION 12.1 Tax Reports and Financial Statements. After the end of each fiscal year, the Directors shall, as promptly as possible and in any event within 90 days after the close of the fiscal year, cause to be prepared and transmitted to each Member federal income tax form K-1.

SECTION 12.2 Amendment to the Agreement. This Agreement may be amended or supplemented by the written consent of the Class A Members; provided, that no such amendment or supplement shall adversely affect the rights of the Class B Members without the Class B Approval; and provided further, that the Company may issue classes and series of Interests that were not previously outstanding and amend this Agreement in connection therewith as long as such issuance is permitted by Section 3.1 of this Agreement.

### 31

SECTION 12.3 Successors, Counterparts. This Agreement and any amendment hereto in accordance with Section 12.2 shall be binding as to executors, administrators, estates, heirs and legal successors, or nominees or representatives, of the Members, and (b) may be executed in several counterparts with the same effect as if the parties executing the several counterparts had all executed one counterpart.

SECTION 12.4 Governing Law; Severability. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without giving effect to the principles of conflict of laws thereof. In particular, this Agreement shall be construed to the maximum extent possible to comply with all of the terms and conditions of the Delaware Act. If, nevertheless, it shall be determined by a court of competent jurisdiction that any provisions or wording of this Agreement shall be invalid or unenforceable under said Delaware Act or other applicable law, such invalidity or unenforceability shall not invalidate the entire Agreement. In that case, this Agreement shall be construed so as to limit any term or provision to make it enforceable or valid within the requirements of applicable law, and, in the event such term or provisions cannot be so limited, this Agreement shall be construed to omit such invalid or unenforceable provisions. If it shall be determined by a court of competent jurisdiction that any provisions relating to the distributions and allocations of the Company or to any fee payable by the Company is invalid or unenforceable, this Agreement shall be construed or interpreted so as (a) to make it enforceable or valid and (b) to make the distributions and allocations as closely equivalent to those set forth in this Agreement as is permissible under applicable law.

SECTION 12.5 Filings. Following the execution and delivery of this Agreement, the Directors or their designee shall promptly prepare any documents required to be filed and recorded under the Delaware Act, and the Directors or such designee shall promptly cause each such document to be filed and recorded in accordance with the Delaware Act and, to the extent required by local law, to be filed and recorded or notice thereof to be published in the appropriate place in each jurisdiction in which the Company may hereafter establish a place of business. The Directors or such designee shall also promptly cause to be filed, recorded and published such statements of fictitious business name and any other notices, certificates, statements or other instruments required by any provision of any applicable law of the United States or any state or other jurisdiction which governs the conduct of its business from time to time.

SECTION 12.6 Power of Attorney. Each Member does hereby constitute and appoint each Director as its true and lawful representative and attorney-in-fact, in its name, place and stead, to make, execute, sign, deliver and file (a) a Certificate of

### 32

Formation of the Company, any amendment thereof required because of an amendment to this Agreement or in order to effectuate any change in the membership of the Company, (b) this Agreement, (c) any amendments to this Agreement and (d) all such other instruments, documents and certificates which may from time to time be required by the laws of the United States of America, the State of Delaware or any other jurisdiction, or any political subdivision or agency thereof, to effectuate, implement and continue the valid and subsisting existence of the Company or to dissolve the Company or for any other purpose consistent with this Agreement and the transactions contemplated hereby. The power of attorney granted hereby is coupled with an interest and shall (i) survive and not be affected by the subsequent death, incapacity, disability, dissolution, termination or bankruptcy of the Member granting the same or the transfer of all or any portion of such Member's Interest and (ii) extend to such Member's

successors, assigns and legal representatives.

SECTION 12.7 Headings. Section and other headings contained in this Agreement are for reference purposes only and are not intended to describe, interpret, define or limit the scope or intent of this Agreement or any provision hereof.

SECTION 12.8 Additional Documents. Each Member, upon the request of the Directors, agrees to perform all further acts and execute, acknowledge and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement.

SECTION 12.9 Notices. All notices, requests and other communications to any party hereunder shall be in writing (including facsimile or similar writing) and shall be given to such party (and any other person designated by such party) at its address or facsimile number set forth in a schedule filed with the records of the Company or such other address or facsimile number as such party may hereafter specify to the Directors or Officers of the Company. Each such notice, request or other communication shall be effective (a) if given by facsimile, when transmitted to the number specified pursuant to this Section and the appropriate confirmation is received, (b) if given by mail, seventy-two hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, of (c) if given by any other means, when delivered at the address specified pursuant to this Section.

SECTION 12.10 Waiver of Right to Partition and Bill of Accounting. To the fullest extent permitted by applicable law, each of the Members covenants that it will not, and hereby waives any right to (except with the consent of the Directors), file a bill for partnership accounting. Each of the Members irrevocably waives any right that it

33

may have to maintain any action for partition with respect to any of the Company's assets.

IN WITNESS WHEREOF, this Agreement is executed and delivered as of the date first written above by the undersigned, being all of the Members, do hereby agree to be bound by the terms and provisions set forth in this Agreement.

FORTRESS INVESTMENT HOLDINGS LLC

By: /s/ Nardone A. Nardone  
-----  
Name: Randal A. Nardone  
Title: Director

34

SCHEDULE A

INITIAL MEMBERS

<TABLE>  
<CAPTION>

Class A Member	Number of Class A Membership Interests	Initial Capital Contribution
-----	-----	-----
<S>	<C>	<C>
Fortress Investment Holdings, LLC		\$

<TABLE>  
<CAPTION>

Number of  
Class B



Class B Member -----	Membership Interests -----	Initial Capital Contribution -----
<S>	<C>	<C>
Fortress Investment Holdings, LLC </TABLE>		\$

35  
SCHEDULE B

INITIAL DIRECTORS

Wesley R. Edens (Chairman)

Robert I. Kauffman

Randal A. Nardone

Erik P. Nygaard

36  
SCHEDULE C

INITIAL OFFICERS

<TABLE> <CAPTION> Name ----	Offices Held -----
<S>	<C>
Wesley R. Edens	Chief Executive Officer
Robert I. Kauffman	President
Randal A. Nardone	Chief Operating Officer
Erik P. Nygaard	Chief Information Officer and Treasurer
</TABLE>	

INVESTMENT GUIDELINES OF NEWCASTLE INVESTMENT CORP.

Capitalization terms used but not defined herein shall have the meanings ascribed thereto in that certain management and advisory agreement (the "Management Agreement") by and between the Newcastle Investment Corp. (the "Corporation" or the "REIT") and Fortress Investment Group LLC (the "Manager") Newcastle.

1. No investment of the Corporation shall be made which would cause the Corporation to fail to qualify as a real estate investment trust under the Internal Revenue Code of 1986, as amended.
2. No investment of the Corporation shall be made which would cause the Corporation to be regulated as an investment company under the Investment Company Act of 1940.
3. The Corporation shall not invest more than 20% of its Total Equity, determined as of the date of such investment, in any single asset.
4. The debt of the Corporation (including the Corporation's pro rata share of debt of its subsidiaries) shall not exceed 90% of the sum of such debt and the Total Equity of the Corporation.
5. The Corporation shall not co-invest with the Manager or any of its affiliates unless (i) Corporation's co-investments is otherwise in accordance with these Guidelines and (ii) the terms of such co-investment are at least as favorable to the Corporation as to the Manager or such affiliate (as applicable) making such co-investment with the manager.

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated March 15, 2002 with respect to the consolidated financial statements of Newcastle Investment Holdings Corp., (formerly Newcastle Investment Corp. and prior to that Fortress Investment Corp.) and subsidiaries as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31, 2001 included in the Prospectus of Newcastle Investment Corp. that is made a part of the Registration Statement on Form S-11 dated June 14, 2002 of Newcastle Investment Corp. for the registration of \_\_\_\_\_ shares of common stock.

Ernst & Young LLP

New York, New York  
June 14, 2002

June 6, 2002

Mr. Randal A. Nardone  
Secretary  
Newcastle Investment Corp.  
1251 Avenue of the Americas  
New York, NY 10020

RE: Newcastle Investment Corp.'s Registration Statement  
on Form S-11

---

Dear Mr. Nardone:

I hereby consent to being named in Newcastle Investment Corp.'s (the "Company") Registration Statement on Form S-11 as a director of the Company upon completion of the Company's initial public offering.

Very truly yours,

/s/ David Grain

---

David Grain

June 6, 2002

Mr. Stuart McFarland  
Secretary  
Newcastle Investment Corp.  
1251 Avenue of the Americas  
New York, NY 10020

RE: Newcastle Investment Corp.'s Registration Statement  
on Form S-11

---

Dear Mr. Stuart McFarland:

I hereby consent to being named in Newcastle Investment Corp.'s (the "Company") Registration Statement on Form S-11 as a director of the Company upon completion of the Company's initial public offering.

Very truly yours,

/s/ Stuart McFarland

\_\_\_\_\_  
Stuart McFarland