

REGISTRATION NO. 333-90578

SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

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  
 1251 AVENUE OF THE AMERICAS  
 NEW YORK, NY 10020  
 (212) 798-6100

(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

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<S>	<C>	
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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)
<S> Common stock, par value \$0.01 per share.....	<C> \$124,775,000	<C> \$11,479.30

</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.

-----  
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.

-----  
-----  
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 AUGUST 15, 2002

PROSPECTUS

7,000,000 SHARES

NEWCASTLE INVESTMENT CORP.

(BEAR, STEARNS & CO., LOGO)

COMMON STOCK  
-----

This is the initial public offering of Newcastle Investment Corp. No public market currently exists for our common stock. Substantially all of our outstanding common stock is currently owned by Newcastle Investment Holdings Corp. After this offering, new investors will own 28.9% of our common stock and Newcastle Investment Holdings Corp. will own 68.2% of our common stock, assuming exercise of all outstanding options.

We currently anticipate the initial public offering price of our common stock to be between \$14.50 and \$15.50 per share. We have applied 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 June 30, 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). In addition, in connection with this offering, we will grant to our manager an option to purchase 700,000 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 20.5% 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 incentive compensation 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 14 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.
- 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, which may result in decisions made that are not in our best interest.
- We were organized in June 2002 and have not operated separately from Newcastle Investment Holdings and may not operate successfully as a separate business.
- We may change our investment strategy without stockholder consent, which could result in investments that are different, and possibly more risky, than our current investments.
- 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, which may result in losses.
- 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, which would reduce the amount of cash available for distribution to our stockholders.
- 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.

<Table>  
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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 1,050,000 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.

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#### 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.

As of July 12, 2002, Newcastle Investment Holdings Corp. had contributed to us the following assets, which represented approximately seventy percent of the total assets of Newcastle Investment Holdings (100% of the real estate securities and approximately 25% of the real properties, in each case, based on book value as of June 30, 2002) and related liabilities, in exchange for all of our outstanding common stock:

- 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 financial and statistical data that we provide with respect to our investments assumes that the formation transactions had 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 substantially 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 real estate securities and credit leased real estate businesses, our two operating segments, from Newcastle Investment Holdings. We believe that separating these businesses 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 68.2% of our common stock and new investors in this offering will own 28.9% of our common stock, assuming exercise of all outstanding options.

As a result of the formation transactions, we own a diversified portfolio of credit sensitive real estate securities, including commercial and residential mortgage backed securities and unsecured REIT debt, rated primarily BBB (BBB- is the lowest investment grade rating) and BB (BB+ is the highest non-investment grade rating). Mortgage backed securities are interests in or obligations secured by pools of commercial or residential mortgage loans. We also own credit leased real estate in Canada and Belgium, which we 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

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major tenant has, investment grade 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 \$1.2 billion of assets at June 30, 2002;
- our portfolio was encumbered by approximately \$1.0 billion of debt at June 30, 2002;
- for the year ended December 31, 2001, we had revenues of approximately \$77.5 million, expenses of approximately \$50.4 million and income from continuing operations of approximately \$27.1 million;
- for the six months ended June 30, 2002, we had revenues of approximately \$47.1 million, expenses of approximately \$28.6 million and income from continuing operations of approximately \$18.5 million; and
- our income from continuing operations per common share was \$1.64 for 2001 and \$1.12 for the six months ended June 30, 2002.

As of and for the six months ended June 30, 2002, 89% of our total assets was comprised of real estate securities and 11% was comprised of credit leased real estate, and 77% of our total revenue was derived from interest and gains on settlement of investments from our real estate securities and 23% was derived from rental and escalation income from our credit leased real estate.

We have entered into an agreement with EMC Mortgage Corporation, an affiliate of Bear, Stearns & Co. Inc., that provides us with an option to purchase up to \$235 million principal 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. 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 22.3% from inception through June 30, 2002. On April 25, 2002 we closed our second CBO transaction, which we refer to as CBO II. As of June 30, 2002, the aggregate dollar amount of the collateral in CBO I and CBO II is approximately \$1.1 billion. The weighted average credit rating of the collateral in CBO I and CBO II is BBB-. Pursuant to an agreement entered into in

July 2002, Bear, Stearns International Limited, an affiliate of Bear, Stearns & Co. Inc., will provide financing to purchase securities for, and Bear, Stearns & Co. Inc. will act as placement agent in connection with, our third CBO transaction.

#### OUR INVESTMENT STRATEGY

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.

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#### OUR COMPETITIVE STRENGTHS

Our competitive strengths include:

- our diversified portfolio, by asset type, industry, location and issuer;
- our match-funding discipline, whereby we seek to match our assets and liabilities with respect to interest rates and maturities to finance our investments with like-kind debt;
- our creative financing strategies, in particular, CBOs and lease securitizations; and
- our experienced management.

#### OUR MANAGER

We are externally managed and advised by Fortress Investment Group LLC. At June 30, 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). In connection with this offering, we will grant to our manager an option to purchase 700,000 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 20.5% of our common stock, taking into account its interest in Newcastle Investment Holdings and assuming exercise of all of its options. We have no ownership interest in our manager.

Our chairman and chief executive officer and each of our executive officers also serve as officers of our manager. Our manager is entitled to receive a base management fee from us and may receive incentive compensation based on certain performance criteria.

As required by our management agreement, 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.

Our manager also serves as manager of 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.

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The following chart shows our corporate structure and 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.

- We are dependent upon our manager and may not find a suitable replacement if our manager terminates the management agreement.
- We are subject to potential conflicts of interest arising out of our relationships with our manager, which may result in decisions made that are not in our best interest.
- Our manager and certain of our officers will devote substantial time to activities outside of our business, including the management of other real estate-related vehicles.
- We are subject to potential conflicts of interest arising out of our relationship with Newcastle Investment Holdings, which may result in decisions made that are not in our best interest.
- We were organized in June 2002 and have not operated separately from Newcastle Investment Holdings and may not operate successfully as a separate business.
- We pay our manager substantial base management fees regardless of the performance of our portfolio and may pay incentive compensation 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.

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- 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.
- Our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited because our real estate assets are generally illiquid and our real estate securities are unregistered and may have restrictions on transfer.
- We leverage our assets, which can compound losses and reduce the cash available for distribution to our stockholders.
- The assets we invest in are subject to the credit risk of the underlying assets and in the event of default of such assets and the exhaustion of any underlying credit support, we may not recover our full investment.
- The yield on our investments may 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.
- We are exposed to credit risk from our tenant, 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, we are exposed to credit risk from the GSA portfolio as a result of our investment in GSA portfolio mezzanine bonds. If the value of the GSA properties is diminished, the value of this investment could decline.
- Since the GSA portfolio mezzanine bonds are not entitled to any scheduled interest or amortization payments prior to their maturity date, if the value of the GSA properties declines and does not support the repayment of the senior mortgage debt and our mezzanine 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 us and in Newcastle Investment Holdings.
- If we fail to qualify as a REIT, we will be subject to income tax at regular corporate rates, which will reduce the cash available for distribution to our stockholders.
- The REIT qualification rules impose limitations on the types of investments and activities which we may undertake, including limitations on our use of hedging transactions and derivatives, and these limitations may, in some cases, preclude us from pursuing the most economically beneficial investment alternatives.

- 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.

Newcastle Investment Holdings was incorporated in the State of Maryland in May 1998. We were incorporated in the State of Maryland in June 2002. Our principal executive offices are located at 1251 Avenue of the Americas, New York, New York 10020. Our telephone number is (212) 798-6100.

THE OFFERING

The following information assumes that the underwriters do not exercise their over-allotment option to purchase additional shares in this offering.

Common stock we are offering.....	7,000,000 shares
Common stock to be outstanding after the offering.....	23,488,517 shares
Use of proceeds.....	Proceeds will be used to purchase mortgage loans. See "Use of Proceeds."
Proposed NYSE symbol.....	NCT

The number of shares of common stock that will be outstanding after the offering is based on the number of shares outstanding as of June 30, 2002, and excludes 700,000 options to be granted to our manager in connection with this offering, representing 10% of the number of shares being offered hereby, subject to adjustment if the underwriters' over-allotment option is exercised.

RESTRICTIONS ON OWNERSHIP OF STOCK

Due to limitations on the concentration of ownership of a REIT imposed by the Internal Revenue Code of 1986, as amended, our charter prohibits any stockholder from directly or indirectly owning more than 9.8% of the aggregate value of the outstanding shares of any class or series of our stock, referred to in this prospectus as the stock ownership limit. Notwithstanding the foregoing, our board of directors has exercised its right under our charter to exempt Newcastle Investment Holdings, our manager and certain of its affiliates and executive officers from such limitation. Our board of directors has also granted a limited exemption to Wallace R. Weitz & Company, a third party group of funds, from such limitation.

DISTRIBUTION POLICY

We generally need to distribute at least 90% of our net taxable income each year (subject to certain adjustments) so as to qualify as a REIT under the Internal Revenue Code. We may, under certain circumstances, make a distribution of capital or of assets. Distributions will be made at the discretion of our board of directors.

SUMMARY SELECTED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Newcastle Investment Holdings contributed to us certain assets and related liabilities in exchange for all of our shares of common stock. However, as presented in the following table, for accounting purposes this transaction is presented as a reverse spin-off. Under a reverse spin-off, Newcastle Investment Corp. is treated as the continuing entity and the assets to be retained by Newcastle Investment Holdings are accounted for as if they were distributed through a spin-off to Newcastle Investment Holdings.

As of July 12, 2002, for accounting purposes, we distributed to Newcastle Investment Holdings Corp. assets which represented approximately thirty percent of our total assets (100% of our real estate loans, our investment in the Fund, and approximately 75% of our real properties, in each case based on book value as of June 30, 2002) and related liabilities. The following assets were retained by us:

- 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.



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 distribution had been consummated on January 1, 2002 or 2001, as applicable. The historical results of operations of the assets and liabilities distributed to Newcastle Investment Holdings have been presented as discontinued operations for those operations that constitute a component of an entity. A component of an entity must have cash flows that are clearly distinguished operationally and for financial reporting purposes from the rest of the entity. Of the assets distributed to Newcastle Investment Holdings, the GSA portfolio and the mortgage loans qualify as a component of an entity. The remaining operations related to the other assets and liabilities distributed to Newcastle Investment Holdings which are not a component of an entity have been eliminated. The GSA portfolio mezzanine bonds, which were historically eliminated, have not been eliminated for this presentation since the entity that issued the bonds is part of the operations spun-off to Newcastle Investment Holdings and, accordingly, is no longer a part of our operations.

The summary selected unaudited pro forma consolidated balance sheet is presented as if the distribution had been consummated on June 30, 2002.

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 June 30, 2002 and for the year ended December 31, 2001 and the six month periods ended June 30, 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>

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,
	2002	2001	2001
<S>	<C>	<C>	<C>
<b>OPERATING DATA</b>			
<b>Revenues</b>			
Interest and dividend income (\$392, \$0, and \$2 from affiliates, respectively).....	\$31,253	\$24,216	\$47,711
Rental and escalation income.....	10,788	11,484	22,289
Gain on settlement of investments.....	5,030	6,390	7,405
Other income.....	9	9	43
	-----	-----	-----
	47,080	42,099	77,448
<b>Expenses</b>			
Interest expense.....	19,173	16,842	32,659
Property operating expense.....	4,761	5,225	9,830
Loan servicing and REO expense.....	201	116	243
General and administrative expense.....	1,235	498	1,291
Management fees to affiliates.....	1,823	1,503	3,642
Depreciation and amortization.....	1,431	1,321	2,690
	-----	-----	-----
	28,624	25,505	50,355
	-----	-----	-----
Income from continuing operations.....	\$18,456	\$16,594	\$27,093
	=====	=====	=====
Income from discontinued operations.....	\$ 686	\$ 3,407	\$ 4,988
	=====	=====	=====

Income from continuing operations per common share, basic and diluted.....	\$ 1.12	\$ 1.01	\$ 1.64
	=====	=====	=====
Weighted average number of common shares outstanding, basic and diluted.....	16,489	16,497	16,493
	=====	=====	=====

</Table>

<Table>  
<Caption>

	JUNE 30, 2002		
	-----		
<S>	<C>	<C>	<C>
BALANCE SHEET DATA			
CBO collateral, net (\$37,932 from affiliates).....	\$1,044,814		
Operating real estate, net.....	\$ 118,233		
Cash and cash equivalents.....	\$ 1,155		
Total assets.....	\$1,209,072		
Debt.....	\$ 958,824		
Stockholders' equity.....	\$ 215,005		

</Table>

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<Table>  
<Caption>

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,
	-----		-----
	2002	2001	2001
	-----		-----
<S>	<C>	<C>	<C>
OTHER DATA			
Cash flow from continuing operations provided by (used in):			
Operating activities.....	\$ 15,121	\$ 8,742	\$17,483
Investing activities.....	\$ (452,404)	\$ (3,487)	\$ (6,973)
Financing activities.....	\$ 408,476	\$ 8,147	\$16,294
Funds from Operations (FFO) from continuing operations(A).....	\$ 19,788	\$17,892	\$29,730

</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>  
<Caption>

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,
	-----		-----
	2002	2001	2001
	-----		-----
<S>	<C>	<C>	<C>
CALCULATION OF FUNDS FROM OPERATIONS (FFO)			
Income from continuing operations.....	\$18,456	\$16,594	\$27,093
Real estate depreciation and amortization.....	1,332	1,298	2,637
	-----	-----	-----
Funds from Operations (FFO) from continuing operations.....	\$19,788	\$17,892	\$29,730
	=====	=====	=====

</Table>

## SUMMARY SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

OF NEWCASTLE INVESTMENT HOLDINGS CORP.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

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 June 30, 2002 and for the six month periods ended June 30, 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.

11, 1998	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,		PERIOD FROM MAY	
	2002	2001	2001	2000	1998 TO DEC 31,	
	(UNAUDITED)	(UNAUDITED)	<C>	<C>	<C>	
	<C>	<C>	<C>	<C>	<C>	
<b>OPERATING DATA</b>						
<b>Revenues</b>						
Interest and dividend income.....	\$ 31,100	\$28,370	\$ 53,434	\$ 65,389	\$ 50,245	\$19,675
Rental and escalation income.....	37,532	38,016	75,979	75,293	64,822	23,143
Gain (loss) on settlement of investments.....	5,108	8,941	10,386	21,763	(1,526)	2,584
Management fee from affiliates.....	4,470	4,470	8,941	8,941	944	--
Incentive income (loss) from affiliates.....	(1,218)	--	28,709	--	--	--
Other income.....	12	21	146	1,006	462	369
-	77,004	79,818	177,595	172,392	114,947	45,771
<b>Expenses</b>						
Interest expense.....	32,769	31,949	61,332	66,411	46,529	12,693
Property operating expense.....	14,276	14,359	28,822	28,264	23,169	7,027
Loan servicing and REO expense.....	423	511	965	2,325	3,122	1,291
General and administrative expense.....	1,838	757	2,399	3,988	3,516	2,751
Management fees to affiliates.....	2,698	2,751	5,746	6,646	7,407	6,751
Incentive return to affiliates.....	1,436	--	2,834	--	--	--
Depreciation and amortization.....	6,802	6,383	13,049	12,244	10,383	4,165
-	60,242	56,710	115,147	119,878	94,126	34,678
-						
Income (loss) before equity in earnings of unconsolidated subsidiaries and minority interest.....	16,762	23,108	62,448	52,514	20,821	11,093
Equity in earnings (losses) of unconsolidated subsidiaries.....	362	1,125	2,807	(980)	(3,615)	117
Minority interest in (income) loss of consolidated						

subsidiaries \$(3,861),  
\$(4,470), \$(23,295),  
\$(8,941), \$(944), and \$0  
from affiliates,  
respectively)..... (3,874) (4,678) (23,212) (9,689) (2,202) (570)

-  
</Table>

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11,  1998	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,			PERIOD FROM MAY
	2002	2001	2001	2000	1999	1998 TO DEC 31,
	(UNAUDITED) <C>	(UNAUDITED) <C>	<C>	<C>	<C>	<C>
Income from continuing operations.....	13,250	19,555	42,043	41,845	15,004	10,640
Discontinued operations.....	1,009	682	1,628	1,015	149	--
Extraordinary item -- loss on extinguishment of debt.....	--	--	--	--	(2,341)	--
Income before change in accounting principle.....	14,259	20,237	43,671	42,860	12,812	10,640
Cumulative effect of change in accounting principle -- write off of organizational costs.....	--	--	--	--	(513)	--
Net Income.....	14,259	20,237	43,671	42,860	12,299	10,640
Preferred dividends and related accretion.....	(1,162)	(1,264)	(2,540)	(2,084)	--	--
Income available for common shareholders.....	\$ 13,097	\$18,973	\$ 41,131	\$ 40,776	\$ 12,299	\$10,640
Net Income per Common Share, basic and diluted.....	\$ 0.79	\$ 1.15	\$ 2.49	\$ 2.16	\$ 0.59	\$ 0.51
Income from continuing operations per common share, after preferred dividends and related accretion, basic and diluted.....	\$ 0.73	\$ 1.11	\$ 2.39	\$ 2.11	\$ 0.72	\$ 0.51
Income from discontinued operations per common share, basic and diluted.....	\$ 0.06	\$ 0.04	\$ 0.10	\$ 0.05	\$ --	\$ --
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	16,497	16,493	18,892	20,917	20,862
Dividends declared per common share.....	\$ 1.20	\$ 1.00	\$ 2.00	\$ 1.50	\$ 2.04	\$ 0.55

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JUNE 30, ----- DECEMBER 31, -----

	2002	2001	2000	1999	1998
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA					
CBO collateral, net.....	\$ 1,006,882	\$ 522,258	\$ 509,729	\$ 504,669	\$ --
Operating real estate, net...	\$ 487,628	\$ 524,834	\$ 540,539	\$ 558,849	\$ 383,073
Cash and cash equivalents...	\$ 13,578	\$ 31,360	\$ 10,575	\$ 14,345	\$ 75,596
Total assets.....	\$ 1,690,478	\$ 1,276,473	\$ 1,331,086	\$ 1,381,600	\$ 765,650
Debt.....	\$ 1,309,727	\$ 897,390	\$ 975,656	\$ 971,260	\$ 336,845
Stockholders' equity.....	\$ 318,224	\$ 310,545	\$ 300,655	\$ 354,673	\$ 384,924

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	SIX MONTHS ENDED JUNE 30,		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>
OTHER DATA						
Cash flow provided by (used in):						
Operating activities...	\$ 18,452	\$ 13,274	\$ 34,448	\$ 24,823	\$ 32,834	\$ (7,230)
Investing activities...	\$ (393,124)	\$ 66,279	\$ 106,053	\$ 151,632	\$ (683,420)	\$ (638,844)
Financing activities...	\$ 356,890	\$ (85,254)	\$ (119,716)	\$ (180,225)	\$ 589,335	\$ 721,670
Funds from Operations (FFO) (A).....	\$ 19,470	\$ 25,946	\$ 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 (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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	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,			FROM
PERIOD	2002	2001	2001	2000	1999	DEC
MAY 11, 1998 TO 31, 1998						
	(UNAUDITED)	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CALCULATION OF FUNDS FROM OPERATIONS (FFO):						
Income available for common shareholders.....	\$ 13,097	\$ 18,973	\$ 41,131	\$ 40,776	\$ 12,299	
\$10,640 Extraordinary item -- loss on						

extinguishment of debt.....	--	--	--	--	2,341
Real estate depreciation and amortization.....	6,591	6,363	12,909	12,621	9,927
Accumulated depreciation on real estate sold.....	(2,371)	--	--	--	--
Real estate depreciation and amortization -- unconsolidated subsidiaries.....	1,614	610	2,564	126	140
Incentive (income) loss accrued from FIF(A).....	609	--	(14,354)	--	--
Equity in incentive return accrued by FIF.....	(70)	--	1,645	--	--
Distributable incentive income from FIF(B).....	--	--	4,369	--	--
-----					
Funds from Operations (FFO).. \$14,337	\$19,470	\$25,946	\$ 48,264	\$53,523	\$24,707
=====					

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

	SIX MONTHS ENDED JUNE 30, 2002	YEAR ENDED DECEMBER 31, 2001
	(UNAUDITED)	
<S>	<C>	<C>
Total incentive income (loss).....	\$ (1,218)	\$ 28,709
Minority interest -- Manager.....	\$ 609	\$ (14,355)
Our incentive income (loss).....	\$ (609)	\$ 14,354
	=====	=====

(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			
			=====			

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#### 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 management fee, our manager is entitled to receive incentive compensation 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 compensation 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

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order to achieve higher incentive compensation. 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 right to receive incentive compensation at a price determined as if our assets were sold for their fair market value (as determined by an appraisal, taking into account, among other things, the expected future value of the underlying investments) or otherwise we may continue to pay the incentive compensation to our manager. These provisions may increase the effective cost to us of terminating the management agreement, thereby adversely affecting our ability to terminate our manager without cause.

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 formation transactions 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 have an approximately \$42 million investment in GSA portfolio mezzanine bonds issued by affiliates of Newcastle Investment Holdings that currently hold indirectly all of the equity in the GSA portfolio. 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 AND MAY NOT OPERATE SUCCESSFULLY AS A SEPARATE BUSINESS.

Newcastle Investment Holdings was organized in May 1998. We were organized in June 2002, our investments we describe in this prospectus were contributed to us in July 2002 and we 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, and we may not operate successfully as a separate business. 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

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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 WHICH MAY RESULT IN RISKIER INVESTMENTS THAN OUR CURRENT INVESTMENTS.

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 six months ended June 30, 2002, our debt service payments were \$1.0 million and \$15.1 million of principal and interest payments, respectively, excluding debt repayments from the proceeds of asset sales and



refinancings. 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, WHICH COULD RESULT IN LOSSES TO US.

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

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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, 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 an asset securing 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, WHICH MAY RESULT IN LOSSES TO US.

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

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securities and similar risks, including (i) risks of delinquency and foreclosure, and risks of loss in the event thereof, (ii) the dependence upon the successful operation of and net income from real property, (iii) risks generally incident to interests in real property, and (iv) risks that may be presented by the type and use of a particular commercial property.

REIT 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, investments in REIT debt securities are also subject to risks of: (i) limited liquidity in the secondary trading market, (ii) substantial market price volatility resulting from changes in prevailing interest rates, (iii) subordination to the prior claims of banks and other senior lenders to the issuer, (iv) the operation of mandatory sinking fund or call/redemption provisions during periods of declining interest rates that could cause the issuer to reinvest premature redemption proceeds in lower yielding assets, (v) the possibility that earnings of the REIT 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, WHICH MAY RESULT IN LOSSES TO US.

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) subordinated to an "A Note" secured by the same first mortgage on the same collateral. As a result, if an issuer defaults, there may not be sufficient funds remaining for B Note holders. B Notes reflect similar credit risks to comparably rated commercial mortgage backed securities. 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 the 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

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regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under, or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of hazardous or toxic substances, or the failure to remediate properly, may adversely affect the owner's ability to borrow 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 ARE ILLIQUID AND WE MAY NOT BE ABLE TO VARY OUR PORTFOLIO IN RESPONSE TO CHANGES IN ECONOMIC AND OTHER CONDITIONS.

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

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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.

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.

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

We own real estate located in Canada and in Belgium, 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 5.0% of our total assets at June 30, 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.

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In addition, we have a \$42 million investment, which represented approximately 3.5% of our total assets at June 30, 2002 on a pro forma basis after giving effect to the formation transactions, 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. 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, including representations relating to the values of our assets and the sources of our income. 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 the asset tests depends upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of an instrument as debt or equity for federal income tax purposes 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

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.

#### 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 of directors has also granted a limited exemption to Wallace R. Weitz & Company, a third party group of funds, from such limitation. 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 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

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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 COMMON AND PREFERRED STOCK MAY PREVENT A CHANGE IN OUR CONTROL.

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

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 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."

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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 \$1.32 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.

IF WE DO NOT MEET EXPECTED OPERATING RESULTS, WE MAY NOT BE ABLE TO PAY OUR ESTIMATED INITIAL DISTRIBUTIONS.

Our estimated initial annual distribution would represent 113.3% of our estimated cash available for distribution for the year ended December 31, 2002. Accordingly, if we fail to achieve our expected operating results, our ability to pay our estimated initial annual distribution 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 will be required to borrow funds or sell assets for funds for such distribution, or to reduce the amount of such distribution.

A significant percentage of our pro forma revenues and earnings for the year ended December 31, 2001 was derived from gains upon sales of investments. We have included such gains in the calculation of our pro forma funds from operations and estimated cash available for distribution. Our ability to pay our estimated initial distribution and to pay subsequent dividends at levels at or above our estimated initial distribution may be dependent upon our ability to generate similar gains upon sales of investments in the future.

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 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

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common stock to its stockholders earlier than 180 days after the date of this prospectus. Upon any such distribution, assuming the distribution is made pro rata to all holders and for no consideration, 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. None of these shares are being registered in connection with this offering. We are unable to predict whether significant numbers of shares will be sold in the open market in anticipation of or following a distribution.

BEAR STEARNS WILL RECEIVE BENEFITS IN ADDITION TO ITS UNDERWRITING DISCOUNTS AND COMMISSIONS.

Bear Stearns, an underwriter of this offering, and its affiliate, EMC Mortgage Corporation (EMC), will receive benefits from this offering in addition to underwriting discounts and commissions. The net proceeds of this offering will be used to purchase a portfolio of mortgage loans through EMC. See "Use of Proceeds" and "Underwriting."

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#### 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.

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#### USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the 7,000,000 shares of common stock will be approximately \$94.5 million, or approximately \$109.1 million if the underwriters exercise their over-allotment option in full, based upon an assumed public offering price of \$15.00 per share (the midpoint of the offering price range set forth on the cover page of this prospectus), 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 \$239.7 million purchase price for a portfolio of \$235 million principal amount of mortgage loans. We intend to initially finance approximately \$145.2 million of the purchase price for such mortgage loans. The mortgage loans and related financing are to be obtained from affiliates of Bear Stearns. The financing will be secured by the mortgage loans and will bear interest at LIBOR plus 0.75%, or 2.53% based on LIBOR of 1.78% on August 12, 2002. The financing will permit us to further borrow up to an amount that, when added to \$145.2 million, will not exceed 90% of the purchase price of the mortgage loans. We intend to utilize borrowings under the financing to purchase additional real estate securities, including collateral for the CBO III transaction, 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. Although there can be no assurance, we do not currently expect that any of our initial distribution will be a return of capital since we expect earnings after the offering to exceed the initial distribution. However, if earnings after the offering do not exceed the initial distribution a portion of our initial distribution will be 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 \$0.3675 per share (which, if annualized, would equal \$1.47 per share), or an annual rate of 9.8%, based upon an assumed public offering price of \$15.00 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") for the year ending December 31, 2002 is based upon pro forma income from continuing operations for the year ended December 31, 2001, adjusted to reflect the effect during such period of the transactions described in adjustments (A), (B), (C), (D), (E), (F), (G) and (H) 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 December 31, 2001 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 to pro forma income from continuing operations for the year ended December 31, 2001 in order to calculate our estimated Cash Available for Distribution for the year ending December 31, 2002 (in thousands, except per share data):

<Table> <S>	<C>
Pro forma income from continuing operations for the year ended December 31, 2001.....	\$27,093
ADJUSTMENTS:	
Net interest income on investment in mortgage loans(A).....	10,254
Net interest income on CBO II(B).....	8,658
Incentive compensation(C).....	(4,127)
	-----
Income from continuing operations as adjusted.....	41,878
FFO reconciling item(D):	
Real estate depreciation.....	2,637
	-----
FFO from continuing operations as adjusted.....	44,515
CAD reconciling items(D):	
Straight-lined rent.....	(1,227)
Amortization and non-cash component of net interest income(E).....	(8,389)
Gain on sale of investments(F).....	(7,405)
	-----
Estimated net cash provided by operating activities.....	27,494
Estimated as adjusted cash flows from investing activities:	
Capital expenditures(G).....	(1,137)
Gain on sale of investments(F).....	7,405
	-----
Estimated net cash provided by investing activities.....	6,268
Estimated as adjusted cash flows from financing activities:	
Recurring debt principal payments(H).....	(3,278)
	-----
Estimated CAD for the year ending December 31, 2002(I).....	\$30,484
	=====

</Table>

(A) Represents net interest income on the approximately \$94.5 million of proceeds from the offering which, pursuant to an executed agreement, are expected to be invested in a pool of mortgage loans with a face value of \$235 million purchased at 102% bearing interest at approximately 6% (or an approximate effective rate of 5.82%) with \$145.2 million of financing bearing interest at LIBOR plus 0.75% or 2.53% based on LIBOR of 1.78% on August 12, 2002.

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(B) Represents incremental net interest income on CBO II as if it had closed on January 1, 2001. This net interest is calculated as follows:

<S>	<C>
Interest income on \$484 million of real estate securities owned, net of discounts, for one year, at an approximate effective rate of 7.5% per annum.....	\$ 36,356
Interest expense on \$439 million of bonds issued, net of discounts, for one year, at an approximate effective rate of 6.3% per annum (including the effect of an interest rate swap).....	(27,532)
	-----
Net interest income on CBO II for one year.....	8,824
Interest income on the CBO II deposit included in our actual net income.....	(166)
	-----
Net adjustment.....	\$ 8,658

- (C) Reflects incentive compensation 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.
- (D) These amounts represent reconciling items from pro forma income from continuing operations for the year ended December 31, 2001 to FFO or CAD for such period. CAD for the year ended December 31, 2001 is then adjusted to estimate CAD for the year ending December 31, 2002.
- (E) Amortization and non-cash component of net interest income includes the amortization of furniture, fixtures, equipment and leasing commissions, included in Depreciation and Amortization in our pro forma financial statements, as well as the accretion of discounts, deferred costs and deferred hedge gains and losses included in Interest Income and Interest Expense.
- (F) Reflects reclassification of our realized gain on sale of investments from operating activities to investing activities.
- (G) Represents estimated capital expenditures for the year ending December 31, 2002.
- (H) Represents all of our anticipated recurring debt principal payments for the year ending December 31, 2002, which are comprised of payments on the LIV mortgage, our only debt outstanding at December 31, 2001 which requires principal payments before maturity.
- (I) Based on the estimated CAD shown above, the payout ratio would be calculated as follows:

<Table>  
<Caption>

YEAR ENDED  
DECEMBER 31, 2002  
-----

<S>	<C>
Pro forma shares outstanding subsequent to the offering.....	23,489
Anticipated distribution, subsequent to the offering, per share.....	1.47
	-----
Anticipated distribution, subsequent to the offering.....	\$34,529
	=====
Payout ratio.....	113.3%
</Table>	

It is anticipated that our board of directors will declare a distribution of \$0. per share to Newcastle Investment Holdings, which owns substantially all of our common stock, and to our manager, which owns a de minimus number of shares of our common stock, 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 distribution for the portion of the current quarter prior to the offering. Purchasers of shares of our common stock in this offering will not be entitled to this special distribution.

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#### CAPITALIZATION

The following table sets forth our consolidated capitalization as of June 30, 2002:

- (i) on a pro forma basis to give effect to the formation transactions;
- (ii) on a pro forma basis, as adjusted for the issuance to us subsequent to June 30, 2002 of additional GSA portfolio mezzanine bonds by affiliates of Newcastle Investment Holdings, as described under "Newcastle Investment Corp. -- Our Investments -- GSA Portfolio Mezzanine Bonds"; and
- (iii) on a pro forma as adjusted basis as described in clause (ii), as further adjusted to give effect to the sale of 7,000,000 shares of our common stock offered by us in this offering at an assumed initial public offering price of \$15.00, 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>

	JUNE 30, 2002		
	PRO FORMA	PRO FORMA AS ADJUSTED	PRO FORMA AS FURTHER ADJUSTED
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Debt.....	\$ 958,824	\$ 958,824	\$1,104,024
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; 16,488,517 shares issued and outstanding on an as adjusted basis; 23,488,517 shares issued and outstanding on a pro forma as adjusted basis.....	165	165	235
Additional paid-in capital.....	202,756	214,590	309,020
Retained earnings.....	--	--	--
Accumulated other comprehensive income.....	12,084	12,084	12,084
	-----	-----	-----
Total stockholders' equity(A).....	215,005	226,839	321,339
	-----	-----	-----
Total capitalization.....	\$1,173,829	\$1,185,663	\$1,425,363
	=====	=====	=====

</Table>

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

## DILUTION

The information below assumes that the formation transactions were completed as of June 30, 2002.

Our pro forma book value attributable to common stockholders on June 30, 2002, as adjusted for the subsequent transaction described in clause (ii) to the introduction to the table under "Capitalization," was approximately \$226.8 million, or \$13.76 per common share.

After giving effect to this offering, our pro forma book value attributable to common stockholders on June 30, 2002 would have been \$321.3 million, or \$13.68 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 \$15.00 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 decrease in book value of \$0.08 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.....		\$15.00
Book value per share of common stock prior to the offering.....	\$13.76	
Decrease in book value per share of common stock attributable to investors in the offering.....	(0.08)	
	-----	
Pro forma book value per common share, after the offering...		13.68
		-----
Dilution to new investors.....		\$ 1.32
		=====
</Table>		

The following table shows the difference between Newcastle Investment Holdings, which owns substantially all of our common stock, as of June 30, 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 \$15.00 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	70.2%	\$226,839,000	68.4%	\$13.76
New investors.....	7,000,000	29.8%	\$105,000,000	31.6%	\$15.00
	-----	-----	-----	-----	-----
Total.....	23,488,517	100.0%	\$331,839,000	100.0%	
	=====	=====	=====	=====	
</Table>					

In the discussion and tables above, we assume no exercise of any outstanding options.

## SELECTED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

Newcastle Investment Holdings contributed to us certain assets and related liabilities in exchange for all of our shares of our common stock. However, as presented in the following table, for accounting purposes this transaction is presented as a reverse spin-off. Under a reverse spin-off, Newcastle Investment Corp. is treated as the continuing entity and the assets to be retained by Newcastle Investment Holdings are accounted for as if they were distributed at historical book basis through a spin-off to Newcastle Investment Holdings.

As of July 12, 2002, for accounting purposes, we distributed to Newcastle Investment Holdings Corp. assets which represented approximately thirty percent of our total assets (100% of our real estate loans, our investment in the Fund, and approximately 75% of our real properties, in each case based on book value as of June 30, 2002), and related liabilities. The following assets were retained by us:

- 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.

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 distribution had been consummated on January 1, 2002 or 2001, as applicable. The historical results of operations of the assets and liabilities distributed to Newcastle Investment Holdings have been presented as discontinued operations for those operations that constitute a component of an entity. A component of an entity must have cash flows that are clearly distinguished operationally and for financial reporting purposes from the rest of the entity. Of the assets distributed to Newcastle Investment Holdings, the GSA portfolio and the mortgage loans qualify as a component of an entity. The remaining operations related to the other assets and liabilities distributed to Newcastle Investment Holdings which are not a component of an entity have been eliminated. The GSA portfolio mezzanine bonds which were historically eliminated, have not been eliminated for this presentation since the entity that issued the bonds is part of the operations spun-off to Newcastle Investment Holdings and, accordingly, is no longer a part of our operations.

The selected unaudited pro forma consolidated balance sheet is presented as if the distribution had been consummated on June 30, 2002.

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 June 30, 2002 and for the year ended December 31, 2001 and the six month periods ended June 30, 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.

SELECTED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION  
(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
<Caption>

SIX MONTHS ENDED

	JUNE 30,		YEAR ENDED
	2002	2001	DECEMBER 31, 2001
<S>	<C>	<C>	<C>
OPERATING DATA			
Revenues			
Interest and dividend income (\$392, \$0, and \$2 from affiliates, respectively).....	\$31,253	\$24,216	\$47,711
Rental and escalation income.....	10,788	11,484	22,289
Gain on settlement of investments.....	5,030	6,390	7,405
Other income.....	9	9	43
	-----	-----	-----
	47,080	42,099	77,448
Expenses			
Interest expense.....	19,173	16,842	32,659
Property operating expense.....	4,761	5,225	9,830
Loan servicing and REO expense.....	201	116	243
General and administrative expense.....	1,235	498	1,291
Management fees to affiliates.....	1,823	1,503	3,642
Depreciation and amortization.....	1,431	1,321	2,690
	-----	-----	-----
	28,624	25,505	50,355
	-----	-----	-----
Income from continuing operations.....	\$18,456	\$16,594	\$27,093
	=====	=====	=====
Income from discontinued operations.....	\$ 686	\$ 3,407	\$ 4,988
	=====	=====	=====
Income from continuing operations per common share, basic and diluted.....	\$ 1.12	\$ 1.01	\$ 1.64
	=====	=====	=====
Weighted average number of common shares outstanding, basic and diluted.....	16,489	16,497	16,493
	=====	=====	=====

</Table>

<Table>  
<Caption>

	JUNE 30,		
	2002		
<S>	<C>	<C>	<C>
BALANCE SHEET DATA			
CBO collateral, net (\$37,932 from affiliates).....	\$1,044,814		
Operating real estate, net.....	\$ 118,233		
Cash and cash equivalents.....	\$ 1,155		
Total assets.....	\$1,209,072		
Debt.....	\$ 958,824		
Stockholders' equity.....	\$ 215,005		

</Table>

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<Table>  
<Caption>

	SIX MONTHS ENDED		YEAR ENDED
	JUNE 30,		
	2002	2001	DECEMBER 31, 2001
<S>	<C>	<C>	<C>
OTHER DATA			
Cash flow from continuing operations provided by (used in):			
Operating activities.....	\$ 15,121	\$ 8,742	\$17,483
Investing activities.....	\$(452,404)	\$(3,487)	\$(6,973)
Financing activities.....	\$ 408,476	\$ 8,147	\$16,294
Funds from Operations (FFO) from continuing operations(A).....	\$ 19,788	\$17,892	\$29,730

</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>

	SIX MONTHS ENDED		YEAR ENDED
	JUNE 30,		DECEMBER 31,
	2002	2001	2001
	-----	-----	-----
<S>	<C>	<C>	<C>
CALCULATION OF FUNDS FROM OPERATIONS			
Income from continuing operations.....	\$18,456	\$16,594	\$27,093
Real estate depreciation and amortization.....	1,332	1,298	2,637
	-----	-----	-----
Funds from Operations (FFO) from continuing operations.....	\$19,788	\$17,892	\$29,730
	=====	=====	=====

</Table>

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

OF NEWCASTLE INVESTMENT HOLDINGS CORP.

(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 June 30, 2002 and for the six month periods ended June 30, 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>

	SIX MONTHS ENDED		YEAR ENDED			PERIOD
	JUNE 30,		DECEMBER 31,			FROM MAY
	2002	2001	2001	2000	1999	DEC. 31,
11,	-----	-----	-----	-----	-----	1998
TO						
1998	2002	2001	2001	2000	1999	DEC. 31,
	-----	-----	-----	-----	-----	-----
<S>	(UNAUDITED)	(UNAUDITED)	<C>	<C>	<C>	<C>
OPERATING DATA						
Revenues						
Interest and dividend						
income.....	\$ 31,100	\$28,370	\$ 53,434	\$ 65,389	\$ 50,245	\$19,675
Rental and escalation						
income.....	37,532	38,016	75,979	75,293	64,822	23,143
Gain (loss) on settlement of						
investments.....	5,108	8,941	10,386	21,763	(1,526)	2,584
Management fee from						
affiliates.....	4,470	4,470	8,941	8,941	944	--
Incentive income from						
affiliates.....	(1,218)	--	28,709	--	--	-
-						
Other income.....	12	21	146	1,006	462	369
	-----	-----	-----	-----	-----	-----
--						



	77,004	79,818	177,595	172,392	114,947	45,771
Expenses						
Interest expense.....	32,769	31,949	61,332	66,411	46,529	12,693
Property operating expense.....	14,276	14,359	28,822	28,264	23,169	7,027
Loan servicing and REO expense.....	423	511	965	2,325	3,122	1,291
General and administrative expense.....	1,838	757	2,399	3,988	3,516	2,751
Management fees to affiliates.....	2,698	2,751	5,746	6,646	7,407	6,751
Incentive return to affiliates.....	1,436	--	2,834	--	--	-
-						
Depreciation and amortization.....	6,802	6,383	13,049	12,244	10,383	4,165
--						
	60,242	56,710	115,147	119,878	94,126	
34,678						
--						
Income (loss) before equity in earnings of unconsolidated subsidiaries and minority interest.....	16,762	23,108	62,448	52,514	20,821	11,093
Equity in earnings (losses) of unconsolidated subsidiaries.....	362	1,125	2,807	(980)	(3,615)	117
Minority interest in (income) loss of consolidated subsidiaries (\$ (3,861), \$ (4,470), \$ (23,295), \$ (8,941), \$ (944), and \$ 0 from affiliates, respectively).....	(3,874)	(4,678)	(23,212)	(9,689)	(2,202)	(570)
--						
Income from continuing operations.....	13,250	19,555	42,043	41,845	15,004	10,640

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<Table>  
<Caption>

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,		PERIOD FROM MAY
11,					1998
TO					DEC. 31,
1998	2002	2001	2001	2000	1999
	(UNAUDITED)	(UNAUDITED)	<C>	<C>	<C>
	<C>	<C>	<C>	<C>	<C>
Discontinued operations.....	1,009	682	1,628	1,015	149
Extraordinary item -- loss on extinguishment of debt.....	--	--	--	--	(2,341)
-					
--					
Income before change in accounting principle.....	14,259	20,237	43,671	42,860	12,812
Cumulative effect of change in accounting principle -- write off of organizational costs.....	--	--	--	--	(513)
-					
--					
Net Income.....	14,259	20,237	43,671	42,860	12,299
Preferred dividends and related accretion.....	(1,162)	(1,264)	(2,540)	(2,084)	--
--					
Income available for common shareholders.....	\$ 13,097	\$18,973	\$ 41,131	\$ 40,776	\$ 12,299
Net Income per Common Share, basic and diluted.....	\$ 0.79	\$ 1.15	\$ 2.49	\$ 2.16	\$ 0.59

Income from continuing operations per common share, after preferred dividends and related accretion, basic and diluted.....	\$ 0.73	\$ 1.11	\$ 2.39	\$ 2.11	\$ 0.72	\$ 0.51
Income from discontinued operations per common share, basic and diluted.....	\$ 0.06	\$ 0.04	\$ 0.10	\$ 0.05	\$ --	\$ --
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	16,497	16,493	18,892	20,917	20,862
Dividends declared per common share.....	\$ 1.20	\$ 1.00	\$ 2.00	\$ 1.50	\$ 2.04	\$ 0.55

</Table>

<Table>  
<Caption>

	JUNE 30,	DECEMBER 31,				
		2002	2001	2000	1999	1998
	(UNAUDITED)					
	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA						
CBO collateral, net.....	\$ 1,006,882	\$ 522,258	\$ 509,729	\$ 504,669	\$ --	\$ --
Operating real estate, net...	\$ 487,628	\$ 524,834	\$ 540,539	\$ 558,849	\$ 383,073	\$ 383,073
Cash and cash equivalents...	\$ 13,578	\$ 31,360	\$ 10,575	\$ 14,345	\$ 75,596	\$ 75,596
Total assets.....	\$ 1,690,478	\$ 1,276,473	\$ 1,331,086	\$ 1,381,600	\$ 765,650	\$ 765,650
Debt.....	\$ 1,309,727	\$ 897,390	\$ 975,656	\$ 971,260	\$ 336,845	\$ 336,845
Stockholders' equity.....	\$ 318,224	\$ 310,545	\$ 300,655	\$ 354,673	\$ 384,924	\$ 384,924

</Table>

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<Table>  
<Caption>

	SIX MONTHS ENDED		YEAR ENDED DECEMBER 31,			PERIOD FROM MAY 11, 1998 TO DEC 31, 1998
	JUNE 30,		2001	2000	1999	
	2002	2001				
	(UNAUDITED)	(UNAUDITED)	<C>	<C>	<C>	<C>
	<C>	<C>	<C>	<C>	<C>	<C>
OTHER DATA						
Cash flow provided by (used in):						
Operating activities...	\$ 18,452	\$ 13,274	\$ 34,448	\$ 24,823	\$ 32,834	\$ (7,230)
Investing activities...	\$ (393,124)	66,279	\$ 106,053	\$ 151,632	\$ (683,420)	\$ (638,844)
Financing activities...	\$ 356,890	\$ (85,254)	\$ (119,716)	\$ (180,225)	\$ 589,335	\$ 721,670
Funds from Operations (FFO) (A).....	\$ 19,470	\$ 25,946	\$ 48,264	\$ 53,523	\$ 24,707	\$ 14,337

</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 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>

	SIX MONTHS ENDED		YEAR ENDED DECEMBER 31,			PERIOD
	JUNE 30,					FROM MAY 11,
	2002	2001	2001	2000	1999	1998 TO
	(UNAUDITED)	(UNAUDITED)				DEC 31, 1998
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CALCULATION OF FUNDS FROM OPERATIONS (FFO):						
Income available for common shareholders.....	\$13,097	\$18,973	\$41,131	\$40,776	\$12,299	\$10,640
Extraordinary item -- loss on extinguishment of debt.....	--	--	--	--	2,341	--
Real estate depreciation and amortization.....	6,591	6,363	12,909	12,621	9,927	3,697
Accumulated depreciation on real estate sold.....	(2,371)	--	--	--	--	--
Real estate depreciation and amortization -- unconsolidated subsidiaries.....	1,614	610	2,564	126	140	--
Incentive (income) loss accrued from FIF (A).....	609	--	(14,354)	--	--	--
Equity in incentive return accrued by FIF.....	(70)	--	1,645	--	--	--
Distributable incentive income from FIF (B).....	--	--	4,369	--	--	--
Funds from Operations (FFO).....	\$19,470	\$25,946	\$48,264	\$53,523	\$24,707	\$14,337
	=====	=====	=====	=====	=====	=====

</Table>

37

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

<Table>  
<Caption>

	SIX MONTHS ENDED	YEAR ENDED
	JUNE 30, 2002	DECEMBER 31, 2001
	(UNAUDITED)	
<S>	<C>	<C>
Total incentive income (loss).....	\$ (1,218)	\$ 28,709
Minority interest -- Manager.....	\$ 609	\$ (14,355)
Our incentive income (loss).....	\$ (609)	\$ 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>

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 distributed to 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 six months ended June 30, 2001 and 2002 already reflect the elimination of such amounts.

PRO FORMA FOR THE YEAR ENDED DECEMBER 31, 1999	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,	PRO FORMA FOR THE YEAR ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31, 2000 AS ADJUSTED
	2002	2001	2001	2000	ADJUSTMENTS	
Revenues						
Interest and dividend income (\$392 and \$2 from affiliates for the six months ended June 30, 2002 and the year ended December 31, 2001, respectively).....	\$31,253	\$24,216	\$47,711	\$50,989	\$ (3,954)	\$47,035
\$30,288						
Rental and escalation income.....	10,788	11,484	22,289	22,726	--	22,726
17,087						
Gain (loss) on settlement of investments.....	5,030	6,390	7,405	20,836	(20,821)	15
1,765						
Management fee from affiliates.....	--	--	--	8,941	(8,941)	--
944						
Other income.....	9	9	43	728	(674)	54
69						
	-----	-----	-----	-----	-----	-----
	47,080	42,099	77,448	104,220	(34,390)	69,830
50,153						
Expenses						
Interest expense.....	19,173	16,842	32,659	36,897	(1,757)	35,140
19,741						
Property operating expense.....	4,761	5,225	9,830	10,148	--	10,148
8,428						
Loan servicing and REO expense.....	201	116	243	265	--	265
112						
General and administrative expense....	1,235	498	1,291	3,310	(1,101)	2,209
3,083						
Management fees to affiliates.....	1,823	1,503	3,642	6,646	(2,971)	3,675
7,387						
Depreciation and amortization.....	1,431	1,321	2,690	3,054	(515)	2,539
1,819						
	-----	-----	-----	-----	-----	-----
	28,624	25,505	50,355	60,320	(6,344)	53,976
40,570						
Equity in earnings (losses) of unconsolidated subsidiaries.....	--	--	--	(980)	980	--
(3,615)						
Minority interest in income of						

consolidated subsidiaries..... (944)	--	--	--	(8,941)	8,941	--
-----	-----	-----	-----	-----	-----	-----
Income from continuing operations..... \$ 5,024	\$18,456	\$16,594	\$27,093	\$33,979	\$ (18,125)	\$15,854
=====	=====	=====	=====	=====	=====	=====
Income from discontinued operations... \$ 7,788	\$ 1,695	\$ 4,089	\$ 6,616	\$ 8,881	\$ --	\$ 8,881
=====	=====	=====	=====	=====	=====	=====
Income from continuing operations per common share, basic and diluted..... \$ 0.24	\$ 1.12	\$ 1.01	\$ 1.64	\$ 1.80	\$ (0.96)	\$ 0.84
=====	=====	=====	=====	=====	=====	=====
Income from discontinued operations per common share, basic and diluted..... \$ 0.37	\$ 0.10	\$ 0.25	\$ 0.40	\$ 0.47	\$ --	\$ 0.47
=====	=====	=====	=====	=====	=====	=====
Weighted average number of common shares outstanding, basic and diluted..... 20,917	16,489	16,497	16,493	18,892	18,892	18,892
=====	=====	=====	=====	=====	=====	=====

<Caption>

	YEAR ENDED DECEMBER 31, 1999	
	ADJUSTMENTS	AS ADJUSTED
	-----	-----
<S>	<C>	<C>
Revenues		
Interest and dividend income (\$392 and \$2 from affiliates for the six months ended June 30, 2002 and the year ended December 31, 2001, respectively).....	\$ (4,827)	\$25,461
Rental and escalation income.....	--	17,087
Gain (loss) on settlement of investments.....	1,143	2,908
Management fee from affiliates.....	(944)	--
Other income.....	(62)	7
	-----	-----
	(4,690)	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 to affiliates.....	(3,291)	4,096
Depreciation and amortization.....	(461)	1,358
	-----	-----
	(5,252)	35,318
	-----	-----
Equity in earnings (losses) of unconsolidated subsidiaries.....	3,615	--
Minority interest in income of consolidated subsidiaries.....	944	--
	-----	-----
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 real estate securities and credit leased real estate businesses from Newcastle Investment Holdings' other investments. In July 2002 Newcastle Investment Holdings contributed to us certain assets and liabilities in exchange for shares of our common stock. However, as presented in this section, for accounting purposes this transaction is presented as a reverse spin-off. Under a reverse spin-off, Newcastle Investment Corp. is treated as the continuing entity and the assets to be retained by Newcastle Investment Holdings are accounted for as if they were distributed at historical book basis through a spin-off to Newcastle Investment Holdings.

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 six months ended June 30, 2002.....	\$10,799	\$35,613	\$ 668	\$47,080
For the year ended December 31, 2001.....	\$22,487	\$53,095	\$1,866	\$77,448

</Table>

Certain activities described herein occurred prior to our formation and were consummated by Newcastle Investment Holdings Corp.

## 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 multiple broker quotations, which provide valuation estimates based upon reasonable market order indications or a good faith estimate thereof. These quotations are subject to significant variability based on market conditions, such as interest rates and spreads. Changes in market conditions, as well as changes in the assumptions or methodology used to determine market value, could 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. Market value is based on counterparty quotations. 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 SIX MONTHS ENDED JUNE 30, 2002 TO THE SIX MONTHS ENDED JUNE 30, 2001 ON A PRO FORMA BASIS

Interest and dividend income increased by \$7.1 million or 29.1%, from \$24.2

million to \$31.3 million. This increase is primarily the result of the interest earned on the CBO II deposit of \$2.5 million and the CBO II collateral of \$5.7 million.

Rental and escalation income decreased by \$0.7 million or 6.1%, from \$11.5 million to \$10.8 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.

Gain on settlement of investments decreased by \$1.4 million, from \$6.4 million to \$5.0 million, primarily as a result of a reduction in the volume of sales of certain CBO I securities. Sales of CBO securities are based on a number of factors including credit, asset type and industry and can be expected to increase or decrease from time to time. Periodic fluctuations in the volume of sales of securities is dependent upon, among other things, management's assessment of credit risk, asset concentration, portfolio balance and other factors. The reduced volume of sales of securities during this period reflects management's determination that the portfolio required less adjustment than in prior periods.

Interest expense increased by \$2.4 million or 13.8%, from \$16.8 million to \$19.2 million. This increase is primarily the result of interest on the CBO II securitization (\$5.0 million), partially offset by lower interest rates being paid on the variable rate CBO I securities classes.

Property operating expense decreased by \$0.4 million or 8.9%, from \$5.2 million to \$4.8 million, primarily as the result of foreign currency fluctuations related to our Bell Canada portfolio.

Loan servicing expense increased by \$0.1 million, from \$0.1 million to \$0.2 million, primarily as a result of the acquisition of the CBO II collateral.

General and administrative expense increased by \$0.7 million, from \$0.5 million to \$1.2 million, primarily as a result of increased insurance expense.

Management fee expense increased by \$0.3 million, from \$1.5 million to \$1.8 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 \$0.1 million or 8.3%, from \$1.3 million to \$1.4 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, 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 \$0.4 million or 1.9%, from \$22.7 million to \$22.3 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 3.1%, from \$10.1

million to \$9.8 million, primarily as the result of foreign currency fluctuations related to our Bell Canada portfolio.

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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 5.9%, from \$2.5 million to \$2.7 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 \$5.6 million or 33.0%, from \$17.1 million to \$22.7 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.

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 \$1.7 million or 20.4%, from \$8.4 million to \$10.1 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 \$1.1 million or 87.0%, from \$1.4 million to \$2.5 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.

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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.

We expect that our cash flow provided by operations, our financing from Bear, Stearns Mortgage Capital Corporation relating to our purchase of a mortgage loan portfolio and our financing from Bear, Stearns International Limited in connection with our purchase of securities for our third CBO transaction and our subsequent CBO issuance will satisfy our liquidity needs for our business plan over the next twelve months.

With respect to our real estate assets, we expect to incur approximately \$1.4 million of tenant improvements in connection with the inception of leases and capital expenditures during the eighteen months ending December 31, 2003.

Our long-term debt existing at June 30, 2002 (gross of \$15.3 million of discounts) is expected to mature as follows: \$3.9 million during the period from July 1, 2002 through December 31, 2002, \$3.3 million in 2003, \$3.3 million in 2004, \$3.3 million in 2005, \$3.3 million in 2006, \$3.3 million in 2007, and \$953.7 million thereafter.

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 June 30, 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 4.32%, had an expected weighted average life of approximately 5.9 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 two classes of securities, we entered into two interest rate swaps and three 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. 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 bore interest at a weighted average effective rate, including discount and cost amortization, of approximately 6.70% at closing, had an expected weighted average life of approximately 5.1 years at closing. 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 \$51.6 million and bore interest at 4.79% as of June 30, 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 June 30, 2002 we had a \$1.5 million repurchase agreement outstanding, bearing interest at approximately 3.19% with a short-term maturity.

In October 2001, we entered into an agreement with Morgan Stanley & Co. 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. 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. The CBO II securities are collateralized by a portfolio of CMBS, unsecured REIT debt, asset-backed securities, and a limited amount of other securities and restricted cash, pending its use for investment in securities (collectively, the CBO II collateral). The senior securities, which bore interest at a weighted average effective rate, including discount and cost amortization, of approximately 3.69% at closing, had an expected weighted average life of approximately 8.04 years at closing. 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 was recorded as a reduction of CBO bonds payable. The Class E Note is included in the CBO II collateral. The Class E Note is eliminated in consolidation.

In June 2002, we entered into a financing arrangement with an affiliate of Bear Stearns. We will use this financing to fund an approximate \$145.2 million portion of the \$239.7 million purchase price for a portfolio of \$235 million principal amount of mortgage loans. The financing will be secured by the mortgage loans and will bear interest at LIBOR plus 0.75%. The financing will permit us to further borrow up to an amount that, when added to \$145.2 million, will not exceed 90% of the purchase price of the mortgage loans. We intend to utilize borrowings under the financing to purchase additional real estate securities, including collateral for the CBO III transaction, and for general corporate purposes.

We hold an approximately \$42 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 payments prior to the maturity date. The bonds were contributed to us from Newcastle Investment Holdings as part of the formation transactions.

Pursuant to an agreement entered into in July 2002, Bear, Stearns International Limited (BSIL) will purchase up to \$450 million of commercial mortgage backed securities, REIT debt, real estate loans and asset backed securities (the CBO III collateral), subject to our right to purchase such securities from BSIL. The CBO III collateral is expected to be included in a securitization transaction in which we would acquire the equity interest (the CBO III transaction). Pursuant to the agreement, Bear, Stearns & Co. Inc. also has been engaged to structure and serve as lead manager for the CBO III transaction for which it will receive customary fees. As of August 14, 2002, approximately \$87 million of the \$450 million has been accumulated. If the CBO III transaction is not consummated as a result of our failure to acquire the equity interest or otherwise as a result of our gross negligence or willful misconduct, we would be required to either purchase the CBO III collateral from BSIL or pay BSIL the difference between the price it paid for the CBO III collateral and the price at which it sold the CBO III collateral to a third-party (a collateral loss). If the CBO III transaction fails to close for any

result of BSIL's gross negligence or willful misconduct, we would be required to either purchase the CBO III collateral from BSIL or pay BSIL the lesser of \$15 million and the collateral loss or, if we have paid a deposit on the CBO III collateral in exchange for a portion of the interest payments on the securities, the lesser of the collateral loss and any such deposit. Although we currently anticipate completing the CBO III transaction during the fourth quarter of 2002, there is no assurance that the CBO III transaction will be consummated. As of August 12, 2002, we estimate that the fair value of the securities purchased by BSIL is in excess of the purchase price paid by BSIL.

INFLATION

Substantially all of our office leases 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"). We believe that inflationary increases in expenses will generally be offset by the expense reimbursements and contractual rent increases described above.

We believe that our risk of increases in the market interest rates on our floating rate debt as a result of inflation is largely offset by our use of match funding and hedging instruments as described above. See "-- Quantitative and Qualitative Disclosure About Market Risk -- Interest Rate Exposure" below.

PRO FORMA FUNDS FROM OPERATIONS

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 shareholders (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 FFO. Adjustments for unconsolidated subsidiaries, if any, are calculated to reflect FFO on the same basis. 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.

Funds from Operations (FFO), on a pro forma basis after giving effect to the formation transactions, is calculated as follows (unaudited) (in thousands):

<Table>  
<Caption>

	FOR THE SIX MONTHS ENDED JUNE 30,		FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2001	2000 (A)	1999 (A)
<S>	<C>	<C>	<C>	<C>	<C>
Income from continuing operations.....	\$18,456	\$16,594	\$27,093	\$15,854	\$10,145
Real estate depreciation and amortization.....	1,332	1,298	2,637	2,518	1,358
Funds from Operations (FFO) from continuing operations.....	\$19,788	\$17,892	\$29,730	\$18,372	\$11,503

</Table>

(A) Adjusted as described in the introduction to "Management's Discussion and Analysis of Pro Forma Financial Condition and Results of Operations."

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 we are 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 our control. All of our market risk sensitive assets, liabilities and related derivative positions are for non-trading purposes only.

#### Interest Rate Exposure

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. Changes in the general level of interest rates can effect our net interest 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 June 30, 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 \$18.1 million and \$20.9 million, respectively, at June 30, 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 June 30, 2002 and do not take into consideration the effects of subsequent interest rate or currency rate fluctuations.

We held the following interest rate risk sensitive instruments at June 30, 2002 on a pro forma basis after giving effect to the formation transactions (unaudited) (dollars in thousands):

<Table>  
<Caption>

VALUE	CARRYING AMOUNT	PRINCIPAL BALANCE OR NOTIONAL AMOUNT	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	MATURITY DATE	OTHER TERMS	FAIR
---	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Assets:						
CBO collateral, net (A).....	\$1,044,814	\$1,095,659	7.30%	Various	Various (mixed floating and fixed rates, amortizing and interest only)	\$1,044,814

Loans receivable(B).... 6,111	6,111	18,491	12.54%	May-11	Principal only	
Marketable securities, available for sale(C)..... 7,184	7,184	19,326	N/A	(C)	(C)	
Interest rate caps, treated as hedges, net(D)..... 7,418	7,418	184,493	N/A	(D)	(D)	
Liabilities:						
CBO bonds payable(E)...	867,058	881,500	4.32%	(E)	Amortizes principal based on collateral payments, subject to reinvestment	887,160
Other bonds payable(F)..... 38,269	38,739	39,544	6.33%	Apr-12	Interest only	
Notes payable(F)..... 51,570	51,570	51,570	4.79%	Nov-16	Amortizes principal with a balloon payment at maturity	
Repurchase agreement(F)..... 1,457	1,457	1,457	3.19%	Short-term	Interest only	
Interest rate swaps, treated as hedges, net(G)..... 26,421	26,421	466,007	N/A	(G)	(G)	
Non-hedge derivative obligations(H)..... 156	156	(H)	N/A	(H)	(H)	

- 
- (A) The fair value of these securities is estimated by obtaining third party independent broker quotations.
- (B) These loans were issued on June 21, 2002 at a market discount. As such, the carrying amount on June 30, 2002 is believed to approximate fair value.
- (C) 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.
- (D) These two agreements have notional balances of \$166.5 million and \$18.0 million, respectively, mature in March 2009 and October 2015, respectively, and cap 1-month LIBOR at 6.50% and 3-month LIBOR at 8.00%, respectively. The fair value of these agreements is estimated by obtaining counterparty quotations.
- (E) For those bonds bearing floating rates at spreads over market indices, representing approximately \$709.8 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 June 30, 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. The weighted average stated maturity of the CBO bonds payable is September 2035.
- (F) We believe that for similar financial instruments with comparable credit risks, the stated interest rates at June 30, 2002 (all of which are floating rates at spreads over market indices) approximate market rates, with the exception of the Bell Canada securitization which bears interest at a fixed rate. The Bell Canada securitization was valued by discounting expected future payments by a rate calculated by imputing a spread over a market index on the date of borrowing.



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 were contributed to us. All of Newcastle Investment Holdings' historical operations are considered below, including those 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 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 SIX MONTHS ENDED JUNE 30, 2002:						
Revenues.....	\$37,535	\$35,221	\$ 128	\$(1,183)	\$ 5,303	\$ 77,004
FOR THE YEAR ENDED DECEMBER 31, 2001:						
Revenues.....	76,452	53,095	6,270	29,356	12,422	177,595

#### APPLICATION OF CRITICAL ACCOUNTING POLICIES

Newcastle Investment Holdings has classified its real estate securities, which have been 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 primarily upon multiple broker quotations, which provide valuation estimates based upon reasonable market order indications or a good faith estimate thereof. Such quotations are subject to significant variability based on market conditions, such as interest rates and spreads. Changes in market conditions, as well as changes in

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the assumptions or methodology used to determine market value, could 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 were primarily contributed to us. Market value is based on counterparty quotations. 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 was 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

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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.

#### RESULTS OF OPERATIONS

##### COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2002 TO THE SIX MONTHS ENDED JUNE 30, 2001

Interest and dividend income increased by \$2.7 million or 9.6%, from \$28.4 million to \$31.1 million. This increase is primarily the result of interest earned on the CBO II deposit and CBO II collateral, offset by a decrease in interest earned on loan and mortgage pool investments as a result of the settlement of a substantial portion of such investments in 2001.

Rental and escalation income decreased by \$0.5 million or 1.3%, from \$38.0 million to \$37.5 million. This decrease is primarily the result of foreign currency fluctuations related to the Bell Canada portfolio.

Gain on settlement of investments decreased by \$3.8 million, from \$8.9 million to \$5.1 million, primarily as a result of a reduction in the volume of sales of certain CBO collateral securities. Sales of CBO securities are based on a number of factors including credit, asset type and industry and can be expected to increase or decrease from time to time. Periodic fluctuations in the volume of sales of securities is dependent upon, among other things,



management's assessment of credit risk, asset concentration, portfolio balance and other factors. The reduced volume of sales of securities during this period reflects management's determination that the portfolio required less adjustment than in prior periods.

Equity in earnings of unconsolidated subsidiaries decreased \$0.7 million, from \$1.1 million to \$0.4 million, as a result of a reduction of Newcastle Investment Holdings' income from its investment in Fortress Investment Fund LLC (a \$2.6 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 (\$1.9 million).

Fund Incentive Return from Newcastle Investment Holdings' investment in Fortress Investment Fund LLC of \$1.2 million of loss was recorded during the period. 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. During the period, 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.

Management fee income from the Fund, all of which is payable to the Manager and is therefore included in Minority Interest, has no net effect on Newcastle Investment Holdings' operations.

Minority interest decreased by \$0.8 million primarily due to the Manager's 50% share of the incentive income (loss) of \$0.6 million.

Interest expense increased by \$0.9 million or 2.6%, from \$31.9 million to \$32.8 million. This increase is primarily the result of interest on the CBO II securitization (\$5.0 million), offset by the repayment of debt associated with the settlement of certain of Newcastle Investment Holdings' loan and mortgage pool investments during these periods (\$1.8 million), as well as lower interest rates being paid on the variable rate CBO securities classes (\$2.3 million).

Property operating expense decreased by \$0.1 million or 0.6%, from \$14.4 million to \$14.3 million, primarily as the result of foreign currency fluctuations related to the Canadian properties.

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Loan servicing and REO expense decreased by \$0.1 million from \$0.5 million to \$0.4 million primarily as the result of the settlement of a substantial portion of our loan and mortgage pool investments in 2001, offset by an increase related to the CBO II transaction. REO expense represents expenses related to maintaining foreclosed property and preparing it for sale.

General and administrative expense increased by \$1.0 million, from \$0.8 million to \$1.8 million, primarily as a result of increased insurance costs and increased state and local taxes.

Management fee expense remained at approximately \$2.7 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 \$1.4 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 \$0.4 million or 6.6%, from \$6.4 million to \$6.8 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 decreased \$0.1 million from \$1.3 million to \$1.2 million as a result of the redemption of such stock in June 2002.

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 \$0.7 million or 0.9%, from \$75.3 million to \$76.0 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 we acquired in connection with our acquisition of Impac Commercial Holdings, Inc. 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.

Management fee income from the Fund, all of which is payable to the Manager and is therefore included in Minority Interest, has no net effect on Newcastle Investment Holdings' operations.

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 \$5.1 million or 7.6%, from \$66.4 million to \$61.3 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).

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Property operating expense increased by \$0.5 million or 2.0%, from \$28.3 million to \$28.8 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).

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 6.6%, from \$12.2 million to \$13.0 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 \$10.5 million, from \$64.8 million to \$75.3 million. This increase was primarily the result of the acquisition of two GSA properties during 1999 (\$4.9 million) and the acquisition of the Belgian real estate portfolio in November 1999 (\$6.2 million).

Interest and dividend income increased by \$15.2 million, from \$50.2 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).

Management fee income from the Fund, all of which is payable to the Manager and is therefore included in Minority Interest, has no net effect on Newcastle Investment Holdings' operations.

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 \$19.9 million, from \$46.5 million to \$66.4 million. This increase is primarily the result of interest on the GSA securitization, the CBO securitization, the LIV mortgage, and the Bell Canada 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.

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Property operating expense increased by \$5.1 million, from \$23.2 million to \$28.3 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.

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 \$1.8 million, from \$10.4 million to \$12.2 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 have been 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 were 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 has been 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, were 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 \$635.5 million, net, of this amount had been funded through June 30, 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 June 30, 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-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 June 30, 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 June 30, 2002, Newcastle Investment Holdings' gross investment in Austin is \$9.2 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 \$1.4 million and \$5.6 million, related to the assets 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 eighteen months ending December 31, 2003. Subsequent to the formation transactions, we bear the costs, including all capital expenditures and tenant improvements, related to the assets we own.

Newcastle Investment Holdings' long-term debt existing at June 30, 2002 (gross of \$54.5 million of discounts) is expected to mature as follows: \$19.7 million during the period from July 1, 2002 through December 31, 2002, \$51.0 million in 2003, \$22.4 million in 2004, \$24.0 million in 2005, \$25.6 million in 2006, \$26.4 million in 2007, and \$1,195.1 million thereafter. 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 \$351.9 million (gross of discounts) was outstanding on June 30 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, were 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 June 30, 2002, the subordinated securities were retained by Newcastle Investment Holdings, 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 4.32%, had an expected weighted average life of approximately 5.9 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 two classes of securities, Newcastle Investment Holdings entered into two interest rate swaps and three interest rate cap agreements that do not qualify for hedge accounting. The CBO securitization, and related assets, were 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. 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 bore interest at a weighted average effective rate, including discount and cost amortization, of approximately 6.70% at closing, had an expected weighted average life of approximately 5.1 years at closing. 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 \$51.6 million and bore interest at 4.79% as of June 30, 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, were contributed to us.

In July 2000, Newcastle Investment Holdings entered into a \$40 million revolving credit agreement, which had an outstanding balance of \$38.3 million and bore interest at 6.10% as of June 30, 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 was 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 June 30, 2002 Newcastle Investment Holdings had a \$1.5 million repurchase agreement outstanding, bearing interest at approximately 3.19% with a short-term maturity. This agreement, and the related asset, was contributed to us.

In October 2001, Newcastle Investment Holdings entered into an agreement with Morgan Stanley & Co. Incorporated 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"). 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 were retained by Newcastle Investment Holdings. The CBO II securities are collateralized by a portfolio of CMBS, unsecured REIT debt, asset-backed securities, and a limited amount of other securities and restricted cash pending investment in securities (collectively, the "CBO II collateral"), which was acquired with the proceeds from the CBO II securities and with the deposit Newcastle Investment Holdings had made on such securities. The senior securities, which bore interest at a weighted average effective rate, including discount and cost amortization, of approximately 3.69% at closing, had an expected weighted average life of approximately 8.04 years at closing. One class of the senior securities bears a floating interest rate. Newcastle Investment Holdings obtained an interest rate

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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 were contributed to us.

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 \$13.3 million for the six months ended June 30, 2001 to \$18.5 million for the six months ended June 30, 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) (\$393.1 million) and \$66.3 million during the six months ended June 30, 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 June 30, 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) \$356.9 million and (\$85.3 million) during the six months ended June 30, 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.

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#### 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 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):

<Table>  
<Caption>

FOR THE SIX MONTHS

	ENDED JUNE 30,		FOR THE YEAR ENDED DECEMBER 31,		
	2002	2001	2001	2000	1999
<S>	<C>	<C>	<C>	<C>	<C>
Income available for common shareholders.....	\$13,097	\$18,973	\$ 41,131	\$40,776	\$12,299
Extraordinary item -- loss on extinguishment of debt.....	--	--	--	--	2,341
Real estate depreciation and amortization.....	6,591	6,363	12,909	12,621	9,927
Accumulated depreciation on real estate sold.....	(2,371)	--	--	--	--
Real estate depreciation and amortization -- unconsolidated subsidiaries.....	1,614	610	2,564	126	140
Incentive income accrued from Fortress Investment Fund(A).....	609	--	(14,354)	--	--
Equity in incentive return accrued by Fortress Investment Fund.....	(70)	--	1,645	--	--
Distributable incentive income from Fortress Investment Fund(B).....	--	--	4,369	--	--
Funds from Operations (FFO).....	\$19,470	\$25,946	\$ 48,264	\$53,523	\$24,707

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<Table>

<S>	<C>	<C>	<C>	<C>	<C>
(A) Represents our 50% interest in the incentive income as follows:					
Total incentive income.....	\$ (1,218)		\$ 28,709		
Minority interest -- Manager.....	\$ 609		\$ (14,355)		
Our incentive income.....	\$ (609)		\$ 14,354		

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

Total distributable incentive income.....	\$ 8,738
Distributable incentive income due Manager.....	\$ (4,369)
Our distributable incentive income.....	\$ 4,369

</Table>

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 June 30, 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 \$2.2 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 \$18.1 million and \$20.9 million, respectively, at June 30, 2002, is exposed to foreign currency exchange risk. These assets were contributed to us in connection with the formation transactions.

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 June 30, 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 June 30, 2002 (unaudited) (dollars in thousands):

<Table>  
<Caption>

	CARRYING AMOUNT ----- <C>	PRINCIPAL BALANCE OR NOTIONAL AMOUNT ----- <C>	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE ----- <C>	MATURITY DATE ----- <C>	OTHER TERMS ----- <C>	FAIR VALUE ----- <C>
<b>Assets:</b>						
CBO collateral, net(A).....	\$1,006,882	\$1,015,896	7.20%	Various	Various (mixed floating and fixed rates, amortizing and interest only)	\$1,006,882
Marketable securities, available for sale(B).....	21,776	461,000	N/A	(B)	(B)	21,776
Interest rate caps, treated as hedges, net(C).....	7,418	184,493	N/A	(C)	(C)	7,418
<b>Liabilities:</b>						
CBO bonds payable(D).....	867,058	881,500	4.32%	(D)	Amortizes principal based on collateral payments, subject to reinvestment	887,160
Other bonds payable(D).....	351,392	391,422	6.96%	(D)	Amortizes principal with a balloon payment	416,549
Notes payable(E).....	51,570	51,570	4.79%	Nov-16	Amortizes principal with a balloon payment	51,570
Repurchase agreement(E).....	1,457	1,457	3.19%	Short-term	Interest only	1,457
Credit facility(E)...	38,250	38,250	6.10%	Jul-03	Interest only	38,250
Interest rate swaps,						

treated as hedges, net(F).....	28,119	504,007	N/A	(F)	(F)	28,119
Non-hedge derivative obligations(G).....	156	(G)	N/A	(G)	(G)	156

</Table>

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- (A) The fair value of these securities is estimated by obtaining third party independent broker quotations. These securities were contributed to us in connection with the formation transactions.
- (B) These four securities with carrying amounts of \$3.9 million, \$3.2 million, \$7.7 million and \$6.9 million, respectively, mature in November 2007, August 2030, August 2018 and July 2016, 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 were contributed to us in connection with the formation transactions.
- (C) These two agreements have notional balances of \$166.5 million and \$18.0 million, respectively, mature in March 2009 and October 2015, respectively, and cap 1-month LIBOR at 6.50% and 3-month LIBOR at 8.00%, respectively. The fair value of these agreements is estimated by obtaining counterparty quotations. These agreements were contributed to us in connection with the formation transactions.
- (D) For those bonds bearing floating rates at spreads over market indices, representing approximately \$709.8 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 June 30, 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 were contributed to us in connection with the formation transactions. The weighted average stated maturity of the CBO bonds payable is September 2035. The weighted average stated maturity of the other bonds payable is June 2009.
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- (E) Newcastle Investment Holdings believes that for similar financial instruments with comparable credit risks, the stated interest rates at June 30, 2002 (all of which are floating rates at spreads over market indices) approximate market rates. Accordingly, the carrying amount outstanding is believed to approximate fair value for these notes. This debt, except for a \$38.3 million note, was contributed to us in connection with the formation transactions.
- (F) These three agreements have notional balances of \$176.0 million, 290.0 million and \$38.0 million, respectively, mature in July 2005, April 2011 and July 2003, respectively, and swap 1-month LIBOR for 6.1755%, 3-month LIBOR for 5.93% and 1-month LIBOR for 7.18%, respectively. The fair value of these agreements is estimated by obtaining counterparty quotations. The former two agreements were contributed to us in connection with the formation transactions.
- (G) 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 June 30, 2002, an interest rate cap with a notional balance of \$17.5 million as of June 30, 2002, and an interest rate cap with a notional balance of approximately \$59.8 million as of June 30, 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, the maturity date of \$17.5 million cap is July 2009, and the maturity date of the \$59.8 million cap is August 2004. They have been valued by reference to current counterparty quotations. These agreements were contributed to us in connection with the formation transactions.

Newcastle Investment Holdings held the following currency rate risk sensitive balances at June 30, 2002 (unaudited) (dollars in thousands, except exchange rates):

<Table>  
<Caption>

	CARRYING AMOUNT	LOCAL CURRENCY (C)	CURRENT EXCHANGE RATE TO USD (C)	EFFECT OF A 5% NEGATIVE CHANGE IN EURO RATE	EFFECT OF A 5% NEGATIVE CHANGE IN CAD RATE (C)	EFFECT OF A 5% NEGATIVE CHANGE IN GBP RATE (C)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Assets Contributed to us:						
LIV portfolio.....	\$64,923	Euro	1.00867	\$ (3,246)	N/A	N/A
Bell Canada portfolio.....	53,310	CAD	1.51730	N/A	\$ (2,666)	N/A
LIV other, net.....	4,793	Euro	1.00867	(240)	N/A	N/A
Bell Canada other, net.....	6,318	CAD	1.51730	N/A	(316)	N/A
Liabilities Contributed to us:						
LIV mortgage.....	51,570	Euro	1.00867	2,579	N/A	N/A
Bell Canada bonds.....	38,739	CAD	1.51730	N/A	1,937	N/A
Net Operations Contributed to us.....						
				(907)	(1,045)	N/A
Assets retained by Newcastle Investment Holdings						
Austin Holdings Corp.(A).....	4,513	Euro	1.00867	(226)	N/A	N/A
Bell Canada mortgage loan pool.....	59	CAD	1.51730	N/A	(3)	N/A
Fortress Investment Fund LLC(B).....	34,865	Various	Various	(1,052)	N/A	\$ (691)
Net Operations retained by Newcastle Investment Holdings.....						
				(1,278)	(3)	(691)
Total.....				\$ (2,185)	\$ (1,048)	\$ (691)

</Table>

(A) Represents foreign portion only.

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

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

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 substantially 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 real estate securities and credit leased real estate businesses from Newcastle Investment Holdings. We believe that separating these businesses from Newcastle Investment Holdings provides an opportunity for achieving more stable earnings. The remaining assets in Newcastle Investment Holdings that were not contributed to us have historically had and may continue to have either unpredictable or low current returns. For example, the GSA portfolio was not contributed to us because it does not generate any cash flow on a current basis since all of the cash flow on the portfolio is used to reduce debt and to fund capital

expenditures. 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 68.2% of our common stock and new investors in this offering will own 28.9% of our common stock, assuming exercise of all outstanding options.

Newcastle Investment Holdings contributed to us certain assets and related liabilities in exchange for all of our shares of our common stock. However, as presented in the unaudited pro forma statements, for accounting purposes this transaction is presented as a reverse spin-off. Under a reverse spin-off, Newcastle Investment Corp. is treated as the continuing entity and the assets to be retained by Newcastle Investment Holdings are accounted for as if they were distributed at historical book basis through a spin-off to Newcastle Investment Holdings.

In July 2002, Newcastle Investment Holdings contributed to us certain assets and liabilities in exchange for all of our shares of our common stock. We describe each of these assets and liabilities below under "-- Our Investments." As a result of the formation transactions, we own a diversified portfolio of credit sensitive real estate securities, including commercial and residential mortgage backed securities and unsecured REIT debt, rated primarily BBB (BBB- is the lowest investment grade rating) and BB (BB+ is the highest non-investment grade rating). 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 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 \$1.2 billion of assets at June 30, 2002;
  
- our portfolio was encumbered by approximately \$1.0 billion of debt at June 30, 2002;
  
- for the year ended December 31, 2001, we had revenues of approximately \$77.5 million, expenses of approximately \$50.4 million and income from continuing operations of approximately \$27.1 million;
  
- for the six months ended June 30, 2002, we had revenues of approximately \$47.1 million, expenses of approximately \$28.6 million and income from continuing operations of approximately \$18.5 million; and
  
- our income from continuing operations per common share was \$1.64 for 2001 and was \$1.12 per share for the six months ended June 30, 2002.

As of and for the six months ended June 30, 2002, 89% of our total assets was comprised of real estate securities and 11% was comprised of credit leased real estate, and 77% of our total revenue was

derived from interest and dividend income and gains on settlement of investments from our real estate securities and 23% 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 \$235 million principal 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 June 30, 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). In addition, in connection with this offering, we will grant to our manager an option to purchase 700,000 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 20.5%, 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 incentive compensation 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.

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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 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 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 June 30, 2002, 80% 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 seek to "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 June 30, 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.

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#### 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 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 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.

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

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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 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.

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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 \$235 million principal 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 up to an amount that will not exceed 90% of the purchase price of the mortgage loans at a rate of LIBOR plus 0.75%. We intend to utilize borrowings under the financing to purchase additional real estate securities, including collateral for the CBO III transaction, and for general corporate purposes.

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.

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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 June 30, 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 contributed 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 contributed to us.

As of June 30, 2002, our assets, after giving effect to the formation transactions, based on the book value of our operating segments, were 89% in real estate securities and 11% in credit leased real estate. The following is a description of our investment assets as of June 30, 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 June 30, 2002, the underlying securities securing CBO I consist of:

- \$344.9 million face amount in commercial mortgage backed securities (CMBS) with a weighted average coupon of 6.30%, a weighted average rating of approximately Ba2 and a weighted average term to maturity of 7.41 years at June 30, 2002. Retail, multifamily and office properties comprise 48%, 16% and 28%, respectively, of the underlying collateral.
- \$240.1 million face amount in unsecured REIT debt securities with a weighted average coupon of 7.44%, a weighted average rating of approximately Baa3 and a weighted average remaining term to maturity of 5.88 years at June 30, 2002. Office, retail, industrial and residential REIT industries comprise 17%, 28%, 19%, 13%, 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 June 30, 2002, the proceeds had been 96% invested. We expect to be 100% invested by August 2002 with a portfolio composed of approximately 63% CMBS, 28% REIT debt securities and 9% Asset Backed Securities and other securities. More specifically, at June 30, 2002 the second CBO, which we refer to as CBO II, consisted of:

- \$314 million face amount in CMBS with a weighted average coupon of 6.23%, a weighted average rating of approximately Bal and a weighted average term to maturity of 8.0 years. Retail, multifamily and office properties comprise 39%, 16% and 28%, respectively, of the underlying collateral.
- \$132 million face amount in unsecured REIT debt securities with a weighted average coupon of 7.51%, a weighted average rating of approximately Baa3 and a weighted average remaining term to maturity of 8.4 years. Office, retail, industrial and residential REIT industries comprise 34%, 36%, 4% and 13% respectively, of the debt.
- \$32 million face amount in asset backed securities with a weighted average coupon of 7.69% and a weighted average term to maturity of 8.7 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: Pursuant to an agreement entered into in July 2002 Bear, Stearns International Limited will purchase up to \$450 million of commercial mortgage backed securities, REIT debt, real estate loans and asset backed securities (the CBO III Collateral), subject to our right to purchase such securities from Bear, Stearns International Limited. The CBO III Collateral is expected to be included in a securitization transaction in which we would acquire the equity interest

(the CBO III Transaction). Pursuant to the agreement, Bear, Stearns & Co. Inc. also has been engaged to structure and serve as lead manager for the CBO III Transaction for which it will receive customary fees. As of August 14, 2002, approximately \$87 million of the \$450 million has been accumulated. If the CBO III Transaction is not consummated as a result of our failure to acquire the equity interest or otherwise as a result of our gross negligence or

willful misconduct, we would be required to either purchase the CBO III Collateral from Bear, Stearns International Limited or pay Bear, Stearns International Limited the difference between the price it paid for the CBO III Collateral and the price at which it sold the CBO III Collateral to a third-party (a Collateral Loss). If the CBO III Transaction fails to close for any other reason, other than as a result of Bear, Stearns International Limited's gross negligence or willful misconduct, we would be required to either purchase the CBO III Collateral from Bear, Stearns International Limited or pay Bear, Stearns International Limited the lesser of \$15 million and the Collateral Loss or, if we have paid a deposit on the CBO III Collateral in exchange for a portion of the interest payments on the securities, the lesser of the Collateral Loss and any such deposit. Although we currently anticipate completing the CBO III Transaction during the fourth quarter of 2002, there is no assurance that the CBO III transaction will be consummated.

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 as of June 30, 2002 is approximately \$6.0 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 Series A and B Notes were sold to third parties and the Series C Notes were retained by us.

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

<Table>  
<Caption>

SERIES	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	11.000%	April-2012
TOTAL.....		\$70,000,000		

</Table>

The following table sets forth certain information with respect to the Bell Canada Portfolio as of June 30, 2002:

BELL CANADA PORTFOLIO

<Table>  
<Caption>

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			

<Caption>

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	
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	3/31/06	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	
	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		99.04%	1,279,876			

<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, 83 Signet Drive	\$2,838,541	\$ 4.61	\$1,111,858	One 5 Year
	\$ 30,047	\$ 6.59		
	\$ 9,754	\$ 3.30		
	\$ 9,195	\$ 4.61		
2 Fieldway Road	\$ 769,308	\$ 4.61	\$ 617,012	One 5 Year
	\$ 49,647	\$ 6.59		
	\$ 5,335	\$ 3.30		
	\$ 7,559	\$ 6.59		
	\$ 720	\$ 4.61		
100 Dundas Street	\$1,341,160	\$ 4.61	\$1,073,465	One 5 Year
	\$ 42,477	\$ 3.30		One 5 Year
	\$ 22,224	\$13.18		None
	\$ 10,228	\$ 6.92		
	\$ 506	\$ 5.27		
	\$ 8,099	\$ 5.27		One 2 Year
	\$ 3,548	\$ 5.27		One 2 Year
	\$ 2,729	\$ 5.93		None
	\$ 19,663	\$ 9.89		One 5 Year
	\$ 32,284	\$17.14		One 5 Year
449 Princess Street	\$ 209,552	\$ 4.61	\$ 60,596	One 5 Year
	\$ 886	\$ 3.30		One 5 Year
66 Bay Street South	\$ 509,326	\$ 4.61	\$ 312,642	One 5 Year
	\$ 50,227	\$ 6.59		One 5 Year
	\$ 1,621	\$ 3.30		One 5 Year
	\$ 1,265	\$ 4.61		
Total/Average		\$5,975,901	\$3,175,573	

</Table>

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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 la 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
			-----			
Total/Average			455,593			

<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
325 Leuvensesteenweg	Job @	10.02%	8,191	7/1/00	6/30/09
	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
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					
159 Dreve Richelle	Czech Trade Promotioa Agency	4.39%	1,238	12/1/00	11/30/09
	C.V.N.	10.73%	3,025	9/1/01	8/31/10
	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
4 Rue de la Science	Lunch Time	2.63%	1,217	5/1/00	4/30/09
	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 Denmark	19.91%	5,307	1/1/00	12/31/08
4-6 Rue Belliard	Government of Belgium	55.25%	14,724	4/1/01	03/31/10
	Nouvelle Entreprise Stragier	28.7%	9,235	04/01/02	03/31/11
5 Hoge Wei	Unidata Noortman Belgium	100%	55,606	7/1/00	6/30/09
10 Rue Guimard	European Commission	100%	119,782	10/1/95	9/30/07
		-----	-----		
Total/Average		87.55%	398,882		

<Caption>

PROPERTY ADDRESS	ANNUAL RENT	CURRENT RENT PER SQUARE FOOT	ANNUAL REAL ESTATE TAXES	
-----	-----	-----	-----	
<S>	<C>	<C>	<C>	
54 Gossetlaan	\$ 108,205	\$13.85	\$ 47,584	
	\$ 163,882	\$13.40		
	\$ 80,201	\$14.16		
	\$ 180,834	\$12.58		
	\$ 197,494	\$13.39		
	\$ 97,495	\$11.90		
	325 Leuvensesteenweg	\$ 33,120	\$ 5.48	\$ 27,631
		\$ 54,913	\$11.59	
		\$ 28,182	\$ 9.88	
		\$ 80,463	\$ 9.89	
\$ 16,602		\$10.42		
\$ 21,360		\$11.34		
\$ 145,129		\$ 9.55		
\$ 24,815		\$ 2.41		
\$ 50,383		\$10.64		
\$ 13,057		\$10.55		
15-17 Rue Belliard	\$ 28,934	\$ 9.70		
	\$ 64,295	\$12.09	\$ 65,828	

	\$ 35,325	\$11.68	
	\$ 34,863	\$11.53	
	\$ 36,183	\$11.96	
	\$ 16,113	\$13.02	
	\$ 32,805	\$10.85	
159 Dreve Richelle	\$ 37,699	\$17.51	\$ 48,967
	\$ 9,278	\$11.80	
	\$ 521,071	\$12.38	
	\$ 26,830	\$22.05	
4 Rue de la Science	\$ 57,147	\$15.52	\$ 55,647
	\$ 22,469	\$10.23	
	\$ 8,045	\$10.83	
	\$ 69,321	\$13.06	
	\$ 213,971	\$14.53	
4-6 Rue Belliard	\$ 99,806	\$10.81	\$ 75,772
5 Hoge Wei	\$ 263,800	\$ 4.74	\$ 15,004
10 Rue Guimard	\$2,952,015	\$24.64	\$356,865
	-----	-----	-----
Total/Average	\$5,826,105		\$693,298

- - - - -

All monetary amounts are in U.S. dollars based on the June 28, 2002 Euro to U.S. dollars exchange rate of 1.0086.

The following schedule represents the leases expiring over the next 10 years for the LIV portfolio as of June 30, 2002.

SCHEDULE OF LEASE EXPIRATIONS

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	\$ 141,325	2.43%
2003	0	0	\$ 0	0.00%
2004	1	3,681	\$ 57,147	0.98%
2005	3	3,725	\$ 39,792	0.68%
2006	2	8,170	\$ 92,477	1.59%
2007	6	189,478	\$3,814,234	65.47%
2008	7	64,842	\$ 674,278	11.57%
2009	8	78,276	\$ 538,724	9.25%
2010	3	20,731	\$ 275,710	4.73%
2011	3	16,124	\$ 192,418	3.30%

- - - - -

\* Monetary amount is in U.S. dollars based on Euro to U.S. dollars exchange rate of 1.0086 as of June 28, 2002.

GSA PORTFOLIO MEZZANINE BONDS

We hold an approximately \$42 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 "mezzanine" in that they are junior to the property certificates issued in connection with the GSA securitization and senior to the equity interest in the portfolio. The bonds are not entitled to any scheduled interest or amortization payment prior to the maturity date. None of the bonds we own are secured by the GSA portfolio properties; approximately \$81 million face amount of the bonds we own are secured by 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.

As of June 30, 2002, the total undepreciated carrying value of the GSA portfolio is \$405 million. The GSA portfolio secures \$351.9 million face amount of mortgage debt at June 30, 2002, which is senior to bonds that we hold. The mortgage debt consists of:

- \$176.0 million face amount of fully amortizing lease-backed pass-through certificates, which are expected to be fully amortized by May 2011 through application of substantially all of the net cash flow generated by the properties.
- \$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.

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The table below sets forth the expected outstanding amount of all debt relating to the GSA portfolio at maturity in May 2011, excluding the \$176.0 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
Property Certificates.....	AA, A, BBB	\$175.9	Third Parties
Senior Mezzanine Bonds.....	BB	\$ 43.9	Newcastle Investment Corp.
Senior Mezzanine Bonds.....	B	\$ 31.4	Newcastle Investment Corp.
Senior Mezzanine Bonds.....	NR	\$ 5.5	Newcastle Investment Corp.
Senior Mezzanine Bonds.....	NR	\$ 4.2	Newcastle Investment Holdings(A)
Subordinated Mezzanine Bonds.....	NR	\$ 40.0	Newcastle Investment Corp.
Total Debt.....		\$300.9	

</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 interruption in cash flows on the GSA portfolio and 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. 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.

We financed approximately \$62.3 million face amount of our investment in the mezzanine bonds through CBO I and CBO II (that is, such bonds serve as CBO collateral).

The GSA portfolio, which is owned indirectly by Newcastle Investment Holdings, consists of 14 office and industrial 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 June 30, 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 June 30, 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 Baa3 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.

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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 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.

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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.

#### 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

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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.

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 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. 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 June 30, 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). In addition, in connection with this offering, we will grant to our manager an option to purchase 700,000 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 20.5%, 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 incentive compensation 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.

NAME	AGE	POSITION WITH OUR MANAGER
Wesley R. Edens.....	40	Chief Executive Officer
Robert I. Kauffman.....	38	President
Randal A. Nardone.....	47	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 BlackRock, Mr. Kauffman was an Executive Director of Lehman Brothers International in London from

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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. Edens, 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. Mr. Rosenthal 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, Mr. Wirth was a Vice President at CGA Investment Management. From 1988-1997, Mr. Wirth 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, Mr. Wirth 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

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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.

JONATHAN BROWN joined our manager in October 1999 and is a Vice President and Corporate Controller. Prior to joining our manager, Mr. Brown worked at Wellsford Real Properties, Inc., a real estate merchant banking firm, as corporate controller. From 1994 to 1997, Mr. Brown served as the controller of Wellsford Residential Property Trust, a public real estate investment trust. Prior to that, Mr. Brown was an audit manager with Kenneth Leventhal & Company, a public accounting firm specializing in real estate and financial services. Mr. Brown received a B.S. in accounting from New York University and is a Certified Public Accountant.

WILLIAM DONIGER joined our manager in May 1998 as a Managing Director. Mr. Doniger 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.

LILLY H. DONOHUE joined our manager in May 1998 and is a Vice President in the investor relations and capital raising area. Ms. Donohue is responsible for client service and reporting as well as public relations. Prior to joining our manager, Ms. Donohue worked at Union Bank of Switzerland and, before that, at BlackRock from 1992 to 1998, where she focused on structured finance and the small balance commercial loan business. Ms. Donohue received a B.S.B.A. in Finance from Boston 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, Mr. Glick was an Associate Director in the Structured Finance Ratings Group at Standard & Poor's Rating Services. Prior to joining Standard & Poor's, Mr. Glick was a Real Estate Associate with National Westminster Bank in New York. Mr. Glick 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

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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;

(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;

(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

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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 COMPENSATION

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	SIX MONTHS ENDED JUNE 30, 2002
<S>	<C>	<C>	<C>	<C>	<C>
Management Fee.....	\$6.0 million	\$5.6 million	\$5.1 million	\$4.8 million	\$2.4 million
Reimbursement of Expenses.....	\$1.2 million	\$1.8 million	\$1.6 million	\$0.9 million	\$0.3 million
Management Incentive Return.....	--	--	--	\$2.8 million	\$1.4 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 Compensation. Our manager is entitled to receive annual incentive compensation pursuant to the terms of the management agreement with us. The purpose of the incentive compensation 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 compensation, 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 book value per share of the net assets transferred to us in 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 manager's right to receive incentive compensation 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 compensation to our manager. In addition, if we do not elect to so purchase our manager's right to receive incentive compensation, 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.

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Our board of directors may request that our manager accept all or a portion of its incentive compensation 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 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 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

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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.

We have an approximately \$42 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 generally subordinated to our holdings. 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.

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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
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.....	47	Secretary

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. Mr. McFarland 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.

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#### 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

In connection with this offering, we will grant to our manager an option to purchase 700,000 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 expire in 2012. 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

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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.

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#### CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In July 2002, Newcastle Investment Holdings contributed certain assets and liabilities to us in exchange for all of the 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."

We have an approximately \$42 million investment the GSA mezzanine bonds issued by the various affiliates of Newcastle Investment Holdings that hold indirectly the GSA portfolio. Prior to the formation transactions, Newcastle Investment Holdings held 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 currently owns substantially all of our outstanding stock less a de minimus number of shares that Newcastle Investment Holdings subsequently sold to our manager for tax purposes. 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 68.2% of our common stock and new investors in this offering will own 28.9% of our common stock, assuming exercise of all outstanding options. At June 30, 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). In connection with this offering, we will grant to our manager an option to purchase 700,000 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 20.5% 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).

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#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Substantially all shares of our outstanding common stock are owned by Newcastle Investment Holdings Corp. The following table sets forth, as of June 30, 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	PERCENT AFTER OFFERING(5)
<S>	<C>	<C>	<C>
Newcastle Investment Holdings Corp.(2) (3).....	16,486,339	100%	70.2%
Fortress Principal Investment Holdings LLC(2) (3) (4)....	2,178	*	18.3% (6)
Wesley R. Edens(2).....	2,178 (7)	--	18.3% (6)
David J. Grain(2).....	--	--	*
Stuart A. McFarland(2).....	--	--	*
Jonathan Ashley(2).....	--	--	*
Randal A. Nardone(2).....	2,178 (7)	--	18.3% (6)
Erik P. Nygaard(2).....	2,178 (7)	--	18.3% (6)
Kenneth M. Riis(2).....	--	--	--
Michael I. Wirth(2).....	--	--	--
All directors and executive officers as a group (8 persons).....	16,488,517	--	18.3%

\* 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	NUMBER OF SHARES	PERCENT
<S>	<C>	<C>
Fortress Principal Investment Holdings LLC(a).....	4,791,862 (c)	25.8% (c)
Wallace R. Weitz & Company(b).....	2,975,142	18.0%

(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) Percentage amount assumes the exercise by such persons of all options to acquire shares of common stock and no exercise by any other person.

(6) Upon completion of this offering, our manager, through Fortress Principal Investment Holdings LLC, will beneficially own approximately 20.5% 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.

- (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.

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#### 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, 23,488,517 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 UNISSUED SHARES OF OUR STOCK

Our charter authorizes our board of directors to classify and reclassify any unissued shares of our common stock or 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.

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## 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 common stock or 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

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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.

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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 aggregate 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 written 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, Wallace R. Weitz & Company 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 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 rights will be

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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(a)(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

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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.

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#### 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.

Newcastle Investment Holdings Corp. currently owns substantially all of our outstanding common stock. We were formed in June 2002 for the purpose of separating the real estate securities and credit leased real estate businesses from Newcastle Investment Holdings. We believe that separating these businesses from Newcastle Investment Holdings provides an opportunity for achieving more stable earnings. The remaining assets in Newcastle Investment Holdings that were not contributed to us have historically had and may continue to have unpredictable returns. 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 68.2% of our common stock and new investors in this offering will own 28.9% of our common stock, assuming exercise of all outstanding options. At June 30, 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 23,488,517 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 7,000,000 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, assuming the distribution is made pro rata to all holders and for no consideration, 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 700,000 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 20.5% of our equity upon exercise of all options, including our manager's interest in Newcastle Investment Holdings. The option shares are not registered in connection with this offering.

#### LOCK-UP

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

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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 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.

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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

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.

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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 of record 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 AND BYLAWS

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.

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#### 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, upon the filing of its federal income tax return for that year. 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

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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.

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- 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 be 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.

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## 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

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 a 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

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.

#### 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

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(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.

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#### 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

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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

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.

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.

#### 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 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.

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

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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 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

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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

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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.

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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

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- 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

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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.

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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 - ----- <S>	NUMBER OF SHARES ----- <C>
Bear, Stearns & Co. Inc. ....	
Lehman Brothers Inc. ....	
Banc of America Securities LLC.....	
	-----
Total.....	7,000,000 =====



</Table>

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 100,000 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 \$3,150,000 and are payable by us.

OVERALLOTMENT OPTION

We have granted an option to the underwriters to purchase up to 1,050,000 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 700,000 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 20.5% of our equity upon exercise of all options, including our manager's interest in Newcastle Investment Holdings. The option shares are not registered in connection with this offering.

#### NEW YORK STOCK EXCHANGE LISTING

We have applied 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

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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." In addition, in July 2002, we entered into an agreement with Bear Stearns in connection with our proposed third CBO issuance for which Bear Stearns will receive customary fees. See "Newcastle Investment Corp. -- Our Investments." 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.

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#### 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.

The balance sheet of Newcastle Investment Corp. at June 6, 2002 appearing in this prospectus and registration statement has been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and is included in reliance upon such report 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.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of  
Newcastle Investment Corp.

We have audited the accompanying balance sheet of Newcastle Investment Corp. (the "Company") as of June 6, 2002. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Newcastle Investment Corp. as of June 6, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

New York, New York  
June 10, 2002

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NEWCASTLE INVESTMENT CORP.

BALANCE SHEET

<Table>  
<Caption>

	JUNE 6, 2002
	-----
	(IN THOUSANDS)
	<C>
<b>&lt;S&gt;</b>	
<b>ASSETS</b>	
Total assets.....	\$ 0.00
	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Liabilities.....	\$ 0.00
Stockholders' equity:	
Common stock, \$.01 par value, 500,000,000 shares authorized	
1 share issued and outstanding.....	0.01
Additional paid in capital.....	0.99
Subscriptions receivable.....	(1.00)
	-----
Total stockholders' equity.....	0.00
Total liabilities and stockholders' equity.....	\$ 0.00
	=====

</Table>

See accompanying note to balance sheet.

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NEWCASTLE INVESTMENT CORP.

NOTE TO BALANCE SHEET

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Newcastle Investment Corp. (the "Company") was incorporated in the state of Maryland on June 6, 2002. The Company was formed for the purpose of separating the real estate securities and credit leased real estate businesses from Newcastle Investment Holdings Corp. Upon completion of the separation transaction, the Company expects to invest in real estate securities and other real estate assets. Other than its formation, the Company has not conducted any activities.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amount reported in the balance sheet.

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PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Newcastle Investment Holdings contributed to us certain assets and related liabilities in exchange for all of our shares of our common stock. However, for accounting purposes and throughout these financial statements, this transaction is presented as a reverse spin-off. Under a reverse spin-off, Newcastle Investment Corp. is treated as the continuing entity and the assets to be

retained by Newcastle Investment Holdings are accounted for as if they were distributed at historical book basis through a spin-off to Newcastle Investment Holdings.

As of July 12, 2002, for accounting purposes, we distributed to Newcastle Investment Holdings Corp. assets which represented approximately thirty percent of our total assets (100% of our real estate loans, our investment in the Fund, and approximately 75% of our real properties, in each case based on book value as of June 30, 2002), and related liabilities. The following assets were retained by us:

- 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.

The unaudited pro forma consolidated statements of income are presented as if the distribution had been consummated on January 1, 2002, 2001 or 2000, as applicable. The historical results of operations of the assets and liabilities distributed to Newcastle Investment Holdings for the six months ended June 30, 2002 and 2001 and the year ended December 31, 2001 have been presented as discontinued operations, for those operations that constitute a component of an entity. A component of an entity must have cash flows that are clearly distinguished operationally and for financial reporting purposes from the rest of the entity. Of the assets distributed to Newcastle Investment Holdings, the GSA portfolio and the mortgage loans qualify as a component of an entity. The remaining operations related to the other assets and liabilities distributed to Newcastle Investment Holdings which are not a component of an entity have been eliminated in these periods. 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 distributed to Newcastle Investment Holdings have not been eliminated for these periods. The GSA portfolio mezzanine bonds, which were historically eliminated in the consolidated financial statements, have not been eliminated for this presentation. The unaudited pro forma consolidated statements of income after discontinued operations but before eliminations, subject to the non-elimination described in the preceding sentence, represent the presentation of our operations which will appear in our future financial statements for comparative periods which occurred prior to the formation transactions.

The unaudited pro forma consolidated balance sheet is presented as if the distribution had been consummated on June 30, 2002. The GSA portfolio mezzanine bonds, which for purposes of this presentation are treated as issued by us, have historically been eliminated in the consolidated financial statements but 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.

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NEWCASTLE INVESTMENT CORP.  
CONSOLIDATED PRO FORMA BALANCE SHEET  
JUNE 30, 2002  
(UNAUDITED)  
(IN THOUSANDS)

<Table>  
<Caption>

DISTRIBUTED TO NEWCASTLE INVESTMENT HOLDINGS -----	PRO FORMA	DISTRIBUTED TO NEWCASTLE INVESTMENT
--	-----------	---

	HISTORICAL (A)	DISCONTINUED OPERATIONS (B)	AFTER DISCONTINUED OPERATIONS	HOLDINGS ----- OTHER
PRO FORMA				
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<C>				
ASSETS				
CBO collateral, net (\$37,932 from affiliates, pro forma).....	\$1,006,882	\$ --	\$1,006,882	\$ 37,932 (D)
\$1,044,814				
Operating real estate, net.....	487,628	(369,395)	118,233	--
118,233				
Loans and mortgage pools receivable, net (\$6,111 from affiliates, pro forma).....	45	(45)	--	6,111 (D)
6,111				
Marketable securities, available for sale.....	21,776	--	21,776	(14,592) (C)
7,184				
Investments in unconsolidated subsidiaries.....	86,406	--	86,406	(86,406) (C)
--				
Cash and cash equivalents.....	13,578	(1,681)	11,897	(10,742) (C)
1,155				
Restricted cash.....	10,337	(4,029)	6,308	--
6,308				
Due from (to) affiliates.....	22,333	--	22,333	(22,333) (C)
--				
Deferred costs, net.....	15,435	(4,864)	10,571	(985) (C)
9,586				
Receivables and other assets.....	26,058	(10,315)	15,743	(62) (C)
15,681				
-----	-----	-----	-----	-----
	\$1,690,478	\$ (390,329)	\$1,300,149	\$ (91,077)
\$1,209,072	=====	=====	=====	=====
=====				
LIABILITIES, MINORITY INTEREST, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY				
LIABILITIES				
CBO bonds payable.....	\$ 867,058	\$ --	\$ 867,058	--
\$ 867,058				
Other bonds payable.....	351,392	(312,653)	38,739	--
38,739				
Notes payable.....	51,570	--	51,570	--
51,570				
Repurchase agreements.....	1,457	--	1,457	--
1,457				
Credit facility.....	38,250	--	38,250	(38,250) (C)
--				
Derivative liabilities.....	30,510	--	30,510	(1,698) (C)
28,812				
Dividends payable.....	9,893	--	9,893	(9,893) (C)
--				
Accrued expenses and other liabilities.....	12,645	(5,729)	6,916	(485) (C)
6,431				
-----	-----	-----	-----	-----
	1,362,775	(318,382)	1,044,393	(50,326)
994,067	-----	-----	-----	-----
-----				
Commitments and contingencies				
MINORITY INTEREST.....	9,479	(103)	9,376	(9,376) (C)
--				
STOCKHOLDERS' EQUITY				
Common stock.....	165	--	165	--
165				
Additional paid-in capital.....	309,356	(68,771)	240,585	(37,829) (C) (D)
202,756				
Dividends in excess of earnings.....	(14,457)	--	(14,457)	14,457 (C)
--				
Accumulated other comprehensive income.....	23,160	(3,073)	20,087	(8,003) (C)
12,084				
-----	-----	-----	-----	-----
	318,224	(71,844)	246,380	(31,375)
215,005	-----	-----	-----	-----
-----				
	\$1,690,478	\$ (390,329)	\$1,300,149	\$ (91,077)
\$1,209,072	=====	=====	=====	=====

=====  
</Table>

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NEWCASTLE INVESTMENT CORP.

NOTES TO CONSOLIDATED PRO FORMA BALANCE SHEET

JUNE 30, 2002

(UNAUDITED)

- (A) Historical amounts were derived from our unaudited historical consolidated financial statements as of and for the six months ended June 30, 2002.
- (B) Adjustments represent historical balances of assets and liabilities related to investments distributed to 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 distributed to Newcastle Investment Holdings, which have been eliminated, as they will have no continuing impact on our operations.
- (D) The GSA portfolio mezzanine bonds, which were historically eliminated, have not been eliminated for this presentation since the entity that issued the bonds is part of the operations spun-off to Newcastle Investment Holdings and, accordingly, is no longer a part of our operations.

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NEWCASTLE INVESTMENT CORP.

CONSOLIDATED PRO FORMA STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2002

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
<Caption>

	HISTORICAL (A)	DISTRIBUTED TO NEWCASTLE INVESTMENT HOLDINGS DISCONTINUED OPERATIONS (B)	PRO FORMA AFTER DISCONTINUED OPERATIONS	DISTRIBUTED TO NEWCASTLE INVESTMENT HOLDINGS OTHER
PRO FORMA				
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<C>				
REVENUES				
Interest and dividend income (\$392 from affiliates, pro forma).....	\$31,100	\$ (65)	\$31,035	\$ 218 (E)
\$31,253				
Rental and escalation income.....	37,532	(26,744)	10,788	--
10,788				
Gain (loss) on settlement of investments.....	5,108	(107)	5,001	29 (C)
5,030				
Management fee from affiliates.....	4,470	--	4,470	(4,470) (C)
--				
Incentive income from affiliates.....	(1,218)	--	(1,218)	1,218 (C)
--				
Other income.....	12	--	12	(3) (C)
9				
-----	-----	-----	-----	-----
47,080	77,004	(26,916)	50,088	(3,008)
-----	-----	-----	-----	-----



-----				
EXPENSES				
Interest expense.....	32,769	(11,281)	21,488	(2,315) (C)
19,173				
Property operating expense.....	14,276	(9,515)	4,761	--
4,761				
Loan servicing and REO expense.....	423	(222)	201	--
201				
General and administrative expense.....	1,838	(258)	1,580	(345) (C) (D)
1,235				
Management fees to affiliates.....	2,698	--	2,698	(875) (D)
1,823				
Incentive return to affiliates.....	1,436	--	1,436	(1,436) (D)
--				
Depreciation and amortization.....	6,802	(4,941)	1,861	(430) (C)
1,431				
	-----	-----	-----	-----
	60,242	(26,217)	34,025	(5,401)
28,624	-----	-----	-----	-----
-----				
INCOME BEFORE EQUITY IN EARNINGS OF				
UNCONSOLIDATED SUBSIDIARIES AND MINORITY				
INTEREST.....	16,762	(699)	16,063	2,393
18,456				
Equity in earnings (losses) of unconsolidated				
subsidaries.....	362	--	362	(362) (C)
--				
Minority interest in income of consolidated				
subsidaries.....	(3,874)	13	(3,861)	3,861 (C)
--				
	-----	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS.....	\$13,250	\$ (686)	\$12,564	\$ 5,892
\$18,456	=====	=====	=====	=====
=====				
Income from continuing operations per common				
share, basic and diluted.....	\$ 0.80		\$ 0.76	
\$ 1.12	=====		=====	
=====				
Weighted average number of common shares				
outstanding, basic and diluted.....	16,489		16,489	
16,489	=====		=====	
=====				
</Table>				

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NEWCASTLE INVESTMENT CORP.

NOTES TO CONSOLIDATED PRO FORMA STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2002

(UNAUDITED)

(A) Historical amounts were derived from our unaudited historical consolidated financial statements as of and for the six months ended June 30, 2002.

(B) Adjustments represent historical results of operations related to investments distributed to 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 distributed to Newcastle Investment Holdings, which have been eliminated, as they will have no continuing impact on our operations.

(D) Corporate general and administrative expense (G&A) and management fees have been allocated pro rata between continuing operations and operations related to assets distributed to Newcastle Investment Holdings, based on pro forma equity; incentive return has been allocated based on the investments which generated such return. We note that we will not be responsible for G&A,

management fees, or incentive return related to the investments or equity distributed to Newcastle Investment Holdings. General and administrative expense, which has a continuing impact on the Company's operations, has been allocated between continuing operations and operations related to assets distributed to Newcastle Investment Holdings, via specific identification method, when available, or via pro rata allocation based on pro forma equity between the Company and Newcastle Investment Holdings. The actual management fee charged to us is based upon actual equity, as defined. Accordingly, management fees have been allocated between the operations distributed to Newcastle Investment Holdings and our continuing operations based upon the same methodology. The incentive return has been allocated to the investments which generated such return.

(E) Represents interest on the GSA portfolio mezzanine bonds of \$392,000, net of the elimination of the historical results of operations related to other investments distributed to Newcastle Investment Holdings of \$174,000. This interest was historically eliminated, but has not been eliminated for this presentation since the entity that issued the bonds is part of the operations spun-off to Newcastle Investment Holdings and, accordingly, is no longer a part of our operations.

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NEWCASTLE INVESTMENT CORP.

CONSOLIDATED PRO FORMA STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2001  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
<Caption>

PRO FORMA	HISTORICAL (A)	DISTRIBUTED TO NEWCASTLE INVESTMENT HOLDINGS	PRO FORMA AFTER DISCONTINUED OPERATIONS	DISTRIBUTED TO NEWCASTLE INVESTMENT HOLDINGS
		DISCONTINUED OPERATIONS (B)		OTHER
<S>	<C>	<C>	<C>	<C>
<C>				
REVENUES				
Interest and dividend income (\$2 from affiliates, pro forma).....	\$ 53,434	\$ (4,491)	\$ 48,943	\$ (1,232) (C)
\$47,711				
Rental and escalation income.....	75,979	(53,690)	22,289	--
22,289				
Gain (loss) on settlement of investments.....	10,386	(1,948)	8,438	(1,033) (C)
7,405				
Management fee from affiliates.....	8,941	--	8,941	(8,941) (C)
--				
Incentive income from affiliates.....	28,709	--	28,709	(28,709) (C)
--				
Other income.....	146	(78)	68	(25) (C)
43				
-----	-----	-----	-----	-----
77,448	177,595	(60,207)	117,388	(39,940)
-----	-----	-----	-----	-----
EXPENSES				
Interest expense.....	61,332	(25,469)	35,863	(3,204) (C)
32,659				
Property operating expense.....	28,822	(18,992)	9,830	--
9,830				
Loan servicing and REO expense.....	965	(711)	254	(11) (C)
243				
General and administrative expense.....	2,399	(778)	1,621	(330) (C) (D)
1,291				
Management fees to affiliates.....	5,746	--	5,746	(2,104) (D)
3,642				
Incentive return to affiliates.....	2,834	--	2,834	(2,834) (D)
--				
Depreciation and amortization.....	13,049	(9,352)	3,697	(1,007) (C)
2,690				
-----	-----	-----	-----	-----

-----				
50,355	115,147	(55,302)	59,845	(9,490)
-----	-----	-----	-----	-----
INCOME BEFORE EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES AND MINORITY INTEREST.....	62,448	(4,905)	57,543	(30,450)
27,093				
Equity in earnings (losses) of unconsolidated subsidiaries.....	2,807	--	2,807	(2,807) (C)
--				
Minority interest in income of consolidated subsidiaries.....	(23,212)	(83)	(23,295)	23,295 (C)
--				
-----	-----	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS.....	\$ 42,043	\$ (4,988)	\$ 37,055	\$ (9,962)
\$27,093				
=====	=====	=====	=====	=====
Income from continuing operations per common share, basic and diluted.....	\$ 2.55		\$ 2.25	
\$ 1.64				
=====	=====	=====	=====	=====
Weighted average number of common shares outstanding, basic and diluted.....	16,493		16,493	
16,493				
=====	=====	=====	=====	=====

</Table>

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NEWCASTLE INVESTMENT 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 distributed to 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 distributed to Newcastle Investment Holdings, which have been eliminated, as they will have no continuing impact on our operations.
- (D) Corporate general and administrative expense and management fees have been allocated pro rata between continuing operations and operations related to assets distributed to Newcastle Investment Holdings, based on pro forma equity; incentive return has been allocated based on the investments which generated such return. We note that we will not be responsible for G&A, management fees, or incentive return related to the investments or equity distributed to Newcastle Investment Holdings. General and administrative expense, which has a continuing impact on the Company's operations, has been allocated between continuing operations and operations related to assets distributed to Newcastle Investment Holdings, via specific identification method, when available, or via pro rata allocation based on pro forma equity between the Company and Newcastle Investment Holdings. The actual management fee charged to us is based upon actual equity, as defined. Accordingly, management fees have been allocated between the operations distributed to Newcastle Investment Holdings and our continuing operations based upon the same methodology. The incentive return has been allocated to the investments which generated such return.

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NEWCASTLE INVESTMENT CORP.

CONSOLIDATED PRO FORMA STATEMENT OF INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2001

(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
<Caption>

PRO FORMA	HISTORICAL (A)	DISCONTINUED OPERATIONS (B)	PRO FORMA AFTER DISCONTINUED OPERATIONS	DISTRIBUTED TO NEWCASTLE INVESTMENT HOLDINGS OTHER
<S>	<C>	<C>	<C>	<C>
<C>				
REVENUES				
Interest and dividend income.....	\$28,370	\$ (3,261)	\$25,109	\$ (893) (C)
\$24,216				
Rental and escalation income.....	38,015	(26,540)	11,475	9 (C)
11,484				
Gain (loss) on settlement of investments.....	8,941	(1,520)	7,421	(1,031) (C)
6,390				
Management fee from affiliates.....	4,470	--	4,470	(4,470) (C)
--				
Other income.....	22	(4)	18	(9) (C)
9				
-----				
	79,818	(31,325)	48,493	(6,394)
42,099				
-----				
EXPENSES				
Interest expense.....	31,949	(13,435)	18,514	(1,672) (C)
16,842				
Property operating expense.....	14,359	(9,134)	5,225	--
5,225				
Loan servicing and REO expense.....	511	(395)	116	--
116				
General and administrative expense.....	757	(142)	615	(117) (C) (D)
498				
Management fees to affiliates.....	2,751	--	2,751	(1,248) (D)
1,503				
Depreciation and amortization.....	6,383	(4,604)	1,779	(458) (C)
1,321				
-----				
	56,710	(27,710)	29,000	(3,495)
25,505				
-----				
INCOME BEFORE EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES AND MINORITY INTEREST.....	23,108	(3,615)	19,493	(2,899)
16,594				
Equity in earnings (losses) of unconsolidated subsidiaries.....	1,125	--	1,125	(1,125) (C)
--				
Minority interest in income of consolidated subsidiaries.....	(4,678)	208	(4,470)	4,470
--				
-----				
INCOME FROM CONTINUING OPERATIONS.....	\$19,555	\$ (3,407)	\$16,148	\$ 446
\$16,594				
=====				
Income from continuing operations per common share, basic and diluted.....	\$ 1.19		\$ 0.98	
\$ 1.01				
=====				
Weighted average number of common shares outstanding, basic and diluted.....	16,497		16,497	
16,497				
=====				

</Table>

## NEWCASTLE INVESTMENT CORP.

## NOTES TO CONSOLIDATED PRO FORMA STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2001

(UNAUDITED)

- (A) Historical amounts were derived from our unaudited historical consolidated financial statements as of and for the six months ended June 30, 2001.
- (B) Adjustments represent historical results of operations related to investments distributed to 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 distributed to Newcastle Investment Holdings, which have been eliminated, as they will have no continuing impact on our operations.
- (D) Corporate general and administrative expense and management fees have been allocated pro rata between continuing operations and operations related to assets distributed to Newcastle Investment Holdings, based on pro forma equity. We note that we will not be responsible for G&A or management fees related to the investments or equity distributed to Newcastle Investment Holdings. General and administrative expense, which has a continuing impact on the Company's operations, has been allocated between continuing operations and operations related to assets distributed to Newcastle Investment Holdings, via specific identification method, when available, or via pro rata allocation based on pro forma equity between the Company and Newcastle Investment Holdings. The actual management fee charged to us is based upon actual equity, as defined. Accordingly, management fees have been allocated between the operations distributed to Newcastle Investment Holdings and our continuing operations based upon the same methodology.

## NEWCASTLE INVESTMENT CORP.

## CONSOLIDATED PRO FORMA STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2000

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

<Table>  
<Caption>

	DISTRIBUTED TO NEWCASTLE INVESTMENT HOLDINGS		
	HISTORICAL (A)	DISCONTINUED OPERATIONS (B)	PRO FORMA
<S>	<C>	<C>	<C>
REVENUES			
Interest and dividend income.....	\$ 65,389	\$ (14,400)	\$ 50,989
Rental and escalation income.....	75,293	(52,567)	22,726
Gain (loss) on settlement of investments.....	21,763	(927)	20,836
Management fee from affiliates.....	8,941	--	8,941
Other income.....	1,006	(278)	728
	-----	-----	-----
	172,392	(68,172)	104,220
	-----	-----	-----
EXPENSES			
Interest expense.....	66,411	(29,514)	36,897
Property operating expense.....	28,264	(18,118)	10,148
Loan servicing and REO expense.....	2,325	(2,060)	265
General and administrative expense.....	3,988	(676)	3,310
Management fees to affiliates.....	6,646	--	6,646
Depreciation and amortization.....	12,244	(9,190)	3,054
	-----	-----	-----
	119,878	(59,558)	60,320
	-----	-----	-----

INCOME BEFORE EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES AND MINORITY INTEREST.....	52,514	(8,614)	43,900
Equity in earnings (losses) of unconsolidated subsidiaries.....	(980)	--	(980)
Minority interest in income of consolidated subsidiaries....	(9,689)	748	(8,941)
	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS.....	\$ 41,845	\$ (7,866)	\$ 33,979
	=====	=====	=====
Income from continuing operations per common share, basic and diluted.....	\$ 2.21		\$ 1.80
	=====		=====
Weighted average number of common shares outstanding, basic and diluted.....	18,892		18,892
	=====		=====

</Table>

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NEWCASTLE INVESTMENT 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) Adjustments represent historical results of operations related to investments distributed to Newcastle Investment Holdings which are treated as discontinued operations, specifically the GSA portfolio and the mortgage loans.

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NEWCASTLE INVESTMENT 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)	DISTRIBUTED TO NEWCASTLE INVESTMENT HOLDINGS ----- DISCONTINUED OPERATIONS (B)	PRO FORMA
	-----	-----	-----
<S>	<C>	<C>	<C>
REVENUES			
Interest and dividend income.....	\$ 50,245	\$ (19,957)	\$30,288
Rental and escalation income.....	64,822	(47,735)	17,087
Gain (loss) on settlement of investments.....	(1,526)	3,291	1,765
Management fee from affiliates.....	944	--	944
Other income.....	462	(393)	69
	-----	-----	-----
	114,947	(64,794)	50,153
	-----	-----	-----
EXPENSES			
Interest expense.....	46,529	(26,788)	19,741
Property operating expense.....	23,169	(14,741)	8,428
Loan servicing and REO expense.....	3,122	(3,010)	112
General and administrative expense.....	3,516	(433)	3,083
Management fees to affiliates.....	7,407	(20)	7,387
Depreciation and amortization.....	10,383	(8,564)	1,819
	-----	-----	-----
	94,126	(53,556)	40,570
	-----	-----	-----
INCOME BEFORE EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES AND MINORITY INTEREST.....	20,821	(11,238)	9,583
Equity in earnings (losses) of unconsolidated subsidiaries.....	(3,615)	--	(3,615)
Minority interest in income of consolidated subsidiaries....	(2,202)	1,258	(944)
	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM.....	15,004	\$ (9,980)	\$ 5,024
		=====	=====
Income from discontinued operations.....	149		

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	
	=====	
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 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>

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NEWCASTLE INVESTMENT 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) Adjustments represent historical results of operations related to investments distributed to Newcastle Investment Holdings which are treated as discontinued operations, specifically the GSA portfolio and the mortgage loans.

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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

/s/ ERNST & YOUNG LLP

New York, New York

March 15, 2002, except for note 16 as to

which the date is August 14, 2002

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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
Derivative 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 (\$14,354 to affiliate at December 31, 2001).....	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	300,655
	-----	-----
	\$1,276,473	\$1,331,086
	=====	=====

</Table>

See notes to consolidated financial statements

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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.....	\$ 75,979	\$ 75,293	\$ 64,822
Interest and dividend income.....	53,434	65,389	50,245
Gain (loss) on settlement of investments.....	10,386	21,763	(1,526)
Management fee from affiliates -- Note 6.....	8,941	8,941	944
Incentive income from affiliates -- Note 6.....	28,709	--	--
Other income.....	146	1,006	462
	-----	-----	-----
	177,595	172,392	114,947
	-----	-----	-----
<b>EXPENSES:</b>			
Interest expense.....	61,332	66,411	46,529
Property operating expense.....	28,822	28,264	23,169
Loan servicing and REO expense.....	965	2,325	3,122
General and administrative expense.....	2,399	3,988	3,516
Management fee to affiliates -- Note 6 and 12.....	5,746	6,646	7,407
Incentive return to affiliates -- Note 12.....	2,834	--	--
Depreciation and amortization.....	13,049	12,244	10,383
	-----	-----	-----
	115,147	119,878	94,126
	-----	-----	-----
<b>INCOME BEFORE EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES AND MINORITY INTEREST.....</b>			
Equity in earnings (losses) of unconsolidated subsidiaries.....	2,807	(980)	(3,615)
Minority interest in income of consolidated subsidiaries (\$23,295), \$(8,941), and \$(944) from affiliates, respectively).....	(23,212)	(9,689)	(2,202)
	-----	-----	-----
<b>INCOME FROM CONTINUING OPERATIONS.....</b>	<b>42,043</b>	<b>41,845</b>	<b>15,004</b>
Income from discontinued operations.....	1,628	1,015	149
Extraordinary item-loss on extinguishment of debt -- Note 9.....	--	--	(2,341)
	-----	-----	-----
<b>INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE.....</b>	<b>43,671</b>	<b>42,860</b>	<b>12,812</b>
Cumulative effect of change in accounting principle-write off of organizational costs.....	--	--	(513)
	-----	-----	-----
<b>NET INCOME.....</b>	<b>43,671</b>	<b>42,860</b>	<b>12,299</b>
Preferred dividends and related accretion.....	(2,540)	(2,084)	--
	-----	-----	-----
<b>INCOME AVAILABLE FOR COMMON SHAREHOLDERS.....</b>	<b>\$ 41,131</b>	<b>\$ 40,776</b>	<b>\$ 12,299</b>
	=====	=====	=====
<b>NET INCOME PER COMMON SHARE, BASIC AND DILUTED.....</b>	<b>\$ 2.49</b>	<b>\$ 2.16</b>	<b>\$ 0.59</b>
	=====	=====	=====
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED.....</b>	<b>16,492,708</b>	<b>18,892,232</b>	<b>20,916,739</b>
	=====	=====	=====
Income from continuing operations per common share, after preferred dividends and related accretion, basic and diluted.....	\$ 2.39	\$ 2.11	\$ 0.72
	=====	=====	=====
Income from discontinued operations per common share, basic and diluted.....	\$ 0.10	\$ 0.05	\$ 0.00
	=====	=====	=====
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

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK  
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

<Table>  
<Caption>

TOTAL	REDEEMABLE PREFERRED STOCK	COMMON STOCK	ADDITIONAL	DIV'S IN EXCESS OF	ACCUM. OTHER
	-----	-----			



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
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.

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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 from affiliates.....	(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	\$ --
	=====	=====	=====

</Table>

See notes to consolidated financial statements.

## 1. ORGANIZATION

Newcastle Investment Holdings Corp. (formerly Newcastle Investment Corp. and prior to that Fortress Investment Corp.) ("Newcastle Holdings") 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 Holdings and its controlled subsidiaries, which include Fortress Partners, L.P. (the "Operating Partnership"), its primary investment subsidiary.

Newcastle 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 Holdings 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 Holdings 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 Holdings 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 Holdings 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 Holdings has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 (the "Code"). As such, Newcastle Holdings 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 Holdings has entered into a management agreement (the "Management Agreement," further described in Note 12) with the Manager under which the Manager advises Newcastle Holdings on various aspects of its business and manages its day-to-day operations, subject to the supervision of Newcastle Holdings' 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 a nominal (less than 0.1%) equity interest in the Operating Partnership, designated a Special Limited Partnership interest, 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 Holdings, the Operating Partnership, and their consolidated subsidiaries. All

significant intercompany transactions and balances have been eliminated. Newcastle Holdings consolidates those entities in which it has an investment of 50% or more and has control over significant operating, financial and investing decisions of the entity. For entities over which Newcastle Holdings exercises significant influence, but which do not meet the requirements for consolidation, Newcastle Holdings uses the equity method of accounting. Minority interest represents the ownership in certain consolidated subsidiaries held by entities other than Newcastle Holdings.

Newcastle Holdings records incentive income from the Fund, which is one of its unconsolidated subsidiaries accounted for under the equity method. For a discussion of Newcastle Holdings' 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, Newcastle Holdings encounters primarily two significant types of economic risk: credit and market. Credit risk is the risk of default on Newcastle Holdings' 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 Newcastle Holdings. Concentrations of risks include the leasing of a substantial portion of Newcastle Holdings' 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.

Newcastle Holdings also invests in real estate, or mortgage loans secured by real estate, located outside of the United States. Newcastle Holdings' 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, Newcastle Holdings is subject to significant tax risks. If Newcastle Holdings were to fail to qualify as a REIT in any taxable year, Newcastle Holdings 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 Holdings 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 Holdings 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 Newcastle Holdings 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.

<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 -- Newcastle Holdings 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 Newcastle Holdings' 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. Substantially all amounts on deposit with major financial institutions exceed insured limits.

INVESTMENT IN MARKETABLE SECURITIES -- Newcastle Holdings 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.

Newcastle Holdings 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, Newcastle Holdings 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, Newcastle Holdings 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 -- Newcastle Holdings invests in performing, sub-performing, and non-performing individual loans, loan portfolios, and securities secured by

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 -- Newcastle Holdings 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 Newcastle Holdings 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 Newcastle Holdings determines that it is probable that it would be unable to collect as anticipated. Upon determination of impairment, Newcastle Holdings 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 Newcastle Holdings' 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 Newcastle Holdings' 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. Newcastle Holdings 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. Newcastle Holdings 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

outstanding plus the additional dilutive effect of common stock equivalents during each period. Newcastle Holdings 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 -- Newcastle Holdings 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 Newcastle Holdings 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, Newcastle Holdings 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 Newcastle Holdings 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, Newcastle Holdings may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken as hedges are entered into with a view towards minimizing the potential for economic losses that could be incurred by Newcastle Holdings. 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 -- Newcastle Holdings 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. Newcastle Holdings generally intends to hedge only the risk related to changes in the benchmark interest rate (LIBOR or a Treasury rate).

In order to reduce such risks, Newcastle Holdings may enter into swap agreements whereby Newcastle Holdings would receive floating rate payments in exchange for fixed rate payments, effectively converting the borrowing to fixed rate. Newcastle Holdings may also enter into cap agreements whereby, in exchange for a fee, Newcastle Holdings would be reimbursed for interest paid in excess of a certain cap rate.

2) Interest rate risk, anticipated transactions -- Newcastle Holdings may hedge the aggregate risk of interest rate fluctuations with respect to anticipated transactions, primarily anticipated borrowings. The primary risk involved in an anticipated borrowing is that interest rates may increase between the date the transaction becomes probable and the date of consummation. Newcastle

In order to "lock in" the rate on the date of forecast, Newcastle Holdings may enter into swap agreements whereby Newcastle Holdings 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 -- Newcastle Holdings may hedge the aggregate risk of fluctuations in the exchange rate between a foreign currency, in which Newcastle Holdings has made a net investment, and the U.S. dollar.

In order to reduce the risk, Newcastle Holdings 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 Newcastle Holdings' net equity position for the period of such position. At December 31, 2001, no such derivative transactions were outstanding.

Newcastle Holdings 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 Newcastle Holdings' 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 Newcastle Holdings to interest rate risk, (2) the interest rate swaps or caps are highly effective in reducing Newcastle Holdings' 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

1, 2001. Newcastle Holdings' hedge of such payments 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. Newcastle Holdings' 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 Newcastle Holdings' method of accounting for interest rate caps and swaps used as hedges. As a result of this change, Newcastle Holdings 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, Newcastle Holdings 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. Newcastle Holdings 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.

Newcastle Holdings' derivative financial instruments contain credit risk to the extent that its bank counterparties may be unable to meet the terms of the agreements. Newcastle Holdings 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. Newcastle Holdings 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 Newcastle Holdings' 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 Newcastle Holdings' 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 Newcastle Holdings' purposes, comprehensive income

represents net income, as presented in the statements of operations, adjusted for net foreign currency 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 Newcastle Holdings in 1999 as a cumulative effect of a change in accounting principle. Newcastle Holdings 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, Newcastle Holdings 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
Unaccrued 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, Newcastle Holdings 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 Newcastle Holdings' mortgage pools was approximately \$11.8 million and \$37.2 million during 2001 and 2000, respectively, on which Newcastle Holdings earned approximately \$1.6 million and \$5.7 million of gross revenues, respectively.

The following table sets forth certain information regarding individual mortgage loans:

LOAN #	COLLATERAL	LOCATION	INTEREST RATE	FINAL MATURITY DATE	PAYMENT TERMS
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
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>

		12/31/2001			CARRYING AMOUNT (A)		OVER
PRINCIPAL AMOUNT		RANGE OF LOAN			RANGE OF INTEREST		RANGE OF FINAL
90 DAYS		BALANCES			RATES		MATURITIES
DUE AT							
TYPE OF COLLATERAL							
12/31/2001							
<S>		<C>			<C>		<C>
Primarily Residential Portfolios							
2,148		Under \$100					
14,855		\$100-\$200			(B)		(B)
		Over \$200			(B)		(B)
Subtotal							
17,003							
Primarily Commercial Portfolios							
		Under \$500					
		\$500 - \$1,000					
1,583		Over \$1,000			(B)		(B)
Subtotal							
1,583							
Total mortgage loan pool							
\$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. Newcastle Holdings is in the process of restructuring or settling all of these loans and, as such, their stated interest rates are no longer significant.

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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:

<Table> <Caption>	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 Newcastle Holdings' 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:

<Table> <S>	<C>
2002.....	\$ 54,552
2003.....	49,342
2004.....	46,017
2005.....	42,895
2006.....	41,180
Thereafter.....	129,684
	-----
	\$363,670
	=====

</Table>

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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.

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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, Newcastle Holdings purchased various commercial mortgage backed securities ("CMBS") and unsecured REIT loans (collectively, the "CBO Collateral"). The CBO Collateral is summarized as follows:

<Table>  
<Caption>

	CARRYING AMOUNT		PRINCIPAL BALANCE		RANGE OF	RANGE OF	DELINQUENCY
	12/31/01	12/31/00	12/31/01	12/31/00	COUPON RATES	FINAL MATURITIES	STATUS
	-----	-----	-----	-----	-----	-----	-----
<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			
	=====	=====	=====	=====			

</Table>

- - - - -

(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, Newcastle Holdings 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, Newcastle Holdings 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 Newcastle Holdings (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, Newcastle Holdings received gross proceeds of approximately \$71.1 million and recorded a gain on the sale of

approximately \$6.4 million, after \$0.2 million of accrued interest. Newcastle Holdings recognized an additional \$1.0 million in gains on sales of CBO Collateral during 2001.

In October 2001, Newcastle Holdings entered into an agreement with a major investment bank whereby Newcastle Holdings 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 Newcastle Holdings choose not to purchase the CBO II Collateral, Newcastle Holdings' 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 Newcastle Holdings' deposit. The balance of the deposit, if any, would then be refunded to Newcastle

Holdings. Through December 31, 2001, there has been no material decline in the value of the collateral in the aggregate. At December 31, 2001, Newcastle Holdings had a deposit of \$23.6 million related to this agreement, which is recorded in Restricted Cash. Newcastle Holdings 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

Newcastle Holdings 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 Newcastle Holdings' real estate debt securities are shown in Note 5. Details of Newcastle Holdings' real estate investments are shown in Note 4. Details of Newcastle Holdings' 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. Since management fees paid by the Fund to the Manager flow through Newcastle Holdings, the unallocated portion consists primarily of income from the management fees paid by the Fund (included in gross revenues) fully offset by a corresponding amount of minority interest paid to the Manager of the Fund. Also included in the unallocated portion are interest income on short-term investments, dividends on equity investments, expenses for professional fees, overhead, and management fee expense paid by Newcastle Holdings pursuant to its own Management Agreement with the Manager. Newcastle Holdings has combined two of its previously reported segments, loan pools and individual loans, into one segment, real estate loans. Newcastle Holdings' 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 Newcastle Holdings' increasing investment in the Fund.

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#### NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Summary financial data on Newcastle Holdings' segments is given below, together with a reconciliation to the same data for Newcastle Holdings 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.....	\$ 76,452	\$ 53,095	\$ 6,270	\$ 29,356	\$ 12,422	\$ 177,595
Operating expenses.....	(30,083)	(253)	(938)	--	(9,492)	(40,766)
Operating income.....	46,369	52,842	5,332	29,356	2,930	136,829
Interest expense.....	(28,014)	(26,793)	(3,234)	--	(3,291)	(61,332)
Depreciation and amortization.....	(12,042)	--	--	(560)	(447)	(13,049)
Equity in earnings of unconsolidated subsidiaries.....	--	--	--	5,360	(2,553)	2,807
Income before minority interest.....	6,313	26,049	2,098	34,156	(3,361)	65,255
Minority interest.....	(10)	--	93	(14,354)	(8,941)	(23,212)
Income from continuing operations.....	6,303	26,049	2,191	19,802	(12,302)	42,043
Income from discontinued operations.....	1,628	--	--	--	--	1,628
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>

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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.....	\$ 75,855	\$ 46,222	\$ 15,252	\$ --	\$35,063	\$ 172,392
Operating expenses.....	(29,456)	(343)	(2,296)	--	(9,128)	(41,223)
	-----	-----	-----	-----	-----	-----
Operating income.....	46,399	45,879	12,956	--	25,935	131,169
Interest expense.....	(28,399)	(29,663)	(6,583)	--	(1,766)	(66,411)
Depreciation and amortization.....	(11,729)	--	--	--	(515)	(12,244)
Equity in earnings (losses) of unconsolidated subsidiaries.....	--	--	--	1,044	(2,024)	(980)
	-----	-----	-----	-----	-----	-----
Income before minority interest.....	6,271	16,216	6,373	1,044	21,630	51,534
Minority interest.....	(10)	--	(738)	--	(8,941)	(9,689)
	-----	-----	-----	-----	-----	-----
Income from continuing operations.....	6,261	16,216	5,635	1,044	12,689	41,845
Income from discontinued operations.....	1,015	--	--	--	--	1,015
	-----	-----	-----	-----	-----	-----
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>

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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.....	\$ 65,701	\$ 28,277	\$ 16,279	\$ --	\$ 4,690	\$ 114,947
Operating expenses.....	(23,742)	(152)	(3,119)	--	(10,201)	(37,214)
	-----	-----	-----	-----	-----	-----
Operating income.....	41,959	28,125	13,160	--	(5,511)	77,733
Interest expense.....	(23,319)	(17,342)	(5,868)	--	--	(46,529)
Depreciation and amortization.....	(9,912)	--	(10)	--	(461)	(10,383)
Equity in earnings						

(losses) of unconsolidated subsidiaries.....	--	--	(3,259)	--	(356)	(3,615)
Income before minority interest.....	8,728	10,783	4,023	--	(6,328)	17,206
Minority interest.....	--	--	(1,258)	--	(944)	(2,202)
Income from continuing operations.....	8,728	10,783	2,765	--	(7,272)	15,004
Income from discontinued operations.....	149	--	--	--	--	149
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 Newcastle Holdings, approximately 94%, and the Manager, approximately 6%, in each case through Class A membership interests. A separate class of membership interests in the Managing Member, designated as Class B, reflects the entitlement to the incentive return payable by the Fund, as described below, which is owned 50% by the Manager and 50% by Newcastle Holdings. Newcastle Holdings 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, Newcastle Holdings 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. Newcastle Holdings 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%

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

of the Fund's total committed capital), to the Fund. The Fund, which is a Delaware limited liability company, is owned through membership interests issued in direct proportion to capital committed.

The Managing Member of the Fund is entitled to receive an annual management fee of up to 1.5% (inclusive of an administrative fee of up to 0.5%) of the Fund's invested capital or total equity commitments. Newcastle Holdings is not charged management and administrative fees for its investment in the Fund. Pursuant to an agreement with the Managing Member and the Manager, the Manager is entitled to 100% of the management fee paid by the Fund to the Managing Member. Since the management fees paid to the Manager flow through Newcastle Holdings through its ownership of the Managing Member, they are reflected as gross amounts in both Management Fee from Affiliates and Minority Interest, although they have no effect on net income.

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 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, (a) the Manager is entitled to 100% of the management fee payable by the Fund, (b) the Manager is entitled to 50% of the Incentive Return payable by the Fund, (c) Newcastle Holdings is entitled to 50% of the Incentive Return payable by the Fund and (d) Newcastle 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 Holdings. Newcastle Holdings consolidates the financial results of the Managing Member because Newcastle Holdings owns substantially all of the voting interest in the Managing Member. As a result, Newcastle Holdings' financial statements reflect all of the Incentive Return payable to the Managing Member, including the 50% portion payable to the Manager which is treated as Minority Interest.

In January 2000, Newcastle Holdings transferred, in exchange for cash, approximately \$51.2 million of preferred equity securities, acquired in December 1999, to the Fund at their market value, which approximated their book value, resulting in no gain or loss being recorded. During 2001 and 2000, Newcastle Holdings invested approximately \$21.5 million and \$47.2 million, respectively, in the Fund. During 2001, Newcastle Holdings received \$16.3 million of distributions from the Fund, excluding Incentive Return. Newcastle Holdings accounts for its investment in the Fund under the equity method. During 2001, 2000 and 1999, the Manager earned \$8.9 million, \$9.2 million and \$0.7 million of management and administrative fees from the Fund, respectively, through its agreement with the Managing Member.

The Incentive Return is payable on an asset-by-asset basis, as realized. Accordingly, an 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 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 Holdings is responsible to pay to the Fund the amount of any excess return to be clawed back to the extent not funded by the Managing Member. The Manager, in turn, is responsible for the clawback of any excess return received by it. Newcastle Holdings believes that the Manager has the ability to meet this obligation. Newcastle Holdings receives a credit against management fees otherwise payable by it under the Management Agreement with the Manager for

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

management fees and any Incentive Return paid to the Manager by the Fund allocable to Newcastle Holdings' investment in the Fund. This credit is reflected as increased return to Newcastle Holdings from the Fund, in Equity in Earnings (Losses) from Unconsolidated Subsidiaries, because: (a) Newcastle Holdings, unlike the other Fund Investors, does not pay a management fee to the Fund and its allocation of income from the Fund is calculated gross of any management fees, and (b) Newcastle Holdings receives payments from the Manager of amounts paid to the Manager by the Fund representing the Incentive Return allocable to Newcastle Holdings' investment in the Fund, of which \$0.5 million was received in January 2002.

Newcastle 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 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, Newcastle Holdings' net income in each reporting period will reflect changes in the fair value of the assets in the Fund which may be significant. As such, Newcastle Holdings has accrued \$28.7

million of Incentive Return through December 31, 2001. This amount has been recorded in Incentive Income and Due from Affiliates. The Manager is entitled to 50% of this income which Newcastle Holdings records as Minority Interest. The Managing Member has received \$8.8 million of such income, all of which is subject to clawback. Newcastle Holdings has received \$4.4 million of such income in cash pertaining to the year ended December 31, 2001, representing its 50% interest in the Incentive Return paid by the Fund.

Summarized financial information related to Newcastle Holdings' unconsolidated subsidiaries was as follows:

<Table>  
<Caption>

FUND	INCLUDED IN REAL ESTATE LOANS SEGMENT							
	AUSTIN HOLDINGS			FIC MANAGEMENT INC.			FORTRESS INVESTMENT LLC (A)	
	12/31/01	12/31/00	12/31/99	12/31/01	12/31/00	12/31/99	12/31/01	12/31/00
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 Holdings(B).....	\$ 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 Holdings' 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 Holdings' equity is presented on a GAAP basis. Newcastle Holdings' equity in net income excludes its incentive income.

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(B) Newcastle Holdings also has a \$3.2 million receivable from Austin at December 31, 2001 as described in Note 12.

The following table summarizes the activity affecting the equity held by Newcastle Holdings in unconsolidated subsidiaries:

<Table>  
<Caption>

AUSTIN HOLDINGS	FIC MANAGEMENT INC.	FORTRESS INVESTMENT FUND LLC	TOTAL
-----------------	---------------------	------------------------------	-------

<S>	<C>	<C>	<C>	<C>
Balance 12/31/99.....	\$ 12,327	\$ 5,643	\$ --	\$ 17,970
Contributions to unconsolidated subsidiaries.....	13,104	22	43,916	57,042
Contributions to unconsolidated subsidiaries -- transferred from prepaid expenses.....	--	--	3,300	3,300
Distributions from unconsolidated subsidiaries.....	(10,949)	(221)	--	(11,170)
Equity in earnings of unconsolidated subsidiaries.....	(1,749)	(275)	1,044	(980)
Equity in OCI of unconsolidated subsidiaries.....	--	--	1,933	1,933
Costs incurred related to investment in the venture.....	--	--	501	501
Transfer of costs incurred in connection with the ICH acquisition.....	--	(5,169)	--	(5,169)
Balance 12/31/00.....	12,733	--	50,694	63,427
Contributions to unconsolidated subsidiaries.....	5,413	--	20,416	25,829
Distributions from unconsolidated subsidiaries.....	(10,616)	--	(15,198)	(25,814)
Equity in earnings of unconsolidated subsidiaries.....	(2,553)	--	5,360	2,807
Equity in OCI of unconsolidated subsidiaries.....	--	--	7,074	7,074
Transfer of investment in exchange for notes from Fund co-investors.....	--	--	(3,555)	(3,555)
Cost incurred related to investment in the venture.....	--	--	3,440	3,440
Balance 12/31/01.....	\$ 4,977	\$ --	\$ 68,231	\$ 73,208

</Table>

In 1998, Newcastle Holdings and Fortress Principal Investment Group LLC ("FPIG"), an affiliate of the Manager, formed Austin Holdings Corporation ("Austin"). FPIG contributed cash, and Newcastle Holdings 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 Newcastle 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 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 Holdings holds non-voting preferred stock of Austin. Newcastle Holdings' preferred stock in Austin represents a 95% economic ownership interest in Austin, and has a liquidation preference over the common stockholders. Newcastle Holdings' interest in Austin is accounted for under the equity method. As of December 31, 2001, Newcastle Holdings has no outstanding obligations to Austin. Newcastle Holdings and Austin have elected to treat Austin as a taxable REIT subsidiary ("TRS") as of January 1, 2001 in order

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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, Newcastle Holdings purchased from Impac Commercial Holdings, Inc. ("ICH"), a publicly traded mortgage REIT, approximately \$12 million of non-voting Series B Convertible Preferred Stock with 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, Newcastle Holdings purchased 832,400 shares of common stock of ICH. Additionally, FIC Management Inc. ("FICMI"), an

unconsolidated subsidiary of Newcastle Holdings 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 Newcastle Holdings 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. Newcastle Holdings 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 Newcastle Holdings completed a tender offer for all of the remaining outstanding common shares of ICH. Newcastle Holdings' basis in its investment in ICH was approximately \$22.1 million at the date of acquisition. In addition, Newcastle Holdings 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, Newcastle Holdings acquired ICH's net operating loss carry-forwards, subject to applicable tax law limitations. Subsequent to the acquisition, Newcastle Holdings 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). Newcastle Holdings' 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 Newcastle Holdings' 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.

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The carrying amounts and estimated fair values of Newcastle Holdings' financial instruments at December 31, 2001 are as follows:

	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

(A) Included in Deferred Costs, Net. The longest cap maturity is March 2009.



(B) Included in Derivative 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 multiple broker quotations, which provide valuation estimates based upon reasonable market order indications or a good faith estimate thereof. 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 Newcastle Holdings' expected disposition strategies for such assets. Such assets include Newcastle Holdings' 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 counterparty 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

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 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 counterparty quotations. 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 Newcastle Holdings' securities and loan pools (including foreclosed real estate) sold under agreements to repurchase:

<Table>

<Caption>

MATURITY	TYPE OF ASSET	ASSET CARRYING VALUE		REPURCHASE OBLIGATION		CURRENT INTEREST RATE	CURRENT MATURITY
		12/31/2001	12/31/2000	12/31/2001	12/31/2000		
<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		
		=====	=====	=====	=====		

</Table>

The repurchase agreements bore interest at weighted average rates of 3.26% and 8.94% at December 31, 2001 and 2000, respectively.

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 9. NOTES PAYABLE AND CREDIT FACILITY

The following table presents certain information regarding Newcastle Holdings' 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>

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 Newcastle Holdings' 1999 consolidated statement of operations.

In March 1999, Newcastle Holdings obtained debt financing (the "Bell Canada Mortgage") secured by the Bell Canada Properties. In November 1999, Newcastle Holdings 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. Newcastle Holdings 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, Newcastle Holdings extended the term and modified the rate on the Belgian Mortgage and obtained a new interest rate cap related thereto.

In July 2000, Newcastle Holdings and Fortress Partners LP, its subsidiary, entered into a \$40 million revolving credit agreement (the "Credit Facility"). Newcastle Holdings 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>

OUTSTANDING  
CARRYING AMOUNT

-----

BOND ISSUE	FINAL STATED MATURITY	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, Newcastle Holdings completed a transaction (the "CBO Securitization") whereby the CBO Collateral (Note 5) was contributed to a consolidated subsidiary of Newcastle Holdings (the "CBO Trust") which issued \$437.5 million of investment grade senior securities and \$62.5 million of non-

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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, Newcastle Holdings 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. Newcastle Holdings 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 Newcastle Holdings. 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. Newcastle 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 two classes of the CBO Securities, Newcastle Holdings 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.

In May 1999, Newcastle Holdings 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 Newcastle Holdings 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, Newcastle Holdings 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.

Newcastle Holdings' 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):

<Table>

<S>	<C>
2002.....	\$ 80,664
2003.....	36,097
2004.....	22,058
2005.....	23,689
2006.....	25,286
Thereafter.....	759,808
	-----
	\$947,602
	=====

</Table>

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

11. STOCK OPTION PLAN

In June 1998, Newcastle Holdings (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 Newcastle Holdings, 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 Newcastle Holdings). The 2,091,673 shares represented an amount equal to 10% of the shares of common stock and units of Newcastle Holdings outstanding after Newcastle Holdings' 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 Newcastle Holdings 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. Newcastle Holdings estimated this value by reference to the volatility and dividend yields of the 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 Newcastle Holdings' 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

Newcastle Holdings 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 Newcastle Holdings by payment of a termination fee, as defined in the Management Agreement, of approximately \$5 million upon the affirmative vote of at least two-thirds of the independent directors, or by a majority vote of the holders of common stock. Pursuant to the Management Agreement, the Manager, under the supervision of Newcastle Holdings' board of directors, will formulate investment strategies, arrange for the acquisition of assets, arrange for financing, monitor the performance of Newcastle Holdings' assets and provide certain advisory, administrative and managerial services in connection with the operations of Newcastle Holdings. For performing these services, Newcastle Holdings will pay the Manager an annual management fee equal to 1.5% of the gross equity of Newcastle Holdings, 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 Newcastle Holdings 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

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 Newcastle Holdings (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.

<Table>  
<Caption>

	AMOUNTS EARNED		
	2001	2000	1999
<S>	<C>	<C>	<C>
Management Fee to Manager.....	(\$4.8 million)	(\$5.1 million)	(\$5.6 million)
Expense Reimbursements to Manager.....	(\$0.9 million)	(\$1.6 million)	(\$1.8 million)
Incentive Return to Manager.....	(\$2.8 million)	--	--
Management Fee from Fund to Managing Member.....	\$8.9 million	\$8.9 million	\$0.9 million
Management Fee from Managing Member to Manager.....	(\$8.9 million)	(\$8.9 million)	(\$0.9 million)
Incentive Return from Fund to Managing Member.....	\$28.8 million	--	--
Incentive Return from Managing Member to Manager.....	(\$14.4 million)	--	--

The Management Agreement provides that Newcastle Holdings will reimburse the Manager for various expenses incurred by the Manager or its officers, employees and agents on Newcastle Holdings' behalf, including costs of legal, accounting, tax, auditing, administrative and other similar services rendered for Newcastle Holdings 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. Newcastle Holdings 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 Newcastle Holdings.

Newcastle Holdings 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. Newcastle Holdings also owns an investment in the Managing Member of the Fund, which is consolidated. As a result of this investment, Newcastle Holdings is entitled to an Incentive Return from the Fund. The Manager of Newcastle Holdings also manages the Fund. Newcastle Holdings receives a credit against management fees otherwise payable under the Management Agreement with the Manager for management fees and any Incentive Return paid to the Manager by the Fund in connection with Newcastle Holdings' investment in the Fund. This credit is reflected as increased return from the Fund, in Equity in Earnings (Losses) from Unconsolidated Subsidiaries, because it is structured as a reduced burden on Newcastle Holdings' return from the Fund as follows: (a) Newcastle Holdings, unlike the other Fund Investors, does not pay a management fee to the Fund and its allocation of income from the Fund is calculated gross of any management fees, and (b) Newcastle Holdings receives payments from the Manager to reimburse it for its share of Incentive Return paid to the Manager by the Fund, of which \$0.5 million was received in January 2002. For a more complete discussion of these relationships, see Note 6.

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 Newcastle Holdings' investment. FRIT is the

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 Newcastle Holdings, 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 Newcastle Holdings and the Fund. Certain of the employees of the Manager are officers of Newcastle Holdings and the Fund and/or provide management services to Newcastle Holdings and the Fund. No employees of the Fund are officers of Newcastle Holdings or provide management services to Newcastle Holdings. Newcastle Holdings has set aside \$10.0 million of its commitment to the Fund for this program, of which \$6.9 million has been allocated, representing 0.8% of the total commitments to the Fund, 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 remaining 20% is funded by cash payments from each of the employees. 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.

The Fund has an investment in 3.6 million shares of Capstead Mortgage Corporation, a public company in which Newcastle Holdings' Chairman and Chief Executive Officer is also Chairman and Chief Executive Officer, which represents approximately 26% of the outstanding common equity of Capstead.

HOLDINGS OF FORTRESS SECURITIES BY THE MANAGER -- The Manager holds options to purchase 2,091,673 shares of the common stock of Newcastle Holdings, as more fully described in Note 11. Additionally, an affiliate of the Manager owns 2,700,189 shares of the common stock of Newcastle Holdings. The principal owners and executive officers of the Manager also serve as directors and officers of Newcastle Holdings.

### 13. COMMITMENTS AND CONTINGENCIES

PRIVATE EQUITY FUND -- Newcastle Holdings 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 Holdings 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 Newcastle 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 was paid during the year ended December 31, 2001. Such amount was recorded as an adjustment to the basis of Newcastle Holdings' investment in the Fund and is being amortized over the expected life of the Fund.

STOCKHOLDER RIGHTS AGREEMENT -- Newcastle Holdings has adopted a stockholder rights agreement (the "Rights Agreement"). Pursuant to the terms of the Rights Agreement, Newcastle Holdings will attach to each share of common stock one preferred stock purchase right (a "Right"). Each Right entitles the registered holder to purchase from Newcastle Holdings 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

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

beneficial interest. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of Newcastle Holdings.

REGISTRATION RIGHTS AGREEMENT -- In connection with the Private Offering, Newcastle Holdings entered into a registration rights agreement which, among other things, required Newcastle Holdings 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. Newcastle Holdings filed a registration statement on Form S-11 in September 1998 and an amendment thereto in April 1999. In October 2001, Newcastle Holdings 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 Newcastle Holdings is currently evaluating another amendment.

PURCHASE AND SALE COMMITMENTS -- In the ordinary course of business, Newcastle Holdings 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, Newcastle Holdings was not subject to any such commitments.

LITIGATION -- Newcastle Holdings 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 Newcastle Holdings' consolidated results of operations or financial position.

ENVIRONMENTAL COSTS -- As a commercial real estate owner, Newcastle Holdings is subject to potential environmental costs. At December 31, 2001, management of Newcastle Holdings is not aware of any environmental concerns that would have a material adverse effect on Newcastle Holdings' consolidated financial position or results of operations.

DEBT COVENANTS -- Newcastle Holdings' long-term debt contains various customary loan covenants. Such covenants do not, in management's opinion, materially restrict Newcastle Holdings' investment strategy or ability to raise capital. Newcastle Holdings is in compliance with all of its loan covenants at December 31, 2001.

#### 14. EARNINGS PER SHARE

Newcastle Holdings 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, Newcastle Holdings 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

15. SUBSEQUENT EVENTS

In 2002, Newcastle Holdings 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.

16. DISCONTINUED OPERATIONS

In May 2002, Newcastle Holdings sold one of its GSA Properties with a net basis at \$33.0 million for a net purchase price of approximately \$34.1 million, at a gain of \$1.1 million. In May 2002, it sold a commercial property located in Brussels, Belgium for gross proceeds of approximately \$8.9 million, at a loss of approximately \$0.8 million. Pursuant to SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," Newcastle Holdings has retroactively recorded the operations of such properties in Income from Discontinued Operations for all periods presented.

NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

<Table>  
<Caption>

	JUNE 30, 2002	DECEMBER 31, 2001
	-----	-----
	(UNAUDITED)	
<S>	<C>	<C>
<b>ASSETS</b>		
Operating real estate, net.....	\$ 487,628	\$ 524,834
CBO collateral, net.....	1,006,882	522,258
Marketable securities, available for sale.....	21,776	14,467
Loans and mortgage pools receivable, net.....	45	10,675
Investments in unconsolidated subsidiaries.....	86,406	73,208
Cash and cash equivalents.....	13,578	31,360
Restricted cash.....	10,337	34,508
Due from affiliates.....	22,333	25,688
Deferred costs, net.....	15,435	17,988
Receivables and other assets.....	26,058	21,487
	-----	-----
	\$1,690,478	\$1,276,473
	=====	=====
<b>LIABILITIES, MINORITY INTEREST, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
CBO bonds payable.....	\$ 867,058	\$ 445,514
Other bonds payable.....	351,392	319,303
Notes payable.....	51,570	111,116
Repurchase agreements.....	1,457	1,457
Credit facility.....	38,250	20,000
Derivative liabilities.....	30,510	11,732
Dividends payable.....	9,893	8,882
Accrued expenses and other liabilities.....	12,645	10,633
	-----	-----
	1,362,775	928,637
	-----	-----
MINORITY INTEREST (\$9,376 AND \$14,354 TO AFFILIATE, RESPECTIVELY).....	9,479	16,881
Redeemable preferred stock, \$.01 par value, 100,000,000 shares authorized, 1,020,517 shares issued and outstanding at December 31, 2001.....	--	20,410
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$.01 par value, 500,000,000 shares authorized, 16,488,517 shares issued and outstanding at		



June 30, 2002 and December 31, 2001.....	165	165
Additional paid-in capital.....	309,356	309,356
Dividends in excess of earnings.....	(14,457)	(7,767)
Accumulated other comprehensive income.....	23,160	8,791
	-----	-----
	318,224	310,545
	-----	-----
	\$1,690,478	\$1,276,473
	=====	=====

</Table>

See notes to consolidated financial statements.

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

<Table>  
<Caption>

	SIX MONTHS ENDED 6/30/02	SIX MONTHS ENDED 6/30/01
	-----	-----
<S>	<C>	<C>
REVENUES:		
Rental and escalation income.....	\$ 37,532	\$ 38,015
Interest and dividend income.....	31,100	28,370
Gain on settlement of investments.....	5,108	8,941
Management fee from affiliates.....	4,470	4,470
Incentive income from affiliate.....	(1,218)	--
Other income.....	12	22
	-----	-----
	77,004	79,818
	-----	-----
EXPENSES:		
Interest expense.....	32,769	31,949
Property operating expense.....	14,276	14,359
Loan servicing and REO expense.....	423	511
General and administrative expense.....	1,838	757
Management fees to affiliate.....	2,698	2,751
Preferred incentive return to affiliate.....	1,436	--
Depreciation and amortization.....	6,802	6,383
	-----	-----
	60,242	56,710
	-----	-----
Income before equity in earnings of unconsolidated subsidiaries and minority interest.....	16,762	23,108
Equity in earnings of unconsolidated subsidiaries.....	362	1,125
Minority interest (\$ (8,031), \$ (2,235), \$ (3,861), and \$ (4,470) from affiliates, respectively).....	(3,874)	(4,678)
	-----	-----
Income from continuing operations.....	13,250	19,555
Income from discontinued operations.....	1,009	682
	-----	-----
NET INCOME.....	14,259	20,237
Preferred dividends and related accretion.....	(1,162)	(1,264)
	-----	-----
INCOME AVAILABLE FOR COMMON SHAREHOLDERS.....	\$ 13,097	\$ 18,973
	=====	=====
NET INCOME PER COMMON SHARE, BASIC AND DILUTED.....	\$ 0.79	\$ 1.15
	=====	=====
Income from continuing operations per common share, after preferred dividends and related accretion, basic and diluted.....	\$ 0.73	\$ 1.11
	=====	=====
Income from discontinued operations per common share, basic and diluted.....	\$ 0.06	\$ 0.04
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED.....	16,488,517	16,496,969
	=====	=====

</Table>

See notes to consolidated financial statements.

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK  
(UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2002

(DOLLARS IN THOUSANDS)

TOTAL STOCKHOLDERS' EQUITY	REDEEMABLE PREFERRED STOCK		COMMON STOCK		ADDITIONAL PD. IN CAPITAL	DIVIDENDS IN EXCESS OF EARNINGS	ACCUM. OTHER COMP. INCOME
	SHARES	AMOUNT	SHARES	AMOUNT			
<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.....	--	--	--	--	--	(20,949)	--
(20,949)							
Redemption of preferred shares.....	(1,020,517)	(20,410)	--	--	--	--	--
--							
Comprehensive income:							
Net income.....	--	--	--	--	--	14,259	--
14,259							
Unrealized gain on securities.....	--	--	--	--	--	--	33,385
33,385							
Foreign currency translation.....	--	--	--	--	--	--	3,625
3,625							
Foreign currency translation: reclassification adjustment.....	--	--	--	--	--	--	151
151							
Unrealized (loss) on derivatives designated as cash flow hedges...	--	--	--	--	--	--	(22,662)
(22,662)							
Realized (gain) on derivatives designated as cash flow hedges: reclassification adjustment.....	--	--	--	--	--	--	(130)
(130)							
-----							
Total comprehensive income.....							
28,628							
-----							
Stockholders' equity -- June 30, 2002.....	--	\$ --	16,488,517	\$165	\$309,356	\$ (14,457)	\$ 23,160
\$318,224							
=====							
STOCKHOLDERS' EQUITY -- DECEMBER 31,							

2000.....	1,020,517	\$ 20,167	16,499,765	\$165	\$309,551	\$ (7,666)	\$ (1,395)
\$300,655							
Dividends declared.....	--	--	--	--	--	(17,521)	--
(17,521)							
Redemption of common shares.....	--	--	(11,248)	--	(195)	--	--
(195)							
Accretion of redeemable preferred stock.....	--	243	--	--	--	(243)	--
(243)							
Transition adjustment -- deferred hedge gains and losses.....	--	--	--	--	--	--	(1,820)
(1,820)							
Comprehensive income:							
Net income.....	--	--	--	--	--	20,237	--
20,237							
Unrealized gain on securities.....	--	--	--	--	--	--	7,973
7,973							
Unrealized loss on securities: reclassification adjustment.....	--	--	--	--	--	--	954
954							
Foreign currency translation.....	--	--	--	--	--	--	(2,346)
(2,346)							
Unrealized (loss) on derivatives designated as cash flow hedges...	--	--	--	--	--	--	(3,582)
(3,582)							
-----							
Total comprehensive income.....							
23,236							
-----							
Stockholders' equity -- June 30, 2001.....	1,020,517	\$ 20,410	16,488,517	\$165	\$309,356	\$ (5,193)	\$ (216)
\$304,112							
=====							

See notes to consolidated financial statements.

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(DOLLARS IN THOUSANDS)

<Table>  
<Caption>

	SIX MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2001
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 14,259	\$ 20,237
Adjustments to reconcile net income to net cash provided by operating activities (inclusive of amounts related to discontinued operations):		
Depreciation and amortization.....	7,162	6,856
Accretion of discount and other amortization.....	(1,116)	(1,638)
Equity in earnings of unconsolidated subsidiaries.....	(362)	(1,125)
Accrued incentive income from affiliate.....	1,218	--

Minority interest.....	(596)	208
Deferred rent.....	(878)	(1,055)
Gain on settlement of investments.....	(5,284)	(8,941)
Change in:		
Restricted cash.....	1,014	(736)
Receivables and other assets.....	(3,854)	2,363
Accrued expenses and other liabilities.....	4,752	369
Due from affiliates.....	2,137	(3,264)
	-----	-----
Net cash provided by operating activities:	18,452	13,274
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase and improvement of operating real estate.....	(2,222)	(3,347)
Proceeds from sale of operating real estate.....	42,799	--
Repayments of loan principal.....	9,589	24,666
Proceeds from settlement of loans and foreclosed real estate.....	350	27,854
Contributions to unconsolidated subsidiaries.....	(19,991)	(18,184)
Distributions from unconsolidated subsidiaries.....	8,265	8,372
Purchase of CBO collateral.....	(521,274)	(38,084)
Proceeds from sale of CBO collateral.....	97,673	59,142
Payment of deferred transaction costs.....	(1,372)	(4,174)
Purchase of marketable securities.....	(6,941)	(250)
Proceeds from sale of marketable securities.....	--	10,284
	-----	-----
Net cash provided by (used in) investing activities:.....	(393,124)	66,279
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under repurchase agreements.....	--	10,000
Repayments of repurchase agreements.....	--	(14,911)
Repayments of notes payable.....	(65,670)	(471)
Issuance of CBO bonds payable.....	438,787	--
Repayments of CBO bonds payable.....	(17,742)	--
Issuance of other bonds payable.....	38,117	--
Repayments of other bonds payable.....	(8,151)	(30,852)
Draws under credit facility.....	20,000	7,000
Repayments of credit facility.....	(1,750)	(34,000)
Minority interest distributions.....	(4,369)	(4,075)
Redemption of common stock.....	--	(195)
Redemption of preferred stock.....	(20,410)	--
Dividends paid.....	(19,938)	(17,670)
Payment of deferred financing costs.....	(1,984)	(80)
	-----	-----
Net cash provided by (used in) financing activities...	356,890	(85,254)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(17,782)	(5,701)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD.....	31,360	10,575
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 13,578	\$ 4,874
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest expense.....	\$ 26,814	\$ 30,549
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock dividends declared but not paid.....	\$ 9,893	\$ --
Contribution of assets to unconsolidated subsidiary.....	\$ (1,454)	\$ --
Deposit used in acquisition of CBO collateral.....	\$ 23,631	\$ --

</Table>

See notes to consolidated financial statements.

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2002

1. GENERAL

Newcastle Investment Holdings Corp. (formerly Newcastle Investment Corp. and prior to that Fortress Investment Corp.) ("Newcastle Holdings") 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 Holdings 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 Newcastle Holdings' December 31, 2001 financial statements.

Newcastle Holdings was incorporated on May 11, 1998. During 1998, Newcastle Holdings 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 Holdings 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, which was subsequently redeemed. At June 30, 2002, Newcastle Holdings had 16,488,517 common shares and no preferred shares issued and outstanding.

Newcastle Holdings has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 (the "Code"). As such, Newcastle Holdings 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 Holdings has entered into a management agreement (the "Management Agreement") with the Manager under which the Manager advises Newcastle Holdings on various aspects of its business and manages its day-to-day operations, subject to the supervision of Newcastle Holdings' 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 a nominal equity interest in the Operating Partnership which provides for a Preferred Incentive Return.

The accompanying consolidated financial statements and related notes of Newcastle Holdings 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 Newcastle Holdings' 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 Newcastle Holdings' financial statements for the year ended December 31, 2001.

## 2. INFORMATION REGARDING BUSINESS SEGMENTS

Newcastle Holdings conducts its business in four primary segments: revenue-producing real estate, real estate debt securities, real estate loans, and its investment in the Fund.

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

Summary financial data on Newcastle Holdings' segments is given below, together with a reconciliation to the same data for Newcastle Holdings 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>
JUNE 30, 2002 AND THE SIX MONTHS THEN ENDED						
Gross revenues.....	\$ 37,535	\$ 35,221	\$ 128	\$ (1,183)	\$ 5,303	\$ 77,004
Operating expenses.....	(15,064)	(174)	(176)	--	(5,257)	(20,671)
Operating income.....	22,471	35,047	(48)	(1,183)	46	56,333
Interest expense.....	(13,328)	(16,644)	(438)	--	(2,359)	(32,769)
Depreciation and amortization....	(6,372)	--	--	(329)	(101)	(6,802)
Equity in earnings of unconsolidated subsidiaries....	--	--	--	303	59	362
Income before minority interest.....	2,771	18,403	(486)	(1,209)	(2,355)	17,124
Minority interest.....	--	--	(13)	609	(4,470)	(3,874)
Income from continuing operations.....	2,771	18,403	(499)	(600)	(6,825)	13,250
Income from discontinued operations.....	1,009	--	--	--	--	1,009
Net Income.....	\$ 3,780	\$ 18,403	\$ (499)	\$ (600)	\$ (6,825)	\$ 14,259
Revenue derived from non-US sources:						
Canada.....	\$ 7,752	\$ --	\$ --	\$ --	\$ --	\$ 7,752
Belgium.....	\$ 2,635	\$ --	\$ --	\$ --	\$ --	\$ 2,635
Italy.....	\$ --	\$ --	\$ 180	\$ --	\$ --	\$ 180
Total assets.....	\$536,800	\$1,022,942	\$ 693	\$99,695	\$30,348	\$1,690,478
Long-lived assets outside the US:						
Canada.....	\$ 60,838	\$ --	\$ --	\$ --	\$ --	\$ 60,838
Belgium.....	\$ 71,020	\$ --	\$ --	\$ --	\$ --	\$ 71,020
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

</Table>

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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>
SIX MONTHS ENDED JUNE 30, 2001						
Gross revenues.....	\$ 38,289	\$ 29,330	\$ 4,631	\$ 434	\$ 7,134	\$ 79,818
Operating expenses.....	(15,003)	(116)	(266)	--	(2,993)	(18,378)
Operating income.....	23,286	29,214	4,365	434	4,141	61,440
Interest expense.....	(14,047)	(13,948)	(2,228)	--	(1,726)	(31,949)
Depreciation and amortization....	(5,925)	--	--	(231)	(227)	(6,383)
Equity in earnings of unconsolidated subsidiaries....	--	--	--	2,910	(1,785)	1,125
Income before minority interest.....	3,314	15,266	2,137	3,113	403	24,233
Minority interest.....	--	--	(208)	--	(4,470)	(4,678)
Income from continuing operations.....	3,314	15,266	1,929	3,113	(4,067)	19,555

Income from discontinued operations.....	682	--	--	--	--	682
Net Income.....	\$ 3,996	\$ 15,266	\$ 1,929	\$ 3,113	\$ (4,067)	\$ 20,237
Revenue derived from non-US sources:						
Canada.....	\$ 8,374	\$ --	\$ 79	\$ --	\$ --	\$ 8,453
Belgium.....	\$ 3,636	\$ --	\$ --	\$ --	\$ --	\$ 3,636
Italy.....	\$ --	\$ --	\$ 717	\$ --	\$ --	\$ 717

The following table summarizes the activity affecting the equity held by the Company in unconsolidated subsidiaries:

	AUSTIN HOLDINGS	FORTRESS INVESTMENT FUND LLC	TOTAL
Balance 12/31/01.....	\$4,977	\$68,231	\$73,208
Contributions to unconsolidated subsidiaries.....	3,237	16,754	19,991
Contribution of assets to unconsolidated subsidiary.....	1,454	--	1,454
Distributions from unconsolidated subsidiaries.....	(522)	(7,743)	(8,265)
Equity in earnings of unconsolidated subsidiaries.....	59	303	362
Equity in OCI of unconsolidated subsidiaries.....	--	(15)	(15)
Other.....	--	(329)	(329)
Balance 6/30/02.....	\$9,205	\$77,201	\$86,406

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

Summarized financial information related to Newcastle Holdings' unconsolidated subsidiaries was as follows (in thousands):

INCLUDED IN REAL ESTATE LOANS SEGMENT

	AUSTIN HOLDINGS		FORTRESS INVESTMENT FUND LLC (A)	
	6/30/02	12/31/01	6/30/02	12/31/01
Assets.....	\$12,480	\$ 7,947	\$699,254	\$612,083
Liabilities.....	(2,641)	(2,353)	--	--
Minority interest.....	(309)	(352)	--	--
Equity.....	\$ 9,530	\$ 5,242	\$699,254	\$612,083
Equity held by Newcastle Holdings(B).....	\$ 9,205	\$ 4,977	\$ 77,201	\$ 68,231

	SIX MONTHS ENDED 6/30/02	SIX MONTHS ENDED 6/30/01	SIX MONTHS ENDED 6/30/02	SIX MONTHS ENDED 6/30/01
Revenues.....	\$ 585	\$ (902)	\$ 9,740	\$ 92,061

Expenses.....	(477)	(1,013)	(4,470)	(5,470)
Minority interest.....	(45)	36	--	--
	-----	-----	-----	-----
Net income.....	\$ 63	\$(1,879)	\$ 5,270	\$ 86,591
	=====	=====	=====	=====
Newcastle Holdings' equity in net income.....	\$ 59	\$(1,785)	\$ 303	\$ 2,910
	=====	=====	=====	=====

</Table>

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(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 Holdings' equity is presented on a GAAP basis. Newcastle Holdings' equity in net income excludes its incentive income.

(B) Newcastle Holdings also had a \$3.7 million and \$3.2 million receivable from Austin at June 30, 2002 and December 31, 2001, respectively.

### 3. RECENT ACTIVITIES

In June 2002, Newcastle Holdings declared a common dividend of \$0.60 per common share which was paid in July 2002. In March 2002, Newcastle Holdings declared a common dividend of \$0.60 per common share which was paid in April 2002.

In April 2002, Newcastle Holdings completed the CBO II Transaction whereby a consolidated subsidiary 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 Holdings. The CBO II Securities are primarily collateralized by a portfolio of CMBS, unsecured REIT debt, asset-backed securities, and a limited amount of other securities, which was acquired with the proceeds from the CBO II Securities and with the deposit Newcastle Holdings had made on such securities. The senior securities, which bore interest at a weighted average effective rate, including discount and cost amortization, of approximately 3.69% at closing, had an expected weighted average life of approximately 8.04 years at closing. One class of the senior securities bears a floating interest rate. Newcastle 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.

In April 2002, Newcastle Holdings repurchased the \$17.5 million Class E Note (the "Note"). The repurchase of the Note represents a repayment of debt and will be recorded as a reduction of CBO Bonds

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

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, Newcastle Holdings refinanced the Bell Canada Properties by issuing approximately \$37.6 million of investment grade debt securities in a private placement. These securities are secured by the Bell Canada Properties and lease payments thereunder. The issued securities, which bore interest at a weighted average effective rate, including cost amortization, of approximately 6.70% at closing, had an expected weighted average life of approximately 5.1 years at closing. Newcastle 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 May 2002, Newcastle Holdings sold one of its GSA Properties with a net basis of \$33.0 million for a net purchase price of approximately \$34.1 million, at a gain of \$1.1 million. In May 2002, it sold a commercial property located in Brussels, Belgium for gross proceeds of approximately \$8.9 million, at a loss of approximately \$0.8 million. Pursuant to Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," Newcastle Holdings has retroactively recorded the operations of such properties in Income from Discontinued Operations for all periods presented.

In June 2002, Newcastle Holdings redeemed the remaining \$20.4 million of its outstanding redeemable preferred stock.

In June and July 2002, Newcastle Holdings formed a new subsidiary, Newcastle Investment Corp. ("Newcastle") and primarily contributed the following assets, and related liabilities, to it: the Belgian Properties, the Bell Canada Properties, the CBO Collateral, the CBO II Collateral, and two marketable securities. In addition, Newcastle Holdings has created \$125 million face of mezzanine bonds issued by its subsidiaries which indirectly own the GSA Properties. The bonds are not entitled to any scheduled interest or amortization prior to their maturity date in May 2011. None of the bonds are secured by mortgages on the GSA Properties; approximately \$85 million face amount of the bonds are secured by equity interests in the direct or indirect owners of the GSA Properties; and approximately \$40 million face amount of the bonds are unsecured. \$121 million of these bonds were contributed to Newcastle and held at their discounted value of approximately \$42 million. These bonds are currently eliminated in consolidation.

Newcastle Holdings filed a registration statement with the Securities and Exchange Commission ("SEC") on Form S-11 in June 2002 in order to register the common stock of Newcastle and sell approximately \$100 million of additional Newcastle common stock in a public offering. The SEC has made comments on this registration statement and Newcastle Holdings is currently in the process of filing an amendment. Newcastle has agreed to enter into a management agreement with the Manager which will be effective subsequent to this offering under substantially the same terms as Newcastle Holdings' Management Agreement.

In July 2002, Newcastle entered into an agreement with a major investment bank whereby such bank will purchase up to \$450 million of commercial mortgage backed securities, unsecured REIT debt, real estate loans and asset backed securities (the "CBO III Collateral"), subject to Newcastle's right to purchase such securities from them. The CBO III Collateral is expected to be included in a securitization transaction in which Newcastle would acquire the equity interest (the "CBO III Transaction"). As of August 14, 2002, \$86.9 million of the \$450 million has been accumulated. If the CBO III Transaction is not consummated as a result of Newcastle's failure to acquire the equity interest or otherwise as a result of Newcastle's gross negligence or willful misconduct, Newcastle would be required to either purchase the CBO III Collateral or pay the difference between the original purchase price of the CBO III Collateral and the price at which the CBO III Collateral is sold to a third-party (a "Collateral Loss"). If the CBO III Transaction fails to close for any other reason, Newcastle would be required to either purchase

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NEWCASTLE INVESTMENT HOLDINGS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) -- (CONTINUED)

the CBO III Collateral or pay the lesser of \$15 million and the Collateral Loss or, if Newcastle had paid a deposit on the CBO III Collateral in exchange for interest and principal payments on such securities, the Collateral Loss, net of any such deposit. Although Newcastle currently anticipates completing the CBO III Transaction during the fourth quarter of 2002, there is no assurance that the CBO III transaction will be consummated.

In June 2002, Newcastle entered into a financing arrangement with a major investment bank to fund a portion of the purchase price for up to \$235 million face amount of mortgage loans, contingent upon Newcastle's public offering. This financing arrangement will permit Newcastle to further borrow an amount up to 90% of the purchase price of the mortgage loans at a rate of LIBOR plus 0.75%.

At June 30, 2002 Due From (To) Affiliates is comprised of: \$18.8 million of Incentive Return receivable, \$3.7 million receivable from Austin primarily related to the Fund co-investment program, \$0.6 million of Incentive Return payable, and \$0.4 million receivable from the Manager.

#### 4. DERIVATIVE INSTRUMENTS

The following table summarizes the notional amounts and fair (carrying) values of Newcastle Holdings' derivative financial instruments as of June 30, 2002 (amounts in thousands).

<Table>  
<Caption>

	NOTIONAL AMOUNT	FAIR VALUE	LONGEST MATURITY
	-----	-----	-----
<S>	<C>	<C>	<C>
Interest rate caps treated as hedges, net(A).....	\$184,493	\$ 7,418	October 2015
Interest rate swaps, treated as hedges, net(B).....	\$504,007	\$(28,119)	April 2011
Non-hedge derivative obligations(B).....	(C)	\$ (156)	July 2038

</Table>

- - - - -

(A) Included in Deferred Costs, Net.

(B) Included in Derivative 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 June 30, 2002, an interest rate cap with a notional amount of \$17.5 million as of June 30, 2002, and an interest rate cap with a notional amount of approximately \$59.8 million as of June 30, 2002.

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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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Newcastle Logo

NEWCASTLE  
INVESTMENT CORP.

7,000,000 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.

<Table>	
<S>	<C>
Securities and Exchange Commission registration fee.....	\$ 11,480
National Association of Securities Dealers, Inc. and Blue Sky Registration Fees.....	12,000
Printing and engraving expenses.....	500,000
Legal Fees and Expenses.....	1,500,000
Accounting Fees and Expenses.....	1,000,000
Miscellaneous.....	126,520
	-----
Total.....	\$3,150,000
	=====

</Table>

ITEM 32. SALES TO SPECIAL PARTIES.

See Item 33.

ITEM 33. RECENT SALES OF UNREGISTERED SECURITIES

On June 6, 2002 we issued 1 share of our common stock to Newcastle Investment Holdings for \$1.00. On July 12, 2002 we issued to Newcastle Investment Holdings 999 shares of our common stock in exchange for a contribution of certain assets with a book value, as of March 31, 2002, of approximately \$190 million.

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

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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.

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ITEM 36. FINANCIAL STATEMENTS AND EXHIBITS.

(a) The following financial statements are being filed as part of this Registration Statement:

NEWCASTLE INVESTMENT CORP.  
HISTORICAL FINANCIAL STATEMENT  
Balance Sheet at June 6, 2002

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Pro Forma Balance Sheet at June 30, 2002 (unaudited)

Notes to Consolidated Pro Forma Balance Sheet at June 30, 2002  
(unaudited)

Consolidated Pro Forma Statement of Income for the Six Months Ended  
June 30, 2002 (unaudited)

Notes to Consolidated Pro Forma Statement of Income for the Six Months  
Ended June 30, 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 Six Months Ended  
June 30, 2001 (unaudited)

Notes to Consolidated Pro Forma Statement of Income for the Six Months  
Ended June 30, 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)

NEWCASTLE INVESTMENT HOLDINGS CORP.

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 June 30, 2002 (unaudited) and December 31, 2001

Consolidated Statements of Income for the Six Months Ended June 30, 2002 and 2001 (unaudited)

Consolidated Statements of Stockholders' Equity and Redeemable Preferred Stock for the Six Months Ended June 30, 2002 and 2001 (unaudited)

Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2002 and 2001 (unaudited)

Notes to Consolidated Financial Statements for the Six Months Ended June 30, 2002 and 2001 (unaudited)

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(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**  |
| 10.6 | Letter Agreement, dated July 10, 2002, between the Registrant and Bear, Stearns & Co. Inc.                                |

- 10.7 Letter Agreement, dated August 13, 2002, between the Registrant and Bear Stearns Mortgage Capital Corporation
- 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>

- -----  
\* To be filed by amendment.

\*\* Previously filed.

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.

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(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) 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.

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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 August 15, 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>  ----- /s/ WESLEY R. EDENS Wesley R. Edens	<C>  Chief Executive Officer and Chairman of the Board	<C>  August 15, 2002
----- /s/ KENNETH M. RIIS Kenneth M. Riis	President	August 15, 2002
----- /s/ MICHAEL I. WIRTH Michael I. Wirth	Chief Financial Officer (Principal Financial and Accounting Officer)	August 15, 2002
----- /s/ RANDAL A. NARDONE Randal A. Nardone	Director	August 15, 2002

</Table>



[BEAR STEARNS LOGO]

BEAR, STEARNS &amp; CO. INC.

383 Madison Avenue  
 NEW YORK, NY 10179  
 Tel 212-272-2000  
 www.bearstearns.com

July 10, 2002

Newcastle Investment Corp.  
 1301 Avenue of the Americas  
 New York, NY 10019

Gentlemen:

This commitment letter (this "Agreement") confirms the exclusive engagement of Bear, Stearns & Co. Inc. ("Bear Stearns") by Newcastle Investment Corp., as lead advisor (the "Company" or the "Investment Advisor"), to render financial advisory and investment banking services to the Company in connection with the issuance by a special purpose entity organized under the laws of the Cayman Islands or, if mutually agreed to by Bear Stearns and the Company, another jurisdiction outside or within the U.S. (the "Issuer") of several classes of rated notes (the "Notes") and unrated equity securities (the "Equity") described below (collectively, the "Securities") in a private placement pursuant to Rule 144A or otherwise (the "Collateralized Debt Obligation" or "CDO"). The Securities will be collateralized by approximately \$500 million of dollar denominated commercial mortgage backed securities ("CMBS"), REIT debt, real estate loans and asset backed securities (the "Collateral" and, following any initial ramp up period, the initial pool of which shall be deemed the "Original Collateral"). The amount of asset backed securities will be limited to 15% of the Original Collateral.

SECTION 1. SERVICES TO BE RENDERED. Subject to (i) the terms and conditions of this Agreement and (ii) with respect to acting as initial purchaser, execution of definitive documents in connection with the CDO (the "Transaction Documents"), Bear Stearns will act as the co-placement agent and book running lead manager for the private placement of the Securities and shall purchase a portion of the Original Collateral, at the direction of the Investment Advisor, for the Issuer (as set forth in Section 9). Please note that nothing in this Agreement constitutes a binding agreement to underwrite or place the Securities.

SECTION 2. CONDITION TO OBLIGATIONS. The obligations of Bear Stearns to act as initial purchaser hereunder are subject to each of the following conditions being met as of the date of issuance of the Notes (the "Closing Date"): (i) as set forth in Section 9, the Company identifying CMBS, REIT debt, real estate loans, and asset backed securities for

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purchase by Bear Stearns or assets made available by the Company, prior to issuance (for settlement on the Closing Date), at least 60% (the "Initial Collateral") of the Original Collateral, for the CDO's account, the selection and purchase of such Collateral to be directed by the Company in accordance with the Eligibility Criteria described in the Offering Materials, (ii) valid and binding transfer to the Issuer and pledge to the Indenture Trustee of the Initial Collateral (being at least 60% of the Original Collateral), (iii) preparation and delivery of a Collateral fact schedule ("Collateral Schedule") that identifies collateral by loan name, CUSIP number, issuer name, credit rating, industry group, purchase price and date, coupon, par amount and all other data as reasonably required by the rating agencies for securities purchased by Bear Stearns or any loans or securities supplied and delivered by the Company, (iv) provision by the Company of information reasonably required by the rating agencies relating to the historical performance of the Company's analysts and managers, (v) successful completion of Investment Advisor due diligence by Bear Stearns, special counsel for the transaction Orrick, Herrington & Sutcliffe, the rating agencies and investors, (vi) completion of Collateral review and certification of conformance to the Eligibility Criteria, (vii) written confirmation of the desired ratings of the various Classes of Notes, (viii) delivery of an accountant's comfort letter regarding information contained in any offering circular, (ix) delivery of a satisfactory offering circular, (x) execution and delivery of (a) satisfactory transaction documentation, (b) relevant legal opinions satisfactory to Bear Stearns and the Company, and (c) indemnification provisions satisfactory to Bear Stearns and the Company and (xi) purchase of 100% of the Equity, up to a maximum of 15% of the capitalization of the Issuer, by the Company, its affiliates or clients subject to the Equity having a projected internal rate of return of 15% in the Base Case Scenario as defined below. The Base Case Scenario shall mean a scenario where there are no assumed losses or prepayments on the Collateral and all management fees payable by the Issuer to the Company shall be added to the Equity cash flows for the purpose of determining the internal rate of return of the Equity.

SECTION 3. CLOSING AND SETTLEMENT OF THE CDO; RELEASE OF FUNDS. Subject to completion of the requirements of Sections 1 and 2, Bear Stearns will effect the release of funds against the release of the Securities by the Issuer and the Indenture Trustee, by wire transfer via same day funds into an account for the benefit of the Issuer as described in the offering circular and the other transaction documentation (the "Closing").

SECTION 4. FEES FOR SERVICES. The Company agrees that Bear Stearns shall be entitled to the non-refundable fees (the "CDO Fees") described below, due and payable from the proceeds of the sale of the Securities upon Closing of the CDO, as compensation for structuring and placement services and other obligations of Bear Stearns under this Agreement: a fee equal to the sum of (a) 0.45% of the aggregate of the par amount of the Notes (the "Placement Fee") plus (b) a structuring fee (the "Structuring Fee") equal to \$1,000,000. The Placement Fee will be allocated among the Notes according to the following schedule: a fee of 0.30% of the Notes rated AAA/Aaa, a fee of 0.40% of the Notes rated AA/Aa, a fee of 0.75% of the Notes rated A/A, a fee of 1.00% of the Notes rated BBB/Baa, and a fee of 2.00% of the Notes rated BB/Ba. If this schedule of fees

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produces an aggregate amount of such placement fees different from 0.45% of the aggregate of the par amount of the Notes, the schedule will be adjusted such that the aggregate amount of such placement fees equal 0.45% of the aggregate amount of the Notes. In the event that Bear Stearns is willing and able to sell the BB/Ba rated Notes at a market level but the Company chooses to purchase them, the Placement Fee will be calculated as if the Notes were sold to a third party.

Any Notes purchased by Bear Stearns as principal may be resold by Bear Stearns at prices to be determined by Bear Stearns. Any profit or loss on such Notes will be absorbed by Bear Stearns. Bear Stearns agrees that the Company may appoint either Morgan Stanley or Deutsche Bank as a joint book running co-lead manager, co-placement agent and initial purchaser on the CDO. The Company may appoint another party to act in such capacity if such party is acceptable to Bear Stearns. The fees payable to such co-placement agent will be payable from the Placement Fee and will not exceed 33% of such Placement Fee. Notwithstanding such limitation, if the co-placement agent acting as principal purchases for its own account more than 33% of any class of Notes, he shall be entitled to a proportionate increase in his share of the Placement Fee with respect to such class of Notes.

Furthermore, in the event that (i) Bear Stearns and the co-manager are unable to find a market clearing price for any class (or portion thereof) of the Notes which is reasonably acceptable to the Company in light of market conditions and (ii) Bear Stearns or the co-manager and the Company cannot agree on a reasonable price at which Bear Stearns or the co-manager, as they case may be, should underwrite such Notes, then the Company may require the Issuer to pay the Placement Fee for such class of Notes to another dealer who has an underwritten price or receives a binding commitment from a bona fide investor for the unsold Note(s) at an all-in price net of the Placement Fee allocable to such class that is better than Bear Stearns' all-in underwritten or market clearing price net of Placement Fees.

For the avoidance of doubt, Bear Stearns and the Company agree that the preceding paragraph does not permit the Company to solicit bids in competition from dealers other than Bear Stearns and the co-manager for the Offered Notes, but rather is intended to provide the Company a contingent plan to complete the CDO in the event Bear Stearns and the co-manager cannot provide, in the Company's reasonable business judgment, a rationale to support the market clearing price presented by Bear Stearns.

If for any reason, the Closing of the CDO fails to occur, the CDO Fees will not be payable; provided, however, that, if the CDO does not occur and the Company becomes the collateral manager or investment advisor in a substantially similar CDO transaction and at least \$200 million of the collateral for such transaction was previously purchased by Bear Stearns in accordance with Section 9, prior to the termination of this Agreement where Bear Stearns has not been retained or offered to be retained as the financial advisor thereof, the Company shall pay Bear Stearns a fee upon the Closing of such transaction equal to the CDO Fees described in the first paragraph of this Section 4.

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SECTION 5. EXPENSES. The reasonable out-of-pocket expenses of the Company and Bear Stearns, including travel expenses, the fees and the expenses of the rating agencies hired to rate the transaction, the fees and disbursements of Orrick, Herrington & Sutcliffe, up to a maximum of \$250,000, as special counsel for Bear Stearns and the co-placement agent, the fees and disbursements of Thacher, Proffitt & Wood, as special counsel to the transaction and the fees and expenses of any other third party reasonably necessary for the completion of this CDO,

shall be paid from the proceeds of the sale of the Securities. If for any reason, the Closing of the CDO fails to occur, other than through the gross negligence or willful misconduct of Bear Stearns, the Company shall pay the fees and expenses of the rating agencies, each respective special counsel and other third parties who have performed services in connection with the transaction. However, if the failure to close is the result of gross negligence or willful misconduct of Bear Stearns, it shall pay all of the expenses discussed in this Section 5. If the Closing of the CDO subsequently occurs after the Company or Bear Stearns pays any expenses, such party shall be entitled to reimbursement thereof from the proceeds of the sales of the Securities. Bear Stearns will obtain the consent of the Company prior to incurring expenses, other than the expense of obtaining rating estimates on Collateral or the fees and disbursements of Thacher, Proffitt & Wood, in excess of the estimated expenses in the schedule attached hereto.

SECTION 6. EXCLUSIVITY AND NON-CIRCUMVENTION. By execution of this Agreement, the Company agrees to the exclusive engagement of Bear Stearns as the financial advisor and as the book running lead manager with respect to the contemplated CDO.

SECTION 7. INDEMNITY. The Company and Bear Stearns agree to an Indemnity in the form attached hereto.

SECTION 8. ACCESS; INFORMATION. In connection with Bear Stearns' activities hereunder, the Company will provide Bear Stearns with reasonable access to all information concerning the Company and the assets of the Issuer (the "Information") which Bear Stearns and the Company reasonably deem appropriate and will provide Bear Stearns with reasonable access to the Company's officers, accountants and counsel. The Company agrees to participate in conference calls or meetings with potential and actual investors to discuss the Company's management style and experience including meetings at the investors' offices where necessary. The Company will also provide prospective and actual investors with reasonable access to the Information. Bear Stearns shall use its best efforts to maintain the confidentiality of Information the Company desires to remain confidential except to the extent that (i) such Information is otherwise publicly available or (ii) the Company consents to the release of such Information. The Company acknowledges that it will provide, on a continuing basis, Information with respect to the assets of the Issuer, including market valuations of such assets, the personnel responsible for managing the assets of the Issuer and any other matter relating to the CDO as reasonably requested by Bear Stearns and investors in the CDO.

The Company represents and agrees that all information made available to Bear Stearns by the Company in writing hereunder and all Company information in any Offering

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Documents will be true and correct in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in light of the circumstances under which such statements are made. The Company acknowledges that in rendering its services hereunder, Bear Stearns will be using and relying primarily on the Information without independent investigation or appraisal of the Company's assets, historical performance or prospects. Bear Stearns does not assume responsibility for the accuracy or completeness of such Information, and the Company does assume responsibility therefore.

SECTION 9. PURCHASE OF THE COLLATERAL AND PAYMENT TO BEAR STEARNS. At the direction of the Company, Bear Stearns shall purchase, prior to the Closing, the Initial Collateral. All Collateral shall conform to applicable transaction requirements at the time of purchase by Bear Stearns including requirements as to maturity, average life, coupon, collateral type, rating and the rating agency requirements regarding portfolio characteristics, including industry and issuer diversification and credit quality (the "Eligibility Criteria"). Prior to the purchase of any Collateral, Bear Stearns and the Company will mutually agree that market conditions are favorable to begin accumulating Collateral for the CDO.

Prior to the Closing, the Company may identify securities (the Initial Collateral) that it wishes Bear Stearns to purchase for the Issuer and shall agree with Bear Stearns on a price to be paid by the Issuer (the "Purchase Price"). Until the pricing of the transaction, the Purchase Price for fixed rate collateral shall be expressed as a spread to interest rate swaps or treasuries (each such price a "Spread Lock"). Such Spread Lock will be calculated using the yield of the security less the yield of an interest rate swap or treasury of comparable average life as mutually agreed by Bear Stearns and the Company at the time of purchase. Bear Stearns and the Company shall agree on and record the yield, Spread Lock, purchase price and benchmark with respect to each security purchased upon the pricing of the CDO, the Purchase Price for any asset with a Spread Lock will be calculated using the offered side yield of the interest rate swap or treasury as agreed to by Bear Stearns and the Company. The Purchase Price for floating rate collateral will be the price paid for the asset. After

the pricing of the transaction, the Purchase Price shall be the price agreed to between the Company and Bear Stearns.

Bear Stearns shall have the right to approve the purchase of each item of Collateral made under this Section 9 and shall not withhold such approval on an unreasonable basis. If Bear Stearns repeatedly and unreasonably rejects securities that the Company has identified for purchase for the CDO, the Company may terminate this Agreement without penalty.

The maximum amount that Bear Stearns shall pay for securities purchased for the warehouse shall be \$450 million. In addition, the maximum amount that Bear Stearns shall pay for securities for the warehouse facility rated below Baa3 by Moody's or BBB- by Standard & Poor's ("S&P") shall be \$90 million. The warehouse facility will terminate on the Termination Date, as defined in Section 10 below, unless Bear Stearns

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and the Company agree to extend the facility. Bear Stearns will retain for its own account all payments of interest and principal with respect to securities in the warehouse unless the Company and Bear Stearns execute a mutually agreed upon funding agreement (the "Funding Agreement") whereby, in exchange for receiving a portion of interest payments with respect to the securities in the warehouse, the Company deposits with Bear Stearns as margin an amount equal to the sum of (a) 10% of the value of all securities in the warehouse rated at least Baa3 by Moody's and BBB- by S&P, (b) 15% of the value of all securities in the warehouse rated below Baa3 by Moody's or BBB- by S&P but rated at least Ba3 and BB- and (c) a mutually agreed upon percentage of the value of all securities in the warehouse rated below Ba3 by Moody's or BB- by S&P (the aggregate of such amounts deposited with Bear Stearns, the "Deposit"). For the purpose of calculating the Deposit, the value of a security will be determined as (i) if it is a floating rate security or a fixed rate security purchased after the Company has entered into the Funding Agreement with Bear Stearns, the price paid by Bear for such security or (ii) if it is a fixed rate security purchased prior to the execution of the Funding Agreement, a price based on the Spread Lock and the value of the relevant benchmark determined at the time of the Deposit. If the Company elects to enter into the Funding Agreement, it agrees to pay to Bear Stearns the amounts described in the previous sentence on each security contributed to the warehouse subsequent to such election. The portion of interest accrued on the securities in the warehouse payable to the Company (the "Net Bond Carry") shall equal the excess of interest received on such securities over Bear Stearns' aggregate funding costs as adjusted for hedging fixed rate securities, such adjustments will be described in any Funding Agreement. If the Company does not enter into the Funding Agreement with Bear Stearns, the Net Bond Carry will be zero. For each security in the warehouse the funding cost of Bear Stearns will be calculated by multiplying (a) an annual rate of one month LIBOR plus 0.75% times (b) the excess of (x) the market value at the time of purchase over (y) the Deposit amount with respect to such security plus any principal payments received on such security. If Bear Stearns and the Company enter into the Funding Agreement, Bear Stearns will pay the Net Bond Carry to the Company upon the termination of the warehouse facility.

At the time of its purchase of any security in connection with this Agreement, Bear Stearns shall provide a right to the Company to purchase such securities on behalf of the Issuer at the Purchase Price upon the Closing of the CDO. Prior to the pricing of the transaction, the Purchase Price shall be expressed as a Spread Lock. Such right shall be transferable only to the Issuer or an affiliate of the Company. The exercise of any right on a security shall be deemed to be the exercise of every other right in connection with this Agreement regardless of whether or not any such security conforms to the Eligibility Criteria. At the Closing, assuming exercise of all of the rights described above and delivery of the Collateral to the Trustee, Bear Stearns shall be paid from the proceeds of the CDO issuance the aggregate Purchase Price for each security and shall return the Deposit and pay the Net Bond Carry to the Company.

If the Company, by its failure to purchase the Equity pursuant to Section 2 (xi), or otherwise through its gross negligence or willful misconduct, shall cause the CDO to fail to close as contemplated herein, the Company (a) shall purchase the Collateral at the

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Purchase Price and Bear Stearns shall return the Deposit, if any, to the Company or (b) shall, after the liquidation of the Collateral at a fair market price by Bear Stearns to an unaffiliated third party, pay to Bear Stearns any difference between the Purchase Price and the aggregate value realized by the sale of Collateral by Bear Stearns (the "Collateral Loss") and Bear Stearns shall return the Deposit and pay the Net Bond Carry to the Company. If the CDO fails to close for any reason other than those listed in the previous sentence and such failure is not a result of Bear Stearns' gross negligence or willful misconduct, at the Company's option, either (a) the Company shall purchase the Collateral at the Purchase Price and Bear Stearns shall return the Deposit and pay the Net Bond Carry to the Company or (b) after the liquidation of the Collateral at a fair

market price by Bear Stearns to an unaffiliated third party, (x) if the Company and Bear Stearns have entered into the Funding Agreement Bear Stearns shall pay to the Company the excess of the Deposit plus the Net Bond Carry over the Collateral Loss or (y) if the Company and Bear Stearns have not entered into the Funding Agreement, the Company shall pay to Bear Stearns the lesser of \$15,000,000 and the Collateral Loss. If Bear Stearns liquidates the Collateral as provided in the previous sentence and the aggregate value realized by the sale of the Collateral by Bear Stearns exceeds the Purchase Price (such excess, the "Collateral Profit"), then Bear Stearns shall pay to the Company (x) if the Company and Bear Stearns have entered into the Funding Agreement, the Collateral Profit or (y) one half of the Collateral Profit.

The Company and Bear Stearns each acknowledge that the successful completion of the CDO is dependent upon favorable market conditions at the time of, and for a period of time prior to, the pricing of the coupons and yields on the rated Notes (the "Pricing"). If such market conditions are not favorable, and as a result the Pricing of the CDO does not occur, the Company may terminate the warehouse facility prior to the Termination Date if the Equity does not have a projected internal rate of return of at least 15% in the Base Case Scenario by giving notice of such termination to Bear Stearns.

If at the time of pricing of the CDO there shall remain any unsold Notes, Bear Stearns shall have the right, but shall not be obligated, to purchase such unsold Notes at the offering prices and under the terms and conditions at which such Notes are offered to third party investors, subject only to the Company's prior right to purchase at such prices on the Closing all or a portion of such Notes. Under such circumstances, the parties shall promptly set the Closing for a date as soon as practicable. Payment for any Notes so purchased shall be made in the same manner as payment is made by other investors.

SECTION 10. TERMINATION OF AGREEMENT. This Agreement shall terminate upon the earliest of: (i) six (6) months from the date of this Agreement; (ii) upon the Closing of the CDO; (iii) the Company gives notice of a Termination as provided in Section 9; (iv) the Company gives notice to Bear Stearns that it wishes to terminate this Agreement because Bear Stearns has failed to purchase for the warehouse the securities listed in the attached Schedule A, (v) by mutual agreement of the parties or (vi) Bear Stearns repeatedly and unreasonably rejects securities that the Company has identified for purchase for the CDO as provided in Section 9 (the earliest date referred to in the preceding clauses being

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herein referred to as the "Termination Date"); provided, however, that the provisions of Sections 4, 5, 7, 9, 13 and this Section 10 shall survive such termination.

SECTION 11. SUCCESSION. This Agreement shall inure to the benefit of and be binding upon the successors to the parties hereto. Neither party may transfer or assign any right or obligation under this Agreement without the express written consent of the other, and any purported transfer to assignment without such consent shall be void.

SECTION 12. ENTIRE AGREEMENT. This Agreement represents the entire agreement to date between the Company and Bear Stearns relating to the Collateral and the CDO. This Agreement (i) supersedes all other agreements relating to such matters which have previously been executed by the Company and Bear Stearns, (ii) may not be modified orally, and (iii) may only be modified in writing in a subsequent agreement executed and delivered by both the Company and Bear Stearns.

SECTION 13. GOVERNING LAW. This Agreement shall be governed by the laws of the State of New York, without regard to the conflict of law provisions thereof, governing contracts made and to be performed entirely in such State.

Please confirm that the foregoing is in accordance with your understanding and agreement with Bear Stearns by executing both of the enclosed copies of this Agreement and returning one of them to us, whereupon this Agreement shall become a binding obligation between us. The offer of Bear Stearns presented in this Agreement shall expire on July 19, 2002 unless this Agreement is previously executed by you and returned to Bear Stearns. We look forward to working with you and your colleagues, and to assisting you in achieving your objectives.

Very truly yours,

Bear, Stearns & Co. Inc.

By: /s/ Ira Wagner

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Ira Wagner  
Senior Managing Director

Accepted and agreed as of the date  
first above-written:

Newcastle Investment Corp.

By /s/ Jonathan Ashley

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INDEMNIFICATION PROVISIONS

The Investment Advisor agrees to indemnify and hold harmless Bear, Stearns & Co. Inc. ("Bear Stearns"), its affiliates, officers, directors, employees, agents and controlling persons (as defined by the federal securities laws), to the fullest extent permitted by law, from and against any and all losses, claims, damages, obligations, penalties, judgments, awards, liabilities, costs, expenses and disbursements (and any and all actions, suits, proceedings and investigations in respect thereof), including, without limitation, the reasonable costs, expenses and disbursements, as and when incurred, of investigating, preparing or defending any such action, suit, proceeding or investigation (whether or not in connection with litigation in which Bear Stearns is a party), directly or indirectly, caused by, relating to, based upon, arising out of or in connection with (i) any untrue statement or alleged untrue statement of a material fact contained in, or omissions or alleged omissions from, any material prepared or provided to Bear Stearns by the Investment Advisor in writing for use in any offering circular or marketing materials approved in writing by the Investment Advisor (such materials herein referred to as "Investment Advisor Materials") and provided to investors in connection with the transactions contemplated by the Agreement, together with any amendments or supplements thereto or documents incorporated therein by reference (herein referred to as "Offering Materials"), or (ii) any act or omission by the Investment Advisor in the performance of its responsibilities as contemplated by this Agreement and the Transaction Documents, provided, however, such indemnity agreement shall not apply to any portion of any such loss, claim, damage, obligation, penalty, judgment, award, liability, cost, expense or disbursement to the extent (i) it is found in a final judgment by a court of competent jurisdiction to have resulted primarily and directly from the bad faith, illegal acts, gross negligence or willful misconduct of Bear Stearns its affiliates, officers, directors, employees, agents and controlling persons (as defined by the federal securities laws) or (ii) it is caused by any untrue statement or omission or any alleged untrue statement or omission based upon material contained in the Offering Materials discussing "Hypothetical Performance Scenarios" (or similar matters), the "Plan of Distribution or any other section relating to descriptive materials about Bear Stearns (all together, the "Bear Stearns Materials").

Bear, Stearns & Co. Inc. agrees to indemnify and hold harmless the Investment Advisor, its affiliates, officers, directors, employees, agents and controlling persons (as defined by the federal securities laws) to the fullest extent permitted by law, from and against any and all losses, claims, damages, obligations, penalties, judgments, awards, liabilities, costs, expenses and disbursements (and any and all actions, suits, proceedings and investigations in respect thereof), including, without limitation, the reasonable costs, expenses and disbursements, as and when incurred, of investigating, preparing or defending any such action, suit, proceeding or investigation (whether or not in connection with litigation in which the Investment Advisor is a party), directly or indirectly, caused by, relating to, based upon, arising out of or in connection with any untrue statement or alleged untrue statement of a material fact contained in, or omissions or alleged omissions from, the Bear Stearns Materials, provided, however, such indemnity agreement shall not apply (i) to any portion of any such loss, claim, damage, obligation, penalty, judgment, award, liability, cost, expense or disbursement to the extent it is found

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in a final judgment by a court of competent jurisdiction (not subject to further appeal) to have resulted primarily and directly from the bad faith, illegal acts, gross negligence or willful misconduct of the Investment Advisor its affiliates, officers, directors, employees, agents and controlling persons (as defined by the federal securities laws) or (ii) to the Investment Advisor Materials including any Investment Advisor Materials contained in the Offering Materials.

Notwithstanding anything to the contrary contained herein, it is intended that the Investment Advisor and Bear Stearns shall indemnify each other and shall be jointly (and not severally) liable with respect to any and all losses, claims, damages, obligations, penalties, judgments, awards, liabilities, costs, expenses and disbursements (and any and all actions, suits, proceedings and investigations in respect thereof and any and all legal or other costs, expenses and disbursements in giving testimony or furnishing documents in response to a subpoena or otherwise), including, without limitation, the

reasonable costs, expenses and disbursements, as and when incurred, of investigating, preparing or defending any such action, suit, proceeding or investigation arising out of the Offering Materials, other than the Investment Advisor Materials including any Investment Advisor Materials contained in the Offering Materials with respect to which the Investment Advisor shall be solely liable, and the Bear Stearns Materials with respect to which Bear Stearns shall be solely liable. With respect to any claim for which the Investment Advisor and Bear Stearns have each indemnified the other, both parties shall cooperate with respect to the handling of such claim and neither shall agree to a settlement of such claim without the express written consent of the other. The Investment Advisor and Bear Stearns shall each pay one-half of the costs and expenses of responding to any such claim and one-half of any final judgment, other than a final judicial determination of the liability for such claim resulted from the gross negligence or willful misconduct of one party seeking the indemnification hereunder and not the other party.

If any action, suit, proceeding, or investigation is commenced, as to which either party proposes to demand indemnification, such party shall notify the other with reasonable promptness; provided, however, that any failure by an indemnified party to notify the other shall not relieve the indemnifying party from its obligations hereunder. The indemnified party shall have the right to retain counsel of its own choice to represent it, and the indemnifying party shall pay the reasonable fees, expenses and disbursements of such counsel; and such counsel shall, to the extent consistent with its professional responsibilities, cooperate with the indemnifying party and any counsel designated by the indemnifying party. The indemnifying party shall be liable for any settlement of any indemnifiable claim against the other made with the indemnifying party's written consent, which consent shall not be unreasonably withheld. The indemnifying party shall not, without the prior written consent of the other (which consent shall not be unreasonably withheld), settle or compromise any claim, or permit a default or consent to the entry of any judgment in respect thereof, unless such settlement, compromise or consent includes, as an unconditional term thereof, the giving by the claimant to the indemnified party of an unconditional and irrevocable release from all liability in respect of such claim.

In order to provide for just and equitable contribution, if a claim for indemnification pursuant to these Indemnification Provisions is made but it is found in a

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final judgment by a court of competent jurisdiction (not subject to further appeal) that such indemnification may not be enforced in such case, even though the express provisions hereof provide for indemnification in such case, then the Investment Advisor, on the one hand, and Bear Stearns, on the other hand, shall contribute to the losses, claims, damages, obligations, penalties, judgments, awards, liabilities, costs, expenses and disbursements to which the indemnified persons may be subject in accordance with the relative benefits received by the Investment Advisor, on the one hand, and Bear Stearns, on the other hand, and also the relative fault of the Investment Advisor, on the one hand, and Bear Stearns, on the other hand, in connection with the statements, acts or omissions which resulted in such losses, claims, damages, obligations, penalties, judgments, awards, liabilities, costs, expenses and disbursements and other relevant equitable considerations shall also be considered. No person found liable for a fraudulent misrepresentation shall be entitled to contribution from any person who is not also found liable for such fraudulent misrepresentation. For purposes of this paragraph, the relative fault of the Investment Advisor, on the one hand, and Bear Stearns, on the other hand, shall be apportioned as follows: (i) to the extent such losses, claims, damages or liabilities are determined to be a result of an act or omission by the Investment Advisor or a misstatement or omission in the Investment Advisor Materials including any Investment Advisor Materials contained in the Offering Materials, the Investment Advisor shall be deemed to be at fault, and (ii) to the extent such losses, claims, damages or liabilities are determined to be a result of a misstatement or omission in the Bear Stearns Materials, Bear Stearns shall be deemed to be at fault. Notwithstanding the foregoing (or any other provision of this indemnity), Bear Stearns shall not be obligated to contribute any amount (or amounts) under this indemnity that exceeds in aggregate an amount equal to the aggregate fees previously received by Bear Stearns pursuant to the Agreement.

The Investment Advisor agrees that reliance by Bear Stearns on any publicly available information, any written information or any directions furnished by the Investment Advisor shall not constitute negligence or willful misconduct by Bear Stearns.

Neither termination nor completion of the Agreement referred to above shall affect these indemnification provisions which shall then remain operative and in full force and effect.

August 13, 2002

Newcastle Investment Corporation ("Newcastle")  
1251 Avenue of the Americas, 16th Floor  
New York, New York 10020  
Attention: Ken Riis  
Telephone No. 212-798-6104  
Facsimile No. 212-798-6060

Re: Repurchase of Mortgage Loans

Dear Mr. Riis:

This letter will serve as a commitment by Bear Stearns Mortgage Capital Corporation ("BSMCC"), subject to the conditions set forth below, to enter into a master repurchase agreement whereby BSMCC will purchase and Newcastle will sell certain mortgage loans as further described in the mortgage loan purchase confirmation dated August 13, 2002 between Newcastle and EMC Mortgage Corporation which is attached hereto as Exhibit A. Reference is made to the commitment letter between BSMCC and Newcastle dated June 13, 2002 which is hereby terminated.

Any repurchase transactions with respect to such mortgage loans will be subject to a term sheet, custodial agreement, and repurchase agreement between BSMCC and Newcastle, the form of which shall be provided to Newcastle by BSMCC at the time of such repurchase, and which shall be mutually agreed to by BSMCC and Newcastle, and is further subject to execution of the attached confirmation by Newcastle.

The terms of such repurchase shall include but not be limited to the following; provided however the definitive terms of the repurchase transaction shall be set forth in a final confirmation:

- (i) the term of the repurchase shall be a 12 month evergreen, under which at each monthly reset date, the initial twelve month term shall be extended, in the sole discretion of BSMCC, for an additional 30 days beyond the initial term, or any extension of such term made prior to the applicable reset date;
- (ii) the maximum amount to be repurchased shall not exceed \$250,000,000;
- (iii) the advance rate of the amount repurchased shall be a maximum of 90%; and
- (iv) the loans shall be repurchased at a rate of LIBOR plus 0.75% .

Notwithstanding anything contained herein, in the event Newcastle fails to satisfy the conditions set forth above or fails to enter into a repurchase agreement by October 31, 2002, BSMCC will have no obligation to enter into any repurchase transactions with Newcastle.

[SIGNATURES COMMENCE ON FOLLOWING PAGE]

Please acknowledge your acceptance and agreement to the foregoing by signing and returning this letter via facsimile and overnight courier to Michelle Sterling (Telephone Number (212) 272-6289; Facsimile Number: (212) 272-5591 at Bear, Stearns & Co. Inc., Eleventh Floor, 383 Madison Avenue, New York, N.Y., 10179. Thank you.

Very truly yours,

BEAR STEARNS MORTGAGE CAPITAL CORPORATION

BY: /s/ Paul Friedman

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NAME: PAUL FRIEDMAN  
TITLE: SENIOR VICE PRESIDENT

CONFIRMED AND AGREED TO:  
NEWCASTLE INVESTMENT CORPORATION

BY: /s/ Kenneth M. Riis



NAME: Kenneth M. Riis

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TITLE: President

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CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" and to the use of our reports dated (i) 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; and (ii) June 10, 2002 with respect to the balance sheet of Newcastle Investment Corp. as of June 6, 2002, in Amendment No. 2 to the Registration Statement (Form S-11 No. 333-90578) for the Registration of 7,000,000 shares of Newcastle Investment Corp.'s common stock.

/s/ Ernst & Young LLP

New York, New York

August 15, 2002