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

FORM 8-K

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

Date of Report (Date of earliest event reported) May 7, 2007 (May 3, 2007)

Newcastle Investment Corp.
(Exact Name of Registrant as Specified in Charter)

Maryland	**001-31458**	**81-0559116**
(State or other jurisdiction of incorporation)	*(Commission File Number)*	*(IRS Employer Identification No.)*

1345 Avenue of the Americas, New York, NY	**10105**
(Address of Principal Executive Offices)	*(Zip Code)*

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

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On May 3, 2007, Newcastle Investment Corp. (the "Company") announced its results of operations for the quarter ended March 31, 2007. A copy of the related press release is attached hereto as Exhibit 99.1.

On May 3, 2007, the Company held a conference call open to the public on which management discussed the Company's results of operations for the quarter ended March 31, 2007. A transcript of the conference call is attached hereto as Exhibit 99.2.

Item 9.01 Financial Statements And Exhibits

(d) Exhibits

99.1 Press Release, dated May 3, 2007, issued by Newcastle Investment Corp.

99.2 Transcript of Conference Call held by Newcastle Investment Corp. on May 3, 2007.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Newcastle Investment Corp.
(Registrant)

Date: May 7, 2007

By: /s/ Debra A. Hess
Name: Debra A. Hess
Title: Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
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99.2	Transcript of Conference Call held by Newcastle Investment Corp. on May 3, 2007.

NEWCASTLE INVESTMENT CORP.

Contact:
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Newcastle Announces Record First Quarter 2007 Results

First Quarter Highlights

- FFO of $0.71 per diluted share, up 9.2% from the first quarter 2006

- FFO return on average invested equity of 15.3%

- Declared 1Q07 dividend of $0.69 per share, our eighteenth consecutive quarter of stable or growing dividends

- Record $2.2 billion of new acquisitions in the quarter

- Raised $123 million of equity capital through the issuance of 2.42 million common and 2 million perpetual preferred shares

New York, NY, May 3, 2007 - Newcastle Investment Corp. (NYSE: NCT) reported that for the quarter ended March 31, 2007, Funds from Operations ("FFO") were $33.9 million, or $0.71 per diluted share, compared to $0.65 per diluted share for the first quarter 2006. The Company generated an FFO return on average invested equity of 15.3% for the first quarter 2007.

For the three months ended March 31, 2007, income available for common stockholders was $33.7 million, or $0.70 per diluted share, compared to $0.65 per diluted share for the first quarter 2006.

For the quarter ended March 31, 2007, we declared a dividend of $0.69 per common share.

Our GAAP common equity book value was $18.39 per share or a total of $886 million at March 31, 2007 versus $19.68 per share or $899 million at year end 2006.

Kenneth Riis, Newcastle's Chief Executive Officer and President, commented, "We had a record quarter both in terms of earnings and investment activity - FFO of $0.71 per share was the highest to date and we closed on $2.2 billion of new investments. The significant widening of credit spreads experienced in the quarter created opportunities to invest new capital at attractive risk-adjusted returns. It also demonstrated the stability of our business model as fluctuations in the value of our securities portfolio had no impact on our earnings or ability to pay dividends."

For a reconciliation and discussion of GAAP net income to FFO and GAAP book equity to invested common equity, please refer to the tables following the presentation of GAAP results.

Selected Financial Data (Unaudited) ($ in millions, except per share data)

Operating Data:	**Three Months Ended March 31, 2007**		**Three Months Ended March 31, 2006**	
	(Amount)	(per diluted share)	(Amount)	(per diluted share)
Funds from operations	$ 33.9	$ 0.71	$ 28.7	$ 0.65
Income available for common stockholders	$ 33.7	$ 0.70	$ 28.6	$ 0.65

Balance Sheet Data:	**As of March 31, 2007**	**As of December 31, 2006**
Total assets	$ 10,221	$ 8,604
Total liabilities	9,182	7,602
Common stockholders' equity	886	899
Preferred stock	153	103
Total equity	1,039	1,002

The following table summarizes our investment portfolio at March 31, 2007 and December 31, 2006 ($ in millions):

	As of March 31, 2007		**As of December 31, 2006**	
Core	Face Amount	% Total	Face Amount	% Total
Real Estate Securities and Related Loans	$ 6,782	65.2%	$ 6,196	71.7%
Subprime Loans, Held for Sale	1,049	10.1%	-	0.0%
Residential Mortgage Loans	759	7.3%	813	9.4%
Subprime Loans Subject to Call Option	299	2.8%	299	3.5%
Investment in Real Estate Joint Venture	38	0.4%	38	0.4%
Subtotal	$ 8,927	85.8%	$ 7,346	85.0%
Non-Core				
Agency RMBS	$ 1,349	13.0%	$ 1,178	13.6%
ICH Loans	122	1.2%	123	1.4%
Total Portfolio	$ 10,398	100.0%	$ 8,647	100.0%

The following tables compare certain supplemental data relating to our investment portfolio at March 31, 2007 versus December 31, 2006:

Supplemental Data:

	Total Portfolio		**Core Portfolio**	
	March 31, 2007	**December 31, 2006**	**March 31, 2007**	**December 31, 2006**
Weighted average asset yield	7.45%	7.28%	7.80%	7.63%
Weighted average liability cost	5.88%	5.85%	6.03%	6.00%
Weighted average net spread	1.57%	1.43%	1.77%	1.63%

First Quarter Investment Activity

We purchased $2.2 billion of assets in the first quarter, and in addition, committed to purchase $248 million of assets that will close subsequent to quarter-end, our most active quarter to date.

Of the first quarter closings, $374 million was financed off balance sheet through total rate of return swaps. We recorded a deposit of $56 million towards the total rate of return swaps.

The following table details our funded acquisitions in the quarter ($ in millions):

Real Estate Securities and Loans	**Face Amount**	**Number**	**Credit**[1]	**WA Credit Spread**[2]
Commerical Real Estate Mezzanine Loans	$ 508	4	78%	360
Bank Loans	292	8	55%	217
Commerical Real Estate B-Notes	60	2	56%	363
Commerical Real Estate Whole Loans	46	1	78%	178
Commercial Mortgage Backed Securities (CMBS)	47	3	BBB	167
Real Estate Related Asset Backed Securities (ABS)	10	1	BBB-	335
Total Real Estate Securities and Loans	963	19		298
Residential Mortgage Loans				
Subprime Loans, Held for Sale	1,051	4,402	642	NR
Agency RMBS	220	7	AAA	69
TOTAL	$ 2,234			

[1] Credit represents weighted average rating for rated assets, LTV for non-rated assets, FICO score for residential mortgage loans and implied AAA for Agency RMBS.

[2] Average spread based on applicable benchmark (US Treasury for fixed and LIBOR for floating).

In the quarter, we also sold 10 real estate securities totaling $88 million with an average rating of BBB-.

Kenneth Riis noted, “We took advantage of the dislocation in the subprime residential market with the acquisition of $1.3 billon of loans, representing 75% of our original commitment made in March. Our ability to underwrite the risk and have a Fortress affiliate service the loans, positioned us well to invest in this transaction. We also continue to see good relative value in the commercial and corporate sector as almost half of our new asset acquisitions were commercial real estate debt and bank loans.”

Capital Markets Activity

First quarter activities include:

- In January, we issued 2.42 million common shares, for net proceeds of approximately $75 million.
- In March 2007, we issued 2 million shares of newly designated 8.375% Series D Cumulative Redeemable Preferred Stock for net proceeds of $48 million.
- The net proceeds from both capital raises were used to pay down amounts drawn on our credit facility to fund new acquisitions.

Subsequent to quarter-end activities:

- In April, we issued 4.56 million common shares, and raised net proceeds of approximately $125 million. The proceeds were used to pay down amounts drawn on our credit facility to fund new acquisitions.

- In April, we priced our tenth collateralized debt obligation ("CDO"). The proceeds from this issuance were used to term finance an $825 million portfolio of newly acquired mezzanine loans, bank loans, B-Notes, CMBS and other commercial real estate assets including whole loans. Net of this financing, we expect to invest approximately $120 million of capital with a targeted return on equity of 16.5%.

Ms. Debra Hess, our Chief Financial Officer commented, "Since year-end, we have raised and invested $250 million of equity capital. We were opportunistic in tapping the capital markets as the added liquidity enabled us to take advantage of market dislocations and make accretive investments. We also entered into multiple financing arrangements with flexible terms that position us well for future growth."

Investment Portfolio

The following table details our investment portfolio at March 31, 2007 ($ in millions):

Real Estate Securities and Related Loans	**Face Amount**	**% of Total Portfolio**	**Number**	**Credit[1]**	**WA Life**
CMBS	$ 2,462	23.7%	294	BBB-	5.4
Mezzanine Loans	1,447	13.9%	27	68%	2.4
REIT Debt	954	9.2%	96	BBB-	6.0
ABS	862	8.3%	153	BBB	3.0
Bank Loans	543	5.2%	13	57%	3.2
B-Notes	346	3.3%	12	65%	2.7
Real Estate Loans	128	1.2%	5	74%	1.8
ABS Residual	40	0.4%	1	NR	2.3
Total Core Real Estate Securities and Loans	6,782	65.2%	601		4.1
Agency RMBS	1,349	13.0%	42	AAA	4.3
Total Real Estate Securities and Loans	8,131	78.2%	643		4.2
Residential Mortgage Loans					
Manufactured Home Loans	618	5.9%	17,660	691	5.8
Residential Mortgage Loans	141	1.4%	423	718	2.8
Total Residential Mortgage Loans	759	7.3%	18,083	696	5.2
Subprime Loans Held for Sale	1,049	10.1%	4,402	642	2.5
Other	459	4.4%	182		2.3
TOTAL	$ 10,398	100.0%			4.0

(1) Credit represents weighted average rating for rated assets, LTV for non-rated commercial assets, FICO score for non-rated residential assets and implied AAA for Agency RMBS.

Total real estate securities and loans of $8.1 billion face amount representing 78.2% of the total portfolio.

- $6.8 billion or 84% of this portfolio is rated by third parties, or had an implied AAA rating, with a weighted average rating of BBB.

- $4.7 billion or 58% of this portfolio has an investment grade rating (BBB- or higher) or an implied AAA rating.

- The weighted average credit spread (i.e., the yield premium on our investments over the comparable US Treasury or LIBOR) for the core real estate securities and loans (excluding subprime residual) of $6.8 billion was 2.81% at March 31, 2007 versus 2.56% at December 31, 2006.

- The core real estate securities and loans portfolio had 601 investments. The largest investment was $321 million and the average investment size was $11 million.

- The credit profile of our real estate securities portfolio continued to improve during the first quarter. This can be demonstrated by the ratio of upgrades to downgrades in the quarter, where 29 securities ($235 million face amount) experienced credit rating upgrades, versus 6 securities ($65 million face amount) which experienced a credit rating downgrade.

Residential mortgage loans of $759 million face amount, representing 7.3% of the total portfolio.

- These residential loans are to high quality borrowers with an average FICO score of 696.

- Our residential and manufactured housing loans were well diversified with 423 and 17,660 loans, respectively.

Subprime loans held for sale of $1.0 billion face amount, representing 10.1% of the total portfolio.

- Our subprime loans held for sale were well diversified with 4,402 loans.

- Approximately 95% of the portfolio is secured first liens and 93% are owner occupied.

Conference Call

Newcastle's management will conduct a live conference call today, May 3, 2007, at 1:00 P.M. eastern time to review the financial results for the quarter ended March 31, 2007. All interested parties are welcome to participate on the live call. You can access the conference call by dialing (888) 811-7286 (from within the U.S.) or (913) 981-4902 (from outside of the U.S.) ten minutes prior to the scheduled start of the call; please reference "Newcastle First Quarter Earnings Call."

A simultaneous webcast of the conference call will be available to the public on a listen-only basis at www.newcastleinv.com. Please allow extra time prior to the call to visit the site and download the necessary software required to listen to the internet broadcast. An online replay of the webcast will be available until June 30, 2007.

A telephonic replay of the conference call will also be available from 3:00 P.M. eastern time on May 3, 2007 until 11:59 P.M. eastern time on Thursday, May 10, 2007 by dialing (888) 203-1112 (from within the U.S.) or (719) 457-0820 (from outside of the U.S.); please reference access code "3124207."

About Newcastle

Newcastle Investment Corp. owns and manages a $10.4 billion highly diversified real estate debt portfolio with moderate credit risk that is primarily financed with match funded debt. Our business strategy is to "lock in" and optimize the difference between the yield on our assets and the cost of our liabilities. Newcastle is organized and conducts its operations to qualify as a real estate investment trust (REIT) for federal income tax purposes. Newcastle is managed by an affiliate of Fortress Investment Group LLC, a global alternative asset management firm with approximately $35.1 billion in assets under management as of December 31, 2006. For more information regarding Newcastle Investment Corp. or to be added to our e-mail distribution list, please visit www.newcastleinv.com.

Safe Harbor

Certain items in this press release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to the stability of our business model and achievement of certain goals. These statements are based on management's current expectations and beliefs and are subject to a number of trends and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements; Newcastle can give no assurance that its expectations will be attained. Factors that could cause actual results to differ materially from Newcastle's expectations include, but are not limited to, the risk that we can find additional suitably priced investments; the risk that investments made or committed to be made cannot be financed on the basis and for the term at which we expect; the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested; the relative spreads between the yield on the assets we invest in and the cost of financing. Such forward-looking statements speak only as of the date of this press release. Newcastle expressly disclaims any obligation to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

Newcastle Investment Corp.
Consolidated Statements of Income
(dollars in thousands, except share data)
(Unaudited)

	For the Three Months Ended March 31,	
	2007	**2006**
Revenues		
Interest income	$ 162,221	$ 113,907
Rental and escalation income	1,253	2,008
Gain on sale of investments, net	2,212	1,928
Other income	743	5,705
	166,429	123,548
Expenses		
Interest expense	116,757	76,965
Property operating expense	1,036	818
Loan and security servicing expense	1,983	2,006
Provision for credit losses	2,036	2,007
Provision for losses, loans held for sale	-	4,127
General and administrative expense	1,337	1,630
Management fee to affiliate	3,906	3,471
Incentive compensation to affiliate	3,688	2,852
Depreciation and amortization	329	199
	131,072	94,075
Income before equity in earnings of unconsolidated subsidiaries	35,357	29,473
Equity in earnings of unconsolidated subsidiares	847	1,195
Income from continuing operations	36,204	30,668
Income (loss) from discontinued operations	(13)	251
Net Income	36,191	30,919
Preferred dividends	(2,515)	(2,328)
Income Available For Common Stockholders	$ 33,676	$ 28,591
Net Income Per Share of Common Stock		
Basic	$ 0.71	$ 0.65
Diluted	$ 0.70	$ 0.65
Income from continuing operations per share of common stock, after preferred dividends		
Basic	$ 0.71	$ 0.64
Diluted	$ 0.70	$ 0.64
Income from discontinued operations per share of common stock		
Basic	$ -	$ 0.01
Diluted	$ -	$ 0.01
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	47,572,895	43,944,820
Diluted	47,823,497	44,063,940
Dividends Declared per Share of Common Stock	$ 0.690	$ 0.625

Newcastle Investment Corp.
Consolidated Balance Sheets
(dollars in thousands, except share data)
(Unaudited)

	March 31, 2007 (unaudited)	December 31, 2006
Assets		
Real estate securities, available for sale	$ 5,581,179	$ 5,581,228
Real estate related loans, net	2,138,974	1,568,916
Residential mortgage loans, net	752,590	809,097
Subprime mortgage loans, held for sale	1,018,080	-
Subprime mortgage loans subject to call option	289,021	288,202
Investments in unconsolidated subsidiaries	22,778	22,868
Operating real estate, net	29,684	29,626
Cash and cash equivalents	3,929	5,371
Restricted cash	267,903	184,169
Derivative assets	51,032	62,884
Receivables and other assets	65,801	52,031
	$ 10,220,971	$ 8,604,392
Liabilities and Stockholders' Equity		
Liabilities		
CBO bonds payable	$ 4,282,503	$ 4,313,824
Other bonds payable	649,853	675,844
Notes payable	109,922	128,866
Repurchase agreements	2,198,064	760,346
Repurchase agreements subject to asset backed commercial paper facility	1,312,209	1,143,749
Financing of subprime mortgage loans subject to call option	289,021	288,202
Credit facility	125,500	93,800
Junior subordinated notes payable (security for trust preferred)	100,100	100,100
Derivative liabilities	22,726	17,715
Dividends payable	35,003	33,095
Due to affiliates	5,035	13,465
Accrued expenses and other liabilities	52,085	33,406
	9,182,021	7,602,412
Stockholders' Equity		
Preferred stock, $0.01 par value, 100,000,000 shares authorized, 2,500,000 shares of 9.75% Series B Cumulative Redeemable Preferred Stock 1,600,000 shares of 8.05% Series C Cummulative Redeemable Preferred Stock, and 2,000,000 shares of 8.375% Series D Cummulative Redeemable Preferred Stock liquidation preference $25.00 per share, issued and outstanding	152,500	102,500
Common stock, $0.01 par value, 500,000,000 shares authorized, 48,209,699 and 45,713,817 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	482	457
Additional paid-in capital	908,368	833,887
Dividends in excess of earnings	(10,437)	(10,848)
Accumulated other comprehensive income	(11,963)	75,984
	1,038,950	1,001,980
	$ 10,220,971	$ 8,604,392

Newcastle Investment Corp.
Reconciliation of GAAP Net Income to FFO
(dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net income available for common stockholders	$ 33,676	$ 28,591
Operating real estate depreciation	256	131
Funds from operations ("FFO")	$ 33,932	$ 28,722

We believe FFO is one appropriate measure of the operating performance of real estate companies because it provides investors with information regarding our ability to service debt and make capital expenditures. We also believe that FFO is an appropriate supplemental disclosure of operating performance for a REIT due to its widespread acceptance and use within the REIT and analyst communities. Furthermore, FFO is used to compute our incentive compensation to our manager. FFO, for our purposes, represents net income available for common stockholders (computed in accordance with GAAP), excluding extraordinary items, plus real estate depreciation, 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. Our calculation of FFO may be different from the calculation used by other companies and, therefore, comparability may be limited.

Newcastle Investment Corp.
Reconciliation of GAAP Book Equity to Invested Common Equity
(dollars in thousands)
(Unaudited)

	March 31, 2007
Book equity	$ 1,038,950
Preferred stock	(152,500)
Accumulated depreciation on operating real estate	4,487
Accumulated other comprehensive income	11,963
Invested common equity	$ 902,900

Lilly H. Donohue, Director of Investor Relations

Thank you, Keith and good afternoon everyone. I would like to welcome all of you to Newcastle's First Quarter 2007 Earnings Call. Joining us today, Ken Riis, our CEO and President; Phil Evanski, our Chief Investment Officer; and Debra Hess, our CFO.

Before I turn the call over the Ken, as the operator mentioned, this call is being recorded and the replay number is 888-203-1112. From within the United States and outside of the United States, it's 719-457-0820. The access code is 3144207. This call is also going to be available on our website www.newcastleinv.com.

I would also like to point out that statements today which are not historical facts may be deemed forward-looking statements. Actual results may differ materially from the estimates or expectations expressed in our statements. Certain of the factors that could cause actual results to differ materially from Newcastle's expectations are detailed in our SEC reports and filings.

Now I would like to turn the call over to Ken Riis. Ken?

Kenneth M. Riis, Chief Executive Officer and President

Thanks Lily and thanks everyone for joining us today on our call for the first quarter 2007. As you can see from this morning's press release, we had a very active and productive first quarter. We generated record results, earning FFO of $34 million or $0.71 a share, a 9% increase over a year ago first quarter 2006, and we purchased $2.2 billion of assets, our most active quarter since going public.

I also like to highlight that we declared a first quarter dividend of $0.69 per share, our 18th consecutive quarter of stable or increased dividends and again earned a mid-teens return on invested equity highlighting the stability of our business model.

In the first quarter, we saw for the first time in a long time an across the board credit spread widening led by the sub-prime home equity market. The repricing of credit risk in the sub-prime sector, and other factors, has caused other targeted asset spreads to widen. For example, a triple-B minus rated conduit CMBS spread widened 75 basis points in the quarter and ended up at historic wide levels. The repricing of these assets was overdue in our mind as we have not actively invested in the conduit commercial mortgage backed securities market for over a year. But currently, going into the second quarter many of these assets look very attractive on a relative value basis and I am very excited about our opportunity to invest capital in this quarter and upcoming quarters.

I also want to update everyone on our sub-prime loan acquisition that we announced in March. We have completed our due diligence and ended up buying $1.3 billion of loans which represented about 76% of our original commitment amount. We will sell these assets through a securitization that we will execute in the next three to four months and retain an anticipated $75 million investment in the portfolio.

The prospective return on this investment looks very good and I anticipate our return on the equity invested in the transaction, post-securitization, to be higher than our first sub-prime loan portfolio purchased about a year ago, which is generating about a 19% return. In the meantime, the loans will be held in our balance sheet as held for sale are reflected on our balance sheet as held for sale and are being short-term financed with an investment bank generating a net spread of approximately 140 basis points on $1.3 billion of assets.

Finally, I want to highlight, we've been very active on the capital market side. In the first four months of the year, we've raised $250 million of equity capital. The timing of our capital raises has been very good and allowed us to invest capital opportunistically in the quarter and also has provided us with additional liquidity for future acquisitions and growth in the quarters to come.

Also, we just recently priced our tenth CDO to finance a portfolio of $825 million commercial real estate loans and bank loans. Debra will talk about that later and I next want to pass it on to Phil Evanski, our Chief Investing Officer to go over in more detail, our first quarter investment activity and overview of our $10 billion portfolio.

Phillip J. Evanski, Chief Investment Officer

Thanks Ken. As Ken mentioned last quarter we saw a lot of volatility in both the commercial and the residential markets. As a result, we took advantage of several opportunities and ended with a record quarter of 2.2 billion in new asset purchases. Additionally, we committed to another 250 million in assets that will close this quarter. Our largest investment represented the purchase of our $1 billion sub-prime portfolio.

Similar to last quarter, both mezzanine loan and bank loan markets offered attractive spreads on a relative basis. As a result, we purchased more than 568 million in the mezzanine loans in B-notes and 290 million in bank loans. If you look at our mezzanine loan purchases, a significant portion of that was related to Blackstone's acquisition of Equity Office Properties.

As it relates to the CMBS sector, we finally saw a widening of both cash and synthetic spreads. I would say the two primary factors were pressured from ABS spreads as well as Moody's report that stated they will be increasing credit enhancement levels on deals going forward. So, given some of the recent sizes of the CMBS conduit transactions and investors really sitting on the side lines, triple-B minus spreads widened by 70 to 75 basis points over the quarter. We selectively made three purchases and we'll continue to look at new CMBS transactions in the near future.

Finally, we did purchase over $220 million in agency RMBS. In terms of our sales activity it was pretty light. We selectively sold over 87 million in securities. This basically represented CMBS, REIT and one sup-prime security. This resulted in a $2.2 billion net gain. Ultimately, we invested over 220 million of equity capital at over 17.5% gross return, almost 80% of that was new capital as opposed to reinvestment of existing capital.

Just looking at our portfolio for a second, we had another positive quarter in terms of upgrades and downgrades. We had 29 investments upgraded with only 6 downgrades. Half of those downgrades were related to one of our repositions in which the company was acquired. Obviously, there has been a lot of discussions and a lot of talk about the sub-prime market. I just want to take a second and kind of give you some stats on our sub-prime securities portfolio.

First, we own 698 million; this represents 122 securities. This is approximately 7% of our overall total portfolio. 72% is pre-2006 vintage and the entire total portfolio has a weighted average rating of triple-B plus.

Looking into the second quarter of this year our pipeline of new bills is very strong. Given the volatility and widening of spreads in both the ABS and the CMBS markets we believe there are more attractive opportunities today than there was last quarter.

With that I will turn it to over to Debra Hess to speak about our first quarter financial results.

Debra A. Hess, Chief Financial Officer

Thanks Phil. Good afternoon everybody. Ken's already mentioned some of our financial results but I just want to walk through some highlights. FFO was $0.071 per diluted share and an FFO return on average invested common equity of 15.25%. Our total portfolio increased by $1.7 billion from $8.7 billion at year end to $10.4 billion at the end of the first quarter, representing a 20% increase. Of the total new investments of 2.2 billion, one billion represented the pool of sub-prime loans that Ken and Phil both mentioned earlier.

Upon securitization, only the retained bonds related to this portfolio are expected to be on our balance sheets. Our new investments have benefited from the recent spread widening and as a result, the weighted average credit spread on our real estate securities and loan portfolio of 6.8 billion increased to 281 basis points at March from 256 basis points at year.

In terms of our common book value, in the first quarter, spread widening resulted in a net decrease of $13 million of our common book value. However, fundamental to our business strategy is that our securities portfolio is primarily financed to maturity with long-term debt but is not callable as a result to changes in asset value. Therefore changes in book value did not affect our financings, cash flow or earnings. In fact, we delivered our highest quarter ever of FFO. Shortly after quarter end, we raised 125 million of common that will be accretive to our net book value per share by approximately $0.78.

We continue to focus on optimizing our capital structure and maintaining sufficient liquidity. We have been very active in raising capital. Since January, we have raised 250 million of capital, 200 million of common and 50 million of preferred. This capital is used to pay down our line and our credit facility of 200 million is currently fully available to meet our future investment needs.

In addition, since quarter end, we extended our credit facility for another 18 months to June 2009 and reduced the financing spread from 175 basis points to 160 basis points. Also since year end, we have entered into two new arrangements and are in the process of finalizing a third arrangement which enables us to finance over $1 billion of future investments.

In April, we priced our tenth CDO, term financing a portfolio of $825 million of assets. We typically retained a below investment grade part of the structure. For this deal, it was also more attractive for us to retain and finance some of the mezzanine bonds because we felt the spreads were too wide. The result is that we are locking in an expected return on equity of 16 to 17% on approximately 120 million of equity.

Post this transaction, we will have $5.7 billion of assets financed in CDOs. By maintaining assets to multiple forms of capital allows us to take advantage of market dislocation.

Kenneth M. Riis, Chief Executive Officer and President

Just to sort of conclude here that there is a lot of going on in the credit markets. We've highlighted that spreads are pretty volatile in the first quarter and certain asset classes continue to widen especially CMBS going into the second quarter. And as always we've said, this always represents a good opportunity for us because in volatile credit markets or when spreads widen in -- since we've been public, spreads have been basically tightening. So this is the first quarter really where we've had a material spread widening which -- you can see from our investment activity we've taken advantage of that and if it continues, it looks very good for us and we really like our prospects going forward as it relates to making good accretive investments in the future.

Lilly H. Donohue, Director of Investor Relations

So next, we will turn it over to moderator for any questions.

— QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We will go first to David Fick with Stifel Nicolaus.

<Q - David Fick>: Thank you. I just like to make a comment that we really appreciate the efficient way in which you run your calls. You're the best of your peer group. Which assets contributed most to your book value decline this quarter and what do you think about the actual impairment versus the book impairment?

<A - Kenneth Riis>: The assets that had the most credit spread widening was in the sub-prime portfolio, sub-prime securities portfolio, and that was probably I don't know the percentage but maybe 60% to 70% of the decline. And we do look at all the securities that we own from an impairment perspective and we don't see an impairment in the portfolio. So in our view we think we're going to get out power back, principal back on the investment and feel pretty good about that. We continually monitor that all the time but as we look at it right now it looks pretty good.

<Q - David Fick>: Okay. And then on the CDO you just priced, obviously in a normalized market and historically you would have put out everything except the sub-investment grade stuff. You kept some of all the tranches; does that worry you? And frankly, in that environment why not just buy more CMBS, and then lastly related to that same issue, could you have sold all of those investment grade tranches and if so what pricing?

<A - Kenneth Riis>: Well, the fact that we retained some of the mezzanine bonds in the CDO, it really doesn't worry me. I mean the bulk of what we need in order to grow our business and finance ourselves is to be able to sell triple-As and double-As and that's basically what we did in this transaction. The triple-As and double-As represented about 71% of the total capital structure of the CDO and we were able to sell those liabilities at basically the same spread that we did on our last transaction. What happened in the quarter is the single-A and triple-B bond spreads wound down a lot and we just felt like it was temporary. So, we always have the option to sell those in the future, but in the interim if we finance them as opposed to selling them, we felt that was better for us.

<Q - David Fick>: So your referencing the As that you retained as part of the mezz?

<A - Kenneth Riis>: Yes, the single-A rated classes.

<Q - David Fick>: Okay.

<A - Kenneth Riis>: At the CDO.

<Q - David Fick>: All right. Thank you. My last question is your asset backed financing that you're planning for sub-prime, how much of that do you think you will keep in terms of the notes of residuals? I think you'd initially said you expect to have 50 million or so of equity, and is that still on target and what's your timeframe for getting that ABS done?

<A - Kenneth Riis>: Well, we actually think it's more like 75 million of equity invested in the portfolio post the securitization.

<Q - David Fick>: Okay.

<A - Kenneth Riis>: And our timing is over the next three or four months.

<Q - David Fick>: And that includes whatever portion of that financing you retained, is that 75 million right?

<A - Kenneth Riis>: Yeah, that will include that. Yeah.

<Q - David Fick>: Thanks.

<A - Kenneth Riis>: So, we have less capital in it now but as -- when we do our securitization, we will invest a little more capital. But in total we anticipate investing about $75 million in the portfolio.

<Q - David Fick>: Okay. Great. Thanks.

<A - Kenneth Riis>: Yeah.

Operator: Well go next to Don Fandetti with Citigroup.

<Q - Donald Fandetti>: Hi. A couple of quick questions. Ken, on your sub-prime securitization, I think you were talking about purchasing and securitizing in a two month period. Are you just sort of trying to time this better or do you have a real concern about the ability that get those securitized?

<A - Kenneth Riis>: No, no I am not concerned about this securitization market. Actually there is a fair amount of deals being priced very week. I think last week there was $6-8 billion of securitizations done, looking at about 25 billion a month. So, I am not worried about that. It's more that we have early payment default protection in the portfolio. So, over the next three months any loan that goes delinquent, the seller has to repurchase the loan. So, what I want to do is wait till that passes, and then post that to the securitization that's why I am waiting. I am not -- if I thought the market was going to go away from me. I wouldn't wait but this is a lot cleaner for us in securitization, it's a lot cleaner for the buyers of the bond. Once we securitize, to understand this repurchase obligation from the sellers so we just really didn't want to get in to that. It's obviously a benefit for us that we negotiated that in the acquisition of the portfolio but it's just a lot cleaner to wait and that's why we are doing it. And in interim, by the way, we're earning a very good spread of 140 basis points on a portfolio although, albeit with we're financed with short-term debt, Repo finance, but -- so that's really our risk.

<Q - Donald Fandetti>: I wonder if all this sub-prime is worth the hassle, let's say you get a 19, I guess a little bit higher, maybe a 20% ROE and you can get 17 to 18 in commercial real estate and you show up in the Wall Street Journal, next to meet century, how do you guys think about that? I mean is it worth it?

<A - Kenneth Riis>: Well I think it's worth it because we're diversified. We're able to take advantage of opportunities that being managed by Fortress allows us to invest in another asset classes. And I think its going to a lot higher than what we would generally invest at in terms of our return and being somewhat conservative. But I don't want to get into exact results until we securitize the portfolio but really the opportunity with this capital is, I think, a lot greater than our sort of run in the mill if you will core investment strategy in CMBS or commercial real estate debt and that's why we did it. And given the fact that we have a lot of expertise here at Fortress and we have an affiliate who will service for us, sort of gives us a real advantage to take advantage of the market which is what we did in the first quarter.

<Q - Donald Fandetti>: Okay. I am just curious, Ken, you sort of talked about this a little bit, but your thoughts on the CMBS market spread widening and do you kind of feel like we're still in a period of some risk of further widening in triple-B, triple-B minus or do you feel like that's a pretty good opportunity to step that?

<A - Kenneth Riis>: Well I think right now, we're a month into the second quarter. Spreads widened an additional 50 basis points in specific rated securities. Really it's all a function of the transaction. Phil mentioned that the deals are getting a lot bigger, $4 billion in size where they used to be $1.5 to $2 billion. So you're getting a little bit of oversupply in the market and also the fact the ratings, you said, they're going to change their subordination levels on deals going forward, you know cause people to walk away, if you will, from the investments. And I think right now given what we are as we sit today, is it's gotten to a point where it's very attractive for us. And we're going to actively seek to put dollars to work selectively in that market.

<A - Phillip Evanski>: I'd also say that even with the backup in spread, you really have to look at each transaction and the underlying collateral because one of the reasons why the rating agencies are getting concerned is leverage has gone up, people are starting to put some very interesting deals in these conduit transactions. And so we're going to be a little bit cautious about looking at the collateral itself at least over the next month or two. But it's definitely a great opportunity for us to get back into buying some long-term fixed rate assets.

<Q - Donald Fandetti>: Okay. And then lastly, just wanted to get an update on your manufactured housing portfolio, today versus where you bought it and has that been a good investment for you?

<A - Kenneth Riis>: Well I can tell you generally it's performing a lot better than what we originally underwrote. The delinquencies are very low and REO and liquidations are at the low expectations. Debra, do you have the specific?

<A - Debra Hess>: Yes actually at end of the first quarter delinquencies on the entire NH pool is 1.02% versus 1.27% at the end of the year. So the severities, CDO, actually everything is just trending much better than we originally projected.

<Q - Donald Fandetti>: But if you had to sell it today do you think you'd still be up?

<A - Kenneth Riis>: Oh, yeah. Yes we would. I mean we're term finance, we like the financing and we like the return that we're getting on our equity but -- so we're not really looking to sell it. But on the asset side, the valuation has increased from our bases.

<Q - Donald Fandetti>: You still think you're targeting low teens dividend of forward growth in '07?

<A - Kenneth Riis>: We don't give earnings guidance but our target hasn't changed from the beginning of the year.

<Q - Donald Fandetti>: Okay. Great. Thank you.

Operator: We will go next Rick Shane with Jefferies & Company.

<Q - Richard Shane>: Thanks guys. Just a couple of quick questions, most of mine have been asked. What is the advance rate on the Repo line that the sub-prime mortgages are held under?

<A - Kenneth Riis>: Its about 97%.

<Q - Richard Shane>: Okay. And then the second question you talked about spreads on CMBS widening out another 50 bips since the end of the quarter. What's the sensitivity to your book value related to a 50 bip widening?

<A - Kenneth Riis>: That is a good question. We own about just to get -- in terms, maybe I'll just answer that little bit, a little differently. We own a multiple vintage CMBS securities where, to give an example, in last quarter when you had new issue spreads widening out 75 basis points, it impacted our portfolio about 25 basis points in terms of spread widening. So we are about -- the spread widening is really in the new issue market which we don't really own a lot of but in general, it does -- it will cause spreads to widen. I would say we are probably a third of the 50 basis points again because it's all new issue and we haven't really been involved in a new issue market for over a year. So I guess I am trying to answer your question that it's going to be pretty immaterial but 10 basis points on our CMBS portfolio, how big is our CMBS portfolio in aggregate? Debra?

<A - Debra Hess>: Its going to be a couple of billion when you include securities fee now.

<A - Kenneth Riis>: Okay. I will say it $2 billion, the duration is about 50 basis points on $2 billion, its about $10 million.

<Q - Richard Shane>: Okay. Thats very helpful. Thank you guys.

Operator: Well go next to Marsella Martino with KeyBanc Capital Markets.

<Q - Marsella Martino>: Good afternoon. On the mezzanine that you originated -- invested in this quarter, do you have an average LTV on that portfolio?

<A - Kenneth Riis>: Yeah it's in our press release but -- on the mezzanine loans --

<A - Debra Hess>: Yeah it was 78%.

<A - Kenneth Riis>: 78%.

<Q - Marsella Martino>: Okay. Great. And then on commercial real estate, can you just provide some commentary on what your views are going forward? Do you see material credit deterioration or what are your thoughts there?

<A - Kenneth Riis>: I don't see material credit deterioration. I do see increased risk of default due to overleveraging of real estate but it's a very specific -- it's not across the board. It's really specific to some large loans that have been done recently and people are aggressively underwriting the cash flows of those assets. So the only real material change I would anticipate would be in the 2006 vintage CMBS securities which had a tendency to be highly levered and with, in addition to that, low credit support, the ratings agencies were more aggressive than they are saying they are going to be going forward. So if you want to highlight any area where you have some more credit volatility, it would be in the 2006 vintage commercial mortgage backed securities which we don't really own a lot of. But I think that's where you will see some credit volatility. I do think fundamentally depending on where you invest there is a still a lot of a good debt to buy backed by commercial real estate but we're not buying the first dollar loss risk, we're much higher up in the capital structure. So even if there is a default on the loan and there is a workout, we're not -- not the ones working it out and we're going to get our money back and that's how we invest and that's how we look to deploy our capital.

<Q - Marsella Martino>: Okay. Thank you.

Operator: [Operator Instructions]. We'll go next to Jim Shanahan with Wachovia.

<Q - Jim Shanahan>: Hi, good afternoon everyone. When you comment that you're expecting to earn a plus 19% ROE, I guess your exact words were, better than your last securitization, did you factor in a more costly or less leveraged securitization to get to that target, and if so what were the metrics that are useful for comparative purposes?

<A - Kenneth Riis>: Well we anticipated each full is different, but we anticipated more credit losses. We anticipated much wider spreads on the assets when we priced and purchased it you know a few months ago. So you know the anticipated spreads that we use in our securitization are actually a little bit tighter than what we used to price the portfolio. I don't want to into specifics as to what we use. And the leverage was much lower than the leverage we have on our current portfolio. So we factored -- I guess the answer to the question is we factored both of those into our, that's how we price the acquisition and actually things have gotten a little bit better since we priced it.

<Q - Jim Shanahan>: But is that a lot to do with factoring and higher credit losses and less leverage, it has to do with the more attractive purchase price that you were able to achieve.

<A - Kenneth Riis>: Exactly.

<Q - Jim Shanahan>: Okay. And then when you comment that it was $1.3 billion original commitment and you purchased 76% of that original commitment or about a billion dollars, does that mean that you performed your due diligence and you kicked out 24% of the loans and you have no further purchase commitment regarding this pool?

<A - Kenneth Riis>: Yeah, just let me correct on one thing. We originally committed to buy $1.7 billion of assets. We ended up buying a billion dollars of assets in the first quarter and subsequent to quarter end purchased another 300 million or so. We ended up buying 1.3 billion of loans, which is 76% of the $1.7 billion commitment that we originally entered into which, yeah we basically through our due diligence kicked out 24% of the portfolio.

<A - Debra Hess>: And we have no further purchase obligations.

<A - Kenneth Riis>: Right.

<Q - Jim Shanahan>: so when you say also that $248 million that you have committed to purchase in Q1 that would be funded in Q2 or some subsequent period, does that relate to the sub-prime or is it some thing different?

<A - Phillip Evanski>: No, I think that's relating to other mezzanine B-note type investments that we have made.

<Q - Jim Shanahan>: Understood. Thank you very much. One more question please, regarding the spread widening we talked about here that impacted book value per share, what -- and there was spread widening really throughout I guess the February through April time period, should we anticipate much -- an incremental deterioration in book value and we could strip out the impact of the equity raises but is there more pain to come here and if so can you give us some idea of how bad that might be?

<A - Kenneth Riis>: Well no, we sort of tried do this CMBS side, actually ABS home equity spread tightened since quarter end. So you have upside potential there and they declined about 100 basis point or so and then really saw that the further decline in value, at least as we sit today, would have been in the CMBS side which we sort of highlighted was around $10 million. So, I would think net, net of all of that not including the accretive nature of our latest capital raise, it should be about the same or unchanged from the last quarter and keep in mind that our latest capital raise, the equity capital raise is $0.78 accretive to our book value.

<Q - Jim Shanahan>: Right. And the first one was about $0.60-$0.65 I think.

<A - Debra Hess>: That one we did in January was $0.57 accretive.

<Q - Jim Shanahan>: Yeah. Thank you very much.

Operator: At this time, we have no further questions. I would like to turn the conference back to the speaker for additional or closing remarks.

Lilly H. Donohue, Director of Investor Relations

Great. Thank you all and we look forward to talking to you next week -- our next quarter. Thanks. Bye bye.