

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

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FORM 8-K

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

Date of Report (Date of earliest event reported): August 9, 2013 (August 7, 2013)

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**Newcastle Investment Corp.**

(Exact name of registrant as specified in its charter)

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Maryland

(State or other jurisdiction of incorporation)

001-31458

(Commission File Number)

81-0559116

(IRS Employer Identification No.)

1345 Avenue of the Americas, 46<sup>th</sup> Floor

New York, New York

(Address of principal executive offices)

10105

(Zip Code)

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

N/A

(Former name or former address, if changed since last report.)

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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))

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**Item 2.02. Results of Operation and Financial Condition.**

On August 7, 2013, Newcastle Investment Corp. (the "Company") issued a press release announcing the Company's results for its fiscal quarter ended June 30, 2013. A copy of the Company's press release and a copy of the transcript of the related conference call are attached to this Current Report on Form 8-K (the "Current Report") as Exhibit 99.1 and Exhibit 99.2, respectively, and are incorporated herein solely for purposes of this Item 2.02 disclosure.

This Current Report, including the exhibits attached hereto, is being furnished and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall it be incorporated by reference into any of the Company's filings under the Securities Act of 1933, as amended, or the Exchange Act, unless expressly set forth as being incorporated by reference into such filing.

**Item 9.01. Financial Statements and Exhibits.**

**(d) Exhibits.**

<u>Exhibit Number</u>	<u>Description</u>
99.1	Press release, dated August 7, 2013, issued by Newcastle Investment Corp.
99.2	Transcript of conference call, dated August 7, 2013

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SIGNATURE

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)

/s/ Jonathan R. Brown  
Jonathan R. Brown  
Interim Chief Financial Officer and Principal Accounting Officer

Date: August 9, 2013

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EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
99.1	Press release, dated August 7, 2013, issued by Newcastle Investment Corp.
99.2	Transcript of conference call, dated August 7, 2013



Contact:  
Investor Relations  
212-479-3195

*Newcastle Announces Second Quarter 2013 Results*

NEW YORK— (BUSINESS WIRE)—August 7, 2013—Newcastle (NYSE: NCT; the “Company”) today reported the following information for the quarter ended June 30, 2013:

- Income available for common stockholders (“GAAP Income”) of \$52.3 million, or \$0.20 per diluted share, an increase of 43% and 33%, respectively, compared to Q1 2013
- Core earnings of \$43.0 million, an increase from \$37.4 million in Q1 2013, and core earnings per diluted share of \$0.16, in-line with Q1 2013

The Company’s second quarter results include forty-five days of earnings attributable to the operations of New Residential Investment Corp. (NYSE: NRZ; “New Residential”), which was spun off on May 15, 2013. Excluding earnings attributable to New Residential, the Company’s GAAP Income was \$27.8 million, or \$0.11 per diluted share, and core earnings was \$23.3 million, or \$0.09 per diluted share.

	Q1 2013	Q2 2013	Q2 2013, Pro forma Excluding NRZ
<b>Summary Operating Results:</b>			
GAAP Income	\$36.6 million	\$52.3 million	\$27.8 million
GAAP Income per Diluted Share	\$0.15	\$0.20	\$0.11
<b>Non-GAAP Results:</b>			
Core Earnings	\$37.4 million	\$43.0 million	\$23.3 million
Core Earnings per Diluted Share	\$0.16	\$0.16	\$0.09

At quarter end, the Company had approximately \$216 million of cash to invest. If this cash were fully invested at a 15% return, the Company expects that it could add approximately \$0.03 to future quarterly earnings. The Company’s cash on hand as of August 5, 2013 was fully committed.

*For a reconciliation of GAAP Income to core earnings and Pro forma GAAP Income to pro forma core earnings, please refer to the table below following the presentation of GAAP results.*

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**Highlights for the quarter ended June 30, 2013:**

- **Spin-Off of New Residential** – Completed the spin-off of New Residential on May 15, 2013.
- **Investment Activity** – Invested \$119 million in debt related investments, including \$43 million to purchase debt backed by CDO VIII notes.
- **CDO IV Collapse** – Generated \$68 million of proceeds to the Company by selling all of the collateral in CDO IV at an average price of 95% of par, or \$145 million, and paying off \$77 million of third-party debt (including \$5 million to CDO VIII) at par. Proceeds included \$60 million on debt that the Company had repurchased at an average price of 52% of par.
- **Dividend** – Dividend of \$0.17 per common share, or \$43 million, for the second quarter declared on June 3, 2013.
- **Capital Raise** – Raised approximately \$200 million of gross proceeds from the sale of 40 million shares of common stock, which priced on June 11, 2013.

**Highlights subsequent to June 30, 2013:**

- **Senior Living Acquisitions** – Invested \$86 million to purchase 17 senior living assets financed with \$177 million of non-recourse debt at a weighted average rate of 4.3% and a weighted average maturity of 5.2 years, for a total gross initial investment of \$263 million, including related transaction costs and working capital.
- **Other Investment Activity** – Invested or committed to invest up to approximately \$115 million in opportunistic investments, with total equity expected to be \$80 million after financing.

**ADDITIONAL INFORMATION**

For additional information that management believes to be useful for investors, please refer to the presentation posted on the Investor Relations section of Newcastle's website, [www.newcastleinv.com](http://www.newcastleinv.com). For consolidated investment portfolio information, please refer to the Company's Quarterly Report on Form 10-Q which is also available on the Company's website, [www.newcastleinv.com](http://www.newcastleinv.com).

Newcastle Investment Corp.  
Investment Portfolio as of June 30, 2013  
(\$ in millions)

	Outstanding Face Amount \$	Amortized Cost Basis (1)	% of Total Basis	Carrying Value	Number of Investments	Credit (2)	Weighted Average Life (years) (3)
<b>Investment</b>							
<b>Real Estate Debt &amp; Other Assets</b>							
<b>Commercial Assets</b>							
CMBS	\$ 353	227	11.1%	281	51	BB-	3.6
Mezzanine Loans	431	350	17.1%	350	15	80%	1.0
B-Notes	111	94	4.6%	94	4	77%	1.1
Whole Loans	30	30	1.5%	30	2	48%	0.7
CDO Securities (4)	93	66	3.2%	69	5	BB	2.9
Other Investments (5)	68	68	3.3%	68	3	—	—
<b>Total Commercial Assets</b>	<b>1,086</b>	<b>835</b>	<b>40.8%</b>	<b>892</b>			<b>2.1</b>
<b>Residential Assets</b>							
MH and Residential Loans	307	271	13.3%	271	8,316	705	5.8
Non-Agency RMBS	108	42	2.1%	59	34	CCC	4.8
Real Estate ABS	8	—	0.0%	—	1	C	4.4
	423	313	15.3%	330			5.5
FNMA/FHLMC Securities	312	329	16.1%	329	39	AAA	3.7
<b>Total Residential Assets</b>	<b>735</b>	<b>642</b>	<b>31.4%</b>	<b>659</b>			<b>4.7</b>
<b>Corporate Assets</b>							
REIT Debt	29	29	1.4%	31	5	BB+	2.1
Corporate Bank Loans	783	363	17.9%	363	7	CC	1.5
<b>Total Corporate Assets</b>	<b>812</b>	<b>392</b>	<b>19.3%</b>	<b>394</b>			<b>1.5</b>
<b>Total Real Estate Debt &amp; Other Assets</b>	<b>2,633</b>	<b>1,869</b>	<b>91.4%</b>	<b>1,945</b>			<b>2.7</b>
<b>Senior Living Facilities (6)</b>	<b>188</b>	<b>175</b>	<b>8.6%</b>	<b>175</b>	<b>12</b>	<b>—</b>	<b>—</b>
<b>Total Portfolio/Weighted Average</b>	<b>\$ 2,821</b>	<b>2,044</b>	<b>100.0%</b>	<b>2,120</b>			<b>2.7</b>

WA – Weighted average, in all tables

- 1) Net of impairment.
- 2) Credit represents the weighted average minimum rating for rated assets, the loan-to-value ratio (based on the appraised value at the time of purchase or refinancing) for non-rated commercial assets, or the FICO score for non-rated residential assets and an implied AAA rating for FNMA/FHLMC securities. Ratings provided above were determined by third party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current.
- 3) Weighted average life is based on the timing of expected principal reduction on the asset.
- 4) Represents non-consolidated CDO securities, excluding eight securities with a zero value, which had an aggregate face amount of \$109 million.
- 5) Represents a \$25 million equity investment in a real estate owned property and \$43 million related to a linked transaction.
- 6) Face amount of Senior Living Facilities investments represents the gross carrying amount, including intangibles, which excludes accumulated depreciation and amortization.

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

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



**Newcastle Investment Corp.**  
**Consolidated Balance Sheets**  
*(dollars in thousands)*

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

**Newcastle Investment Corp.**  
**Unaudited Pro Forma Condensed Consolidated Statement of Operations(1)**  
**Three Months Ended June 30, 2013**

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

(1) Refer to Quarterly Report on Form 10-Q for explanations of the adjustments.

**Newcastle Investment Corp.**  
**Reconciliation of Core Earnings and Pro forma Core Earnings**  
*(dollars in thousands)*

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

	Three Months Ended June 30, 2013
Pro forma income (loss) from continuing operations after preferred dividends	\$ 27,785
Add (Deduct):	
Impairment (reversal)	(555)
Other (income) loss	(8,032)
Depreciation and amortization	4,070
Pro forma core earnings	<u>\$ 23,268</u>

**Core Earnings**

Core earnings is a non-GAAP measure used by management to gauge the Company's current performance. Core earnings excludes realized and unrealized gains and losses on investments, derivatives and debt obligations, which, although they represent a part of the Company's recurring operations, are subject to significant variability and are only a potential indicator of future economic performance. In addition, core earnings excludes the effect of depreciation and amortization charges, which, in the judgment of management, are not indicative of operating performance. Finally, core earnings accounts for the Company's investment in a consumer loan portfolio (which was spun-off on May 15, 2013) on a level yield methodology.

Management believes that core earnings allows investors and analysts to readily identify the operating performance of the assets that form the core of the Company's activities and to evaluate the Company's current performance using the same measure that management uses to operate the business.

Core earnings does not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative to GAAP Income as an indicator of the Company's operating performance or as an alternative to cash flow as a measure of its liquidity, and core earnings is not necessarily indicative of cash available to fund cash needs. The Company's calculation of core earnings may be different from the calculation used by other companies and, therefore, comparability may be limited.

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## **CONFERENCE CALL**

Newcastle's management will host a conference call on Wednesday, August 7, 2013 at 8:30 A.M. Eastern Time. A copy of the earnings release will be posted to the Investor Relations section of Newcastle's website, [www.newcastleinv.com](http://www.newcastleinv.com).

All interested parties are welcome to participate on the live call. The conference call may be accessed by dialing 1-888-243-2046 (from within the U.S.) or 1-706-679-1533 (from outside of the U.S.) ten minutes prior to the scheduled start of the call; please reference "Newcastle Second Quarter 2013 Earnings Call."

A simultaneous webcast of the conference call will be available to the public on a listen-only basis at [www.newcastleinv.com](http://www.newcastleinv.com). Please allow extra time prior to the call to visit the website and download any necessary software required to listen to the internet broadcast.

A telephonic replay of the conference call will also be available two hours following the call's completion through 11:59 P.M. Eastern Time on Wednesday, August 14, 2013 by dialing 1-855-859-2056 (from within the U.S.) or 1-404-537-3406 (from outside of the U.S.); please reference access code "17380530."

## **ABOUT NEWCASTLE**

The Company focuses on opportunistically investing in, and actively managing, real estate related assets and primarily invests in two distinct areas: (1) Senior Housing Assets and (2) Real Estate & Other Debt. The Company conducts its operations to qualify as a real estate investment trust ("REIT") for federal income tax purposes. The Company is managed by an affiliate of Fortress Investment Group LLC, a global investment management firm.

## **FORWARD-LOOKING STATEMENTS**

Certain items in this press release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements relating to committed investments and expected financing with respect to such investments. 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, many of which are beyond our control. The Company can give no assurance that its expectations will be attained. Factors that could cause actual results to differ materially from its expectations include, but are not limited to, the risk that committed investments cannot be financed on the basis and for the term at which we expect.

Accordingly, you should not place undue reliance on any forward-looking statements contained in this press release. For a discussion of some of the risks and important factors that could cause actual results to differ from such forward-looking statements, see the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operation" in the Company's most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q. In addition, new risks and uncertainties emerge from time to time, and it is not possible for the Company to predict or assess the impact of every factor that may cause its

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actual results to differ from those contained in any forward-looking statements. Such forward-looking statements speak only as of the date of this press release. The Company 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.

## PARTICIPANTS

### Corporate Participants

**Sarah Watterson** – Director of Investor Relations, Newcastle Investment Corp.

**Wesley R. Edens** – Chairman, Newcastle Investment Corp.

**Jonathan R. Brown** – Interim Chief Financial Officer and Principal Accounting Officer, Newcastle Investment Corp.

**Andrew White** – Managing Director, Newcastle Investment Corp.

**Kenneth M. Riis** – President, Chief Executive Officer & Director, Newcastle Investment Corp.

### Other Participants

**Douglas M. Harter** – Analyst, Credit Suisse Securities (USA) LLC (Broker)

**Bose George** – Analyst, Keefe, Bruyette & Woods, Inc.

**Jason M. Stewart** – Analyst, Compass Point Research & Trading LLC

**Matthew P. Howlett** – Analyst, UBS Securities LLC

## MANAGEMENT DISCUSSION SECTION

Operator: Good morning, my name is Holly and I'll be your conference operator today. At this time, we'd like to welcome everyone to the Newcastle Second Quarter 2013 Earnings Call. All lines have been placed on mute to prevent background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I'd now like to turn today's conference over to Ms. Sarah Watterson. Please go ahead, sir.

### Sarah Watterson, Director of Investor Relations

Thank you, Holly, and good morning, everyone. I'd like to welcome you to the Newcastle second quarter earnings call. Today with me I have Wes Edens, Chairman of the Board; Ken Riis, CEO; Jonathan Brown, CFO; and Andrew White, the Head of our Senior Housing Investments.

Before I turn the call over to Ken, I would like to point out that certain statements made today may be – are not statements of fact. These statements describe the company's current beliefs regarding events that, by their nature, are uncertain and outside of the company's control.

The Company's actual results may differ materially from the expectations expressed in any forward-looking statements, so you should not place undue reliance on any forward-looking statements. I encourage you to read the disclaimers in our earnings release and supplement regarding our forward-looking statements and expected returns to review our most recently filed documents with the SEC. Thank you and I would actually like to turn the call over to Wes Edens.

### Wesley R. Edens, Chairman

Great. Thanks, Sarah, and welcome, everyone. As Sarah mentioned, we have posted on the Web a supplement for our Newcastle that we are going to refer to as we go through it and hopefully you'll find helpful in terms of keeping track of the call this morning.

So let's begin on the overview page, page number 2, and I'll just make a couple of overall comments and I'll turn it over to Jon Brown to go through the financial results. For the full quarter, GAAP income was \$52 million, \$0.20 per diluted share, core earnings \$43 million or \$0.16 per diluted share.

Obviously, we spun-off New Residential smack dab in the middle of the quarter on May 15. If you look on the right-hand side, you can see the results for Newcastle specifically. So \$0.11 of GAAP income, \$0.09 of core earnings, \$216 million of uninvested capital at the end of the quarter. Had we been fully invested that would have added another \$0.03 we estimate. So those are the financial results just to get yourself grounded.

Page 3, just a snapshot of what our business is today post-spin-out, with the senior housing business, which is an increasingly important one for us, it's a business that we started a little over a year ago inside the company. Andrew White, who's sitting next to me, is going to walk through activity there, but there's been a lot going on and very, very productive deployment of capital and performance of those investments.

The CDO business, our old legacy business. Ken Riis will talk about here in just a moment but we've had an extremely active last 12 months. The quarter also was active, but we'll give some color on that. And the business other than that, there's a handful of debt investments, \$400 million of invested capital, a small equity investment in agency ARMs for 1940 Act compliance and then, as I mentioned, there's cash that we're showing here of \$130 million because there's been some investment activity post-quarter that Andrew will walk through.

Just the highlights to conclude kind of the introduction of this. The big highlight obviously was the completion of the New Residential spin-off that we announced back in January, completed on May 15. NRZ is a standalone company, had its earnings call here about an hour but a lot of good things going on there.

Senior housing investments, an increasingly big – bigger and bigger part of our balance sheet in our future – subsequent to the quarter end we invested in another \$86 million, so we've got total investments now closing in on \$200 million of equity but Andrew will walk through that in a second. There's a big pipeline there as well.

Investment activity incremental to that, we did see a number of good opportunities in debt-related investments for the quarter. We bought back some of our CDO debt, made a handful other investments but Kenny will talk about that.

Capital raised in June. We raised \$200 million in cash, 40 million shares of common stock that was sold two months ago. And then lastly the CDO IV collapse, that was a very good event for a good economic result to that as well.

So with that, let me pause and turn it over to Jon Brown to walk through the financial results. Jon?

**Jonathan R. Brown, Interim Chief Financial Officer and Principal Accounting Officer**

Hi, everyone. Thanks, Wes. I'm just going to provide a quick recap of the numbers. In the quarter, we generated GAAP income of \$52 million, or \$0.20 per diluted share. This included core earnings of \$43 million or \$0.16 per diluted share. We declared and recently paid a common dividend of \$0.17 per share or \$43 million which represented 100% of our core earnings.

As mentioned previously, on May 15, we spun out New Residential in the form of a stock dividend. As a result our second quarter results included 45 days of New Residential's earnings. Our GAAP income is adjusted to exclude the earnings generated by assets which were contributed to New Residential, would have been \$28 million or \$0.11 per diluted share and our core earnings would have been \$23 million or \$0.09 per diluted share.

As Wes mentioned at the end of the quarter, we had \$216 million of cash available to invest. If we invested this amount for a full quarter at a 15% return, we expect that our earnings would increase by 3 times per diluted share. To provide more information on these figures, this morning we posted our Q2 supplemental disclosures on our website. And you'll notice we included detailed asset performance data for each of our primary business lines in the appendices there too. We look forward to updating you on our progress in the coming quarters.

I will now hand the call to Andrew White to discuss our senior living investments.

**Andrew White, Managing Director**

Thanks, Jon. So this morning, I'm going to share a few comments on the healthcare market generally and then I'll talk about the operating performance of our existing portfolio, our recent acquisition activity and our pipeline. But starting with the market first, on the operating side, we continue to see very strong operating fundamentals across the industry.

We've seen strong occupancy and rate growth nationwide and we really think this is a function of the continued favorable supply-demand imbalance. We have seen a modest uptick in new construction activity recently but we're still seeing absorption outpace new supply by about 2:1 in the markets that we're in.

On the acquisition side, it was relatively quiet quarter for REIT acquisition activity. I think the big story there for the healthcare REITs has been the recent rise in interest rates. Obviously, this has made it more challenging for the REITs that are focused on the peer net lease business, the peer spread investing business but we continue to believe that our strategy, which is focusing on investments with meaningful operating upside, is relatively insulated from the rise in rates.

Turning to the operating performance of our existing portfolio, for Q2 our portfolio included 12 properties and \$80 million of invested equity. It was a strong quarter for us operationally. We saw 3.9% revenue growth sequentially to more than 15% annualized revenue growth, which resulted in leverage yields improving to over 17% from 14.5% in the first quarter. And we continue to expect that levered yields will stay in liaison excess of 20%.

As Wes mentioned, following the end of the quarter, we closed on a handful of acquisitions. We closed on three transactions with 17 properties, \$263 million of gross asset value and \$86 million of equity invested. We think the targeted returns here are consistent with our existing portfolio. So we expect low teens levered yields initially and stabilized yields in excess of 20%.

And looking forward, we continue to build our pipeline; our goal is to invest an incremental \$200 million of equity for the balance of the year. The near-term pipeline includes \$60 million worth of transactions in contract as gross asset value, another \$800 million of transactions in the very near-term pipeline, which would be about \$300 million of potential equity investments, which we won't get all that done, but we think \$200 million is a reasonable target for the balance of the year.

All these transactions are non-brokered off-market transactions but were one-on-one with the seller. And again we're targeting 12% to 14% levered yields upfront consistent with our current pipeline and existing portfolio with yields stabilizing in excess of 20%.

With that, I will turn the call back over to Ken.



**Kenneth M. Riis, President, Chief Executive Officer & Director**

Thanks, Andrew. For those of you following along, I'm on page 9 of the presentation, and I'm going to highlight our activities in our debt business. We generate great results in the quarter. Total cash flows were \$97 million in the quarter versus \$33 million in the first quarter. Those cash flows are broken down into two components: interest cash flows of \$26 million and return of capital or principal of \$70 million.

On page 10, this is a great page because it breaks out really the two segments within our debt business. First, the CDOs, we have \$1.4 billion of assets financed in our CDOs, had a fair value of \$0.78 on the dollar.

And what we've been doing there is generating good cash flows for us. But over time, we've been collapsing deals, liquidating assets and recovering capital to be reinvested in other parts of our business, including senior living and other opportunistic debt investments.

So if you look a year ago, we had \$3.2 billion of assets financed in our CDOs. There were five CDOs. And as of the end of the second quarter, that was \$1.4 billion of assets in three CDOs. Again, we're looking to opportunistically buy back debt at a discount and continue to harvest capital invested in our CDOs and reinvest it.

The other part of our business is our other debt business. It's a mixture of assets that are pretty much unlevered on our balance sheet. We have about \$1 billion of assets financed with \$200 million of debt. So it's very unlevered and a lot of stuff to do there.

On page 12, just want to highlight our investment activity and then talk about the CDO IV collapse. We purchased – we invested about \$190 million in a quarter in debt-related assets. \$43 million of equity was used to buy back \$117 million of CDO VIII notes at \$0.88 on the dollar. So again, focused on buying back our liabilities at a discount and hope to collapse that deal over the next quarter or two.

And then to highlight the collapse we did in the second quarter, which was CDO IV, we had \$153 million of face amount of assets that we sold at 95% of par generating \$145 million of proceeds. \$77 million of the proceeds were used to pay off third-party debt that we didn't own and \$68 million of proceeds came to Newcastle.

The highlight there is we owned \$60 million of face amount of CDO debt that we repurchased at \$0.52 on the dollar. So of that \$68 million of proceeds, we really generate \$29 million of – so we accelerate the recovery of discount on the CDO bonds that we had purchased in the past.

The last thing I want to highlight, which is a very small part of our business, but it's a new page that we put out, which is our agency ARM position. It's a \$312 million of agency ARMs that I wanted to put out to show what we own, because it's important. What's happened in the quarter – interest rates rising – it's a very benign sort of low risk, asset class risk in terms of duration. It's about a one-year duration and you can see that of our \$18 million of equity investment, the assets in total only went down about 35 basis points, even with rates rising as it did in the second quarter. So I think it's important that everyone sees at least what we own there and how short the duration is of that portfolio. So that's all we have.

**Sarah Watterson, Director of Investor Relations**

Now we'd like to turn it over for questions please. Holly?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Douglas Harter, Credit Suisse.

<Q – Douglas Harter – Credit Suisse Securities (USA) LLC (Broker)>: [Inaudible] (12:41) press release that much of your cash has been deployed, I guess in July, you highlighted the senior living. Can you talk about where else money has gone?

<A – Wes Edens – Newcastle Investment Corp.>: We've made a couple of other investments in kind of opportunistic debt investments in particular. We had been buying in one position in particular that we think is a good restructuring opportunity. It's not quite at the point where we're prepared to talk about it and its bonus.

But I think in the next quarter or two, we're optimistic that it can turn into something which is a very, very interesting and high-yielding opportunity for us. So but that's really just been that. The primary investment activity other than that was, as Kenny mentioned, buying back some of the CDO debt, that we then collapsed and then a lot of the focus is with Andrew and the pipeline of the senior housing investments.

<Q – Douglas Harter – Credit Suisse Securities (USA) LLC (Broker)>: Got it. So then I guess as we go forward to the \$200 million of equity that you look to deploy into senior living throughout the end of the year. Should that be – should we expect that to be funded through CDO collapses?

<A – Wes Edens – Newcastle Investment Corp.>: As we said before, our goal is with the legacy debt businesses to, as we can't unwind them if we can do so profitably, to do so. The base cases for that capital is stay invested through its duration which is another couple of years, but as Kenny said, we've gone and collapsed roughly two-thirds of the position over the last year. So it's been very productive, but I think that the plan for the rest of this year is to do exactly that is to basically move that capital out of the debt business into the senior housing business.

<Q – Douglas Harter – Credit Suisse Securities (USA) LLC (Broker)>: And then just one question: Your other operating expenses were higher; the G&A expenses were higher this quarter. Was some of that related to the spin and should we expect that to come down in future quarters?

<A – Wes Edens – Newcastle Investment Corp.>: Yeah, it was all – there really is a lot of one-time stuff just in the machination of the spend itself so.

<Q – Douglas Harter – Credit Suisse Securities (USA) LLC (Broker)>: Got it. So we should think of that number going sort of back to where it was first quarter of last year.

<A – Wes Edens – Newcastle Investment Corp.>: Yes.

<Q – Douglas Harter – Credit Suisse Securities (USA) LLC (Broker)>: Great, thank you.

<A – Wes Edens – Newcastle Investment Corp.>: You bet.

Operator: Your next question comes from the line of Bose George with Keefe, Bruyette & Woods.

<Q – Bose George – Keefe, Bruyette & Woods, Inc.>: Yes, good morning. So just on the pipeline that you guys provided, I'm just curious if you could just give a little more color in terms of these big chunks, small pieces who are the typical sellers, how many bidders, anything of that nature?

<A – Wes Edens – Newcastle Investment Corp.>: I think the way in which we've closed the couple of waves of transactions to date whether it's been kind of one large transaction and a

handful of single asset deals is I think a good way to think about the pipeline going forward. So of the \$800 million or so of stuff that's in the near-term pipeline that's not in contract, there are a handful of somewhat larger deals and then a handful of single asset deals that we think will kind of flesh out the pipeline. So the largest stuff is obviously a little more binary. If it hits, it hits and if it doesn't, obviously the numbers go down. But I think thus far, we've got the range of \$600 million to \$800 million. So it will be a bit of a mix.

<Q – Bose George – Keefe, Bruyette & Woods, Inc.>: Okay, great. And then actually in terms of the move that we've had in rates recently, has that had any impact on the pricing of the stuff that you guys are looking at?

<A – Andrew White – Newcastle Investment Corp.>: Two ways it affects us: One is cap rate and the other is financing cost. And I think on the cap rate side, because we're dealing with mom-and-pops, we really haven't had – there just really isn't good price transparency at the single asset transaction level. In some cases, we're actually working to educate the mom-and-pops about what a cap rate is and how to think about it. So, we really haven't seen a kind of direct correlation between the rise in rates and the cap rates, although I think the cap rate for the stuff we've closed to-date has been 100 to 150 basis points wide of big market deals.

On the financing side, we did see as rates fell, there was a bit of a floor in terms of the financing cost as spreads widened. And we've seen as rates have risen, they have risen, we haven't really seen a point for point flow through. So about half of the 100 basis points, that's falling through to incremental borrowing costs. But so really I think seeing movement on both sides, but no meaningful change in terms of the expected returns for the rest of the portfolio – for the rest of the pipeline.

<Q – Bose George – Keefe, Bruyette & Woods, Inc.>: Okay, great. That's helpful. Thanks. And then actually one last thing on the CDOs, the move in rates, has that had any impact on your expectation for collapse in the CDOs or the market outlook for that?

<A – Ken Riis – Newcastle Investment Corp.>: No, actually in the quarter, the portfolio increased in value by about 25 basis points, so really a benign change in price in the collateral on the CDOs versus what happened in the interest rate, so no real change there.

<Q – Bose George – Keefe, Bruyette & Woods, Inc.>: Okay, great. Thanks.

Operator: Your next question comes from the line of Jason Stewart, Compass Point Research.

<Q – Jason Stewart – Compass Point Research & Trading LLC>: Hi, thanks. On the senior living acquisitions, any reason why none of those were closed in 2Q and they were all closed post-2Q?

<A – Andrew White – Newcastle Investment Corp.>: No reason other than just kind of the deal dynamics of working with mom-and-pop sellers. It's sometimes not as institutional processes as we might hope it would be, so but I think we had targeted the first week of July and some of the stuff was closed late July and the rest of it was on August 1, so just basic kind of deal dynamics.

<Q – Jason Stewart – Compass Point Research & Trading LLC>: So when you think about the pipeline, there's nothing that would elongate closings of the rest of the pipeline? I mean that's sort of going as expected for you.

<A – Andrew White – Newcastle Investment Corp.>: Yeah, I mean it's hard to predict. But I think there's no reason to think that that should stretch out unduly.

<Q – Jason Stewart – Compass Point Research & Trading LLC>: Okay. On the other investment activity, the opportunistic investments, Wes, is this all post – subsequent to June 30 in that same restructuring opportunity?

<A – Wes Edens – Newcastle Investment Corp.>: No, this is a position that we have been adding to over the course of the year and some of it was actually closed in the quarter, some of it actually at the end of the quarter. We're at a point now where the deal dynamics are such that it looks like it is an actionable restructuring when I think of it as we speak.

So I'm hopeful we'll have great information disclosure. I'm really excited about the opportunity and I think it's an idiosyncratic – it's different than the other stuff we have, but it's a business we know a lot about and we're very excited about it. So I'd love to talk about it soon.

<Q – Jason Stewart – Compass Point Research & Trading LLC>: Well, you're really waiting. And on the agency side the – is there any reason to keep the agency positions once the senior living portfolio continues to build? Is there any REIT requirement that you're going to keep those for?

<A – Wes Edens – Newcastle Investment Corp.>: We have 40 Act requirement, and if the entire company was translated into senior housing, we wouldn't have a 40 Act requirement. So it's just merely a matter of a 40 Act compliance. As Kenny outlined, we thought that there's enough questions about agency ARMs and I think that different people have dealt with it in different ways and they've taken a lot of duration. They've taken a lot of exposure.

These are basically ARM securities that have effectively a very, very large cap that's never really hit at the reset. So they really are treasury bill, treasury note like durations. And A, just trying to be very detailed in terms of the disclosure, B, showing you the actual price change we think should allay any concerns people have about that. So.

<Q – Jason Stewart – Compass Point Research & Trading LLC>: Yeah. That was a great disclosure and exactly what you said it was.

<A – Wes Edens – Newcastle Investment Corp.>: Yeah.

<Q – Jason Stewart – Compass Point Research & Trading LLC>: And so we all appreciate that. One last one – any update on CDO VI and perhaps how you could execute the collapse there if anybody subordinate structure of the transaction continues to be a blocking – in a block position there?

<A – Ken Riis – Newcastle Investment Corp.>: Well, we own all of the senior tranche of CDO VI where almost all of the recovery's going to be. So there's a couple of things we can do. We can hold it and just collect – as the assets pay off collect our money back or we could sell the position at a fairly high dollar price today or we could collapse the deal when dealing with third parties. My preference would be to deal with the third parties and collapse the deal. So we're working on it, but there's no update from last quarter on that.

<Q – Jason Stewart – Compass Point Research & Trading LLC>: Yes. Thanks.

Operator: [Operator Instructions] And your next question will come from the line of Matthew Howlett, UBS.

<Q – Matt Howlett – UBS Securities LLC>: My question. Yeah, Ken, just getting back to the mechanics on collapsing the remaining three CDOs, looking at CDO VIII and CDO IX, those are the ones that are getting – you're getting the big cash flow to the residual \$6 million, I think it was, this quarter from each of them. Is it as simple as just going to the trustee and just say, we were past our

optional call, we're giving back bondholders par and we're going to go some of the loans in the market? Is it just that simple, and how do you do the timing? Do you do one per quarter, given that you don't want to lose that cash all right away given it takes time to redeploy?

<A – Ken Riis – Newcastle Investment Corp.>: Yeah, it is past the call date, so we could sell all the collateral and pay off the debt and that would be it. The collateral and the CDOs are – not all of them are securities, so it takes a little bit longer to sell the collateral. But yeah, we have that option to do it now and they are generating good cash flows for us. And the way I think about it is it's really a timing of a capital need and how can we optimize the collapse in terms of what we own on the liability side. So it's timing of cash – it's timing of when we need the money and can we optimize the P&L of the collapse through other acquisitions of CDO debt.

<Q – Matt Howlett – UBS Securities LLC>: Got you. So it's different than what you did with CDO X, right, which is more of a negotiated deal? I guess when the collateral is the high 70s or whatever you expect to get on it, you're going to free up collateral that you hold underneath it in terms of the over-collateralization, what you hold, right? There's soon to be a recovery on stuff after you pay the bondholders at par?

<A – Ken Riis – Newcastle Investment Corp.>: Oh, yeah, yeah.

<Q – Matt Howlett – UBS Securities LLC>: Okay. So it's just all about timing and just based on your need primarily on the senior living side in terms of the closings of those deals. Is that just sort of how we should think about timing?

<A – Ken Riis – Newcastle Investment Corp.>: Yeah, it's timing and optimization and that's basically the two things we're focused on.

<Q – Matt Howlett – UBS Securities LLC>: Okay, got you. And then just moving towards, Andrew, on the senior living, what's the timeframe in terms of hitting the 20% to 25% ROE target? You're at the high teens on the stuff you already closed late last year. Can you get – is there a similar ramp on the stuff that you're closing on?

<A – Wes Edens – Newcastle Investment Corp.>: We're certainly set up to trying to hit the earlier timeframe. I think we have always spoken about kind of two to three year ramp up and have underwritten the recent acquisitions and are underwriting the current portfolio with that kind of timeframe. But we are obviously pleased with the performance of the stuff we closed last year and in terms of the profile, what we recently closed in the stuff is in the pipeline. There's no meaningful difference between what we have and what we hope to have in the near future. But I think we kind of thought about it as a two to three-year ramp-up.

<Q – Matt Howlett – UBS Securities LLC>: Got you. And each deal's structured similar to where you're sort of coming in and replacing the manager and bringing in your own people to go out and drive the P&L?

<A – Wes Edens – Newcastle Investment Corp.>: That's right.

<Q – Matt Howlett – UBS Securities LLC>: Great. Thanks, guys.

<A – Wes Edens – Newcastle Investment Corp.>: Yeah.

Operator: And that does conclude today's conference call. Thank you for your participation in today's Newcastle call. You may now disconnect.

Wesley R. Edens, Chairman

All right. Thank you very much, guys, for a nice quarter.

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