

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2004

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-31458

Newcastle Investment Corp.  
(Exact name of registrant as specified in its charter)

<TABLE>  
<S> Maryland <C> 81-0559116  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
</TABLE>

<TABLE>  
<S> 1251 Avenue of the Americas, New York, NY <C> 10020  
(Address of principal executive offices) (Zip Code)  
</TABLE>

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

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

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

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

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

X Yes No  
- - - - -

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

X Yes No  
- - - - -

The aggregate market value of the voting common stock held by non-affiliates as of June 30, 2004 (computed based on the closing price on such date as reported on the NYSE) was: \$1,056.7 million.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Common stock, \$0.01 par value per share: 43,744,911 outstanding as of March 8, 2005.

## DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the Registrant's definitive proxy statement for the Registrant's 2005 annual meeting, to be filed within 120 days after the close of the Registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

NEWCASTLE INVESTMENT CORP.  
FORM 10-K

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&lt;/TABLE&gt;

## PART I

## ITEM 1. BUSINESS.

## OVERVIEW

Newcastle Investment Corp. ("Newcastle") is a real estate investment and finance company. We invest in real estate securities, loans and other real estate-related assets. We seek to deliver stable dividends and attractive risk-adjusted returns to our stockholders through prudent asset selection, active management and the use of match-funded financing structures, which reduce our interest rate and financing risks. We make money by optimizing our "net spread," the difference between the yield on our investments and the cost of financing these investments.

Our investment activities cover four distinct categories:

&lt;TABLE&gt;

&lt;S&gt;

&lt;C&gt;

1) Real Estate Securities: We underwrite and acquire a diversified

portfolio of moderately credit sensitive real estate securities, including commercial mortgage backed securities (CMBS), senior unsecured REIT debt issued by property REITs, real estate related asset backed securities (ABS) and agency residential mortgage backed securities (RMBS). We generally target investments rated A through BB, except for our agency RMBS which are generally considered AAA rated. As of December 31, 2004, our investments in real estate securities represented 75% of our assets.

- 2) Real Estate Related Loans: We acquire and originate loans to well capitalized real estate operators with strong track records and compelling business plans, including B-notes, mezzanine loans, bank loans, and real estate loans. As of December 31, 2004, our investments in real estate related loans represented 9% of our assets.
- 3) Operating Real Estate: We acquire direct and indirect interests in operating real estate. As of December 31, 2004, our investments in operating real estate represented 2% of our assets.
- 4) Residential Mortgage Loans: We acquire residential mortgage loans, including manufactured housing loans, that we believe will produce attractive risk-adjusted returns. As of December 31, 2004, our investments in residential mortgage loans represented 13% of our assets.

</TABLE>

In addition, Newcastle had uninvested cash and other miscellaneous net assets which represented 1% of our assets at December 31, 2004.

Underpinning our investment activities is a disciplined approach to acquiring, financing and actively managing our assets. Our principal objective is to acquire a highly diversified portfolio of debt investments secured by real estate that have moderate credit risk and sufficient liquidity. Newcastle primarily utilizes a match-funded financing strategy in order to minimize refinancing and interest rate risks. This means that we seek both to match the maturities of our debt obligations with the maturities of our investments, in order to minimize the risk that we have to refinance our liabilities prior to the maturities of our assets, and to match the interest rates on our investments with like-kind debt (i.e. floating or fixed), in order to reduce the impact of changing interest rates on our earnings. Finally, we actively manage credit exposure through portfolio diversification and ongoing asset selection and surveillance. Newcastle, through its manager, has a dedicated team of senior investment professionals experienced in real estate capital markets, structured finance and asset management. We believe that these critical skills position us well not only to make prudent investment decisions but also to monitor and manage the credit profile of our investments.

Newcastle's stock is traded on the New York Stock Exchange under the symbol "NCT". Newcastle is a real estate investment trust for federal income tax purposes and is externally managed and advised by its manager, Fortress Investment Group LLC. Fortress is a global alternative investment and asset management firm with approximately \$12 billion of capital under management as of March 8, 2005. Fortress was founded in 1998 and today employs over 280 people. We believe that our manager's expertise and significant business relationships with participants in the fixed income, structured finance and real estate industries has enhanced our access to investment opportunities which may not be broadly marketed. For its services, our manager receives a management fee and incentive compensation pursuant to a management agreement. Our manager, through its affiliates, and its principals owned 2.8 million shares of our common stock and had options to purchase an additional 1.3 million shares of our common stock, which were issued in connection with our equity offerings, representing approximately 9.0% of our common stock on a fully diluted basis, as of March 8, 2005.

#### OUR STRATEGY

Newcastle's investment strategy focuses predominantly on debt investments secured by real estate. We do not have specific policies as to the allocation among type of real estate related assets or investment categories since our investment decisions depend on changing market conditions. Instead, we focus on relative value and in-depth risk/reward analysis with an emphasis on asset quality, liquidity and diversification. We utilize a match-funded financing strategy and active credit risk management to optimize our returns.

## Asset Quality and Diversification

As of December 31, 2004, our real estate securities and our real estate related loans (excluding the ICH loans as described below) had an overall weighted average credit rating of approximately BBB-, and approximately 70% had an investment grade rating (BBB- or higher).

At December 31, 2004, our residential mortgage loan portfolio was characterized by high credit quality borrowers with a weighted average Fair Isaac & Co. Credit ("FICO") score of 722 at origination, and had a weighted average loan to value ratio of 72.5%. As of December 31, 2004, approximately \$575.8 million of our residential mortgage loans were held in securitized form, of which over 95% of the principal balance was AAA rated.

Our real estate securities and loan portfolios are diversified by asset type, industry, location and issuer. At December 31, 2004, we had 455 real estate securities and loans, excluding the ICH CMO loans as described below. Our largest investment in a real estate security or real estate related loan was \$86.7 million and our average investment size was \$8.1 million at December 31, 2004. Furthermore, our real estate securities are supported by pools of underlying loans. For instance, our CMBS investments had 16,341 underlying loans at December 31, 2004. We expect that this diversification will help to minimize the risk of capital loss, and will also enhance the terms of our financing structures.

## Financing Strategy and Match-Funded Discipline

We employ leverage in order to achieve our return objectives. We do not have a predetermined target debt to equity ratio as we believe the appropriate leverage for the particular assets we are financing depends on the credit quality of those assets. As of December 31, 2004, our debt to equity ratio was approximately 5.0 to 1. We maintain access to a broad array of capital resources in an effort to insulate our business from potential fluctuations in the availability of capital. We utilize multiple forms of financing including collateralized bond obligations (CBOs), which represent 66% of our debt obligations, other securitizations, and term loans, as well as short term financing in the form of repurchase agreements. Our manager may elect for us to bear a level of refinancing risk on a short term or longer term basis, such as is the case with investments financed with repurchase agreements, when, based on all of the relevant factors, bearing such risk is advisable. We utilize leverage for the sole purpose of financing our portfolio and not for the purpose of speculating on changes in interest rates.

We attempt to reduce interim refinancing risk and to minimize exposure to interest rate fluctuations through the use of match-funded financing structures whereby we seek (i) to match the maturities of our debt obligations with the maturities of our assets and (ii) to match the interest rates on our investments with like-kind debt (i.e., floating rate assets are financed with floating rate debt and fixed rate assets are financed with fixed rate debt), directly or through the use of interest rate swaps, caps or other financial instruments, or through a combination of these strategies. This allows us to minimize the risk that we have to refinance our liabilities prior to the maturities of our assets and to reduce the impact of changing interest rates on our earnings. Our real estate securities and real estate related loan portfolio, excluding the ICH CMO loans as described below, and their respective liabilities had a weighted average life of 5.37 years and 5.72 years, respectively, as of December 31, 2004. In addition, as of December 31, 2004, a 100 basis point increase in short term interest rates would increase our earnings by approximately \$0.7 million per annum.

## Credit Risk Management

Credit risk refers to each individual borrower's ability to make required interest and principal payments on the scheduled due dates. We believe, based on our due diligence process, that our investments offer attractive risk-adjusted returns with long-term principal protection under a variety of default and loss scenarios. We minimize credit risk by actively monitoring our investments and their underlying credit quality and, where appropriate, repositioning our investments to upgrade their credit quality and yield. A significant portion of our investments are financed with collateralized bond obligations, known as CBOs. Our CBO financings offer us structural flexibility to buy and sell certain investments to manage risk and, subject to certain limitations, to optimize returns.

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

debt securities.

FORMATION

We were formed in June 2002 as a subsidiary of Newcastle Investment Holdings Corp. Prior to our initial public offering, Newcastle Investment Holdings contributed to us certain assets and related liabilities in exchange for approximately 16.5 million shares of our common stock. For accounting purposes, this transaction is presented as a reverse spin-off, whereby Newcastle Investment Corp. is treated as the continuing entity and the assets that were retained by Newcastle Investment Holdings and not contributed to us are accounted for as if they were distributed at their historical book basis through a spin-off to Newcastle Investment Holdings. Our operations commenced in July 2002. In May 2003, Newcastle Investment Holdings distributed to its stockholders all of the shares of our common stock that it owned, and it no longer owns any of our common equity.

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

<TABLE>  
<CAPTION>

Year	Shares Issued	Range of Issue Prices (1)	Net Proceeds (millions)
--	-----	-----	-----
<S>	<C>	<C>	<C>
Formation	16,488,517	N/A	N/A
2002	7,000,000	\$13.00	\$ 80.0
2003	7,886,316	\$20.35-\$22.85	\$163.4
2004	8,484,648	\$26.30-\$31.40	\$224.3
December 31, 2004	39,859,481		
January 2005	3,300,000	\$29.60	\$ 96.6

</TABLE>

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

OUR INVESTING ACTIVITIES

Information regarding our business segments is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 3 to our consolidated financial statements which appear in "Financial Statements and Supplementary Data."

The following is a description of our investments as of December 31, 2004.

REAL ESTATE SECURITIES

We own a diversified portfolio of moderately credit sensitive real estate securities, which was comprised of the following at December 31, 2004 (dollars in thousands):

<TABLE>  
<CAPTION>

Asset Type	Current Face Amount	Carrying Value	Number of Securities	Weighted Average			Maturity (Years)
				S&P Equivalent Rating	Coupon	Yield	
--	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
CMBS-Conduit	\$1,024,762	\$1,042,460	162	BBB-	6.17%	6.80%	7.53
CMBS-Large Loan	583,758	589,996	68	BBB	5.16%	5.41%	2.35
CMBS-B Note	173,587	173,119	28	BB+	6.31%	6.58%	6.12
Unsecured REIT Debt	735,402	785,722	90	BBB-	6.51%	6.15%	7.34
ABS-Manufactured Housing	221,803	199,015	11	B	7.10%	8.83%	5.67
ABS-Home Equity	298,934	300,072	44	A-	4.16%	4.29%	4.06
ABS-Franchise	77,825	77,584	17	BBB+	7.13%	8.79%	5.25
Agency RMBS	199,182	201,528	3	AAA	4.69%	4.41%	3.35
Total/Average	\$3,315,253	\$3,369,496	423	BBB	5.89%	6.19%	5.76

</TABLE>

The loans underlying our real estate securities were diversified by industry as follows at December 31, 2004:

<TABLE>

<CAPTION>

Industry	% of Face Amount
Residential	26.1%
Retail	22.3%
Office	20.5%
Manufactured Housing	6.7%
Lodging	6.1%
Health Care	5.3%
Industrial	4.6%
Other	8.4%

We enter into short-term warehouse agreements with major investment banks for the right to purchase commercial mortgage backed securities, unsecured REIT debt, real estate loans and asset backed securities for our real estate securities portfolios, prior to their being financed with CBOs. These agreements are treated as non-hedge derivatives for accounting purposes and are therefore marked to market through current income. If the related CBO is not consummated, except as a result of our gross negligence, willful misconduct or breach of contract, we would be required to pay the Net Loss, if any, as defined, up to the related deposit, less any Excess Carry Amount, as defined, earned on such deposit. Although we currently anticipate completing the most recent CBO in the near term, there is no assurance that such CBO will be consummated or on what terms it will be consummated. The following table summarizes the agreements (in thousands):

<TABLE>  
<CAPTION>

Deal Status	December 31, 2004			Income Recorded		
	Collateral Accumulated (1)	Aggregate Deposit	Fair Value	2004	2003	2002
Completed				\$2,604	\$3,730	\$652
Open	\$224,928	\$24,901	\$25,411	510	--	--
Total				\$3,114	\$3,730	\$652

</TABLE>

(1) Excludes \$32.5 million of collateral accumulated on balance sheet and recorded in real estate securities.

REAL ESTATE RELATED LOANS

We directly owned the following real estate related loans at December 31, 2004 (dollars in thousands):

<TABLE>  
<CAPTION>

Loan Type	Current Face Amount	Carrying Value	Loan Count	Weighted Avg. Yield
B-Notes	\$132,777	\$133,344	23	6.44%
Mezzanine Loans	80,000	80,052	4	5.25%
Bank Loans	146,909	146,909	3	6.73%
Real Estate Loans	29,555	28,911	2	16.55%
ICH CMO Loans (1)	205,147	202,674	123	8.16%
Total	\$594,388	\$591,890	155	7.44%

</TABLE>

(1) In October 2003, pursuant to Financial Accounting Standards Board Interpretation No. 46 "Consolidation of Variable Interest Entities," we consolidated an entity that holds a portfolio of commercial mortgage loans which has been securitized. This investment, which we refer to as the ICH CMO, was previously treated as a non-consolidated residual interest in such securitization. We exercise no control over the management or resolution of these assets and our residual investment in this entity was recorded at \$2.9 million prior to its consolidation. The primary effect of the consolidation is the requirement that we reflect the gross loan assets and gross bonds payable of this entity on our balance sheet, as well as the related gross interest income and expense in our statement of income. The consolidation did not have any effect on our net basis in the investment or

on our equity and had no material effect on our net income.

We also indirectly owned the following interests in real estate related loans at December 31, 2004:

In November 2003, we co-invested, on equal terms, in a joint venture alongside an affiliate of our manager which acquired a pool of franchise loans collateralized by fee and leasehold interests and other assets. We, and our manager's affiliate, each own an approximately 38% interest in the joint venture. The remaining approximately 24% interest is owned by a third party financial institution. Our investment totaled \$23.5 million at December 31, 2004 and is reflected as an investment in an unconsolidated subsidiary on our consolidated balance sheet.

Our relative interest in these franchise loans is summarized as follows:

<TABLE>  
<CAPTION>

Current Face Amount	Carrying Value	Loan Count	Weighted Avg. Yield	Weighted Avg. Maturity (Years)
\$36,398	\$23,452	115	16.26%	0.64

</TABLE>

In November 2004, we entered into a total rate of return swap with a major investment bank, whereby we receive the sum of all interest (at LIBOR + 2.25%), fees and any positive change in value amounts (the total return cash flows) from a referenced term loan (to a retail mall REIT) with an initial notional amount of \$107.0 million, and pay interest (at LIBOR + 0.50%) on such notional amount plus any negative change in value amounts from such loan. This agreement is treated as a non-hedge derivative for accounting purposes and is therefore marked to market through income. Under the agreement, we were required to post an initial margin deposit equal to 17% of the notional amount and additional margin may be payable in the event of a decline in value of the referenced term loan. Any margin on deposit, less any negative change in value payments, will be returned to us upon termination of the contract.

OPERATING REAL ESTATE

We own operating real estate located in Canada and in Belgium which is subject, in addition to all risks inherent in real estate investments generally, to fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, political and economic instability in certain geographic locations, difficulties in managing international operations, potentially adverse tax consequences, enhanced accounting and control expenses and the burden of complying with a wide variety of foreign laws. A change in foreign currency exchange rates may adversely impact returns on our non-dollar denominated investments. Our only currency exposures are to the Euro and the Canadian Dollar. Changes in the currency rates can adversely impact the fair values and earnings streams of our international holdings. We generally do not directly hedge our foreign currency risk through the use of derivatives, due to, among other things, REIT qualification issues.

Bell Canada Portfolio. At December 31, 2004, we owned two office properties and an industrial/distribution property in Canada, of which one office property and the industrial/distribution property were leased primarily to Bell Canada and one office property was primarily vacant. We refer to these properties as the Bell Canada portfolio. In January 2005, we agreed to the terms for a sale of the vacant property and received a nonrefundable deposit thereon. In March 2005, we agreed to the terms for a sale of the industrial/distribution property and received a nonrefundable deposit thereon. The sales are expected to close in the first half of 2005.

LIV Portfolio. At December 31, 2004, we owned one office property in Belgium, which is the last remaining property of a portfolio referred to as the LIV portfolio. This property is classified as held for sale.

The following table sets forth certain information with respect to the operating real estate portfolios as of December 31, 2004 (dollars, others than per square foot amounts, in thousands):

BELL CANADA PORTFOLIO

<TABLE>  
<CAPTION>

OF	TENANT			NET	YEAR			
TOTAL	NET			RENTABLE	BUILT/			SQ
FT	RENTABLE	CITY /	STATE/	SQ FT	RENOVATED	USE	TENANT	
LEASED	SQ FT	SUBMARKET (2)	PROVINCE					
-----	-----	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>								
2 Fieldway Rd. N/A	177,214	Etobicoke (Toronto)/ Metro West	ON	177,214	1972/ expanded 1978	Office	Vacant	
100 Dundas St. 89.24%	290,706	London/ CBD	ON	325,764	1980	Office	Bell Canada - Office	
3.96%	12,890						Bell Canada - Storage	
0.52%	1,686						Bell Canada - Communication	
0.85%	2,759						Mactel	
0.15%	475						Tony & Fay Gardiner	
0.45%	1,478						O&Y Enterprise Office	
0.03%	96						COMTECH	
N/A	15,674						Vacant	
20-40 Norelco Dr., 83 Signet Dr.	615,274	Toronto/ North York	ON	624,786	1963/ 1971/1979	Industrial/ Distribution	Bell Canada - Office	
98.48%							Bell Canada - Cafeteria	
0.73%	4,559						Bell Canada - Storage	
0.47%	2,960						O & Y Enterprise	
0.32%	1,993							
-----	-----			-----				
Total	1,127,764			1,127,764				
82.90%				=====				
=====	=====							

<CAPTION>

PROPERTY ADDRESS	LEASE START DATE	LEASE END DATE	ANNUAL RENT (1) (3)	CURRENT RENT PER SQ FT (1)	ANNUAL REAL ESTATE TAXES (1)	TENANT CREDIT RATING	LEASE RENEWAL OPTION
-----	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
2 Fieldway Rd.	N/A	N/A	N/A	N/A	\$ 737		
100 Dundas St.	03/26/98	03/31/06	\$1,693	\$ 5.82	1,199	A	One 5 Year
	03/26/98	03/31/06	54	4.16		A	One 5 Year
	03/26/98	03/31/47	28	16.64		A	
	03/01/03	05/31/05	18	6.66			
	09/01/02	08/31/07	4	7.90			
	03/26/98	03/31/06	13	8.74			
	01/01/00	12/31/05	1	6.66			
	N/A	N/A	N/A	N/A			
20-40 Norelco Dr., 83 Signet Dr.	03/26/98	03/31/07	3,583	5.82	965	A	One 5 Year
	03/26/98	03/31/07	38	8.32		A	
	03/26/98	03/31/07	12	4.16		A	
	03/26/98	03/31/07	12	5.82			
Total			----- \$5,456 =====		----- \$2,901 =====		

</TABLE>

- (1) Monetary amounts are in U.S. dollars based on the December 31, 2004 Canadian dollar exchange rate of 1.2019.
- (2) CBD means central business district.
- (3) Certain operating expenses are reimbursed by tenants at rates ranging up to 15% above actual cost.

LIV PORTFOLIO

<TABLE>  
<CAPTION>

TENANT	YEAR						% OF	
NET RENTABLE SQ FT	PROPERTY ADDRESS	CITY/ SUBMARKET	STATE/ PROVINCE	NET RENTABLE SQ FT	BUILT/ RENOVATED	USE	TENANT	TOTAL SQ FT LEASED
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ALFA:	GOSSETLAAN 54	Groot-Bijgaarden	Belgium	81,763	1994	Office	Lucent Technologies	25.51%
20,860							Wella	17.39%
14,219							United Biscuits	13.52%
11,055							Job @	10.02%
8,191							RCI Benelux	17.58%
14,370							Vacant	N/A
13,068								
-----				-----				-----
Total				81,763				84.02%
81,763				=====				=====
=====								

<CAPTION>

PROPERTY ADDRESS	LEASE START DATE	LEASE END DATE	ANNUAL RENT (4)	CURRENT RENT PER SQ FT	ANNUAL REAL ESTATE TAXES (4)
<S>	<C>	<C>	<C>	<C>	<C>
ALFA:					
GOSSETLAAN 54					\$71
	12/01/98	04/30/11	\$ 384	18.39	
	01/01/99	12/31/07	269	18.90	
	03/01/99	02/28/08	225	20.33	
	07/01/00	06/30/09	139	16.94	
	03/01/04	02/28/13	207	14.42	
	N/A	N/A	N/A	N/A	
Total			\$1,224		\$71
			=====		===

</TABLE>

- (4) Monetary amounts are in U.S. dollars based on the December 31, 2004 Euro to U.S. dollar exchange rate of 0.7378.

SCHEDULE OF LEASE EXPIRATIONS (DOLLARS IN THOUSANDS):

BELL CANADA PORTFOLIO

<TABLE>  
<CAPTION>

YEAR	NUMBER OF TENANT LEASES EXPIRING	SQUARE FEET OF EXPIRING LEASES	ANNUAL RENT OF EXPIRING LEASES (1)	% OF GROSS ANNUAL RENT REPRESENTED BY EXPIRING LEASES
------	----------------------------------	--------------------------------	------------------------------------	---

<S>	<C>	<C>	<C>	<C>	<C>
Vacant	N/A	192,888		N/A	N/A
2005	2	2,855		\$ 19	0.35%
2006	3	305,074		1,760	32.25%
2007	5	625,261		3,649	66.88%
2047	1	1,686		28	0.52%
	---	-----		-----	-----
Total	11	1,127,764		\$5,456	100.00%
	===	=====		=====	=====

</TABLE>

(1) Monetary amounts are in U.S. dollars based on the December 31, 2004 Canadian dollar to U.S. dollar exchange rate of 1.2019.

#### LIV PORTFOLIO

<TABLE> <CAPTION>		% OF GROSS ANNUAL RENT REPRESENTED BY EXPIRING LEASES			
YEAR	NUMBER OF TENANT LEASES EXPIRING	SQUARE FEET OF EXPIRING LEASES	ANNUAL RENT OF EXPIRING LEASES (1)		
<S>	<C>	<C>	<C>	<C>	<C>
Vacant	N/A	13,068		N/A	N/A
2005	0	--		\$ --	--%
2006	0	--		--	--%
2007	1	14,219		269	21.98%
2008	1	11,055		225	18.37%
2009	1	8,191		139	11.34%
2011	1	20,860		384	31.37%
2013	1	14,370		207	16.94%
	---	-----		-----	-----
TOTAL	5	81,763		\$1,224	100.00%
	===	=====		=====	=====

</TABLE>

(1) Monetary amounts are in U.S. dollars based on the December 31, 2004 Euro to U.S. dollar exchange rate of 0.7378.

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We also indirectly owned the following interest in operating real estate at December 31, 2004:

In March 2004, we purchased a 49% interest in a portfolio of convenience and retail gas stores located throughout the southeastern and southwestern regions of the U.S. The properties are subject to a sale-leaseback arrangement under long-term triple net leases with a 15 year minimum term. Circle K Stores Inc. ("Tenant"), an indirect wholly owned subsidiary of Alimentation Couche-Tard Inc. ("ACT"), is the counterparty under the leases. ACT guarantees the obligations of Tenant under the leases. We structured this transaction through a joint venture in two limited liability companies with a private investment fund managed by an affiliate of our manager, pursuant to which it co-invested on equal terms. In October 2004, the investment's initial financing was refinanced with a nonrecourse term loan (\$53.0 million outstanding at December 31, 2004), which bears interest at a fixed rate of 6.04%. The required payments under the loan consist of interest only during the first two years, followed by a 25-year amortization schedule with a balloon payment due in October 2014. At December 31, 2004, we had a \$17.8 million investment in this entity.

#### RESIDENTIAL MORTGAGE LOANS

We own a portfolio of floating rate residential mortgage loans secured by first priority liens on properties located in the U.S. The following table sets forth certain information with respect to our residential mortgage loan portfolio at December 31, 2004 (dollars in thousands):

<TABLE> <CAPTION>		Weighted Avg.				
Current Face Amount	Carrying Value	Loan Count	Weighted Avg. Yield	Weighted Avg. Maturity (Years) (1)	Weighted Avg. FICO Score at Origination	Loan to Value Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
\$645,381	\$654,784	1,653	3.71%	3.84	722	72.5%

</TABLE>

(1) Weighted average maturity was calculated based on a constant prepayment rate (CPR) of 22.6%.

In January 2005, we acquired a portfolio of approximately 8,100 manufactured housing loans for an aggregate purchase price of approximately \$308.2 million. The loans, which were all current at the time of acquisition, are primarily fixed rate with a weighted average coupon of approximately 9.00% and a weighted average remaining term of approximately 5.00 years.

#### OUR FINANCING ACTIVITIES

We employ leverage in order to achieve our return objectives. We do not have a predetermined target debt to equity ratio as we believe the appropriate leverage for the particular assets we are financing depends on the credit quality of those assets. As of December 31, 2004, our debt to equity ratio was approximately 5.0 to 1. We maintain access to a broad array of capital resources in an effort to insulate our business from potential fluctuations in the availability of capital. We utilize multiple forms of financing including collateralized bond obligations (CBOs), other securitizations, and term loans, as well as short term financing in the form of repurchase agreements. Our manager may elect for us to bear a level of refinancing risk on a short term or longer term basis, such as is the case with investments financed with repurchase agreements, when, based on all of the relevant factors, bearing such risk is advisable. We utilize leverage for the sole purpose of financing our portfolio and not for the purpose of speculating on changes in interest rates.

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

#### OUR HEDGING ACTIVITIES

We enter into hedging transactions to protect our positions from interest rate fluctuations and other changes in market conditions. These transactions may include interest rate swaps, the purchase or sale of interest rate collars, caps or floors, options, mortgage derivatives and other hedging instruments. These instruments may be used to hedge as much of the interest rate risk as our manager determines is in the best interest of our stockholders, given the cost of such hedges and the need to maintain our status as a REIT. Our manager elects to have us bear a level of interest rate risk that could otherwise be hedged when our manager believes, based on all relevant facts, that bearing such risks is advisable. We have extensive experience in hedging real estate positions with these types of instruments. We engage

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in hedging for the purpose of protecting against interest rate risk and not for the purpose of speculating on changes in interest rates.

Further details regarding our hedging derivatives are presented in "Quantitative and Qualitative Disclosures About Market Risk-Fair Value."

#### Debt Obligations

The following table presents certain summary information regarding our debt obligations and related hedges as of December 31, 2004 (unaudited) (dollars in thousands):

<TABLE>  
<CAPTION>

Aggregate			Weighted	Weighted	Face	Collateral	Face
Notional			Average	Average	Amount	Weighted	Amount
Amount of	Current	Carrying	Funding	Maturity	of Floating	Collateral	of Floating
Currently	Face	Value	Cost (1)	(Years)	Rate Debt	Carrying	Rate
Effective	Amount	Value	Cost (1)	(Years)	Rate Debt	Value	Collateral
Debt Obligation	Amount	Value	Cost (1)	(Years)	Rate Debt	Value	Collateral
Hedges	Amount	Value	Cost (1)	(Years)	Rate Debt	Value	Collateral
-----	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
CBO Bonds Payable	\$2,681,395	\$2,656,510	4.59%	6.78	\$2,409,445	\$3,040,236	\$ 933,943
\$1,441,932							

Other Bonds Payable	222,729	222,266	6.69%	2.53	3,684	259,867	N/A	3,684
--								
Notes Payable	652,000	652,000	2.72%	1.93	652,000	717,831	3.40	709,668
--								
Repurchase Agreements 312,404	490,620	490,620	3.67%	0.21	490,620	583,970	3.80	175,731
	-----	-----	----	----	-----	-----		-----
Total debt obligations \$1,754,336	\$4,046,744	\$4,021,396	4.29%	4.97	\$3,555,749	\$4,601,904		\$1,823,026
	=====	=====	=====	=====	=====	=====		=====

=====  
</TABLE>

(1) Including the effect of applicable hedges.

Further details regarding our debt obligations are presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

#### INVESTMENT GUIDELINES

Our general investment guidelines, adopted by our board of directors, include:

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

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

#### THE MANAGEMENT AGREEMENT

We are party to a management agreement with Fortress Investment Group, dated as of June 6, 2002, as amended on March 4, 2003, pursuant to which Fortress Investment Group, our manager, provides for the day-to-day management of our operations.

The management agreement requires our manager to manage our business affairs in conformity with the policies and the investment guidelines that are approved and monitored by our board of directors. Our manager's management is under the direction of our board of directors. The manager is responsible for (i) the purchase and sale of real estate securities and other real estate-related assets, (ii) the financing of our real estate securities and other real estate-related assets, (iii) management of our real estate, including arranging for purchases, sales, leases, maintenance and insurance, (iv) the purchase, sale and servicing of loans for us, and (v) investment advisory services. Our manager is responsible for our day-to-day operations and performs (or causes to be performed) such services and activities relating to our assets and operations as may be appropriate.

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

To provide an incentive for our manager to enhance the value of our common stock, our manager is entitled to receive an incentive return (the "Incentive Compensation") on a cumulative, but not compounding, basis in an amount equal to

the product of (A) 25% of the dollar amount by which (1) (a) our funds from operations, as defined (before the Incentive Compensation) per share of common stock (based on the weighted average number of shares of common stock outstanding) plus (b) gains (or losses) from debt restructuring and from sales of property and other assets per share of common stock (based on the weighted average number of shares of common stock outstanding), exceed (2) an amount equal to (a) the weighted average of the price per share of common stock in our initial public offering and the value attributed to the net assets transferred to us by Newcastle Investment Holdings, and in any of our subsequent offerings (adjusted for prior capital dividends or capital distributions) multiplied by (b) a simple interest rate of 10% per annum (divided by four to adjust for quarterly calculations) multiplied by (B) the weighted average number of shares of common stock outstanding.

The management agreement provides for automatic one-year extensions from and after June 6, 2003. Our independent directors review our manager's performance annually and the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors, or by a vote of the holders of a majority of the outstanding shares of our common stock, based upon unsatisfactory performance that is materially detrimental to us or a determination by our independent directors that the management fee earned by our manager is not fair, subject to our manager's right to prevent such a management fee compensation termination by accepting a mutually acceptable reduction of fees. Our manager will be provided with 60 days' prior notice of any such termination and will be paid a termination fee equal to the amount of the management fee earned by our manager during the twelve-month period preceding such termination which may make it more difficult for us to terminate the management agreement. Following any termination of the management agreement, we shall be entitled to purchase our manager's right to receive the Incentive Compensation at a price determined as if our assets were sold for cash at their then current fair market value (as determined by an appraisal, taking into account, among other things, the expected future value of the underlying investments) or otherwise we may continue to pay the Incentive Compensation to our manager. In addition, if we do not purchase our manager's Incentive Compensation, our manager may require us to purchase the same at the price discussed above. In addition, the management agreement may be terminated by us at any time for cause.

The principals of our manager include Messrs. Wesley R. Edens, Peter L. Briger, Jr., Robert I. Kauffman, Randal A. Nardone and Michael E. Novogratz.

#### POLICIES WITH RESPECT TO CERTAIN OTHER ACTIVITIES

We have authority to offer our common stock or other equity or debt securities in exchange for property and to repurchase or otherwise reacquire our shares or any other securities and may engage in such activities in the future.

We also may make loans to, or provide guarantees of, our subsidiaries. Although we have no current intentions of doing so, we may repurchase or otherwise reacquire our shares or other securities.

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

We may engage in the purchase and sale of investments. We do not underwrite the securities of other issuers.

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

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

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

We have financed our assets with the net proceeds of our initial public offering, follow-on offerings, the issuance of preferred stock, long-term secured borrowings and short-term borrowings under repurchase agreements. In the future, operations may be financed by future offerings of equity securities, as well as short-term and long-term unsecured and secured borrowings. We expect that, in general, we will employ leverage consistent with the type of assets acquired and the desired level of risk in various investment environments. Our governing documents do not explicitly limit the amount of leverage that we may employ. Instead, the general investment guidelines adopted by our board of directors limits total leverage to a maximum 9.0 to 1 debt to equity ratio. At December 31, 2004, 2003 and 2002, our debt to equity ratio was approximately 5.0 to 1, 5.4 to 1 and 4.3 to 1, respectively. Our policy relating to the maximum leverage we may utilize may be changed by our board of directors at any time in the future.

## COMPETITION

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

## COMPLIANCE WITH APPLICABLE ENVIRONMENTAL LAWS

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

## EMPLOYEES

We are party to a management agreement with Fortress Investment Group LLC pursuant to which they advise us regarding investments, risk management, and other aspects of our business, and manage our day-to-day operations. As a result, we have no employees. The employees of Fortress Investment Group LLC are not a party to any collective bargaining agreement.

## CORPORATE GOVERNANCE AND INTERNET ADDRESS

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

Our internet address is <http://www.newcastleinv.com>. We make available, free of charge through a link on our site, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports, if any, as filed with the SEC as soon as reasonably practicable after such filing.

Our site also contains our code of business conduct and ethics, senior officer code of ethics, corporate governance guidelines, and the charters of the audit committee, nominating and corporate governance committee and compensation committee of our board of directors.

## CAUTIONARY STATEMENTS

This report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments and financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "could," "project," "predict," "continue" or other similar words or expressions. Forward-looking

statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate and bond markets specifically; adverse changes in the financing markets we access affecting our ability to finance our real estate securities portfolios in general or particular real estate related assets, or in a manner that maintains our historic net spreads; changes in interest rates and/or credit spreads, as well as the success of our hedging strategy in relation to such changes; the quality and size of the investment pipeline and the rate at which we can invest our cash, including cash obtained in connection with CBO financings; impairments in the value of the collateral underlying our real estate securities, real estate related loans and residential mortgage loans; the relation of any impairments in the value of our real estate securities portfolio, loans or operating real estate to our judgments as to whether changes in the market value of our securities are temporary or not and whether circumstances bearing on the value of our loans or operating real estate warrant changes in carrying values; changes in the markets; legislative/regulatory changes; completion of pending investments; the availability and cost of capital for future investments; competition within the finance and real estate industries; and other risks detailed from time to time below and in our other SEC reports.

Risks relating to our management, business and company include, specifically:

#### Risks Relating to our Management

- We are dependent on our manager and may not find a suitable replacement if our manager terminates the management agreement. Furthermore, we are dependent on the services of certain key employees of our manager and the loss of such services could temporarily adversely affect our operations.
- There are conflicts of interest inherent in our relationship with our manager insofar as our manager and its affiliates manage other pooled investment vehicles (investment funds, private investment funds, or businesses) that invest in real estate securities, real estate related loans and operating real estate.
- Our directors have approved very broad investment guidelines for our manager and do not approve individual investment or financing decisions made by our manager.
- We may change our investment strategy without stockholder consent which may result in our holding investments that are riskier than our current investments.
- Our investment strategy may evolve, in light of existing market conditions and investment opportunities, to continue to take advantage of opportunistic investments in real estate-related assets, which may involve additional risks depending upon the nature of such assets and our ability to finance such assets on a short or long term basis.

#### Risks Relating to our Business

- We are subject to significant competition and we may not compete successfully.
- The loans we invest in and the loans underlying the securities we invest in are subject to delinquency, foreclosure and loss, which could result in losses to us.
- Our investments in senior unsecured REIT securities are subject to specific risks relating to the particular REIT issuer and to the general risks of investing in subordinated real estate securities, which may result in losses to us.

- The real estate related loans and other direct and indirect interests in pools of real estate properties or loans that we invest in may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to us.

- Prepayment rates can increase, adversely affecting yields on certain of our loans.
- Many of our investments are illiquid, including our investments in unconsolidated subsidiaries, and we may not be able to vary our portfolio in response to changes in economic and other conditions.
- Although we seek to match-fund our investments to limit refinance risk, in particular with respect to a substantial portion of our investments in real estate securities and loans, we do not employ this strategy with respect to certain of our investments, which increases refinance risks for and, therefore, the yield of these investments.
- We may not be able to match-fund our investments with respect to maturities and interest rates, which exposes us to the risk that we may not be able to finance or refinance our investments on economically favorable terms.
- We finance certain of our investments with debt subject to margin calls based on a decrease in the value of such investments, which could adversely impact our liquidity.
- We may not be able to acquire eligible securities for a CBO financing, or may not be able to issue CBO securities on attractive terms, which may require us to seek more costly financing for our investments or to liquidate assets. In addition, following the closing of a CBO financing, the rate at which we are able to acquire eligible securities may adversely impact our anticipated returns.
- Our determination of how much leverage to apply to our investments may adversely affect our return on our investments and may reduce cash available for distribution.
- Our hedging transactions may limit our gains or result in losses.
- Interest rate fluctuations may cause losses.
- Insurance on our owned real estate, mortgage loans and real estate securities collateral may not cover all losses.
- Environmental compliance costs and liabilities with respect to our real estate in which we have interests may adversely affect our results of operations.
- Our non-U.S. investments are subject to currency rate exposure and the uncertainty of foreign laws and markets.

#### Risks Relating to our Company

- Our failure to qualify as a REIT would result in higher taxes and reduced cash available for stockholders.
- REIT distribution requirements could adversely affect our liquidity.
- Dividends payable by REITs do not qualify for the reduced tax rates under recently enacted tax legislation.
- Maintenance of our Investment Company Act exemption imposes limits on our operations.
- ERISA may restrict investments by plans in our common stock.
- The stock ownership limits imposed by the Internal Revenue Code for REITs and our charter may inhibit market activity in our stock and may restrict our business combination opportunities.
- The following factors may inhibit or prevent a change of our control, which could depress our stock price: Maryland takeover statutes; our authorized but unissued common and preferred stock; our stockholder rights plan; and our staggered board and other provisions of our charter and bylaws.

Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views as of the date of this report. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement. For a discussion of our critical accounting policies see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Application of Critical Accounting Policies."

Although we believe that the expectations reflected in the forward-looking

statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

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ITEM 2. PROPERTIES.

Our direct investments in properties, which comprise a substantial portion of our operating real estate business segment, are described under "Business - Our Investments."

Our manager leases principal executive and administrative offices located at 1251 Avenue of the Americas, New York, NY 10020, 16th floor. Its telephone number is (212) 798-6100. Our manager has leased additional office space in New York City, which it expects to occupy in the fourth quarter of 2005.

ITEM 3. LEGAL PROCEEDINGS.

We are not a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of our security holders during the fourth quarter of 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES.

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

<TABLE>  
<CAPTION>

2004	High	Low	Last Sale	Distributions Declared
----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
First Quarter	\$33.89	\$25.51	\$33.70	\$0.600
Second Quarter	\$33.40	\$24.51	\$29.95	\$0.600
Third Quarter	\$31.74	\$27.97	\$30.70	\$0.600
Fourth Quarter	\$32.87	\$29.84	\$31.78	\$0.625

</TABLE>

<TABLE>  
<CAPTION>

2003	High	Low	Last Sale	Distributions Declared
----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
First Quarter	\$16.83	\$15.46	\$16.73	\$0.450
Second Quarter	\$20.00	\$16.50	\$19.58	\$0.500
Third Quarter	\$23.24	\$19.00	\$22.99	\$0.500
Fourth Quarter	\$27.24	\$22.64	\$27.10	\$0.500

</TABLE>

We intend to continue to declare quarterly distributions on our common stock. No assurance, however, can be given as to the amounts or timing of future distributions as such distributions are subject to our earnings, financial condition, capital requirements and such other factors as our board of directors deems relevant.

On March 8, 2005, the closing sale price for our common stock, as reported on the NYSE, was \$30.73. As of March 8, 2005, there were approximately 77 record holders of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

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EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes the total number of outstanding securities in the incentive plan and the number of securities remaining for future issuance, as well as the weighted average exercise price of all outstanding securities as of December 31, 2004.

<TABLE>  
<CAPTION>

SECURITIES FOR UNDER PLANS	PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS	NUMBER OF
				REMAINING AVAILABLE FUTURE ISSUANCE EQUITY COMPENSATION
<S>		<C>	<C>	<C>
EQUITY COMPENSATION PLANS APPROVED				
BY SECURITY HOLDERS:				
	Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan	2,231,727 (1)	\$21.25	7,654,585 (2)
EQUITY COMPENSATION PLANS NOT APPROVED				
BY SECURITY HOLDERS:				
	None	N/A	N/A	N/A

</TABLE>

- - - - -

- (1) Includes options for (i) 1,510,937 shares held by an affiliate of our manager; (ii) 707,790 shares granted to our manager and assigned to certain of the manager's employees; and (iii) an aggregate of 13,000 shares held by our directors, other than Mr. Edens.
- (2) The maximum available for issuance is equal to 10% of the number of outstanding equity interests, subject to a maximum of 10,000,000 shares in the aggregate over the term of the plan. The number of securities remaining available for future issuance is net of an aggregate of 3,688 shares of our common stock awards to our directors, other than Mr. Edens, representing the aggregate annual automatic stock awards to each such director for 2003 and 2004, and of 110,000 shares issued to certain of our directors and employees of our manager upon the exercise of previously granted options.

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ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth certain selected operating information on a historical basis. As such, it includes the historical results of operations of the assets and liabilities distributed to Newcastle Investment Holdings which are not part of our continuing operations, and therefore the information set forth for periods prior to the commencement of our operations in July 2002 is not indicative of our ongoing operations.

The selected historical consolidated financial information set forth below as of December 31, 2004, 2003, 2002, 2001 and 2000 and for the years ended December 31, 2004, 2003, 2002, 2001 and 2000 has been derived from our audited historical consolidated financial statements.

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

SELECTED CONSOLIDATED FINANCIAL INFORMATION  
(in thousands, except per share data)

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	2004	2003	2002 (2)	2001 (1)	2000 (1)
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING DATA					
Revenues					
Interest income	\$226,674	\$134,672	\$ 73,214	\$ 48,806	\$51,531
Other income	31,472	29,382	28,161	59,921	44,197
	258,146	164,054	101,375	108,727	95,728
Expenses					
Interest expense	138,847	79,084	46,375	32,550	33,986
Other expense	34,859	27,055	23,605	42,249	27,601
	173,706	106,139	69,980	74,799	61,587
Equity in earnings (losses) of unconsolidated subsidiaries	12,465	862	362	2,807	(980)
Income taxes on related taxable subsidiaries	(2,508)	--	--	--	--

Income from continuing operations	94,397	58,777	31,757	36,735	33,161
Income (loss) from discontinued operations	4,018	(2,659)	(262)	6,936	9,699
Net Income	98,415	56,118	31,495	43,671	42,860
Preferred dividends and related accretion	(6,094)	(4,773)	(1,162)	(2,540)	(2,084)
Income available for common stockholders	\$ 92,321	\$ 51,345	\$ 30,333	\$ 41,131	\$40,776
Net Income per share of common stock, diluted	\$ 2.46	\$ 1.96	\$ 1.68	\$ 2.49	\$ 2.16
Income from continuing operations per share of common stock, after preferred dividends and related accretion, diluted	\$ 2.35	\$ 2.06	\$ 1.69	\$ 2.07	\$ 1.64
Weighted average number of shares of common stock outstanding, diluted	37,558	26,141	18,090	16,493	18,892
Dividends declared per share of common stock	\$ 2.425	\$ 1.950	\$ 2.050	\$ 2.000	\$1.500

</TABLE>

<TABLE>  
<CAPTION>

	AS OF DECEMBER 31,				
	2004	2003	2002	2001	2000
BALANCE SHEET DATA					
Real estate securities, available for sale	\$3,369,496	\$2,192,727	\$1,025,010	\$ 501,509	\$ 550,220
Real estate related loans, net	591,890	402,784	26,417	20,662	106,957
Residential mortgage loans, net	654,784	586,237	258,198	--	--
Operating real estate, net	57,193	102,995	113,652	524,834	540,539
Cash and cash equivalents	37,911	60,403	45,463	31,360	10,575
Total assets	4,932,720	3,550,299	1,574,828	1,262,509	1,331,671
Debt	4,021,396	2,924,552	1,217,007	897,390	975,656
Stockholders' equity	796,715	539,363	284,241	310,545	300,655
SUPPLEMENTAL BALANCE SHEET DATA					
Common shares outstanding	39,859	31,375	23,489	16,489	16,500
Book value per share of common stock, subsequent to initial public offering	\$ 18.42	\$ 15.20	\$ 12.10	N/A	N/A

(1) Represents the operations of our predecessor.

(2) Includes the operations of our predecessor through the date of commencement of our operations, July 12, 2002.

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<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	2004	2003	2002	2001	2000
OTHER DATA					
Cash Flow provided by (used in):					
Operating activities	\$ 77,890	\$ 37,592	\$ 21,557	\$ 34,448	\$ 24,823
Investing activities	\$(1,319,699)	\$(1,652,682)	\$(682,691)	\$ 106,053	\$ 151,632
Financing activities	\$ 1,219,317	\$ 1,630,030	\$ 675,237	\$(119,716)	\$(180,225)
Funds from Operations (FFO) (1)	\$ 86,201	\$ 54,380	\$ 37,633	\$ 48,264	\$ 53,523

(1) 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 depreciation of our operating real estate, and after adjustments for unconsolidated subsidiaries. We consider gains and losses on resolution of our investments to be a normal part of our recurring operations and, therefore, do not exclude such gains and losses when arriving at FFO. Adjustments for unconsolidated subsidiaries 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 our 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.

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	2004	2003	2002	2001	2000
<S>	<C>	<C>	<C>	<C>	<C>
CALCULATION OF FUNDS FROM OPERATIONS (FFO):					
Income available for common stockholders	\$92,321	\$51,345	\$30,333	\$41,131	\$40,776
Operating real estate depreciation	2,199	3,035	7,994	12,909	12,621
Accumulated depreciation on operating real estate sold	(8,319)	--	(2,847)	--	--
Other-Fund I (1)	--	--	2,153	(5,776)	126
Funds from operations (FFO)	\$86,201	\$54,380	\$37,633	\$48,264	\$53,523

</TABLE>

(1) Related to an investment retained by our predecessor.

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#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following should be read in conjunction with our consolidated financial statements and notes thereto included in "Financial Statements and Supplementary Data."

##### GENERAL

We own a diversified portfolio of moderately credit sensitive real estate debt investments including securities and loans.

Our portfolio of real estate securities includes commercial mortgage backed securities (CMBS), senior unsecured debt issued by property REITs, real estate related asset backed securities (ABS) and agency residential mortgage backed securities (RMBS). Mortgage backed securities are interests in or obligations secured by pools of mortgage loans. We generally target investments rated A through BB, except for our agency RMBS which are generally considered AAA rated. We also own, directly and indirectly, interests in loans and pools of loans, including real estate related loans, commercial mortgage loans, residential mortgage loans and manufactured housing loans. We also own, directly and indirectly, interests in operating real estate.

We employ leverage in order to achieve our return objectives. We do not have a predetermined target debt to equity ratio as we believe the appropriate leverage for the particular assets we are financing depends on the credit quality of those assets. As of December 31, 2004, our debt to equity ratio was approximately 5.0 to 1. We maintain access to a broad array of capital resources in an effort to insulate our business from potential fluctuations in the availability of capital. We utilize multiple forms of financing including collateralized bond obligations (CBOs), other securitizations, and term loans, as well as short term financing in the form of repurchase agreements.

We seek to match-fund our investments with respect to interest rates and maturities in order to minimize the impact of interest rate fluctuations on earnings and reduce the risk of refinancing our liabilities prior to the maturity of the investments. We seek to finance a substantial portion of our real estate securities and loans through the issuance of debt securities in the form of collateralized bond obligations, known as CBOs, which are obligations issued in multiple classes secured by an underlying portfolio of securities. Our CBO financings offer us the structural flexibility to buy and sell certain investments to manage risk and, subject to certain limitations, to optimize returns.

Our objective is to maximize the difference between the yield on our investments and the cost of financing these investments while hedging our interest rate risk. We emphasize asset quality, liquidity, diversification, match-funded financing and credit risk management.

We were formed in June 2002 as a subsidiary of Newcastle Investment Holdings Corp. (referred to herein as Holdings). Prior to our initial public offering, Holdings contributed to us certain assets and liabilities in exchange for approximately 16.5 million shares of our common stock. For accounting purposes, this transaction is presented as a reverse spin-off, whereby Newcastle Investment Corp. is treated as the continuing entity and the assets that were



December 31, 2004	\$225,236	\$13,222	\$19,135	\$ --	\$553	\$258,146
December 31, 2003	\$134,348	\$16,234	\$12,892	\$ --	\$580	\$164,054
December 31, 2002	\$ 83,259	\$13,116	\$ 1,281	\$3,287	\$432	\$101,375

</TABLE>

#### TAXATION

We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended (the "Code"), and we intend to continue to operate in such a manner. Our current and continuing qualification as a REIT depends on our ability to meet various tax law requirements, including, among others, requirements relating to the sources of our income, the nature of our assets, the composition of our stockholders, and the timing and amount of distributions that we make.

As a REIT, we will generally not be subject to U.S. federal corporate income tax on our net income that is currently distributed to stockholders. We may, however, nevertheless be subject to certain state, local and foreign income and other taxes, and to U.S. federal income and excise taxes and penalties in certain situations, including taxes on our undistributed income. In addition, our stockholders may be subject to state, local or foreign taxation in various jurisdictions, including those in which they or we transact business or reside. The state, local and foreign tax treatment of us and our stockholders may not conform to the U.S. federal income tax treatment.

If, in any taxable year, we fail to satisfy one or more of the various tax law requirements, we could fail to qualify as a REIT. In addition, if Holdings failed to qualify as a REIT and we are treated as a successor to Holdings, this could cause us to likewise fail to qualify as a REIT. If we fail to qualify as a REIT for a particular tax year, our income in that year would be subject to U.S. federal corporate income tax (including any applicable alternative minimum tax), and we may need to borrow funds or liquidate certain investments in order to pay the applicable tax, and we would not be compelled by the Code to make distributions. Unless entitled to relief under certain statutory provisions, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost.

Although we currently intend to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax or other developments may cause us to fail to qualify as a REIT, or may cause our board of directors to revoke the REIT election.

#### APPLICATION OF CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from these estimates. A summary of our significant accounting policies is presented in Note 2 to our consolidated financial statements, which appear in "Financial Statements and Supplementary Data." The following is a summary of our accounting policies that are most effected by judgments, estimates and assumptions.

#### Variable Interest Entities

In December 2003, Financial Accounting Standards Board Interpretation ("FIN") No. 46R "Consolidation of Variable Interest Entities" was issued as a modification of FIN 46. FIN 46R, which became effective in the first quarter of 2004, clarified the methodology for determining whether an entity is a variable interest entity ("VIE") and the methodology for assessing who is the primary beneficiary of a VIE. VIEs are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, and only its primary beneficiary, which is defined as the party who will absorb a majority of the VIE's expected losses or receive a majority of the expected residual returns as a result of holding variable interests.

We have historically consolidated our existing CBO transactions (the "CBO Entities) because we own the entire equity interest in each of them, representing a substantial portion of their capitalization, and we control the management and resolution of their assets. We have determined that certain of the CBO Entities are VIEs and that we are the primary beneficiary of each of these VIEs and will therefore continue to consolidate them. We have also determined that the application of FIN 46R did not result in a change in our accounting for any other entities which were previously consolidated. However,

it did cause us to consolidate one entity which was previously not consolidated, ICH CMO, as described below under " - Liquidity and Capital Resources." We will continue to analyze future CBO entities, as well as other investments, pursuant to the requirements of FIN 46R. These analyses require considerable judgment in determining the primary beneficiary of a VIE since they involve subjective probability weighting of subjectively determined possible cash flow scenarios. The result could be the consolidation of an entity acquired or formed in the future that would otherwise not have been consolidated or the non-consolidation of such an entity that would otherwise have been consolidated.

#### Valuation and Impairment of Securities

We have classified our real estate securities as available for sale. As such, they are carried at fair value with net unrealized gains or losses reported as a component of accumulated other comprehensive income. Fair value is based primarily upon broker quotations, as well as counterparty quotations, which provide valuation estimates based upon reasonable market order indications or a good faith estimate thereof. These quotations are subject to significant variability based on market conditions, such as interest rates and credit spreads. Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant increase or decrease in our book equity. We must also assess whether unrealized losses on securities, if any, reflect a decline in value which is other than temporary and, accordingly, write the impaired security down to its value through earnings. For example, a decline in value is deemed to be other than temporary if it is probable that we will be unable to collect all amounts due according to the contractual terms of a security which was not impaired at acquisition. Temporary declines in value generally result from changes in market factors, such as market interest rates and credit spreads, or from certain macroeconomic events, including market disruptions and supply changes, which do not directly impact our ability to collect amounts contractually due. Significant judgment is required in this analysis. To date, no such write-downs have been made.

#### Revenue Recognition on Securities

Income on these securities is recognized using a level yield methodology based upon a number of assumptions that are subject to uncertainties and contingencies. Such assumptions include the expected disposal date of such security and the rate and timing of principal and interest receipts (which may be subject to prepayments, delinquencies and defaults). These uncertainties and contingencies are difficult to predict and are subject to future events, and economic and market conditions, which may alter the assumptions.

#### Valuation of Derivatives

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

#### Impairment of Loans

We purchase, directly and indirectly, real estate related, commercial mortgage and residential mortgage loans, including manufactured housing loans, to be held for investment. We must periodically evaluate each of these loans or loan pools for possible impairment. Impairment is indicated when it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the loan, or, for loans acquired at a discount for credit losses, when it is deemed probable that we will be unable to collect as anticipated. Upon determination of impairment, we would establish a specific valuation allowance with a corresponding charge to earnings. Significant judgment is required both in determining impairment and in estimating the resulting loss allowance. In 2003, a loss allowance of \$0.1 million was recorded with respect to the residential mortgage loans in our portfolio. No other loan impairments have been recorded to date.

#### Revenue Recognition on Loans

Income on these loans is recognized similarly to that on our securities and is subject to similar uncertainties and contingencies.

#### Impairment of Operating Real Estate

We own operating real estate held for investment. We review our operating real estate for impairment annually or whenever events or changes in circumstances

indicate that the carrying amount of an asset may not be recoverable. Upon determination of impairment, we would record a write-down of the asset, which would be charged to earnings. Significant judgment is required both in determining impairment and in estimating the resulting write-down. To date, we have determined that no write-downs have been necessary on the operating real estate in our portfolio. In addition, when operating real estate is classified as held for sale, it must be recorded at the lower of its carrying amount or fair value less costs of sale. Significant judgment is required in determining the fair value of such properties. In December 2003, we classified five properties as held for sale and recorded a loss of \$1.5 million; these properties were sold in June 2004. In March 2004, we classified one property as held for sale, which did not result in a loss; this property was still held at December 31, 2004. In December 2004, we sold two properties at a gain of \$5.3 million. In January 2005, we classified one property as held for sale, which did not result in a loss.

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RESULTS OF OPERATIONS

Our independent operations commenced in July 2002 and our initial public offering was completed in October 2002. In addition, we had one offering of preferred stock and two offerings of common stock during 2003 as well as three offerings of common stock in 2004. These events resulted in additional capital being deployed to our investments which, in turn, resulted in changes to our results operations. Furthermore, the results of operations described below include the operations of our predecessor through July 12, 2002, the date of the commencement of our operations. Therefore, many items discussed below prior to such date will not have a continuing impact on our operations.

The following table summarizes the changes in our results of operations from year-to-year (dollars in thousands):

<TABLE>  
<CAPTION>

	Year-to-Year Increase (Decrease)		Year-to-Year Percent Change		Explanation	
	2004/2003	2003/2002	2004/2003	2003/2002	2004/2003	2003/2002
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest income	\$92,002	\$61,458	68.3%	83.9%	(1)	(1)
Rental and escalation income	(2,701)	2,683	(16.7%)	19.8%	(2)	(2)
Gain on settlement of investments	4,791	1,790	36.4%	15.7%	(3)	(3)
Management fee from affiliate	--	(4,470)	--	N/A	(4)	(4)
Incentive income from affiliate	--	1,218	--	N/A	(4)	(4)
Interest expense	59,763	32,709	75.6%	70.5%	(1)	(1)
Property operating expense	(538)	891	(6.9%)	12.9%	(2)	(2)
Loan and security servicing expense	903	1,499	41.9%	228.9%	(1)	(1)
General and administrative expense	1,444	838	45.2%	35.6%	(5)	(5)
Management fee to affiliate	4,152	(2,782)	64.2%	(30.1%)	(6)	(6)
Incentive compensation to affiliate	1,733	3,370	27.8%	118.0%	(6)	(6)
Depreciation and amortization	110	(366)	9.2%	(23.5%)	(7)	(7)
Equity in earnings of unconsolidated subsidiaries	9,095	500	1,055.1%	138.1%	(8)	(8)
Income from continuing operations	\$35,620	\$27,020	60.6%	85.1%		

</TABLE>

(1) Changes in interest income and expense are primarily due to our acquisition of interest bearing assets and related financings, as follows:

<TABLE>  
<CAPTION>

	Year-to-Year Income (Decrease)			
	Interest Income		Interest Expense	
	2004/2003	2003/2002	2004/2003	2003/2002
<S>	<C>	<C>	<C>	<C>
Real estate security and loan portfolios (A)	\$43,682	\$41,551	\$31,856	\$28,039
ABS-manufactured housing portfolio	14,211	733	4,824	205
Residential mortgage loan portfolio	7,113	11,004	4,701	5,504
ICH CMO loan portfolio	13,870	4,988	11,878	4,074
Other real estate related loans	9,332	593	3,528	230
Other	3,794	2,589	2,976	(5,343)
	\$92,002	\$61,458	\$59,763	\$32,709

</TABLE>

- (A) Represents our second through our sixth CBO financings and the acquisition of the related collateral.

Changes in loan and security servicing expense are also primarily due to these acquisitions.

- (2) These changes are primarily the result of the effect of the sale of certain properties and the termination of a lease, offset by foreign currency fluctuations.
- (3) These changes are primarily a result of the volume of sales of real estate securities. Sales of real estate securities are based on a number of factors including credit, asset type and industry and can be expected to increase or decrease from time to time. Periodic fluctuations in the volume of sales of securities is dependent upon, among other things, management's assessment of credit risk, asset concentration, portfolio balance and other factors.
- (4) These items relate to our predecessor's investment in Fund I, prior to its distribution to Holdings.
- (5) The increases in general and administrative expense are primarily a result of our increased size, resulting from our equity issuances during this period, as well as due to increased professional fees related to our compliance with the Sarbanes-Oxley Act of 2002.

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- (6) Excluding management fees and incentive compensation which were passed through our predecessor to our manager and which related to our predecessor's investment in Fund I, the changes in management fees and incentive compensation were as follows:

<TABLE>  
<CAPTION>

Year-to-Year Increase  
(Decrease)

-----  
2004/2003      2003/2002  
-----

<S>

<C>                      <C>

Management Fee to Affiliate	\$4,152	\$1,688
Incentive Compensation to Affiliate	\$1,733	\$2,761

</TABLE>

The increases in management fees are a result of our increased size resulting from our equity issuances during these periods. The increases in incentive compensation are primarily a result of our increased earnings.

- (7) The 2003/2002 decrease in depreciation and amortization is primarily the result of the distribution of depreciable assets to Holdings. The 2004/2003 increase is primarily due to foreign currency fluctuations.
- (8) The increase in earnings from unconsolidated subsidiaries are primarily a result of our late 2003 acquisition of an interest in an LLC which owns a portfolio of real estate related loans and our early 2004 acquisition of an interest in an LLC which owns a portfolio of convenience and retail gas stores. Note that the amounts shown are net of income taxes on related taxable subsidiaries.

#### LIQUIDITY AND CAPITAL RESOURCES

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

We expect that our cash on hand and our cash flow provided by operations will satisfy our liquidity needs with respect to our current investment portfolio over the next twelve months. However, we currently expect to seek additional capital in order to grow our investment portfolio. We have an effective shelf registration statement with the SEC which allows us to issue various types of securities, such as common stock, preferred stock, depository shares, debt securities and warrants, from time to time, up to an aggregate of \$750 million, of which approximately \$448 million remained available as of December 31, 2004.

We expect to meet our long-term liquidity requirements, specifically the repayment of our debt obligations, through additional borrowings and the liquidation or refinancing of our assets at maturity. We believe that the value

of these assets is, and will continue to be, sufficient to repay our debt at maturity under either scenario. Our ability to meet our long-term liquidity requirements relating to capital required for the growth of our investment portfolio is subject to obtaining additional equity and debt financing. Decisions by investors and lenders to enter into such transactions with us will depend upon a number of factors, such as our historical and projected financial performance, compliance with the terms of our current credit arrangements, industry and market trends, the availability of capital and our investors' and lenders' policies and rates applicable thereto, and the relative attractiveness of alternative investment or lending opportunities. We maintain access to a broad array of capital resources in an effort to insulate our business from potential fluctuations in the availability of capital.

Our ability to execute our business strategy, particularly the growth of our investment portfolio, depends to a significant degree on our ability to obtain additional capital. Our core business strategy is dependent upon our ability to finance our real estate securities and other real estate related assets with match-funded debt at rates that provide a positive net spread. If spreads for such liabilities widen or if demand for such liabilities ceases to exist, then our ability to execute future financings will be severely restricted.

We expect to meet our short-term liquidity requirements generally through our cash flow provided by operations, as well as investment specific borrowings. In addition, at December 31, 2004, we had an unrestricted cash balance of \$37.9 million. Our cash flow provided by operations differs from our net income due to four primary factors: (i) accretion of discount or premium on our real estate securities and loans, discount on our debt obligations, deferred financing costs and interest rate cap premiums, and deferred hedge gains and losses, (ii) gains and losses from sales of assets financed with CBOs, (iii) depreciation of our operating real estate and (iv) straight-lined rental income. Proceeds from the sale of assets which serve as collateral for our CBO financings, including gains thereon, are required to be retained in the CBO structure until the related bonds are retired and are therefore not available to fund current cash needs.

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Our match-funded investments are financed long-term and their credit status is continuously monitored; therefore, these investments are expected to generate a generally stable current return, subject to limited interest rate fluctuations. See "Quantitative and Qualitative Disclosures About Market Risk -- Interest Rate Exposure" below. Our remaining investments, financed with short term repurchase agreements, are also subject to refinancing risk upon the maturity of the related debt. See "Debt Obligations" below.

With respect to our operating real estate, we expect to incur expenditures of approximately \$0.5 million relating to tenant improvements in connection with the inception of leases and capital expenditures during the year ending December 31, 2005.

With respect to one of our real estate related loans, we were committed to fund up to an additional \$22.7 million at December 31, 2004, subject to certain conditions to be met by the borrower.

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#### Debt Obligations

The following table presents certain information regarding our debt obligations and related hedges as of December 31, 2004 (unaudited) (dollars in thousands):

<TABLE>  
<CAPTION>

Weighted Average Debt Obligation/Collateral Maturity CBO Bonds Payable (Years)	Month Issued	Current Face Amount	Carrying Value	Unhedged	Final Stated Maturity	Weighted
				Weighted Average Funding Cost		Average Funding Cost (1)
<S> <C>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate securities and loans 4.21	July 1999	\$ 436,895	\$ 432,893	4.08% (2)	July 2038	4.85%
Real estate securities and loans 5.38	April 2002	444,000	440,427	3.67% (2)	April 2037	6.18%

Real estate securities and loans 7.31	March 2003	472,000	467,905	3.68% (2)	March 2038	4.45%
Real estate securities and loans 7.87	Sept. 2003	460,000	455,115	3.28% (2)	Sept. 2038	4.32%
Real estate securities and loans 7.63	March 2004	414,000	410,018	3.31% (2)	March 2039	3.85%
Real estate securities and loans 8.20	Sept. 2004	454,500	450,152	3.16% (2)	Sept. 2039	3.90%
-----		-----	-----			----
6.78		2,681,395	2,656,510			4.59%
-----		-----	-----			----
Other Bonds Payable						
Bell Canada portfolio (3) 1.43	April 2002	42,885	42,422	7.02%	April 2012	7.02%
ICH CMO loans (4) 2.79	(4)	179,844	179,844	6.61% (2)	Aug. 2030	6.61%
-----		-----	-----			----
2.53		222,729	222,266			6.69%
-----		-----	-----			----
Notes Payable						
Real estate related loan 1.64	Nov. 2003	67,523	67,523	LIBOR+1.50%	Nov. 2006	3.92%
Real estate related loan (5) 0.17	Feb. 2004	40,000	40,000	LIBOR+1.50%	Feb. 2005	4.26%
Residential mortgage loans (6) 2.10	Nov. 2004	544,477	544,477	LIBOR+0.15%	Nov. 2007	2.46%
-----		-----	-----			----
1.93		652,000	652,000			2.72%
-----		-----	-----			----
Repurchase Agreements (6)						
Residential mortgage loans (7) 0.25	Rolling	67,382	67,382	LIBOR +0.43%	Mar. 2005	2.99%
ABS-manufactured housing (8) 0.17	Rolling	103,738	103,738	LIBOR +0.64%	Mar. 2005	4.29%
Agency RMBS (9) 0.08	Rolling	195,754	195,754	LIBOR +0.13%	Jan. 2005	3.81%
Real estate securities 0.22	Rolling	67,471	67,471	LIBOR +0.61%	Oct. 2005	3.29%
Real estate related loans (10) 0.69	Rolling	56,275	56,275	LIBOR +0.95%	Oct. 2005	3.34%
-----		-----	-----			----
0.21		490,620	490,620			3.67%
-----		-----	-----			----
Total debt obligations 4.97		\$4,046,744	\$4,021,396			4.29%
=====		=====	=====			=====

<CAPTION>

Debt Obligation/Collateral CBO Bonds Payable	Face Amount of Floating Rate Debt	Collateral Carrying Value	Collateral Weighted Average Maturity (Years)	Face Amount of Floating Rate Collateral	Hedges Owned	Aggregate Notional Amount of Currently Effective Hedges
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate securities and loans	\$ 341,895	\$ 587,861	6.04	\$ --	Two swaps, one cap	\$ 328,699
Real estate securities and loans	372,000	505,927	6.16	84,733	One swap, one cap	290,000
Real estate securities and loans	427,800	499,813	5.60	144,682	One swap, one cap	276,060
Real estate securities and loans	442,500	497,524	4.93	233,990	One swap, one cap	192,500
Real estate securities and loans	382,750	449,244	6.01	217,652	One swap	165,300
Real estate securities and loans	442,500	499,867	6.46	252,886	One swap	189,373
	-----	-----	-----	-----		-----
	2,409,445	3,040,236	5.87	933,943		1,441,932
	-----	-----	-----	-----		-----

Other Bonds Payable

Bell Canada portfolio (3)	--	57,193	N/A	--	None	--
ICH CMO loans (4)	3,684	202,674	2.86	3,684	None	--
	-----	-----		-----		-----
	3,684	259,867		3,684		--
	-----	-----		-----		-----
Notes Payable						
Real estate related loan	67,523	83,909	1.64	83,909	None	--
Real estate related loan (5)	40,000	50,000	2.13	50,000	None	--
Residential mortgage loans (6)	544,477	583,922	3.76	575,759	None	--
	-----	-----		-----		-----
	652,000	717,831	3.40	709,668		--
	-----	-----		-----		-----
Repurchase Agreements (6)						
Residential mortgage loans (7)	67,382	70,862	4.49	69,622	None	--
ABS-manufactured housing (8)	103,738	146,309	5.11	--	Eight swaps	95,700
Agency RMBS (9)	195,754	201,528	3.35	--	Three swaps	195,409
Real estate securities	67,471	91,771	3.73	32,609	Two swaps	21,295
Real estate related loans (10)	56,275	73,500	1.87	73,500	None	--
	-----	-----		-----		-----
	490,620	583,970	3.80	175,731		312,404
	-----	-----		-----		-----
Total debt obligations	\$3,555,749	\$4,601,904		\$1,823,026		\$1,754,336
	=====	=====		=====		=====

</TABLE>

- (1) Including the effect of applicable hedges.
- (2) Weighted average, including floating and fixed rate classes.
- (3) Denominated in Canadian dollars.
- (4) See "Business-Our Investing Activities-Real Estate Related Loans" above.
- (5) Maturity date extended in January 2005 from February 2005 to February 2006.
- (6) Subject to potential mandatory prepayments based on collateral value.
- (7) The counterparty on this repo is Bear Stearns Mortgage Capital Corporation.
- (8) The counterparty on these repos is Greenwich Capital Markets Inc.
- (9) The counterparty on this repo is Bank of America Securities LLC.
- (10) The counterparty on these repos is Deutsche Bank AG.

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Our long-term debt obligations existing at December 31, 2004 (gross of \$25.3 million of discounts) have contractual maturities as follows (unaudited) (in millions):

<TABLE>	<S>	<C>
2005	\$	535,870
2006		62,273
2007		544,477
2008		--
2009		--
Thereafter		2,904,124
		-----
Total	\$	4,046,744
		=====

</TABLE>

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

In connection with the sale of two classes of CBO bonds, we entered into two interest rate swaps and three interest rate cap agreements that do not qualify for hedge accounting.

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

One class of the CBO bonds, with a \$395.0 million face amount, was issued subject to remarketing procedures and related agreements whereby such bonds are remarketed and sold on a periodic basis. These bonds are fully insured by a third party with respect to the timely payment of interest and principal thereon.

We enter into short-term warehouse agreements with major investment banks for the right to purchase commercial mortgage backed securities, unsecured REIT debt, real estate related loans and asset backed securities for our real estate securities portfolios, prior to their being financed with CBOs. These agreements are treated as non-hedge derivatives for accounting purposes and are therefore marked to market through current income. If the related CBO is not consummated, except as a result of our gross negligence, willful misconduct or breach of contract, we would be required to pay the Net Loss, if any, as defined, up to the related deposit, less any Excess Carry Amount, as defined, earned on such deposit. Although we currently anticipate completing the most recent CBO in the near term, there is no assurance that such CBO will be consummated or on what terms it will be consummated. The following table summarizes the agreements (in thousands):

<TABLE>  
<CAPTION>

Deal Status	December 31, 2004			Income (Loss) Recorded		
	Collateral Accumulated (1)	Aggregate Deposit	Fair Value	2004	2003	2002
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Completed				\$2,604	\$3,730	\$652
Open	\$224,928	\$24,901	\$25,411	510	--	--
Total				\$3,114	\$3,730	\$652

</TABLE>

(1) Excludes \$32.5 million of collateral accumulated on balance sheet and recorded in real estate securities.

In October 2003, pursuant to FIN No. 46R, we consolidated an entity which holds a portfolio of commercial mortgage loans which has been securitized. This investment, which we refer to as the ICH CMO, was previously treated as a non-consolidated residual interest in such securitization. We exercise no control over the management or resolution of these assets and our residual investment in this entity was recorded at \$2.9 million prior to its consolidation. The primary effect of the consolidation is the requirement that we reflect the gross loan assets and gross bonds payable of this entity in our financial statements.

In July 2004, we refinanced \$342.5 million of the AAA and AA bonds in our first CBO. \$322.5 million of AAA bonds were refinanced at LIBOR + 0.30% from LIBOR + 0.65% and \$20.0 million of AA bonds were refinanced at LIBOR + 0.50% from LIBOR + 0.80%.

During 2004, the note payable on the LIV portfolio of operating real estate was repaid in full.

In January 2005, we acquired a portfolio of approximately 8,100 manufactured housing loans for an aggregate purchase price of approximately \$308.2 million. The loans, which were all current at the time of acquisition, are primarily fixed rate with a weighted average coupon of approximately 9.00% and a weighted average remaining term of approximately 5.00 years. Our acquisition was initially funded with approximately \$246.5 million of one-year debt provided by two investment banks which is subject to adjustment based on the market value and performance of the related portfolio. The debt bears interest at LIBOR + 1.25%. We obtained an interest rate swap in order to hedge our exposure to the risk of changes in market interest rates with respect to this debt.

Other

In March 2004, we purchased a 49% interest in a portfolio of convenience and retail gas stores located throughout the southeastern and southwestern regions of the U.S. The properties are subject to a sale-leaseback arrangement under long-term triple net leases with a 15 year minimum term. We structured this transaction through a joint venture with an affiliate of our manager on equal terms. In October 2004, the investment's initial financing was refinanced with a nonrecourse term loan (\$53.0 million outstanding at December 31, 2004). The term loan bears interest at a fixed rate of 6.04%, with payments of interest only during the first two years and a 25-year amortization schedule with a balloon payment due in October 2014. This investment is reflected as an investment in an unconsolidated subsidiary and is included in the operating real estate segment. At December 31, 2004, we had a \$17.8 million investment in this entity.

In November 2004, we entered into a total rate of return swap with a major investment bank, whereby we receive the sum of all interest (at LIBOR + 2.25%), fees and any positive change in value amounts (the total return cash flows) from a referenced term loan (to a retail mall REIT) with an initial notional amount of \$107.0 million, and pay interest (at LIBOR + 0.50%) on such notional plus any negative change in value amounts from such loan. This agreement is treated as a non-hedge derivative for accounting purposes and is therefore marked to market through income. Under the agreement, we were required to post an initial margin deposit equal to 17% of the notional amount and additional margin may be payable in the event of a decline in value of the referenced term loan. Any margin on deposit, less any negative change in value payments, will be returned to us upon termination of the contract.

#### Stockholders' Equity

##### Common Stock Offerings

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

<TABLE>  
<CAPTION>

Year	Shares Issued	Range of Issue Prices per Share(1)	Net Proceeds (millions)	Options Granted to Manager
Formation	16,488,517	N/A	N/A	N/A
2002	7,000,000	\$13.00	\$ 80.0	700,000
2003	7,886,316	\$20.35-\$22.85	\$163.4	788,227
2004	8,484,648	\$26.30-\$31.40	\$224.3	837,500
December 31, 2004	39,859,481			
January 2005	3,879,000	\$29.60	\$105.4	330,000

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

During 2003 and 2004, our manager assigned, for no value, options to purchase approximately 0.8 million shares of our common stock to certain of our manager's employees, of which approximately 0.1 million were exercised in 2004.

As of December 31, 2004, our outstanding options had a weighted average strike price of \$21.25 and were summarized as follows:

Held by our manager	1,510,937
Issued to our manager and subsequently assigned to certain of our manager's employees	707,790
Held by directors	13,000
Total	2,231,727

#### Preferred Stock

In March 2003, we issued 2.5 million shares (\$62.5 million face amount) of 9.75% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred"). The Series B Preferred has a \$25 liquidation preference, no maturity date and no mandatory redemption. We have the option to redeem the Series B Preferred beginning in March 2008.

#### Other Comprehensive Income

During the year ended December 31, 2004, our accumulated other comprehensive income increased due to the following factors (in thousands):

Accumulated other comprehensive income, December 31, 2003	\$ 39,413
Unrealized gain on securities	34,088
Reclassification of realized (gain) on securities into earnings	(14,574)
Foreign currency translation	1,984
Reclassification of realized foreign currency translation into earnings	(1,478)
Unrealized gain on derivatives designated as cash flow hedges	11,973
Reclassification of realized loss on derivatives designated as cash	

Accumulated other comprehensive income, December 31, 2004

\$ 71,770

&lt;/TABLE&gt;

Our book equity changes as our real estate securities portfolio and derivatives are marked to market each quarter, among other factors. The primary causes of mark to market changes are changes in interest rates and credit spreads. During the year, the combination of tightening credit spreads and rising interest rates has resulted in a net increase in unrealized gains on our real estate securities portfolio. In an environment of widening credit spreads and increasing interest rates, we believe our new investment activities will benefit. While such an environment will likely result in a decrease in the fair value of our existing securities portfolio and therefore reduce our book equity and ability to realize gains on such existing securities, it would not directly affect our earnings or our cash flow or our ability to pay a dividend.

In addition, the weakening of the U.S. dollar against both the Canadian dollar and the Euro has resulted in an increase in unrealized gains on our Canadian and Belgian operating real estate.

## Common Dividends Paid

&lt;TABLE&gt;

&lt;CAPTION&gt;

Declared for the Period Ended	Paid	Amount Per Share
September 30, 2002	October 2002	\$0.400
October 9, 2002	October 2002	\$0.060
December 31, 2002	January 2003	\$0.390
March 31, 2003	April 2003	\$0.450
June 30, 2003	July 2003	\$0.500
September 30, 2003	October 2003	\$0.500
December 31, 2003	January 2004	\$0.500
March 31, 2004	April 2004	\$0.600
June 30, 2004	July 2004	\$0.600
September 30, 2004	October 2004	\$0.600
December 31, 2004	January 2005	\$0.625

&lt;/TABLE&gt;

## Our Predecessor

The following is a discussion of our predecessor's historical liquidity and capital resources, primarily related to operations distributed to them.

In May 1999, Holdings closed on the \$399.1 million GSA securitization, which financed the GSA portfolio of operating real estate. The GSA securitization, and related assets, were retained by Holdings.

In November 1999, Holdings obtained the \$24.8 million GSA Kansas City mortgage, which was repaid in May 2002 upon the sale of the related asset.

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In July 2000, Holdings entered into a \$40 million revolving credit agreement, which bore interest at LIBOR +4.25%. Holdings hedged its exposure to the risk of changes in market interest rates with respect to the credit agreement by obtaining an interest rate swap. This credit agreement was retained by Holdings.

## Cash Flow

Net cash flow provided by operating activities increased from \$37.6 million for the year ended December 31, 2003 to \$78.0 million for the year ended December 31, 2004. It increased from \$21.6 million for the year ended December 31, 2002 to \$37.6 million for the year ended December 31, 2003. These changes resulted from the acquisition and settlement of our investments as described above, including the distribution of investments to Holdings.

Investing activities used (\$1,319.7 million), (\$1,652.7 million) and (\$682.7 million) during the years ended December 31, 2004, 2003 and 2002, respectively. Investing activities consisted primarily of the acquisition of properties and the investments made in real estate securities and loans, net of proceeds from the sale or settlement of investments.

Financing activities provided \$1,219.3 million, \$1,630.0 million and \$675.2 million during the years ended December 31, 2004, 2003 and 2002, respectively. The equity issuances, borrowings and debt issuances described above served as the primary sources of cash flow from financing activities. Offsetting uses included the payment of related deferred financing costs, the purchase of hedging instruments, the payment of dividends, the redemption of common and preferred stock and the repayment of debt as described above.

See the consolidated statements of cash flows in our consolidated financial statements included in "Financial Statements and Supplementary Data" for a reconciliation of our cash position (including our predecessor's cash position prior to the commencement of our operations) for the periods described herein.

#### INTEREST RATE, CREDIT AND SPREAD RISK

We are subject to interest rate, credit and spread risk with respect to our investments.

Our primary interest rate exposures relate to our real estate securities, loans and floating rate debt obligations, as well as our interest rate swaps and caps. Changes in the general level of interest rates can effect our net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities and hedges. Changes in the level of interest rates also can effect, among other things, our ability to acquire real estate securities and loans, the value of our real estate securities, loans and derivatives, and our ability to realize gains from the settlement of such assets.

Our general financing strategy focuses on the use of match-funded structures. This means that we seek to match the maturities of our debt obligations with the maturities of our investments to minimize the risk that we have to refinance our liabilities prior to the maturities of our assets, and to reduce the impact of changing interest rates on our earnings. In addition, we generally match-fund interest rates on our investments with like-kind debt (i.e., fixed rate assets are financed with fixed rate debt and floating rate assets are financed with floating rate debt), directly or through the use of interest rate swaps, caps or other financial instruments, or through a combination of these strategies, which allows us to reduce the impact of changing interest rates on our earnings. See "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Exposure" below.

#### Real Estate Securities

Interest rate changes may also impact our net book value as our real estate securities and related hedge derivatives are marked to market each quarter. Our loan investments and debt obligations are not marked to market. Generally, as interest rates increase, the value of our fixed rate securities decreases, and as interest rates decrease, the value of such securities will increase. In general, we would expect that over time, decreases in the value of our real estate securities portfolio attributable to interest rate changes will be offset to some degree by increases in the value of our swaps, and vice versa. However, the relationship between spreads on securities and spreads on swaps may vary from time to time, resulting in a net aggregate book value increase or decline. Our real estate securities portfolio is largely financed to maturity through long-term CBO financings that are not redeemable as a result of book value changes. Accordingly, unless there is a material impairment in value that would result in a payment not being received on a security, changes in the book value of our securities portfolio will not directly affect our recurring earnings or our ability to pay a dividend.

The commercial mortgage and asset backed securities we invest in are generally junior in right of payment of interest and principal to one or more senior classes, but benefit from the support of one or more subordinate classes of securities or other form of credit support within a securitization transaction. The senior unsecured REIT debt securities we invest in reflect comparable credit risk. Credit risk refers to each individual borrower's ability to make

required interest and principal payments on the scheduled due dates. We believe, based on our due diligence process, that these securities offer attractive risk-adjusted returns with long-term principal protection under a variety of default and loss scenarios. While the expected yield on these securities is sensitive to the performance of the underlying assets, the more subordinated securities or other features of the securitization transaction, in the case of commercial mortgage and asset backed securities, and the issuer's underlying equity and subordinated debt, in the case of senior unsecured REIT debt securities, are designed to bear the first risk of default and loss. We further minimize credit risk by actively monitoring our real estate securities portfolio and the underlying credit quality of our holdings and, where appropriate, repositioning our investments to upgrade the credit quality and yield on our investments. While we have not experienced any significant credit losses, in the event of a significant rising interest rate environment and/or economic downturn, loan and collateral defaults may increase and result in credit losses that would adversely affect our liquidity and operating results.

Our real estate securities portfolio is diversified by asset type, industry, location and issuer. At December 31, 2004, we had 455 real estate securities and loans, excluding the ICH CMO loans as described above. Our largest investment in

a real estate security or real estate related loan was \$86.7 million and our average investment size was \$8.1 million at December 31, 2004. Furthermore, our real estate securities are supported by pools of underlying loans. For instance, our CMBS investments had 16,341 underlying loans at December 31, 2004. We expect that this diversification also helps to minimize the risk of capital loss. At December 31, 2004, our real estate securities and real estate related loans (excluding the ICH loans as described above) had an overall weighted average credit rating of approximately BBB-, and approximately 70% had an investment grade rating (BBB- or higher).

Our real estate securities are also subject to spread risk. Our fixed rate securities are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. In other words, their value is dependent on the yield demanded on such securities by the market based on their credit relative to U.S. Treasuries. Excessive supply of such securities combined with reduced demand will generally cause the market to require a higher yield on such securities, resulting in the use of a higher (or "wider") spread over the benchmark rate (usually the applicable U.S. Treasury security yield) to value such securities. Under such conditions, the value of our real estate securities portfolio would tend to decline. Conversely, if the spread used to value such securities were to decrease (or "tighten"), the value of our real estate securities portfolio would tend to increase. Our floating rate securities are valued based on a market credit spread over LIBOR and are effected similarly by changes in LIBOR spreads. Such changes in the market value of our real estate securities portfolio may effect our net equity, net income or cash flow directly through their impact on unrealized gains or losses on available-for-sale securities, and therefore our ability to realize gains on such securities, or indirectly through their impact on our ability to borrow and access capital. If the value of our securities subject to repurchase agreements were to decline, it could affect our ability to refinance such loans upon the maturity of the related repurchase agreements. See "Quantitative and Qualitative Disclosures About Market Risk-Credit Spread Curve Exposure" below.

Furthermore, shifts in the U.S. Treasury yield curve, which represents the market's expectations of future interest rates, would also effect the yield required on our real estate securities and therefore their value. This would have similar effects on our real estate securities portfolio and our financial position and operations to a change in spreads.

#### Loans

Similar to our real estate securities portfolio, we are subject to credit and spread risk with respect to our real estate related, commercial mortgage and residential mortgage loan portfolios. However, unlike our real estate securities portfolio, our loans do not benefit from the support of junior classes of securities, but rather bear the first risk of default and loss. We believe that this credit risk is mitigated through our due diligence process and periodic reviews of the borrower's payment history, delinquency status, and the relationship of the loan balance to the underlying property value. At December 31, 2004, our residential mortgage loan portfolio was characterized by high credit quality borrowers with a weighted average FICO score of 722 at origination, and had a weighted average loan to value ratio of 72.5%. As of December 31, 2004, approximately \$575.8 million of our residential mortgage loans were held in securitized form, of which over 95% of the principal balance was AAA rated.

Our loan portfolios are diversified by geographic location and by borrower. We believe that this diversification also helps to minimize the risk of capital loss.

Our loan portfolios are also subject to spread risk. Our floating rate loans are valued based on a market credit spread to LIBOR. The value of these loans is dependent upon the yield demanded by the market based on their credit relative to LIBOR. The value of our floating rate loans would tend to decline should the market require a higher yield on such loans, resulting in the use of a higher spread over the benchmark rate (usually the applicable LIBOR yield). Our fixed rate loans are valued based on a market credit spread over U.S. Treasuries and are effected similarly by changes in U.S. Treasury spreads. If the value of our loans subject to repurchase agreements were to decline, it could affect our ability to refinance such loans upon the maturity of the related repurchase agreements.

Any credit or spread losses incurred with respect to our loan portfolios would affect us in the same way as similar losses on our real estate securities portfolio as described above, except that our loan portfolios are not marked to market.

#### OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2004, we had the following material off-balance sheet arrangements:

- - The \$25.4 million carrying value of our deposit on our seventh real estate securities portfolio, as described above under "-Liquidity and Capital Resources." Except as a result of our gross negligence, willful misconduct or breach of contract, our potential loss is limited to the amount shown, which is included in our consolidated balance sheet.
- - A guarantee of certain payments under an interest rate swap which may be entered into in 2007 in connection with the securitization of the Bell Canada portfolio, if the related bonds are not fully repaid by such date. We believe the fair value of this guarantee is negligible at December 31, 2004.

At this time, we do not anticipate a substantial risk of incurring a loss with respect to any of the arrangements.

We are also party to a total return swap which is treated as a non-hedge derivative. For further information on this investment, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

#### CONTRACTUAL OBLIGATIONS

As of December 31, 2004, we had the following material contractual obligations (payments in thousands):

Contract	Terms
- - - - -	- - - - -
<S>	<C>
CBO bonds payable	Described under "Quantitative and Qualitative Disclosures About Market Risk"
Other bonds payable	Described under "Quantitative and Qualitative Disclosures About Market Risk"
Notes payable	Described under "Quantitative and Qualitative Disclosures About Market Risk"
Repurchase agreements	Described under "Quantitative and Qualitative Disclosures About Market Risk"
Interest rate swaps, treated as hedges	Described under "Quantitative and Qualitative Disclosures About Market Risk"
Real estate securities portfolio deposit	Described under "Quantitative and Qualitative Disclosures About Market Risk"
Non-hedge derivative obligations	
CBO IV wrap agreement	Described under "Quantitative and Qualitative Disclosures About Market Risk" The largest tranche of our CBO IV bonds, the \$395.0 million face amount of Class I-MM bonds, was issued subject to remarketing procedures and related agreements whereby such bonds are remarketed and sold on a periodic basis. The Class I-MM bonds are fully insured by a third party with respect to the timely payment of interest and principal thereon, pursuant to a financial guaranty insurance policy ("wrap"). We pay annual fees of 0.12% of the outstanding face amount of the Class I-MM bonds under this agreement.
CBO IV backstop agreement	In connection with the remarketing procedures described above, a backstop agreement has been created whereby a third party financial institution is required to purchase the Class I-MM bonds at the end of any remarketing period if such bonds could not be resold in the market by the remarketing agent. We pay annual fees of 0.20% of the outstanding face amount of the Class I-MM bonds under this agreement.
CBO IV remarketing agreement	In connection with the remarketing procedures described above, the remarketing agent is paid an annual fee of 0.05% of the outstanding face amount of the Class I-MM bonds under the remarketing agreement.
Management agreement	Our manager is paid an annual management fee

of 1.5% of our gross equity, as defined, an expense reimbursement, and incentive compensation equal to 25% of our FFO above a certain threshold. For more information on this agreement, as well as historical amounts earned, see Note 10 to our audited consolidated financial statements under "Financial Statements and Supplementary Data."

</TABLE>

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<TABLE>  
<CAPTION>

Contract	Actual	Fixed and Determinable Payments Due by Period (2)				
	Payments	-----				
-----	2004 (1)	2005	2006-2007	2008-2009	Thereafter	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CBO bonds payable	\$ 58,896	\$ --	\$ --	\$--	\$2,681,395	\$2,681,395
Other bonds payable	60,475	--	--	--	222,729	222,729
Notes payable	114,678	45,250	606,750	--	--	652,000
Repurchase agreements	887,429	490,620	--	--	--	490,620
Interest rate swaps, treated as hedges	53,066	(3)	(3)	(3)	(3)	(3)
Non-hedge derivative obligations	4,117	(3)	(3)	(3)	(3)	(3)
CBO IV wrap agreement	482	(3)	(3)	(3)	(3)	(3)
CBO IV backstop agreement	803	(3)	(3)	(3)	(3)	(3)
CBO IV remarketing agreement	200	(3)	(3)	(3)	(3)	(3)
Management agreement	12,062	(3)	(3)	(3)	(3)	(3)
	-----	-----	-----	---	-----	-----
Total	\$1,192,208	\$535,870	\$606,750	\$--	\$2,904,124	\$4,046,744
	=====	=====	=====	===	=====	=====

</TABLE>

- (1) Includes all payments made under the respective agreements. The management agreement payments shown include \$10.4 million of management fees and expense reimbursements and \$1.7 million of incentive compensation.
- (2) Represents debt principal due based on contractual maturities.
- (3) These contracts do not have fixed and determinable payments.

#### INFLATION

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

Substantially all of our office leases provide for separate escalations of real estate taxes and operating expenses over a base amount, and/or increases in the base rent based on changes in a Belgian index with respect to the LIV portfolio. We believe that inflationary increases in expenses will generally be offset by the expense reimbursements and contractual rent increases described above.

#### FUNDS FROM OPERATIONS

We believe Funds from Operations (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 depreciation of our operating real estate, and after adjustments for unconsolidated subsidiaries. We consider gains and losses on resolution of our investments to be a normal part of our recurring operations and, therefore, do not exclude such gains and losses when arriving at FFO. Adjustments for unconsolidated subsidiaries 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.

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Funds from Operations (FFO) is calculated as follows (unaudited) (in thousands):

<TABLE>  
<CAPTION>

	For the Year Ended December 31,		
	2004	2003	2002
<S>	<C>	<C>	<C>
Income available for common stockholders	\$92,321	\$51,345	\$30,333
Operating real estate depreciation	2,199	3,035	7,994
Accumulated depreciation on operating real estate sold	(8,319)	--	(2,847)
Other- Fund I (1)	--	--	2,153
Funds from operations (FFO)	\$86,201	\$54,380	\$37,633

</TABLE>

(1) Related to an investment retained by our predecessor.

Funds from operations was derived from our segments as follows (unaudited) (in thousands):

<TABLE>  
<CAPTION>

ROE for the Year Ended	Book Equity	Average Invested Common Equity for the Year Ended	FFO for the Year Ended	Return on Invested Common Equity (ROE) for the Year Ended
December 31, 2003	December 31, 2004	December 31, 2004	December 31, 2004	December 31, 2004
(3)	(1)	(2)	December 31, 2004	(3)
Real estate securities and real estate related loans	\$625,703	\$502,731	\$103,245	20.5%
23.2%				
Residential mortgage loans	46,291	35,682	5,953	16.7%
25.7%				
Operating real estate	68,279	60,021	5,533	9.2%
12.2%				
Unallocated (1)	(69,330)	(2,037)	(28,530)	N/A
N/A				
Total (2)	670,943	\$596,397	\$ 86,201	14.5%
16.4%				
Preferred stock	62,500			
Accumulated depreciation	(8,498)			
Accumulated other comprehensive income	71,770			
Net book equity	\$796,715			

</TABLE>

(1) Unallocated FFO represents (\$6,094) of preferred dividends and (\$22,436) of corporate general and administrative expense, management fees and incentive compensation.

(2) Invested common equity is equal to book equity excluding preferred stock, accumulated depreciation and accumulated other comprehensive income.

(3) FFO divided by average invested common equity.

#### RELATED PARTY TRANSACTIONS

In November 2003, we and a private investment fund managed by an affiliate of our manager co-invested and each indirectly own an approximately 38% interest in a limited liability company that acquired a pool of franchise loans from a third party financial institution. Our investment in this entity, reflected as an investment in an unconsolidated subsidiary on our consolidated balance sheet, was approximately \$23.5 million at December 31, 2004. The remaining approximately 24% interest in the limited liability company is owned by the above-referenced third party financial institution.

In January 2004, we purchased, in a private placement from an underwriter, \$31.5 million face amount of B and BB rated securities of Global Signal Trust I, a

special purpose vehicle established by Global Signal Inc. Two of our directors are the CEO and President of Global Signal, Inc., respectively. A private equity fund managed by an affiliate of our manager owns a significant portion of Global Signal Inc.'s common stock. Approximately \$418.0 million face amount of Global Signal Trust I securities were issued in 7 classes, rated AAA through B, of which the B and BB classes constituted \$73.0 million. The balance of the B and BB securities was sold on identical terms to a private investment fund managed by an affiliate of our manager and to a large third party mutual fund complex. The proceeds of the offering were utilized by Global Signal Inc. to repay an existing credit facility, to pay an extraordinary dividend of approximately \$140 million to its stockholders of which approximately \$67 million was paid to the above-referenced private equity fund, and for general working capital purposes. In December 2004, through our warehouse, we placed a deposit of approximately \$2.6 million on \$17.0 million of BB rated securities of Global Signal Trust II, a special purpose vehicle established by Global Signal, Inc. Pursuant to an underwritten 144A offering, approximately \$293.8 million of Global Signal Trust II securities were issued in 7 classes, rated AAA through BB-, of which the BB class constituted approximately \$35.4 million.

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In March 2004, we and a private investment fund managed by an affiliate of our manager co-invested and each indirectly own an approximately 49% interest in two limited liability companies that have acquired, in a sale-leaseback transaction, a portfolio of convenience and retail gas stores from a public company. The properties are subject to a number of master leases, the initial term of which in each case is a minimum of 15 years. This investment was financed with nonrecourse debt at the limited liability company level and our investment in this entity, reflected as an investment in an unconsolidated subsidiary on our consolidated balance sheet, was approximately \$17.8 million at December 31, 2004.

In December 2004, we and a private investment fund managed by an affiliate of our manager each made an initial investment in a new real estate related loan with a maximum loan amount of \$128 million, subject to being drawn down under certain conditions. The loan is secured by a first mortgage on a large development project and related assets. We own a 27.3% interest in the loan and the private investment fund owns a 72.7% interest in the loan. Major decisions require the unanimous approval of holders of interests in the loan while for other decisions, holders of interests in the loan vote based on their percentage interest therein. We and our affiliated investment fund are each entitled to transfer all or any portion of our respective interests in the loan to third parties. Our investment in this loan was approximately \$11.9 million at December 31, 2004.

In January 2005, we entered into a servicing agreement with a portfolio company of a private equity fund advised by an affiliate of our manager for them to service a portfolio of manufactured housing loans. As compensation under the servicing agreement, the portfolio company will receive, on a monthly basis, a net servicing fee equal to 1.00% per annum on the unpaid principal balance of the loans being serviced. We acquired a portfolio of such loans in January 2005 at a cost of \$308.2 million.

In each instance described above, affiliates of our manager have an investment in the applicable affiliated fund and receive from the fund, in addition to management fees, incentive compensation if the fund's aggregate investment returns exceed certain thresholds.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

#### INTEREST RATE EXPOSURE

Our primary interest rate exposures relate to our real estate securities, loans and floating rate debt obligations, as well as our interest rate swaps and caps. Changes in the general level of interest rates can effect our net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities and hedges. Changes in the level of interest rates also can effect, among other things, our ability to acquire real estate securities and loans, the value of our real estate securities, loans and

derivatives, and our ability to realize gains from the settlement of such assets. While our strategy is to utilize interest rate swaps, caps and match-funded financings in order to limit the effects of changes in interest rates on our operations, there can be no assurance that our profitability will not be adversely affected during any period as a result of changing interest rates. As of December 31, 2004, a 100 basis point increase in short term interest rates would increase our earnings by approximately \$0.7 million per annum.

While we have not experienced any significant credit losses, in the event of a significant rising interest rate environment and/or economic downturn, loan and collateral defaults may increase and result in credit losses that would adversely affect our liquidity and operating results.

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Interest rate changes may also impact our net book value as our real estate securities and related hedge derivatives are marked to market each quarter. Our loan investments and debt obligations are not marked to market. Generally, as interest rates increase, the value of our fixed rate securities decreases, and as interest rates decrease, the value of such securities will increase. In general, we would expect that over time, decreases in the value of our real estate securities portfolio attributable to interest rate changes will be offset to some degree by increases in the value of our swaps, and vice versa. However, the relationship between spreads on securities and spreads on swaps may vary from time to time, resulting in a net aggregate book value increase or decline. Our real estate securities portfolio is largely financed to maturity through long-term CBO financings that are not redeemable as a result of book value changes. Accordingly, unless there is a material impairment in value that would result in a payment not being received on a security, changes in the book value of our portfolio will not directly affect our recurring earnings or our ability to pay a dividend. As of December 31, 2004, a 100 basis point change in short term interest rates would impact our net book value by approximately \$47.0 million.

Our general financing strategy focuses on the use of match-funded structures. This means that we seek to match the maturities of our debt obligations with the maturities of our investments to minimize the risk that we have to refinance our liabilities prior to the maturities of our assets, and to reduce the impact of changing interest rates on our earnings. In addition, we generally match-fund interest rates on our investments with like-kind debt (i.e., fixed rate assets are financed with fixed rate debt and floating rate assets are financed with floating rate debt), directly or through the use of interest rate swaps, caps, or other financial instruments, or through a combination of these strategies, which allows us to reduce the impact of changing interest rates on our earnings. Our real estate securities and real estate related loan portfolio, excluding the ICH CMO loans as described below, and their respective liabilities had a weighted average life of 5.37 years and 5.72 years, respectively, as of December 31, 2004. Our financing strategy is dependent on our ability to place the match-funded debt we use to finance our investments at rates that provide a positive net spread. If spreads for such liabilities widen or if demand for such liabilities ceases to exist, then our ability to execute future financings will be severely restricted.

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

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

While a REIT may utilize these types of derivative instruments to hedge interest rate risk on its liabilities or for other purposes, such derivative instruments could generate income that is not qualified income for purposes of maintaining REIT status. As a consequence, we may only engage in such instruments to hedge such risks within the constraints of maintaining our standing as a REIT. We do not enter into derivative contracts for speculative purposes nor as a hedge against changes in credit risk.

Our hedging transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging

contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. The counterparties to our derivative arrangements are major financial institutions with high credit ratings with which we and our affiliates may also have other financial relationships. As a result, we do not anticipate that any of these counterparties will fail to meet their obligations. There can be no assurance that we will be able to adequately protect against the foregoing risks and will ultimately realize an economic benefit that exceeds the related amounts incurred in connection with engaging in such hedging strategies.

#### CREDIT SPREAD CURVE EXPOSURE

Our real estate securities are also subject to spread risk. Our fixed rate securities are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. In other words, their value is dependent on the yield demanded on such securities by the market based on their credit relative to U.S. Treasuries. Excessive supply of such securities combined with reduced demand will generally cause the market to require a higher yield on such securities, resulting in the use of a higher (or "wider") spread over the benchmark rate (usually the applicable U.S. Treasury security yield) to value such securities. Under such conditions, the value of our real estate securities

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portfolio would tend to decline. Conversely, if the spread used to value such securities were to decrease (or "tighten"), the value of our real estate securities portfolio would tend to increase. Our floating rate securities are valued based on a market credit spread over LIBOR and are effected similarly by changes in LIBOR spreads. Such changes in the market value of our real estate securities portfolio may effect our net equity, net income or cash flow directly through their impact on unrealized gains or losses on available-for-sale securities, and therefore our ability to realize gains on such securities, or indirectly through their impact on our ability to borrow and access capital.

Furthermore, shifts in the U.S. Treasury yield curve, which represents the market's expectations of future interest rates, would also effect the yield required on our real estate securities and therefore their value. This would have similar effects on our real estate securities portfolio and our financial position and operations to a change in spreads.

Our loan portfolios are also subject to spread risk. Our floating rate loans are valued based on a market credit spread to LIBOR. The value of these loans is dependent upon the yield demanded by the market based on their credit relative to LIBOR. The value of our floating rate loans would tend to decline should the market require a higher yield on such loans, resulting in the use of a higher spread over the benchmark rate (usually the applicable LIBOR yield). Our fixed rate loans are valued based on a market credit spread over U.S. Treasuries and are effected similarly by changes in U.S. Treasury spreads. If the value of our loans subject to repurchase agreements were to decline, it could affect our ability to refinance such loans upon the maturity of the related repurchase agreements.

Any decreases in the value of our loan portfolios due to spread changes would effect us in the same way as similar changes to our real estate securities portfolio as described above, except that our loan portfolios are not marked to market.

As of December 31, 2004, a 25 basis point movement in credit spreads would impact our net book value by approximately \$39.7 million, but would not directly affect our earnings or cash flow.

#### CURRENCY RATE EXPOSURE

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

We have investments in the LIV portfolio and the Bell Canada portfolio. These properties are financed utilizing debt denominated in their respective local currencies (the Euro and the Canadian Dollar). The net equity invested in these portfolios at December 31, 2004, approximately \$12.5 million and \$22.3 million, respectively, is exposed to foreign currency exchange risk.

#### FAIR VALUE

For certain of our financial instruments, fair values are not readily available since there are no active trading markets as characterized by current exchanges between willing parties. Accordingly, fair values can only be derived or estimated for these instruments using various valuation techniques, such as

computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. We note that minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values, and that the fair values reflected below are indicative of the interest rate, credit spread and currency rate environments as of December 31, 2004 and do not take into consideration the effects of subsequent interest rate, credit spread or currency rate fluctuations.

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

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#### Interest Rate and Credit Spread Risk

We held the following interest rate and credit spread risk sensitive instruments at December 31, 2004 (in thousands):

<TABLE>  
<CAPTION>

VALUE	CARRYING VALUE		DECEMBER 31, 2004			FAIR DECEMBER 2004
	DECEMBER 31,		PRINCIPAL BALANCE OR NOTIONAL AMOUNT	WEIGHTED AVERAGE YIELD/ FUNDING COST	Maturity DATE	
	2004	2003				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
<C>						
ASSETS:						
Real estate securities, available for sale (1)	\$3,369,496	\$2,192,727	\$3,315,253	6.19%	(1)	\$3,369,496
\$2,192,727						
Real estate securities portfolio deposit (2)	25,411	19,541	(2)	(2)	(2)	25,411
19,541						
Real estate related loans (3)	591,890	402,784	594,388	7.44%	(3)	600,528
429,860						
Residential mortgage loans (4)	654,784	586,237	645,381	3.71%	(4)	654,784
586,237						
Interest rate caps, treated as hedges (5)	3,554	8,294	375,019	N/A	(5)	3,554
8,294						
Total return swap (6)	399	--	(6)	N/A	(6)	399
--						
LIABILITIES:						
CBO bonds payable (7)	2,656,510	1,793,533	2,681,395	4.59%	(7)	2,720,704
1,836,628						
Other bonds payable (8)	222,266	260,674	222,729	6.69%	(8)	227,510
282,014						
Notes payable (9)	652,000	154,562	652,000	2.72%	(9)	652,000
155,058						
Repurchase agreements (10)	490,620	715,783	490,620	3.67%	(10)	490,620
715,783						
Interest rate swaps, treated as hedges, (11)	13,239	28,881	2,011,418	N/A	(11)	13,239
28,881						
Non-hedge derivative obligations (12)	796	747	(12)	N/A	(12)	796
747						

(1) These securities contain various terms, including fixed and floating rates, self-amortizing and interest only. Their weighted average maturity is 5.76 years. The fair value of these securities is estimated by obtaining third party broker quotations, if available and practicable, and counterparty quotations.

(2) The fair value of the real estate securities portfolio deposit, which is treated as a non-hedge derivative, is estimated by obtaining third party

broker quotations on the underlying securities, if available and practicable, and counterparty quotations, including a counterparty quotation on the portion of the fair value resulting from the Excess Carry Amount, as defined, earned on such deposit. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" for a further discussion of this deposit.

(3) Represents the following loans:

<TABLE>  
<CAPTION>

Name	Carrying Value	Loan Count	Weighted Avg. Yield	Weighted Average Maturity (Years)	Floating Rate Loans as a % of Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>
B-Notes	\$133,344	23	6.44%	2.30	85.6%	\$133,617
Mezzanine Loans	80,052	4	5.25%	1.97	100.0%	80,052
Bank Loans	146,909	3	6.73%	1.99	100.0%	146,909
Real Estate Loans	28,911	2	16.55%	1.24	58.9%	28,911
ICH CMO Loans	202,674	123	8.16%	2.86	1.8%	211,039
	-----	---	-----	----	-----	-----
	\$591,890	155	7.44%	2.32	61.1%	\$600,528
	=====	===	=====	====	=====	=====

</TABLE>

The fixed rate B-Notes were valued by obtaining counterparty quotations. The rest of the B-Notes as well as the mezzanine loans, bank loans, and real estate loans, with one exception, bear floating rates of interest and we believe that, for similar financial instruments with comparable credit risks, their effective rates approximate market rates. Accordingly, the carrying amounts outstanding are believed to approximate fair value. The one fixed rate loan was purchased on December 29, 2004 and therefore its carrying amount is believed to approximate fair value. The ICH CMO loans were valued by discounting expected future receipts by a rate calculated based on current market conditions for comparable financial instruments, including market interest rates and credit spreads.

(4) This portfolio of mortgage loans bears a floating rate of interest and has a weighted average maturity of 3.84 years. We believe that, for similar financial instruments with comparable credit risks, the effective rate on this portfolio approximates a market rate. Accordingly, the carrying amount of this portfolio is believed to approximate fair value.

(5) Represents cap agreements as follows:

<TABLE>  
<CAPTION>

Notional Balance	Effective Date	Maturity Date	Capped Rate	Strike Rate	Fair Value
<S>	<C>	<C>	<C>	<C>	<C>
\$295,400	Current	March 2009	1-Month LIBOR	6.50%	\$ 585
18,000	January 2010	October 2015	3-Month LIBOR	8.00%	592
8,619	December 2010	June 2015	3-Month LIBOR	7.00%	863
53,000	May 2011	September 2015	1-Month LIBOR	7.50%	1,514
	-----				-----
	\$375,019				\$3,554
	=====				=====

</TABLE>

The fair value of these agreements is estimated by obtaining counterparty quotations.

(6) Represents a total return swap which is treated as a non-hedge derivative. The fair value of this agreement, which is included in derivative assets, is estimated by obtaining a counterparty quotation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" for a further discussion of this swap.

(7) These bonds were valued by discounting expected future payments by a rate calculated based on current market conditions for comparable financial instruments, including market interest rates and credit spreads. The weighted average maturity of the CBO bonds payable is 6.78 years. The CBO bonds payable amortize principal prior to maturity based on collateral receipts, subject to reinvestment requirements.

(8) The Bell Canada bonds were valued, in U.S. dollars at the period end exchange rate, by discounting expected future payments by a rate calculated by imputing a spread over a market index on the date of borrowing. It amortizes principal periodically with a balloon payment at maturity in

April 2012. The ICH CMO bonds were valued by discounting expected future payments by a rate calculated based on current market conditions for comparable financial instruments, including market interest rates and credit spreads. They amortize principal prior to maturity based on collateral receipts and their final stated maturity is in August 2030.

- (9) The LIV mortgage was valued, in U.S. dollars at the period end exchange rate, by discounting expected future payments by a rate calculated by imputing a spread over a market index on the date of borrowing. It was repaid in December 2004. The first real estate related loan financing matures in November 2006, bears a floating rate of interest and amortizes principal based on collateral receipts. The second real estate related loan financing matures in February 2006, after an extension, bears a floating rate of interest, and amortizes principal based on collateral receipts. The residential mortgage loan financing matures in November 2007, bears a floating rate of interest, and is subject to adjustment monthly based on the agreed upon market value of the loan portfolio. We believe that, for similar financial instruments with comparable credit risks, their effective rates approximate market rates. Accordingly, the carrying amounts outstanding are believed to approximate fair value.

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- (10) These agreements bear floating rates of interest and we believe that, for similar financial instruments with comparable credit risks, the effective rates approximate market rates. Accordingly, the carrying amounts outstanding are believed to approximate fair value. These agreements mature in one to ten months.

- (11) Represents swap agreements as follows (in thousands):

<TABLE>

<CAPTION>

Notional Balance	Effective Date	Maturity Date	Swapped Rate	Fixed Rate	Fair Value
<S>	<C>	<C>	<C>	<C>	<C>
\$ 33,299	Current	July 2005	1-Month LIBOR	6.1755%	\$ 366
295,400	Current	March 2009	1-Month LIBOR*	3.1250%	(4,547)
290,000	Current	April 2011	3-Month LIBOR	5.9325%	26,181
276,060	Current	March 2013	3-Month LIBOR	3.8650%	(7,888)
192,500	Current	March 2015	1-Month LIBOR	4.8880%	6,868
165,300	Current	March 2014	3-Month LIBOR	3.9945%	(4,708)
189,373	Current	September 2014	3-Month LIBOR	4.3731%	(2,534)
11,000	Current	November 2008	1-Month LIBOR	3.5400%	(97)
7,500	Current	July 2018	1-Month LIBOR	4.8300%	118
5,500	Current	November 2018	1-Month LIBOR	4.4800%	28
65,200	Current	January 2009	1-Month LIBOR	3.6500%	(405)
6,500	Current	March 2009	1-Month LIBOR	3.3360%	(126)
236,582	January 2005	February 2014	1-Month LIBOR	4.2070%	640
85,757	Current	October 2009	1-Month LIBOR	3.7150%	(116)
81,571	Current	September 2009	1-Month LIBOR	3.7090%	(104)
28,081	Current	December 2009	1-Month LIBOR	3.8290%	38
21,295	Current	January 2009	1-Month LIBOR	3.2900%	(476)
20,500	Current	September 2011	1-Month LIBOR	4.2225%	1
-----					-----
\$2,011,418					\$13,239
=====					=====

</TABLE>

\* up to 6.50%

The fair value of these agreements is estimated by obtaining counterparty quotations. A positive fair value represents a liability.

- (12) These are two essentially offsetting interest rate caps and two essentially offsetting interest rate swaps, each with notional amounts of \$32.5 million, an interest rate cap with a notional balance of \$17.5 million, and two interest rate swaps with notional amounts of \$26.3 million and \$2.0 million. The maturity date of the purchased swap is July 2009; the maturity date of the sold swap is July 2014, the maturity date of the \$32.5 million caps is July 2038, the maturity date of the \$17.5 million cap is July 2009, and the maturity dates of the latter two interest rate swaps are February 2014 and January 2009, respectively. The fair value of these agreements is estimated by obtaining counterparty quotations.

#### Currency Risk

We held the following currency rate risk sensitive balances at December 31, 2004 (unaudited) (U.S. dollars; in thousands, except exchange rates):

<TABLE>

<CAPTION>

CURRENT EFFECT OF A 5% EFFECT OF A 5%

	CARRYING AMOUNT (USD)	LOCAL CURRENCY	EXCHANGE RATE TO USD	NEGATIVE CHANGE IN EURO RATE	NEGATIVE CHANGE IN CAD RATE
<S>	-----	-----	-----	-----	-----
<C>	<C>	<C>	<C>	<C>	<C>
<b>Assets:</b>					
LIV portfolio .....	\$12,376	Euro	0.7378	\$ (619)	N/A
Bell Canada portfolio .....	57,193	CAD	1.2019	N/A	\$ (2,860)
LIV other, net .....	156	Euro	0.7378	(8)	N/A
Bell Canada other, net .....	7,542	CAD	1.2019	N/A	(377)
<b>Liabilities:</b>					
Bell Canada bonds .....	42,422	CAD	1.2019	N/A	2,121
Total at December 31, 2004				-----	-----
				\$ (627)	\$ (1,116)
Total at December 31, 2003				=====	=====
				\$ (277)	\$ (1,045)
				=====	=====

</TABLE>

- -----

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Index to Financial Statements:

Audit Report of Independent Registered Public Accounting Firm

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

Consolidated Balance Sheets as of December 31, 2004 and December 31, 2003

Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Stockholders' Equity and Redeemable Preferred Stock for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Cash Flow for the years ended December 31, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Newcastle Investment Corporation

We have audited the accompanying consolidated balance sheets of Newcastle Investment Corporation and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and redeemable preferred stock, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company

Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, NY  
March 3, 2005

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Newcastle Investment Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Newcastle Investment Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2004, and the related consolidated statements of income, stockholders' equity and redeemable preferred stock, and cash flows for each of the three years in the period ended December 31, 2004 of the Company and our report dated March 3, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, NY

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(dollars in thousands, except share data)

<TABLE>  
<CAPTION>

	DECEMBER 31,	
	2004	2003
	-----	-----
<S>	<C>	<C>
<b>ASSETS</b>		
Real estate securities, available for sale - Note 4	\$3,369,496	\$2,192,727
Real estate securities portfolio deposit - Note 4	25,411	19,541
Real estate related loans, net - Note 5	591,890	402,784
Investments in unconsolidated subsidiaries - Note 3	41,230	30,640
Operating real estate, net - Note 6	57,193	102,995
Real estate held for sale - Note 6	12,376	29,404
Residential mortgage loans, net - Note 5	654,784	586,237
Cash and cash equivalents	37,911	60,403
Restricted cash	77,974	70,103
Derivative assets - Note 7	27,122	25,512
Deferred costs, net	2,043	2,010
Receivables and other assets	35,290	27,943
	-----	-----
	\$4,932,720	\$3,550,299
	=====	=====
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
CBO bonds payable - Note 8	\$2,656,510	\$1,793,533
Other bonds payable - Note 8	222,266	260,674
Notes payable - Note 8	652,000	154,562
Repurchase agreements - Note 8	490,620	715,783
Derivative liabilities - Note 7	39,661	49,675
Dividends payable	25,928	16,703
Due to affiliates - Note 10	8,963	2,445
Accrued expenses and other liabilities	40,057	17,561
	-----	-----
	4,136,005	3,010,936
	-----	-----
Commitments and contingencies - Notes 9, 10 and 11	--	--
 <b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized, 2,500,000 shares of Series B Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share, issued and outstanding	62,500	62,500
Common stock, \$0.01 par value, 500,000,000 shares authorized, 39,859,481 and 31,374,833 shares issued and outstanding at December 31, 2004 and 2003, respectively	399	314
Additional paid-in capital	676,015	451,806
Dividends in excess of earnings - Note 2	(13,969)	(14,670)
Accumulated other comprehensive income - Note 2	71,770	39,413
	-----	-----
	796,715	539,363
	-----	-----
	\$4,932,720	\$3,550,299
	=====	=====

</TABLE>

See notes to consolidated financial statements.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
(dollars in thousands, except share data)

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
	-----	-----	-----

<S>	<C>	<C>	<C>
REVENUES			
Interest income	\$ 226,674	\$ 134,672	\$ 73,214
Rental and escalation income	13,502	16,203	13,520
Gain on settlement of investments, net	17,970	13,179	11,389
Management fee from affiliate - Note 3	--	--	4,470
Incentive income from affiliate - Note 3	--	--	(1,218)
	258,146	164,054	101,375
EXPENSES			
Interest expense	138,847	79,084	46,375
Property operating expense	7,281	7,819	6,928
Loan and security servicing expense	3,057	2,154	655
General and administrative expense	4,638	3,194	2,356
Management fee to affiliate - Notes 3 and 10	10,620	6,468	9,250
Incentive compensation to affiliate - Notes 3 and 10	7,959	6,226	2,856
Depreciation and amortization	1,304	1,194	1,560
	173,706	106,139	69,980
Income before equity in earnings of unconsolidated subsidiaries	84,440	57,915	31,395
Equity in earnings of unconsolidated subsidiaries - Note 3	12,465	862	362
Income taxes on related taxable subsidiaries - Note 12	(2,508)	--	--
Income from continuing operations	94,397	58,777	31,757
Income (loss) from discontinued operations - Note 6	4,018	(2,659)	(262)
NET INCOME	98,415	56,118	31,495
Preferred dividends and related accretion	(6,094)	(4,773)	(1,162)
INCOME AVAILABLE FOR COMMON STOCKHOLDERS	\$ 92,321	\$ 51,345	\$ 30,333
NET INCOME PER SHARE OF COMMON STOCK			
BASIC	\$ 2.50	\$ 1.98	\$ 1.68
DILUTED	\$ 2.46	\$ 1.96	\$ 1.68
Income from continuing operations per share of common stock, after preferred dividends and related accretion			
Basic	\$ 2.39	\$ 2.08	\$ 1.69
Diluted	\$ 2.35	\$ 2.06	\$ 1.69
Income (loss) from discontinued operations per share of common stock			
Basic	\$ 0.11	\$ (0.10)	\$ (0.01)
Diluted	\$ 0.11	\$ (0.10)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING			
BASIC	36,943,752	25,898,288	18,080,298
DILUTED	37,557,790	26,140,777	18,090,052
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	\$ 2.425	\$ 1.950	\$ 2.050

</TABLE>

See notes to consolidated financial statements.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK  
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002  
(dollars in thousands)

<TABLE>  
<CAPTION>

	PREFERRED STOCK		COMMON STOCK		ADDITIONAL PD. IN CAPITAL
	SHARES	AMOUNT	SHARES	AMOUNT	
<S>	<C>	<C>	<C>	<C>	<C>
STOCKHOLDERS' EQUITY - DECEMBER 31, 2003	2,500,000	\$62,500	31,374,833	\$314	\$451,806
Dividends declared	--	--	--	--	--
Issuance of common stock	--	--	8,375,000	84	222,721

Issuance of common stock to directors	--	--	2,148	--	60
Exercise of common stock options	--	--	107,500	1	1,428
Comprehensive income:					
Net income	--	--	--	--	--
Unrealized gain on securities	--	--	--	--	--
Reclassification of realized (gain) on securities into earnings	--	--	--	--	--
Foreign currency translation	--	--	--	--	--
Reclassification of realized foreign currency translation into earnings	--	--	--	--	--
Unrealized gain on derivatives designated as cash flow hedges	--	--	--	--	--
Reclassification of realized loss on derivatives designated as cash flow hedges into earnings	--	--	--	--	--
Total comprehensive income					
STOCKHOLDERS' EQUITY - DECEMBER 31, 2004	2,500,000	\$62,500	39,859,481	\$399	\$676,015
	=====	=====	=====	=====	=====
STOCKHOLDERS' EQUITY - DECEMBER 31, 2002	--	\$ --	23,488,517	\$235	\$290,935
Dividends declared	--	--	--	--	--
Issuance of preferred stock	2,500,000	62,500	--	--	(2,436)
Issuance of common stock	--	--	7,882,276	79	163,242
Issuance of common stock to directors	--	--	1,540	--	30
Exercise of common stock options	--	--	2,500	--	35
Comprehensive income:					
Net income	--	--	--	--	--
Unrealized gain on securities	--	--	--	--	--
Reclassification of realized (gain) on securities into earnings	--	--	--	--	--
Foreign currency translation	--	--	--	--	--
Reclassification of realized foreign currency translation into earnings	--	--	--	--	--
Unrealized (loss) on derivatives designated as cash flow hedges	--	--	--	--	--
Total comprehensive income					
STOCKHOLDERS' EQUITY - DECEMBER 31, 2003	2,500,000	\$62,500	31,374,833	\$314	\$451,806
	=====	=====	=====	=====	=====

<CAPTION>

	DIVIDENDS IN EXCESS OF EARNINGS	ACCUM. OTHER COMP. INCOME	TOTAL STOCK- HOLDERS' EQUITY
<S>	<C>	<C>	<C>
STOCKHOLDERS' EQUITY - DECEMBER 31, 2003	\$ (14,670)	\$ 39,413	\$539,363
Dividends declared	(97,714)	--	(97,714)
Issuance of common stock	--	--	222,805
Issuance of common stock to directors	--	--	60
Exercise of common stock options	--	--	1,429
Comprehensive income:			
Net income	98,415	--	98,415
Unrealized gain on securities	--	34,088	34,088
Reclassification of realized (gain) on securities into earnings	--	(14,574)	(14,574)
Foreign currency translation	--	1,984	1,984
Reclassification of realized foreign currency translation into earnings	--	(1,478)	(1,478)
Unrealized gain on derivatives designated as cash flow hedges	--	11,973	11,973
Reclassification of realized loss on derivatives designated as cash flow hedges into earnings	--	364	364
Total comprehensive income			130,772
STOCKHOLDERS' EQUITY - DECEMBER 31, 2004	\$ (13,969)	\$ 71,770	\$796,715
	=====	=====	=====
STOCKHOLDERS' EQUITY - DECEMBER 31, 2002	\$ (13,966)	\$ 7,037	\$284,241
Dividends declared	(56,822)	--	(56,822)
Issuance of preferred stock	--	--	60,064
Issuance of common stock	--	--	163,321
Issuance of common stock to directors	--	--	30
Exercise of common stock options	--	--	35
Comprehensive income:			
Net income	56,118	--	56,118
Unrealized gain on securities	--	23,670	23,670
Reclassification of realized (gain) on securities into earnings	--	(13,185)	(13,185)
Foreign currency translation	--	4,653	4,653
Reclassification of realized foreign currency translation into earnings	--	396	396
Unrealized (loss) on derivatives designated as cash flow hedges	--	16,842	16,842
Total comprehensive income			88,494

STOCKHOLDERS' EQUITY - DECEMBER 31, 2003	\$ (14,670)	\$ 39,413	\$539,363
--	-------------	-----------	-----------

</TABLE>

Continued on next page.

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK  
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002  
(dollars in thousands)

<TABLE>  
<CAPTION>

ADDITIONAL IN CAPITAL	REDEEMABLE PREFERRED STOCK		COMMON STOCK		PD.
	SHARES	AMOUNT	SHARES	AMOUNT	
-----	-----	-----	-----	-----	-----
<S> STOCKHOLDERS' EQUITY - DECEMBER 31, 2001 \$309,356	<C> 1,020,517	<C> \$ 20,410	<C> 16,488,517	<C> \$165	<C>
Dividends declared by predecessor prior to commencement of our operations	--	--	--	--	
-- Distribution to predecessor upon commencement of our operations (98,378)	--	--	--	--	
Dividends declared to predecessor after commencement of our operations, but prior to our initial public offering	--	--	--	--	
-- Redemption of redeemable preferred stock	(1,020,517)	(20,410)	--	--	
-- Initial public offering of shares of common stock 79,957	--	--	7,000,000	70	
Dividends declared subsequent to our initial public offering	--	--	--	--	
-- Comprehensive income:					
Net income	--	--	--	--	
-- Unrealized gain on securities	--	--	--	--	
-- Reclassification of realized (gain) on securities into earnings	--	--	--	--	
-- Foreign currency translation	--	--	--	--	
-- Reclassification of realized foreign currency translation into earnings	--	--	--	--	
-- Unrealized (loss) on derivatives designated as cash flow hedges	--	--	--	--	
-- Reclassification of realized (gain) on derivatives designated as cash flow hedges into earnings	--	--	--	--	
-- Total comprehensive income	-----	-----	-----	-----	-----
----- STOCKHOLDERS' EQUITY - DECEMBER 31, 2002 \$290,935	--	\$ --	23,488,517	\$235	
=====	=====	=====	=====	=====	

<CAPTION>

	DIVIDENDS IN EXCESS OF EARNINGS	ACCUM. OTHER COMP. INCOME	TOTAL STOCK- HOLDERS' EQUITY
<S> STOCKHOLDERS' EQUITY - DECEMBER 31, 2001	<C> \$ (7,767)	<C> \$ 8,791	<C> \$ 310,545
Dividends declared by predecessor prior to commencement of our operations	(20,949)	--	(20,949)
Distribution to predecessor upon commencement			

of our operations	--	(11,075)	(109,453)
Dividends declared to predecessor after commencement of our operations, but prior to our initial public offering	(7,584)	--	(7,584)
Redemption of redeemable preferred stock	--	--	--
Initial public offering of shares of common stock	--	--	80,027
Dividends declared subsequent to our initial public offering	(9,161)	--	(9,161)
Comprehensive income:			
Net income	31,495	--	31,495
Unrealized gain on securities	--	62,170	62,170
Reclassification of realized (gain) on securities into earnings	--	(4,364)	(4,364)
Foreign currency translation	--	4,387	4,387
Reclassification of realized foreign currency translation into earnings	--	(496)	(496)
Unrealized (loss) on derivatives designated as cash flow hedges	--	(52,102)	(52,102)
Reclassification of realized (gain) on derivatives designated as cash flow hedges into earnings	--	(274)	(274)
Total comprehensive income			40,816
STOCKHOLDERS' EQUITY - DECEMBER 31, 2002	\$ (13,966)	\$ 7,037	\$ 284,241
	=====	=====	=====

</TABLE>

See notes to consolidated financial statements.

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW  
(dollars in thousands)

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 98,415	\$ 56,118	\$ 31,495
Adjustments to reconcile net income to net cash provided by operating activities (inclusive of amounts related to discontinued operations)			
Depreciation and amortization	2,253	3,085	8,603
Accretion of discount and other amortization	1,898	(3,761)	(4,767)
Equity in earnings of unconsolidated subsidiaries	(12,465)	(862)	(362)
Accrued incentive (income) loss from affiliate	--	--	1,218
Non-cash incentive compensation to affiliate	--	--	14
Deferred rent	(1,380)	(1,853)	(1,353)
Gain on settlement of investments	(22,029)	(11,789)	(9,619)
Unrealized gain on non-hedge derivatives	(3,332)	(3,696)	--
Non-cash directors' compensation	60	30	--
Change in			
Restricted cash	(8,137)	(2,564)	(3,186)
Receivables and other assets	(5,431)	(9,403)	(4,449)
Due to affiliates	6,518	1,110	(1,506)
Accrued expenses and other liabilities	21,520	11,177	5,469
Net cash provided by operating activities:	77,890	37,592	21,557
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of real estate securities	(1,426,762)	(1,407,948)	(689,255)
Proceeds from sale of real estate securities	193,246	255,030	276,704
Deposit on real estate securities (treated as a derivative)	(80,311)	(59,676)	(37,125)
Purchase of loans	(631,728)	(685,311)	(276,612)
Proceeds from settlement of loans	124,440	164,404	372
Repayments of loan and security principal	428,091	105,848	15,217
Purchase and improvement of operating real estate	(141)	(576)	(2,250)
Proceeds from sale of operating real estate	71,871	5,331	42,492
Contributions to unconsolidated subsidiaries	(26,789)	(30,871)	(19,991)
Distributions from unconsolidated subsidiaries	28,664	1,087	8,265
Payment of deferred transaction costs	(280)	--	(508)
Net cash provided by (used in) investing activities	(1,319,699)	(1,652,682)	(682,691)
	=====	=====	=====

</TABLE>

Continued on next page.

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## NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW  
(dollars in thousands)<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	2004	2003	2002
<S>	<C>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of CBO bonds payable	859,719	921,503	438,787
Repayments of CBO bonds payable	(604)	--	(17,742)
Issuance of other bonds payable	--	--	37,001
Repayments of other bonds payable	(41,759)	(6,413)	(8,151)
Borrowings under notes payable	614,106	80,000	62,952
Repayments of notes payable	(119,407)	(906)	(119,670)
Borrowings under repurchase agreements	654,254	663,120	246,712
Repayments of repurchase agreements	(879,417)	(195,506)	--
Draws under credit facility	--	--	20,000
Repayments of credit facility	--	--	(1,750)
Issuance of common stock	222,805	168,610	91,000
Costs related to issuance of common stock	--	(5,289)	(10,185)
Exercise of common stock options	1,429	35	--
Issuance of preferred stock	--	62,500	--
Costs related to issuance of preferred stock	--	(2,436)	--
Redemption of preferred stock	--	--	(20,410)
Dividends paid	(88,489)	(49,280)	(27,522)
Distribution of cash to predecessor	--	--	(12,423)
Purchase of derivative assets	--	(5,482)	(1,200)
Payment of deferred financing costs	(3,320)	(426)	(2,162)
	-----	-----	-----
Net cash provided by (used in) financing activities	1,219,317	1,630,030	675,237
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(22,492)	14,940	14,103
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	60,403	45,463	31,360
	-----	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 37,911	\$ 60,403	\$ 45,463
	=====	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the period for interest expense	\$ 135,172	\$ 80,522	\$ 56,365
Cash paid during the period for income taxes	\$ 2,639	\$ --	\$ --
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES			
Common stock dividends declared but not paid	\$ 24,912	\$ 15,687	\$ 9,161
Preferred stock dividends declared but not paid	\$ 1,016	\$ 1,016	\$ --
Deposits used in acquisition of real estate securities (treated as derivatives)	\$ 75,824	\$ 81,492	\$ 23,631
Contribution of assets to unconsolidated subsidiary	\$ --	\$ --	\$ 1,454
Distribution of non-cash assets and liabilities to predecessor	\$ --	\$ --	\$ 97,030

&lt;/TABLE&gt;

See notes to consolidated financial statements.

## NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2004, 2003 AND 2002  
(dollars in tables in thousands, except per share data)

## 1. ORGANIZATION

Newcastle Investment Corp. (and its subsidiaries, "Newcastle") is a Maryland corporation that was formed in June 2002. Newcastle conducts its business through three primary segments: (i) real estate securities and real estate related loans, (ii) operating real estate, and (iii) residential mortgage loans.

Newcastle was formed as a subsidiary of Newcastle Investment Holdings Corp. ("Holdings"). Prior to Newcastle's initial public offering, Holdings contributed to Newcastle certain assets and liabilities in exchange for approximately 16.5 million shares of Newcastle's common stock. For accounting purposes, this transaction is presented as a reverse spin-off, whereby Newcastle is treated as the continuing entity and the assets that were retained by Holdings and not contributed to Newcastle are accounted for as if they were distributed at their historical book basis through a spin-off to Holdings. Newcastle's operations commenced in July 2002. In May 2003, Holdings distributed to its stockholders all of the shares of

Newcastle's common stock that it held, and it no longer owns any of Newcastle's common equity.

The following table presents information on shares of Newcastle's common stock issued subsequent to its formation:

Year	Shares Issued	Range of Issue Prices (1)	Net Proceeds (millions)
Formation	16,488,517	N/A	N/A
2002	7,000,000	\$13.00	\$ 80.0
2003	7,886,316	\$20.35-\$22.85	\$163.4
2004	8,484,648	\$26.30-\$31.40	\$224.3
December 31, 2004	39,859,481		
January 2005	3,879,000	\$29.60	\$105.4

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

In March 2003, Newcastle issued 2.5 million shares (\$62.5 million face amount) of its 9.75% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred") in a public, registered offering for net proceeds of approximately \$60.1 million. The Series B Preferred is non-voting, has a \$25 per share liquidation preference, no maturity date and no mandatory redemption. Newcastle has the option to redeem the Series B Preferred beginning in March 2008.

Newcastle is organized and conducts its operations to qualify as a real estate investment trust ("REIT") for federal income tax purposes. As such, Newcastle will generally not be subject to federal income tax on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements.

Newcastle is party to a management agreement (the "Management Agreement") with Fortress Investment Group LLC (the "Manager"), an affiliate, under which the Manager advises Newcastle on various aspects of its business and manages its day-to-day operations, subject to the supervision of Newcastle's board of directors. For its services, the Manager receives an annual management fee and incentive compensation, both as defined in the Management Agreement. The Manager also manages, among other entities, Holdings and Fortress Investment Fund LLC ("Fund I"). For a further discussion of the Management Agreement, see Note 10.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### GENERAL

**BASIS OF ACCOUNTING** - The accompanying consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of Newcastle and its consolidated subsidiaries, subsequent to the date of commencement of its operations, and also include the accounts of its predecessor, Holdings, prior to such date. All significant intercompany transactions and balances have been eliminated. Newcastle consolidates those entities in which it has an investment of 50% or more and has control over significant operating, financial and investing decisions of the entity.

## NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004, 2003 AND 2002

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

In January 2003, Financial Accounting Standards Board Interpretation ("FIN") No. 46 "Consolidation of Variable Interest Entities," which explains how to identify variable interest entities and how to assess whether to consolidate such entities, was issued. As a result of this FIN, Newcastle consolidated the ICH CMO (Note 5).

In December 2003, FIN No. 46R "Consolidation of Variable Interest Entities" was issued as a modification of FIN 46. FIN 46R, which became effective in the first quarter of 2004, clarified the methodology for determining whether an entity is a variable interest entity ("VIE") and the methodology for assessing who is the primary beneficiary of a VIE. VIEs are defined as

entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary, and only its primary beneficiary, which is defined as the party who will absorb a majority of the VIE's expected losses or receive a majority of the expected residual returns as a result of holding variable interests. The application of FIN 46R did not result in a change in our accounting for any entities.

For entities over which Newcastle exercises significant influence, but which do not meet the requirements for consolidation, Newcastle uses the equity method of accounting whereby it records its share of the underlying income of such entities. Newcastle owns an equity method investment in two limited liability companies (Note 3) which are investment companies and therefore maintain their financial records on a fair value basis. Newcastle has retained such accounting relative to its investments in such companies pursuant to the Emerging Issues Task Force ("EITF") Issue No. 85-12 "Retention of Specialized Accounting for Investments in Consolidation."

Holdings was a Maryland corporation that invested in real estate-related assets. Its primary businesses were investing in (1) real estate securities and real estate related loans, (2) operating real estate, primarily credit leased operating real estate and (3) Fund I. Holdings' investments in real estate securities and a portion of its investments operating real estate were transferred to Newcastle in connection with its organization. The operating real estate (GSA Portfolio - Note 6) and real estate related loans distributed to Holdings have been treated as discontinued operations, because they constituted a component of an entity, while the other operations distributed to Holdings, including the investment in Fund I, have not been treated as such, because they did not constitute a component of an entity as defined in Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets."

Certain prior year amounts have been reclassified to conform to the current year presentation.

RISKS AND UNCERTAINTIES -- In the normal course of business, Newcastle encounters primarily two significant types of economic risk: credit and market. Credit risk is the risk of default on Newcastle's securities, loans, leases, and derivatives that results from a borrower's, lessee's or derivative counterparty's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of investments in securities, loans and real estate or in derivatives due to changes in interest rates, spreads or other market factors, including the value of the collateral underlying loans and securities and the valuation of real estate held by Newcastle. Management believes that the carrying values of its investments are reasonable taking into consideration these risks along with estimated collateral values, payment histories, and other borrower information.

Newcastle invests in real estate located outside of the United States. Newcastle's non-U.S. investments are subject to the same risks associated with its United States investments as well as additional risks, such as fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, heightened risk of political and economic instability, difficulties in managing non-U.S. investments, potentially adverse tax consequences and the burden of complying with a wide variety of foreign laws.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004, 2003 AND 2002

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

Additionally, Newcastle is subject to significant tax risks. If Newcastle were to fail to qualify as a REIT in any taxable year, Newcastle would be subject to U.S. federal corporate income tax (including any applicable alternative minimum tax), which could be material. In addition, if Holdings failed to qualify as a REIT and Newcastle is treated as a successor to Holdings, this could cause Newcastle to likewise fail to qualify as a REIT. Unless entitled to relief under certain statutory provisions, Newcastle would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost.

USE OF ESTIMATES -- The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements

and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

FEDERAL INCOME TAXES AND DIVIDENDS -- Newcastle is organized and conducts its operations to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). A REIT will generally not be subject to U.S. federal corporate income tax on that portion of its net income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements.

Since Newcastle distributed 100% of its 2004, 2003 and 2002 REIT taxable income, no provision has been made for U.S. federal corporate income taxes in the accompanying consolidated financial statements, except in connection with Newcastle's taxable REIT subsidiary ("TRS").

Newcastle holds one of its investments in a TRS (Note 12). Newcastle records income taxes related to this TRS using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective bases.

Distributions relating to 2004, 2003 and 2002 were taxable as follows:

	Book Basis	Tax Basis			
	Dividends Per Share	Dividends Per Share	Ordinary Income	Capital Gains	Return of Capital
	(A)	(B)			
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
2004	\$2.425	\$2.432	76.60%	23.40%	None
2003	\$1.950	\$1.843	77.66%	22.34%	None
2002	\$0.850	\$0.577	100.00%	None	None

(A) The excess of book basis dividends over tax basis dividends is carried forward to the next year for tax purposes.

The distributions disclosed above do not include the distributions made by our predecessor, Holdings. Holdings made per share distributions of \$1.20 in 2002 prior to the commencement of our operations. Holdings also elected to be taxed as a REIT.

Dividends in Excess of Earnings includes (\$14.5 million) related to the operations of our predecessor.

EARNINGS PER SHARE -- Newcastle is required to present both basic and diluted earnings per share ("EPS"). Basic EPS is calculated by dividing net income available for common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted EPS is calculated by dividing net income available for common stockholders by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period. Newcastle's common stock equivalents are its stock options (Note 9). During 2004, 2003 and 2002, based on the treasury stock method, Newcastle had 614,038, 242,489 and 9,754 dilutive common stock equivalents, respectively, resulting from its outstanding options. Net income available for common stockholders is equal to net income less preferred dividends, and less the accretion of the discount on Holdings' Series A Preferred which was fully redeemed in June 2002.

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COMPREHENSIVE INCOME - Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. For Newcastle's purposes, comprehensive income represents net income, as presented in the statements of income, adjusted for net foreign currency translation adjustments and unrealized gains or losses on securities available for sale and derivatives designated as cash flow hedges. The following table summarizes our accumulated other comprehensive income:

<TABLE>  
<CAPTION>

December 31,

	2004	2003
<S>	<C>	<C>
Net unrealized gains on securities	\$ 99,875	\$ 80,361
Net unrealized (losses) on derivatives designated as cash flow hedges	(31,862)	(44,199)
Net foreign currency translation adjustments	3,757	3,251
Accumulated other comprehensive income	\$ 71,770	\$ 39,413

</TABLE>

REVENUE RECOGNITION

REAL ESTATE SECURITIES AND LOANS RECEIVABLE--Newcastle invests in securities, including commercial mortgage backed securities, senior unsecured debt issued by property REITS, real estate related asset backed securities and agency residential mortgage backed securities. Newcastle also invests in loans, including real estate related loans, commercial mortgage loans, residential mortgage loans and manufactured housing loans. Newcastle determines at acquisition whether loans will be assembled into pools based on common risk characteristics (credit quality, loan type, and date of origination); loans assembled into pools are accounted for as if each pool were a single loan. Loans receivable are presented in the consolidated balance sheet net of any unamortized discount (or gross of any unamortized premium) and an allowance for loan losses. Discounts or premiums are accreted into interest income on an effective yield or "interest" method, based upon a comparison of actual collections and expected collections, through the expected maturity date of the security or loan. For loans acquired at a discount for credit quality, the difference between contractual cash flows and expected cash flows at acquisition is not accreted (nonaccretable difference). Income is not accrued on non-performing securities or loans; cash received on such securities or loans is treated as income to the extent of interest previously accrued. Interest income with respect to non-discounted securities or loans is recognized on an accrual basis. Deferred fees and costs, if any, are recognized as interest income over the terms of the securities or loans using the interest method. Upon settlement of securities and loans, the excess (or deficiency) of net proceeds over the net carrying value of the security or loan is recognized as a gain (or loss) in the period of settlement.

IMPAIRMENT OF SECURITIES AND LOANS -- Newcastle periodically evaluates securities and loans for impairment. Securities and loans are considered to be impaired, for financial reporting purposes, when it is probable that Newcastle will be unable to collect all principal or interest when due according to the contractual terms of the original agreements, or, for securities or loans purchased at a discount for credit quality, when Newcastle determines that it is probable that it will be unable to collect as anticipated. For loans purchased at a discount for credit quality, if Newcastle determines that it is probable that it will collect more than previously anticipated, the yield accrued on such loan or security is adjusted upward, on a prospective basis. Upon determination of impairment, Newcastle establishes specific valuation allowances, through provisions for losses, based on the estimated fair value of the underlying collateral using a discounted cash flow analysis. The allowance for each security or loan is maintained at a level believed adequate by management to absorb probable losses, based on periodic reviews of actual and expected losses. It is Newcastle's policy to establish an allowance for uncollectible interest on performing securities or loans that are past due more than 90 days or sooner when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. Upon such a determination, those loans are deemed to be non-performing. Actual losses may differ from Newcastle's estimates.

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RENTAL AND ESCALATION INCOME --Contractual minimum rental income is recognized on a straight-line basis over the terms of the related operating leases. The excess of straight-line rents above contractual amounts was \$1.4 million, \$1.9 million and \$1.4 million during 2004, 2003 and 2002, respectively. Expense recoveries are included in rental and escalation income.

MANAGEMENT FEE AND INCENTIVE INCOME FROM AFFILIATE -- These income items relate to Holdings' investment in Fund I which was not transferred to

Newcastle and is not part of our ongoing operations. For a further discussion of this income, see Note 3.

#### EXPENSE RECOGNITION

INTEREST EXPENSE -- Newcastle finances its investments using both fixed and floating rate debt, including securitizations, loans and repurchase agreements, and other financing vehicles. Certain of this debt has been issued at discounts. Discounts are accreted into interest expense on the interest method through the expected maturity date of the financing.

DEFERRED COSTS AND INTEREST RATE CAP PREMIUMS -- Deferred costs consist primarily of costs incurred in obtaining financing which are amortized over the term of such financing using the interest method. Interest rate cap premiums, which are included in Derivative Assets, are amortized as described below. During 2004, 2003 and 2002, approximately \$4.0 million, \$1.5 million and \$1.4 million of such costs were amortized into interest expense, respectively.

DERIVATIVES AND HEDGING ACTIVITIES -- All derivatives are recognized as either assets or liabilities in the statement of financial position and measured at fair value. Fair value adjustments affect either stockholders' equity or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity. For those derivative instruments that are designated and qualify as hedging instruments, Newcastle designates the hedging instrument, based upon the exposure being hedged, as either a cash flow hedge, a fair value hedge or a hedge of a net investment in a foreign operation.

Derivative transactions are entered into by Newcastle solely for risk-management purposes, except for real estate securities portfolio deposits as described in Note 4 and the total return swap described in Note 5. The decision of whether or not a given transaction/position (or portion thereof) is hedged is made on a case-by-case basis, based on the risks involved and other factors as determined by senior management, including restrictions imposed by the Code among others. In determining whether to hedge a risk, Newcastle may consider whether other assets, liabilities, firm commitments and anticipated transactions already offset or reduce the risk. All transactions undertaken as hedges are entered into with a view towards minimizing the potential for economic losses that could be incurred by Newcastle. Generally, all derivatives entered into are intended to qualify as hedges under GAAP, unless specifically stated otherwise. To this end, terms of hedges are matched closely to the terms of hedged items.

#### Description of the risks being hedged

- 1) Interest rate risk, existing positions - Newcastle generally hedges the aggregate risk of interest rate fluctuations with respect to its borrowings, regardless of the form of such borrowings, which require payments based on a variable interest rate index. Newcastle generally intends to hedge only the risk related to changes in the benchmark interest rate (LIBOR or a Treasury rate). In order to reduce such risks, Newcastle may enter into swap agreements whereby Newcastle would receive floating rate payments in exchange for fixed rate payments, effectively converting the borrowing to fixed rate. Newcastle may also enter into cap agreements whereby, in exchange for a premium, Newcastle would be reimbursed for interest paid in excess of a certain cap rate.

#### NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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- 2) Interest rate risk, anticipated transactions - Newcastle may hedge the aggregate risk of interest rate fluctuations with respect to anticipated transactions, primarily anticipated borrowings. The primary risk involved in an anticipated borrowing is that interest rates may increase between the date the transaction becomes probable and the date of consummation. Newcastle generally intends to hedge only the risk related to changes in the benchmark interest rate (LIBOR or a Treasury rate). This is generally accomplished through the use of interest rate swaps.
- 3) Foreign currency rate risk, net investments - Newcastle may hedge the aggregate risk of fluctuations in the exchange rate between a foreign currency, in which Newcastle has made a net investment, and the U.S. dollar. In order to reduce this risk, Newcastle may maintain a short position in the applicable foreign currency. The amount of the

position would be equal to the anticipated net equity in the foreign investment at a forward date, as denominated in the foreign currency. This effectively locks in the current exchange rate on Newcastle's net equity position for the period of such position. At December 31, 2004, no such derivative transactions were outstanding.

#### Cash flow hedges

Newcastle has employed interest rate swaps primarily in two ways: (i) to hedge its exposure to changes in market interest rates with respect to its floating rate debt and (ii) to hedge anticipated financings. Interest on approximately \$375.0 million and \$1,990.9 million in principal amount of Newcastle's floating rate debt was designated as the hedged items to interest rate cap and swap agreements, respectively, at December 31, 2004.

To qualify for cash flow hedge accounting, interest rate swaps and caps must meet certain criteria, including (1) the items to be hedged expose Newcastle to interest rate risk, (2) the interest rate swaps or caps are highly effective in reducing Newcastle's exposure to interest rate risk, and (3) with respect to an anticipated transaction, such transaction is probable. Correlation and effectiveness are periodically assessed based upon a comparison of the relative changes in the fair values or cash flows of the interest rate swaps and caps and the items being hedged.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss, and net payments received or made, on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. Ineffectiveness of approximately \$0.1 million was recorded in 2004 to Gain on Settlement of Investments. No material ineffectiveness was recorded during the years ended December 31, 2003 or 2002. Costs incurred in connection with the purchase of interest rate caps, treated as cash flow hedges, are amortized into interest expense based on the estimated value of such cap for each period covered by such cap.

With respect to interest rate swaps which have been designated as hedges of anticipated financings, periodic net payments are recognized currently as adjustments to interest expense; any gain or loss from fluctuations in the fair value of the interest rate swaps is recorded as a deferred hedging gain or loss in accumulated other comprehensive income and treated as a component of the anticipated transaction. In the event the anticipated refinancing failed to occur as expected, the deferred hedging credit or charge would be recognized currently in income. Newcastle's hedges of such refinancing were terminated upon the consummation of such refinancing. As of December 31, 2004 and 2003, \$(5.5 million) and \$3.4 million, of such gains (losses) were deferred, net of amortization, respectively.

During 2004, Newcastle dedesignated four of its hedge derivatives, and redesignated all or a portion thereof as hedges. As a result of this dedesignation, since the originally hedged items are still owned by Newcastle, the unrealized loss was recorded in OCI as a deferred hedging loss and is being amortized over the life of the hedged item. As of December 31, 2004, \$0.4 million of such loss was deferred, net of amortization.

#### NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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#### Fair Value Hedges

At December 31, 2004, Newcastle owned one interest rate swap designated as a fair value hedge of a fixed rate investment with a notional amount of \$20.5 million. Any gain or loss, as well as net payments received or made on this derivative instrument, are recorded currently in income, as is any gain or loss (including unrealized gains or losses) on the hedged item related to changes in interest rates.

With respect to interest rate swaps which were designated as hedges of the fair value of lease payments, periodic net payments and any gain or loss from fluctuations in the fair value of the interest rate swaps were capitalized to accumulated other comprehensive income and are being recognized over the term of the leases as adjustments to rental income.

Newcastle's hedge of such payments was terminated in 1999. As of December 31, 2004 and 2003, \$1.0 million and \$1.4 million of such losses were deferred, net of amortization, respectively.

#### Classification

During the years ended December 31, 2004, 2003 and 2002, Newcastle recorded an aggregate of \$12.3 million, \$16.8 million and (\$52.4 million) of net gain (loss) to other comprehensive income and an aggregate of \$2.1 million, \$4.8 million and \$4.6 million of gain to earnings, as an adjustment to interest expense, respectively, related to such hedges. Newcastle expects to reclassify approximately \$1.7 million of net loss on derivative instruments from accumulated other comprehensive income to earnings during the twelve months ending December 31, 2005 due to amortization of net deferred hedge losses.

Newcastle's derivatives are recorded on its balance sheet as follows (excluding the real estate securities portfolio deposit, which is reported separately):

<TABLE>  
<CAPTION>

	2004	2003
	-----	-----
<S>	<C>	<C>
Interest rate caps (A)	\$ 3,554	\$ 8,294
Interest rate swaps (A)	21,001	14,194
Total return swaps	399	--
Non-hedge derivatives (B)	2,168	3,024
	-----	-----
Total Derivative Assets	\$27,122	\$25,512
	=====	=====
Interest rate swaps (A)	\$34,240	\$43,075
Interest payable	2,457	2,829
Non-hedge derivatives (B)	2,964	3,771
	-----	-----
Total Derivative Liabilities	\$39,661	\$49,675
	=====	=====

</TABLE>

(A) Treated as hedges

(B) Interest rates swaps and caps

With respect to interest rate swaps and caps that have not been designated as hedges, any net payments under, or fluctuations in the fair value of, such swaps and caps has been recognized currently in income.

Newcastle's derivative financial instruments contain credit risk to the extent that its bank counterparties may be unable to meet the terms of the agreements. Newcastle minimizes such risk by limiting its counterparties to highly rated major financial institutions with good credit ratings. In addition, the potential risk of loss with any one party resulting from this type of credit risk is monitored. Management does not expect any material losses as a result of default by other parties. Newcastle does not require collateral.

MANAGEMENT FEES AND INCENTIVE COMPENSATION TO AFFILIATE -- These represent amounts due to the Manager pursuant to the Management Agreement as well as amounts due to the Manager related to Holdings' investment in Fund I, which were passed through Holdings' income statement on a gross basis through the date of the commencement of our operations. For further information on the Management Agreement, see Note 10. For further information the Fund I related expenses, see Note 3.

#### BALANCE SHEET MEASUREMENT

INVESTMENT IN REAL ESTATE SECURITIES -- Newcastle has classified its investments in securities as available for sale. Securities available for sale are carried at market value with the net unrealized gains or losses reported as a separate component of accumulated other comprehensive income. At disposition, the net realized gain or loss is determined on the basis of the cost of the specific investments and is included in earnings. Unrealized losses on securities are charged to earnings if they reflect a

decline in value that is other than temporary. A decline in value is considered other than temporary if either (a) it is deemed probable that Newcastle will be unable to collect all amounts anticipated to be collected at acquisition, or (b) Newcastle does not have the ability and intent to hold such investment until a forecasted market price recovery.

INVESTMENT IN LOANS -- Loans receivable are presented net of any unamortized discount (or gross of any unamortized premium) and an allowance for loan losses.

INVESTMENT IN OPERATING REAL ESTATE -- Operating real estate is recorded at cost less accumulated depreciation. Depreciation is computed on a straight-line basis. Buildings are depreciated over 40 years. Major improvements are capitalized and depreciated over their estimated useful lives. Fees and costs incurred in the successful negotiation of leases are deferred and amortized on a straight-line basis over the terms of the respective leases. Expenditures for repairs and maintenance are expensed as incurred. Newcastle adopted SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" in 2002. Pursuant to such pronouncement, Newcastle reviews its real estate assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No material impairment was recorded during 2004, 2003 or 2002. SFAS No. 144 also specifies that long-lived assets to be disposed of by sale, which meet certain criteria, should be reclassified to Real Estate Held for Sale and measured at the lower of its carrying amount or fair value less costs of sale. As of December 31, 2004 and 2003, Newcastle had one and five properties classified as Real Estate Held for Sale, respectively (Note 6). The results of operations for such an asset, assuming such asset qualifies as a "component of an entity" as defined in SFAS No. 144, are retroactively reclassified to Income (Loss) from Discontinued Operations for all periods presented.

FOREIGN CURRENCY INVESTMENTS -- Assets and liabilities relating to foreign investments are translated using exchange rates as of the end of each reporting period. The results of Newcastle's foreign operations are translated at the weighted average exchange rate for each reporting period. Translation adjustments are included as a component of accumulated other comprehensive income.

Foreign exchange contracts may, from time to time, be used to hedge Newcastle's net foreign investments. Gains and losses on foreign exchange contracts which qualify as hedges of net foreign investments as well as changes in the market value of these instruments are included in accumulated other comprehensive income. Upon sale or liquidation of a foreign investment, the related amount in accumulated other comprehensive income is reclassified to transaction gain or loss in the period of such liquidation.

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency, except those transactions which qualify as a hedge, are included currently in income.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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CASH AND CASH EQUIVALENTS AND RESTRICTED CASH -- Newcastle considers all highly liquid short-term investments with maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts on deposit with major financial institutions exceed insured limits. Restricted cash consisted of:

<TABLE>

<CAPTION>

	December 31,	
	2004	2003
<S>	<C>	<C>
Derivative margin accounts	\$20,763	\$ 2,339
Restricted property operating accounts	549	604
Trustee accounts	9,652	8,105
Bond sinking funds	207	--
Held in CBO structures (Note 8)		
pending reinvestment	44,719	56,971
Reserve accounts	2,084	2,084

</TABLE>

STOCK OPTIONS -- Newcastle accounts for stock options granted in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" as revised in December 2004 and amended by EITF Issue No. 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Loans or Services." The fair value of the options issued as compensation to the Manager for its successful efforts in raising capital for Newcastle in 2004, 2003 and 2002 was recorded as an increase in stockholders' equity with an offsetting reduction of capital proceeds received. Options granted to Newcastle's directors were accounted for using the intrinsic value method under APB Opinion No. 25, as permitted by SFAS No.123 prior to its revision. Since these options were fully vested before such revision became effective, such revision did not affect Newcastle.

3. INFORMATION REGARDING BUSINESS SEGMENTS

Newcastle conducts its business through three primary segments: real estate securities and real estate related loans, operating real estate and residential mortgage loans. Details of Newcastle's investments in such segments can be found in Notes 4, 5 and 6. Newcastle has retroactively combined two business segments which were previously reported separately: real estate securities and real estate related loans. Management no longer reviews disaggregated, discrete financial information on these two investment categories since, among other reasons, they are cross-financed and share common credit risk characteristics.

Holdings conducted its business in three primary segments: real estate securities and real estate related loans, operating real estate and its investment in Fund I. The real estate securities investments were retained by Newcastle. The operating real estate segment, which comprised three portfolios of properties, was split as follows: the Bell Canada (Canadian) and LIV (Belgian) portfolios were retained by Newcastle while the GSA (U.S.) portfolio was distributed to Holdings. The existing real estate related loans and Fund I investments were distributed to Holdings.

The unallocated portion consists primarily of interest on short-term investments, general and administrative expenses, management fees and incentive compensation pursuant to the Management Agreement, and interest on Holdings' credit facility.

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Summary financial data on Newcastle's segments is given below, together with a reconciliation to the same data for Newcastle as a whole (including its predecessor, through the date of the commencement of Newcastle's operations, as described in Notes 1 and 2):

<TABLE>  
 <CAPTION>

	Real Estate Securities and Real Estate Related Loans	Operating Real Estate	Residential Mortgage Loans	Unallocated
Total	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<C>				
December 31, 2004 and the Year then Ended				
Gross revenues	\$ 225,236	\$ 13,222	\$ 19,135	\$ 553
\$ 258,146				
Operating expenses	(828)	(7,425)	(2,319)	(22,983)
(33,555)				
-----	-----	-----	-----	-----
Operating income (loss)	224,408	5,797	16,816	(22,430)
224,591				
Interest expense	(124,930)	(3,054)	(10,863)	--
(138,847)				
Depreciation and amortization	--	(1,298)	--	(6)
(1,304)				
Equity in earnings of unconsolidated subsidiaries (A)	3,767	6,190	--	--
9,957	-----	-----	-----	-----

Income (loss) from continuing operations 94,397	103,245	7,635	5,953	(22,436)	
Income (loss) from discontinued operations 4,018	--	4,018	--	--	
Net Income (Loss) 98,415	\$ 103,245	\$ 11,653	\$ 5,953	\$ (22,436)	\$
Revenue derived from non-US sources:					
Canada \$ 13,203	\$ --	\$ 13,203	\$ --	\$ --	
Belgium \$ 10,602	\$ --	\$ 10,602	\$ --	\$ --	
Total assets \$4,932,720	\$4,136,203	\$108,322	\$658,643	\$ 29,552	
Long-lived assets outside the US:					
Canada \$ 57,193	\$ --	\$ 57,193	\$ --	\$ --	
Belgium \$ 12,376	\$ --	\$ 12,376	\$ --	\$ --	
December 31, 2003 and the Year then Ended					
Gross revenues \$ 164,054	\$ 134,348	\$ 16,234	\$ 12,892	\$ 580	
Operating expenses (25,861)	(821)	(7,931)	(1,506)	(15,603)	
Operating income (loss) 138,193	133,527	8,303	11,386	(15,023)	
Interest expense (79,084)	(70,192)	(2,730)	(6,162)	--	
Depreciation and amortization (1,194)	--	(1,194)	--	--	
Equity in earnings of unconsolidated subsidiaries 862	861	--	--	1	
Income (loss) from continuing operations 58,777	64,196	4,379	5,224	(15,022)	
Income (loss) from discontinued operations (2,659)	--	(2,659)	--	--	
Net Income (Loss) \$ 56,118	\$ 64,196	\$ 1,720	\$ 5,224	\$ (15,022)	
Revenue derived from non-US sources:					
Canada \$ 16,940	\$ --	\$ 16,940	\$ --	\$ --	
Belgium \$ 5,999	\$ --	\$ 5,999	\$ --	\$ --	
Total assets \$3,550,299	\$2,756,262	\$146,635	\$587,831	\$ 59,571	
Long-lived assets outside the US:					
Canada \$ 54,250	\$ --	\$ 54,250	\$ --	\$ --	
Belgium \$ 78,149	\$ --	\$ 78,149	\$ --	\$ --	

</TABLE>

## NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

		Real Estate Securities and Real Estate Related Loans	Operating Real Estate	Residential Mortgage Loans	Fund I	
Unallocated	Total					
<hr/>						
<S>		<C>	<C>	<C>	<C>	<C>
<C>						
December 31, 2002 and the Year then Ended (A)						
Gross revenues		\$ 83,259	\$ 13,116	\$ 1,281	\$ 3,287	\$
432	\$ 101,375					
Operating expenses		(586)	(6,984)	(141)	(3,861)	
(10,473)	(22,045)					
<hr/>						
Operating income (loss)		82,673	6,132	1,140	(574)	
(10,041)	79,330					
Interest expense		(40,805)	(2,576)	(658)	--	
(2,336)	(46,375)					
Depreciation and amortization		--	(1,130)	--	(329)	
(101)	(1,560)					
Equity in earnings of unconsolidated subsidiaries		--	--	--	303	59
362						
<hr/>						
Income (loss) from continuing operations		41,868	2,426	482	(600)	
(12,419)	31,757					
Income (loss) from discontinued operations		(499)	237	--	--	--
(262)						
<hr/>						
Net Income (Loss)		\$ 41,369	\$ 2,663	\$ 482	\$ (600)	
\$(12,419)	\$ 31,495					
<hr/>						
Revenue derived from non-US sources:						
Canada						
-	\$ 14,015	\$ --	\$ 14,015	\$ --	\$ --	\$ -
<hr/>						
Belgium						
-	\$ 5,402	\$ --	\$ 5,402	\$ --	\$ --	\$ -
<hr/>						
Italy						
-	\$ 180	\$ 180	\$ --	\$ --	\$ --	\$ -
<hr/>						
Total assets		\$1,138,767	\$128,831	\$259,381	\$ --	\$ 45,588
\$1,572,567						
<hr/>						
Long-lived assets outside the US:						
Canada						
-	\$ 49,271	\$ --	\$ 49,271	\$ --	\$ --	\$ -
<hr/>						
Belgium						
-	\$ 67,852	\$ --	\$ 67,852	\$ --	\$ --	\$ -
<hr/>						

&lt;/TABLE&gt;

(A) The Fund I segment and a portion of the Unallocated segment (through the date of the commencement of Newcastle's operations in July 2002) and the discontinued operations of the Operating Real Estate and Real Estate Securities and Real Estate Related Loans segments represent operations related to activities treated as distributed to our predecessor.

Newcastle has two unconsolidated subsidiaries which it accounts for under the equity method. Holdings held two such investments, neither of which were transferred to Newcastle; such investments are included in Newcastle's financial statements through the date of the commencement of Newcastle's operations.

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

<TABLE>  
<CAPTION>

	Operating Real Estate Subsidiary	Real Estate Loan Subsidiary
	----- <C>	----- <C>
BALANCE AT DECEMBER 31, 2002	\$ --	\$ --
Contributions to unconsolidated subsidiaries	--	30,827
Distributions from unconsolidated subsidiaries	--	(1,041)
Equity in earnings of unconsolidated subsidiaries	--	861
Other	--	(7)
	-----	-----
BALANCE AT DECEMBER 31, 2003	\$ --	\$ 30,640
Contributions to unconsolidated subsidiaries	26,789	--
Distributions from unconsolidated subsidiaries	(17,709)	(10,955)
Equity in earnings of unconsolidated subsidiaries	8,698	3,767
Other	--	--
	-----	-----
BALANCE AT DECEMBER 31, 2004	\$ 17,778	\$ 23,452
	=====	=====

</TABLE>

Summarized financial information related to Newcastle's unconsolidated subsidiaries, through the date of their distribution to Holdings, as applicable, was as follows (in thousands):

<TABLE>  
<CAPTION>

	Operating Real Estate Subsidiary (A) (B)	Real Estate Loan Subsidiary (A) (C)			
	December 31, 2004	December 31,			
	----- <C>	----- <C>	----- <C>	----- <C>	----- <C>
	2004	2004	2003		
	-----	-----	-----		
Assets	\$ 89,222	\$47,170	\$61,628		
Liabilities	(53,000)	--	--		
Minority interest	(666)	(266)	(348)		
	-----	-----	-----		
Equity	\$ 35,556	\$46,904	\$61,280		
	=====	=====	=====		
Equity held by Newcastle	\$ 17,778	\$23,452	\$30,640	Austin (D)	Fund I (A)
	=====	=====	=====	-----	-----
	2004	2004	2003	2002	2002
	-----	-----	-----	-----	-----
Revenues	\$ 25,011	\$ 7,852	\$ 1,885	\$ 585	\$ 9,740
Expenses	(7,159)	(111)	(152)	(477)	(4,470)
Minority interest	(328)	(44)	(10)	(45)	--
	-----	-----	-----	-----	-----
Net income (loss)	\$ 17,524	\$ 7,697	\$ 1,723	\$ 63	\$ 5,270
	=====	=====	=====	=====	=====
Newcastle's equity in net income (loss)	\$ 8,698	\$ 3,767	\$ 862	\$ 59	\$ 303
	=====	=====	=====	=====	=====

</TABLE>

(A) Except for Austin, the unconsolidated subsidiaries' summary financial information is presented on a fair value basis, consistent with their internal basis of accounting. Newcastle's equity in net income excludes its predecessor's incentive income with respect to Fund I.

- (B) Included in the operating real estate segment.
- (C) Included in the real estate securities and real estate related loans segment.
- (D) Included in the unallocated segment.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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OPERATING REAL ESTATE SUBSIDIARY

In March 2004 Newcastle purchased a 49% interest in a portfolio of convenience and retail gas stores located throughout the southeastern and southwestern regions of the U.S. The properties are subject to a sale-leaseback arrangement under long-term triple net leases with a 15 year minimum term. Circle K Stores Inc. ("Tenant"), an indirect wholly owned subsidiary of Alimentation Couche-Tard Inc. ("ACT"), is the counterparty under the leases. ACT guarantees the obligations of Tenant under the leases. Newcastle structured this transaction through a joint venture in two limited liability companies with a private investment fund managed by an affiliate of its manager, pursuant to which such affiliate co-invested on equal terms. In October 2004, the investment's initial financing was refinanced with a nonrecourse term loan (\$53.0 million outstanding at December 31, 2004), which bears interest at a fixed rate of 6.04%. The required payments under the loan consist of interest only during the first two years, followed by a 25-year amortization schedule with a balloon payment due in October 2014.

This limited liability company is an investment company and therefore maintains its financial records on a fair value basis. Newcastle has retained such accounting relative to its investment in such limited liability company, which is accounted for under the equity method at fair value.

REAL ESTATE LOAN SUBSIDIARY

In November 2003, Newcastle and a private investment fund managed by an affiliate of the Manager co-invested and each indirectly own an approximately 38% interest in DBNC Peach Manager LLC, a limited liability company that has acquired a pool of franchise loans collateralized by fee and leasehold interests and other assets from a third party financial institution. The Manager receives from this private investment fund, in addition to management fees, incentive compensation if the fund's aggregate investment returns exceed certain thresholds. The remaining approximately 24% interest in the limited liability company is owned by the above-referenced third party financial institution. Newcastle has no additional capital commitment to the limited liability company.

This limited liability company is an investment company and therefore maintains its financial records on a fair value basis. Newcastle has retained such accounting relative to its investment in such limited liability company, which is accounted for under the equity method at fair value.

FUND I

The managing member of Fund I was Fortress Fund MM LLC (the "Fund I Managing Member"), which was owned jointly, through subsidiaries, by Holdings, approximately 94%, and the Manager, approximately 6%. A separate class of membership interests in the Fund I Managing Member reflected the entitlement to the incentive return payable by Fund I, as described below, which was owned 50% by the Manager and 50% by Holdings.

The Fund I Managing Member was entitled to receive an annual management fee of up to 1.5% of Fund I's invested capital or total equity commitments. Holdings was not charged management fees for its investment in Fund I. Pursuant to an agreement between the Fund I Managing Member and the Manager, the Manager was entitled to 100% of the management fee paid by Fund I to the Fund I Managing Member. Since the management fees paid to the Manager flowed through Holdings through its ownership of the Fund I Managing Member, they were reflected as gross amounts in both Management Fee from Affiliate and Management Fee to Affiliate, although they had no effect on net income.

The Fund I Managing Member was entitled to an incentive return (the "Incentive Return") generally equal to 20% of Fund I's returns, as defined. Holdings recorded as incentive income the amount that would be due



-----	-----	-----	-----	-----	-----	---	---	---
Total/Average (A)	\$3,315,253	\$3,269,648	\$116,227	\$(16,379)	\$3,369,496	423	BBB	5.89%
6.19%	5.76							
=====	=====	=====	=====	=====	=====	===	===	=====

(A) The total current face amount of fixed rate securities was \$2,472.1million, and of floating rate securities was \$843.2 million.

Unrealized losses that are considered other than temporary are recognized currently in income. There were no such losses incurred during the years ended December 31, 2004, 2003 or 2002. The unrealized losses on Newcastle's securities are primarily the result of market factors, rather than credit impairment, and Newcastle believes their carrying values are fully recoverable over their expected holding period. One of the securities had an immaterial interest shortfall at December 31, 2004, which has subsequently been brought current; no other securities are delinquent.

<TABLE>  
<CAPTION>  
Securities in an Unrealized Loss Position

<S>		<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>	<C>								
Less Than Twelve Months		\$866,660	\$872,077	\$--	\$(9,202)	\$862,875	95	BBB+	5.45%
5.37%	6.47								
Twelve or More Months		63,484	60,355	--	(7,178)	53,177	7	BB-	6.37%
7.66%	5.92								
-----	-----	-----	-----	---	-----	-----	---	-----	-----
Total		\$930,144	\$932,432	\$--	\$(16,380)	\$916,052	102	BBB+	5.51%
5.52%	6.43								
=====	=====	=====	=====	===	=====	=====	===	=====	=====

The unrealized losses on most of the securities in the "Twelve or More Months" category were primarily caused by changes in market credit spreads. With respect to two of such securities, the unrealized losses were primarily caused by market perceptions of the credit quality of such securities. None of the securities in this category are in default or delinquent and Newcastle has performed credit analyses in relation to such securities which support its belief that the carrying values of such securities are fully recoverable over their expected holding period. Although management expects to hold these securities until their recovery, there is no assurance that such securities will not be sold or at what price they may be sold.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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DECEMBER 31, 2003

<TABLE>  
<CAPTION>

							Weighted Average		
			Gross Unrealized						
Maturity	Current Face	Amortized	-----		Carrying	Number of	S&P		
Asset Type	Amount	Cost Basis	Gains	Losses	Value	Securities	Rating	Coupon	Yield
(Years)									
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>									
CMBS-Conduit	\$ 830,471	\$ 794,973	\$39,308	\$(7,313)	\$ 826,968	126	BBB-	6.39%	7.13%
7.64									
CMBS-Large Loan	374,208	370,480	2,064	(1,003)	371,541	43	BBB	3.98%	4.40%
2.65									
CMBS- B-Note	57,653	55,577	1,141	(41)	56,677	10	BB+	6.37%	7.05%
7.06									
Unsecured REIT De	532,008	541,648	44,301	(1,241)	584,708	71	BBB-	7.18%	6.85%
7.28									
ABS-Manufactured									
Housing	243,938	217,244	3,402	(2,947)	217,699	8	BBB+	7.07%	8.98%

6.11										
ABS-Home Equity	74,867	74,845	785	--	75,630	15	A	3.26%	3.35%	
4.88										
ABS-Franchise	60,393	57,598	2,383	(477)	59,504	11	A	8.60%	10.00%	
5.95										
-----	-----	-----	-----	-----	-----	---	---	----	-----	
----										
Total/Average (A)	\$2,173,538	\$2,112,365	\$93,384	\$(13,022)	\$2,192,727	284	BBB	6.20%	6.71%	
6.36										
=====	=====	=====	=====	=====	=====	===	===	=====	=====	
====										

</TABLE>

(A) The total current face amount of fixed rate securities was \$1,531.6 million, and of floating rate securities was \$457.5 million.

The following is a reconciliation of real estate securities:

<TABLE>

<CAPTION>

REAL ESTATE SECURITIES				
	Current Face	Market	Loss	Amortized
	Amount	(Discount)/	Allowance	Cost Basis
	-----	Premium	-----	-----
<S>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 2002	\$1,025,680	\$(70,546)	\$--	\$ 955,134
Purchases	1,476,600	(14,428)	--	1,462,172
Collections of principal	(45,183)	(608)	--	(45,791)
Cost of securities sold	(249,303)	6,846	--	(242,457)
Accretion	--	5,710	--	5,710
Consolidation of ICH CMO (Note 6)	(34,256)	11,853	--	(22,403)
-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2003	\$2,173,538	\$(61,173)	\$--	\$2,112,365
Purchases	1,500,549	4,084	--	1,504,633
Collections of principal	(181,008)	--	--	(181,008)
Cost of securities sold	(177,826)	4,677	--	(173,149)
Accretion	--	6,807	--	6,807
-----	-----	-----	-----	-----
BALANCE AT DECEMBER 31, 2004	\$3,315,253	\$(45,605)	\$--	\$3,269,648
=====	=====	=====	=====	=====

</TABLE>

During 2004 and 2003, Newcastle recorded gross realized gains of approximately \$20.0 million and \$14.5 million, respectively, and gross realized losses of approximately \$0.0 million and \$1.9 million, respectively, related to the sale of real estate securities.

The securities are encumbered by the CBO securitizations and by repurchase agreements (Note 8) at December 31, 2004.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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Newcastle enters into short-term warehouse agreements with major investment banks for the right to purchase commercial mortgage backed securities, unsecured REIT debt, real estate loans and asset backed securities for its real estate securities portfolios, prior to their being financed with CBOs. These agreements are treated as non-hedge derivatives for accounting purposes and are therefore marked to market through current income. If the related CBO is not consummated, except as a result of Newcastle's gross negligence, willful misconduct or breach of contract, Newcastle would be required to pay the Net Loss, if any, as defined, up to the related deposit, less any Excess Carry Amount, as defined, earned on such deposit. Although Newcastle currently anticipates completing the most recent CBO in the near term, there is no assurance that such CBO will be consummated or on what terms it will be consummated. The following table summarizes the agreements (in thousands):

<TABLE>

<CAPTION>

December 31, 2004				Income (Loss) Recorded		
Deal	Collateral	Aggregate	Fair			
Status	Accumulated (1)	Deposit	Value	2004	2003	2002
-----	-----	-----	-----	-----	-----	-----



	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 2002	\$ 26,423	\$ (6)	\$ --	\$ 26,417	\$ 254,201	\$ 3,997	\$ -
- \$ 258,198							
- Purchases/advances	152,322	(84)	--	152,238	524,502	8,116	-
- 532,618							
- Collections of principal	(20,513)	--	--	(20,513)	(39,545)	--	-
- (39,545)							
- Cost of loans sold	--	--	--	--	(160,828)	(2,869)	
-- (163,697)							
-- Accretion	--	41	--	41	--	(1,237)	
-- (1,237)							
- Loss allowance	--	--	--	--	--	--	
(100) (100)							
- Consolidation of ICH CMO	247,076	--	(2,475)	244,601	--	--	-
- --							
BALANCE AT DECEMBER 31, 2003	\$405,308	\$ (49)	\$ (2,475)	\$402,784	\$ 578,330	\$ 8,007	
\$(100) \$ 586,237							
- Purchases/advances	281,340	15	--	281,355	347,318	3,055	-
- 350,373							
- Collections of principal	(92,425)	--	2	(92,423)	(154,660)	--	-
- (154,660)							
- Cost of loans sold	--	--	--	--	(125,607)	874	
-- (124,733)							
-- Accretion	165	9	--	174	--	(2,533)	
-- (2,533)							
- Loss allowance	--	--	--	--	--	--	
100 100							
BALANCE AT DECEMBER 31, 2004	\$594,388	\$ (25)	\$ (2,473)	\$591,890	\$ 645,381	\$ 9,403	\$ -
- \$ 654,784							

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In November 2004, Newcastle entered into a total rate of return swap with a major investment bank, whereby Newcastle receives the sum of all interest (at LIBOR + 2.25%), fees and any positive change in value amounts (the total return cash flows) from a referenced term loan (to a retail mall REIT) with an initial notional amount of \$107.0 million, and pays interest (at LIBOR + 0.50%) on such notional plus any negative change in value amounts from such loan. This agreement is recorded in Derivative Assets and is treated as a non-hedge derivative for accounting purposes and is therefore marked to market through income. Under the agreement, Newcastle was required to post an initial margin deposit equal to 17% of the notional amount and additional margin may be payable in the event of a decline in value of the referenced term loan. Any margin on deposit, less any negative change in value payments, will be returned to Newcastle upon termination of the contract.

The average carrying amount of Newcastle's real estate related loans was approximately \$486.2 million and \$113.6 million during 2004 and 2003, respectively, on which Newcastle earned approximately \$36.7 million and \$10.7 million of gross revenues, respectively.

The average carrying amount of Newcastle's residential mortgage loans was approximately \$637.4 million and \$400.0 million during 2004 and 2003, respectively, on which Newcastle earned approximately \$19.1 million and \$12.9 million of gross revenues, respectively.

The residential mortgage loan portfolio is encumbered by repurchase agreements and a term loan (Note 8), the ICH CMO loans are encumbered by the ICH CMO Bonds (Note 8) and the real estate related loans are encumbered by the CBO securitizations, term loans and repurchase agreements (Note 8).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2004, 2003 AND 2002  
 (dollars in tables in thousands, except per share data)

6. OPERATING REAL ESTATE

The following is a reconciliation of operating real estate assets and accumulated depreciation:

<TABLE>  
 <CAPTION>

Operating Real Estate -----	Gross -----	Accumulated Depreciation -----	Net -----
<S>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 2002	\$123,112	\$ (9,460)	\$113,652
Improvements	576	--	576
Foreign currency translation	25,313	(2,247)	23,066
Depreciation	--	(3,043)	(3,043)
Transferred to Real Estate Held for Sale	(34,671)	3,415	(31,256)
	-----	-----	-----
BALANCE AT DECEMBER 31, 2003	\$114,330	\$ (11,335)	\$102,995
Improvements	148	--	148
Foreign currency translation	8,899	(1,094)	7,805
Depreciation	--	(2,137)	(2,137)
Transferred to Real Estate Held for Sale	(57,686)	6,068	(51,618)
	-----	-----	-----
BALANCE AT DECEMBER 31, 2004	\$ 65,691	\$ (8,498)	\$ 57,193
	=====	=====	=====
Canadian Properties	\$ 65,691	\$ (8,498)	\$ 57,193
Belgian Properties	--	--	--
	-----	-----	-----
Total	\$ 65,691	\$ (8,498)	\$ 57,193
	=====	=====	=====

Real Estate Held for Sale

BALANCE AT DECEMBER 31, 2002	\$ 3,471
Sold	(3,471)
Transferred from Operating Real Estate	31,256
Mark to market	(1,852)
	-----
BALANCE AT DECEMBER 31, 2003	\$ 29,404
Improvements	73
Foreign currency translation	(735)
Sold	(67,984)
Transferred from Operating Real Estate	51,618
	-----
BALANCE AT DECEMBER 31, 2004	\$ 12,376
	=====
Canadian Properties	\$ --
Belgian Properties	12,376
	-----
Total	\$ 12,376
	=====

</TABLE>

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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All of Newcastle's U.S. properties (the "GSA Portfolio") were distributed to Holdings prior to the commencement of Newcastle's operations. Such properties were primarily leased to the General Services Administration of the U.S. Government. The GSA Portfolio was financed by a securitization which was also distributed to Holdings.

The Canadian properties are primarily leased to Bell Canada, a wholly-owned subsidiary of BCE, Inc. and are referred to as the "Bell Canada Portfolio." For 2004, 2003 and 2002, approximately 99%, 98% and 99% of Newcastle's consolidated rental and escalation income from continuing operations was attributable to Bell Canada. The Bell Canada leases expire in 2006 and 2007. The lease of the primary tenant of one of these properties, the smallest property in the portfolio, expired in March 2004 and this building is now vacant; in January 2005, we agreed to the terms for a sale of this property and received a nonrefundable deposit thereon. In March 2005, we

agreed to the terms for a sale of another of the Bell Canada properties and received a nonrefundable deposit thereon. Each Bell Canada lease contains one five-year lease renewal option and provides for a significant payment due upon expiration of the lease. These terminal payments have been included in the calculation of straight-line rental income assuming that each lease is renewed once. The Bell Canada leases also provide for the reimbursement of substantially all operating expenses and property taxes plus an administrative fee. The Bell Canada Portfolio is encumbered by the Bell Canada bonds (Note 8).

The Belgian properties are referred to as the "LIV Portfolio" and are leased to a variety of tenants. The leases on the Belgian properties provide for annual increases in base rent based on the change in a Belgian index, as well as payment of increases in operating expenses and real estate taxes over base year amounts.

The following is a schedule of the future minimum rental payments to be received under non-cancelable operating leases:

<S>	<C>
2005	\$ 6,221
2006	4,403
2007	1,279
2008	190
2009	190
Thereafter	190
	-----
	\$12,473
	=====

</TABLE>

In May 2002, Holdings sold one of its GSA Properties with a net basis of \$33.0 million for a net purchase price of approximately \$34.1 million, at a gain of \$1.1 million.

In May 2002, Newcastle sold a property in the LIV portfolio for gross proceeds of approximately \$8.9 million, at a loss of approximately \$1.1 million.

In 2002, Newcastle entered into contracts to sell two commercial properties located in Canada for gross proceeds of approximately \$2.6 million, at a loss of approximately \$1.6 million including the write off of accumulated other comprehensive income related to foreign currency translation. The sales were completed in April 2003.

In June 2004, Newcastle consummated the sale of five properties in the LIV portfolio. These properties had been classified as held for sale since December 2003. Newcastle recognized a \$1.5 million loss on this sale in December 2003. In addition, Newcastle recognized a \$1.2 million loss in 2004, primarily related to the prepayment of the debt on such properties.

In December 2004, Newcastle sold two properties in the LIV portfolio at a gain of approximately \$5.3 million, net of prepayment penalties on the related debt.

In March 2004, Newcastle committed to a plan to sell one property in the LIV portfolio. Newcastle expects a sale of this property to be completed by the first quarter of 2005. Accordingly, this property has been reclassified as Real Estate Held for Sale. Although Newcastle currently anticipates completing this sale in the near term, there is no assurance that this sale will be completed or on what terms it will be completed. This property is the last remaining property in the LIV portfolio.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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Pursuant to SFAS No. 144, Newcastle has retroactively recorded the operations, including the gain or loss, of all sold or "held for sale" properties in Income from Discontinued Operations for all periods presented.

Gross revenues from discontinued operations, which include those investments distributed to Holdings as discussed in Note 2, were approximately \$10.6 million, \$6.7 million and \$35.4 million in 2004, 2003 and 2002, respectively. Interest expense included in discontinued operations was approximately \$3.4 million, \$4.0 million, and \$15.2 million in 2004, 2003 and 2002 respectively.

## NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following table sets forth certain information regarding the operating real estate portfolio:

			DECEMBER 31, 2004					
			COSTS					
OCC.			INITIAL	CAPITALIZED	GROSS	ACCUM.	NET	
(C)	TYPE OF PROPERTY	LOCATION	COST (A)	ACQ'N (A)	AMOUNT	DEPR.	VALUE (B)	ENCUMB.
-								
<S>	<C>		<C>	<C>	<C>	<C>	<C>	<C>
<C>								
--%	Off. Bldg.	Etobicoke, ON	\$11,687	\$ 866	\$12,553	\$1,817	\$10,736	\$10,623
95.2%	Off. Bldg.	London, ON	19,133	400	19,533	2,880	16,653	9,286
100.0%	Industrial/Distribution	Toronto, ON	33,376	229	33,605	3,801	29,804	22,513
-								
	SUBTOTAL - CANADA		64,196	1,495	65,691	8,498	57,193	42,422
82.9%								
-								
84.0%	Off. Bldg.	G. Bijgaarden, BEL	N/A	N/A	12,376	N/A	12,376	--
	SUBTOTAL - BELGIUM		--	--	12,376	--	12,376	--
84.0%	(HELD FOR SALE)							
-								
83.0%	TOTALS:		\$64,196	\$1,495	\$78,067	\$8,498	\$69,569	\$42,422
			=====	=====	=====	=====	=====	=====

&lt;CAPTION&gt;

TYPE OF PROPERTY	LOCATION	NET RENTABLE SQ. FT. (C)	ACQ'N DATE (C)	YEAR BUILT/RENOVATED (C)
<S>	<C>	<C>	<C>	<C>
Off. Bldg.	Etobicoke, ON	177,214	10/98	1972/1978
Off. Bldg.	London, ON	325,764	10/98	1980
Industrial/Distribution	Toronto, ON	624,786	10/98	1963/71/79
	SUBTOTAL - CANADA	1,127,764		
	Off. Bldg.	81,763	11/99	1994
	SUBTOTAL - BELGIUM	81,763		
	(HELD FOR SALE)			
	TOTALS:	1,209,527		
		=====		

&lt;/TABLE&gt;

- (A) Adjusted for changes in foreign currency exchange rates, which aggregated \$4.7 million of gain and \$10.4 million of gain between land, building and improvements in 2004 and 2003 respectively.
- (B) The aggregate United States federal income tax basis for such assets at December 31, 2004 was approximately \$71.8 million.
- (C) Unaudited.

## NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

For certain of Newcastle's financial instruments, fair values are not readily available since there are no active trading markets as characterized by current exchanges between willing parties. Accordingly, fair values can only be derived or estimated for these instruments using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. It should be noted that minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values, and that the fair values reflected below are indicative of the interest rate, credit spread and currency rate environments as of December 31, 2004 and do not take into consideration the effects of subsequent interest rate, credit spread or currency rate fluctuations.

The carrying values and estimated fair values of Newcastle's financial instruments at December 31, 2004 and 2003 were as follows:

Value	Carrying Value		Principal Balance or Notional Amount		Estimated Fair	
	December 31,		December 31,		December 31,	
	2004	2003	2004	2004		
2003						
<S>	<C>	<C>	<C>		<C>	<C>
ASSETS:						
Real estate securities, available for sale \$2,192,727	\$3,369,496	\$2,192,727	\$3,315,253		\$3,369,496	
Real estate securities portfolio deposit 19,541	25,411	19,541	See below		25,411	
Real estate related loans 429,860	591,890	402,784	594,388		600,528	
Residential mortgage loans 586,237	654,784	586,237	645,381		654,784	
Interest rate caps, treated as hedges (A) 8,294	3,554	8,294	375,019		3,554	
Total return swap (A) --	399	--	See below		399	
LIABILITIES:						
CBO bonds payable 1,836,628	2,656,510	1,793,533	2,681,395		2,720,704	
Other bonds payable 282,014	222,266	260,674	222,729		227,510	
Notes payable 155,058	652,000	154,562	652,000		652,000	
Repurchase agreements 715,783	490,620	715,783	490,620		490,620	
Interest rate swaps, treated as hedges (B) 28,881	13,239	28,881	2,011,418		13,239	
Non-hedge derivative obligations (C) 747	796	747	See below		796	

(A) Included in Derivative Assets. The longest cap maturity is October 2015. The total return swap matures in November 2008.

(B) Included in Derivative Assets or Liabilities, as applicable. The longest swap maturity is November 2018.

(C) Included in Derivative Assets or Liabilities, as applicable. The longest maturity is July 2038.

The methodologies used and key assumptions made to estimate fair value are as follows:

REAL ESTATE SECURITIES, AVAILABLE FOR SALE -- The fair value of these securities is estimated by obtaining third party broker quotations, if available and practicable, and counterparty quotations.

REAL ESTATE SECURITIES PORTFOLIO DEPOSIT -- The fair value of this deposit, which is treated as a non-hedge derivative, is estimated by obtaining third party broker quotations on the underlying securities, if available and practicable, and counterparty quotations, including a counterparty quotation on the portion of the fair value resulting from the Excess Carry Amount, as defined, earned on such deposit. This deposit is more fully described in Note 4.

REAL ESTATE RELATED LOANS -- The fixed rate B-Notes were valued by obtaining counterparty quotations. The rest of the B-Notes as well as the mezzanine loans, bank loans, and real estate loans, with one exception, bear floating rates of interest and Newcastle believes that, for similar financial instruments with comparable credit risks, their effective rates approximate market rates. Accordingly, the carrying amounts outstanding are believed to approximate fair value. The one fixed rate loan was purchased on December 29, 2004 and therefore its carrying amount is believed to approximate fair value. The ICH CMO loans were valued by discounting expected future receipts by a rate calculated based on current market conditions for comparable financial instruments, including market interest rates and credit spreads.

RESIDENTIAL MORTGAGE LOANS -- This portfolio of mortgage loans bears a floating rate of interest. Newcastle believes that, for similar financial instruments with comparable credit risks, the effective rate on this portfolio approximates a market rate. Accordingly, the carrying amount of this portfolio is believed to approximate fair value.

INTEREST RATE CAP AND SWAP AGREEMENTS, TOTAL RETURN SWAP AND NON-HEDGE DERIVATIVE OBLIGATIONS -- The fair value of these agreements is estimated by obtaining counterparty quotations. The total return swap is more fully described in Note 5.

CBO BONDS PAYABLE -- These bonds were valued by discounting expected future payments by a rate calculated based on current market conditions for comparable financial instruments, including market interest rates and credit spreads.

OTHER BONDS PAYABLE -- The Bell Canada bonds were valued, in U.S. dollars at the period end exchange rate, by discounting expected future payments by a rate calculated by imputing a spread over a market index on the date of borrowing. The ICH CMO bonds were valued by discounting expected future payments by a rate calculated based on current market conditions for comparable financial instruments, including market interest rates and credit spreads.

NOTES PAYABLE -- The LIV mortgage was valued, in U.S. dollars at the period end exchange rate, by discounting expected future payments by a rate calculated by imputing a spread over a market index on the date of borrowing. It was repaid in December 2004. The real estate related loan financings and residential mortgage loan financing bear floating rates of interest. Newcastle believes that, for similar financial instruments with comparable credit risks, their effective rates approximate market rates. Accordingly, the carrying amounts outstanding are believed to approximate fair value.

REPURCHASE AGREEMENTS -- These agreements bear floating rates of interest and Newcastle believes that, for similar financial instruments with comparable credit risks, the effective rates approximate market rates. Accordingly, the carrying amounts outstanding are believed to approximate fair value.

8. DEBT OBLIGATIONS

The following table presents certain information regarding Newcastle's debt

obligations and related hedges:

<TABLE>  
<CAPTION>

Final Stated Debt Obligation/Collateral Maturity	Month Issued	Current Face Amount December 31,		Carrying Value December 31,		Unhedged Weighted
		2004	2003	2004	2003	Average Funding Cost
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CBO Bonds Payable						
Real estate securities and loans July 2038	July 1999	\$ 436,895	\$ 437,500	\$ 432,893	\$ 431,802	4.08% (2)
Real estate securities and loans Apr 2037	Apr 2002	444,000	444,000	440,427	439,832	3.67% (2)
Real estate securities and loans Mar 2038	Mar 2003	472,000	472,000	467,905	467,325	3.68% (2)
Real estate securities and loans Sept 2038	Sept 2003	460,000	460,000	455,115	454,574	3.28% (2)
Real estate securities and loans Mar 2039	Mar 2004	414,000	--	410,018	--	3.31% (2)
Real estate securities and loans Sept 2039	Sept 2004	454,500	--	450,152	--	3.16% (2)
		-----	-----	-----	-----	
		2,681,395	1,813,500	2,656,510	1,793,533	
Other Bonds Payable						
Bell Canada portfolio (4) Apr 2012	Apr 2002	42,885	42,866	42,422	42,168	7.02%
ICH CMO loans (5) Aug 2030	(5)	179,844	218,506	179,844	218,506	6.61% (2)
		-----	-----	-----	-----	
		222,729	261,372	222,266	260,674	
Notes Payable						
LIV portfolio (3)	Nov 2002	--	74,562	--	74,562	N/A
Real estate related loan Nov. 2006	Nov 2003	67,523	80,000	67,523	80,000	LIBOR+1.50%
Real estate related loan (6) Feb. 2005	Feb 2004	40,000	--	40,000	--	LIBOR+1.50%
Residential mortgage loans (7) Nov. 2007	Nov 2004	544,477	--	544,477	--	LIBOR+0.15%
		-----	-----	-----	-----	
		652,000	154,562	652,000	154,562	
Repurchase Agreements (7)						
Residential mortgage loans (8) Mar. 2005	Rolling	67,382	557,191	67,382	557,191	LIBOR + 0.43%
ABS-manufactured housing (9) Mar. 2005	Rolling	103,738	138,992	103,738	138,992	LIBOR + 0.64%
Agency RMBS (10) Jan. 2005	Rolling	195,754	--	195,754	--	LIBOR + 0.13%
Real estate securities Oct. 2005	Rolling	67,471	19,600	67,471	19,600	LIBOR + 0.61%
Real estate related loans (11) Oct. 2005	Rolling	56,275	--	56,275	--	LIBOR + 0.95%
		-----	-----	-----	-----	
		490,620	715,783	490,620	715,783	
Total debt obligations		-----	-----	-----	-----	
		\$4,046,744	\$2,945,217	\$4,021,396	\$2,924,552	
		=====	=====	=====	=====	

<CAPTION>

Aggregate Notional Amount of Currently Effective Debt Obligation/Collateral Hedges	Weighted Average Funding Cost (1)	Weighted Average Maturity (Years)	Face	Collateral	Face	Amount of Floating Rate Collateral
			Amount of Floating Rate Debt			
			of Floating Rate Debt	Weighted Average Maturity (Years)	Weighted Average Maturity (Years)	of Floating Rate Collateral
			Collateral	Collateral	Collateral	Collateral
			Value	Value	Value	Value
			-----	-----	-----	-----
			-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
CBO Bonds Payable							
Real estate securities and loans 328,699	4.85%	4.21	\$ 341,895	\$ 587,861	6.04	\$ --	\$
Real estate securities and loans 290,000	6.18%	5.38	372,000	505,927	6.16	84,733	
Real estate securities and loans 276,060	4.45%	7.31	427,800	499,813	5.60	144,682	
Real estate securities and loans 192,500	4.32%	7.87	442,500	497,524	4.93	233,990	
Real estate securities and loans 165,300	3.85%	7.63	382,750	449,244	6.01	217,652	
Real estate securities and loans 189,373	3.90%	8.20	442,500	499,867	6.46	252,886	
-----	-----	-----	-----	-----	-----	-----	-----
1,441,932	4.59%	6.78	2,409,445	3,040,236	5.87	933,943	
-----	-----	-----	-----	-----	-----	-----	-----
Other Bonds Payable							
Bell Canada portfolio (4)	7.02%	1.43	--	57,193	N/A	--	
ICH CMO loans (5)	6.61%	2.79	3,684	202,674	2.86	3,684	
-----	-----	-----	-----	-----	-----	-----	-----
--	6.69%	2.53	3,684	259,867		3,684	
-----	-----	-----	-----	-----	-----	-----	-----
Notes Payable							
LIV portfolio	N/A	--	--	--	--	--	
Real estate related loan	3.92%	1.64	67,523	83,909	1.64	83,909	
Real estate related loan (6)	4.26%	0.17	40,000	50,000	2.13	50,000	
Residential mortgage loans (7)	2.46%	2.10	544,477	583,922	3.76	575,759	
-----	-----	-----	-----	-----	-----	-----	-----
--	2.72%	1.93	652,000	717,831	3.4	709,668	
-----	-----	-----	-----	-----	-----	-----	-----
Repurchase Agreements (7)							
Residential mortgage loans (8)	2.99%	0.25	67,382	70,862	4.49	69,622	
ABS-manufactured housing (9)	4.29%	0.17	103,738	146,309	5.11	--	
Agency RMBS (10)	3.81%	0.08	195,754	201,528	3.35	--	
Real estate securities	3.29%	0.22	67,471	91,771	3.73	32,609	
Real estate related loans (11)	3.34%	0.69	56,275	73,500	1.87	73,500	
-----	-----	-----	-----	-----	-----	-----	-----
312,404	3.67%	0.21	490,620	583,970	3.80	175,731	
-----	-----	-----	-----	-----	-----	-----	-----
Total debt obligations \$1,754,336	4.29%	4.97	\$3,555,749	\$4,601,904		\$1,823,026	
=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

- (1) Including the effect of applicable hedges.
- (2) Weighted average, including floating and fixed rate classes.
- (3) Repaid in December 2004.
- (4) Denominated in Canadian dollars.
- (5) See Note 5.
- (6) Maturity date extended in January 2005 from February 2005 to February 2006.
- (7) Subject to potential mandatory prepayments based on collateral value.
- (8) The counterparty on this repo is Bear Stearns Mortgage Capital Corporation.

(9) The counterparty on these repos is Greenwich Capital Markets Inc.

(10) The counterparty on this repo is Bank of America Securities LLC.

(11) The counterparty on these repos is Deutsche Bank AG.

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

Certain of the debt obligations included above are obligations of consolidated subsidiaries of Newcastle which own the related collateral. In some cases, such collateral is not available to other creditors of Newcastle.

CBO Bonds Payable

In connection with the sale of two classes of CBO bonds, Newcastle entered into two interest rate swaps and three interest rate cap agreements that do not qualify for hedge accounting. Changes in the values of these instruments have been recorded currently in income.

In November 2001, Newcastle sold the retained subordinated \$17.5 million Class E Note from its first CBO to a third party. The Class E Note bore interest at a fixed rate of 8.0% and had a stated maturity of June 2038. The sale of the Class E Note represented an issuance of debt and was recorded as additional CBO Bonds Payable. In April 2002, a wholly-owned subsidiary of Newcastle repurchased the Class E Note. The repurchase of the Class E Note represented a repayment of debt and was recorded as a reduction of CBO Bonds Payable. The Class E Note is included in the collateral for Newcastle's second CBO. The Class E Note is eliminated in consolidation.

One class of the CBO bonds, with a \$395.0 million face amount, was issued subject to remarketing procedures and related agreements whereby such bonds are remarketed and sold on a periodic basis. These bonds are fully insured by a third party with respect to the timely payment of interest and principal thereon.

In July 2004, Newcastle refinanced \$342.5 million of the AAA and AA bonds in its first CBO. \$322.5 million of AAA bonds were refinanced at LIBOR +0.30% from LIBOR +0.65% and \$20.0 million of AA bonds were refinanced at LIBOR +0.50% from LIBOR +0.80%. In connection with this transaction, Newcastle incurred approximately \$1.5 million of costs, which are included in Gain on Settlement of Investments, Net.

Other Bonds Payable

In connection with the Bell Canada securitization, Newcastle guaranteed certain payments under an interest rate swap to be entered into in 2007, if the Bell Canada securitization is not fully repaid by such date. Newcastle believes the fair value of this guarantee is negligible at December 31, 2004. A portion of the Bell Canada securitization has been repaid with proceeds from the sale of properties in the Bell Canada portfolio.

In October 2003, Newcastle consolidated an entity which holds a portfolio of commercial mortgage loans which has been securitized. The primary effect of the consolidation is the requirement that Newcastle reflect the gross loans assets (Note 5) and gross bonds payable of this entity in its financial statements.

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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Notes Payable

The LIV mortgage was repaid in full during 2004 with proceeds from the sale of properties in the LIV portfolio.

Predecessor

Newcastle's predecessor had two primary debt obligations which were

distributed to it upon Newcastle's formation, a securitization which was secured by the GSA Portfolio (Note 6) and a credit facility. Interest on the securitization is included in discontinued operations through the date of Newcastle's formation; interest on the credit facility is included in interest expense through such date.

Maturity Table

Newcastle's debt obligations (gross of \$25.3 million of discounts at December 31, 2004) have contractual maturities as follows (in millions):

```

<TABLE>
<S>      <C>
2005      $ 535,870
2006           62,273
2007      544,477
2008           --
2009           --
Theafter  2,904,124
-----
           $4,046,744
           =====
    
```

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

9. STOCK OPTION PLAN

In June 2002, Newcastle (with the approval of the board of directors) adopted a nonqualified stock option and incentive award plan (the "Newcastle Option Plan") for officers, directors, consultants and advisors, including the Manager and its employees. The maximum available for issuance is equal to 10% of the number of outstanding equity interests of Newcastle, subject to a maximum of 10,000,000 shares in the aggregate over the term of the plan.

The non-employee directors have been, in accordance with the Newcastle Option Plan, automatically granted options to acquire an aggregate of 16,000 shares of common stock, which vest over three years. The fair value of such options was not material at the date of grant.

Through December 31, 2004, for the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, the Manager has been granted options representing the right to acquire 2,325,727 shares of common stock, with strike prices subject to adjustment as necessary to preserve the value of such options in connection with the occurrence of certain events (including capital dividends and capital distributions made by Newcastle). The Manager options represented an amount equal to 10% of the shares of common stock of Newcastle sold in its public offerings and the value of such options was recorded as an increase in stockholders' equity with an offsetting reduction of capital proceeds received. The options granted to the Manager, which may be assigned by the Manager to its employees, were fully vested on the date of grant and one thirtieth of the options become exercisable on the first day of each of the following thirty calendar months, or earlier upon the occurrence of certain events, such as a change in control of Newcastle or the termination of the Management Agreement. The options expire ten years from the date of issuance.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004, 2003 AND 2002

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

The following table summarizes our outstanding options at December 31, 2004:

```

<TABLE>
<CAPTION>

```

Recipient	Date of Grant/ Exercise	Number of Options	Weighted Average Exercise Price	Fair Value At Grant Date (millions)
-----	-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>	<C>
Directors	Various	16,000		\$15.69	Not Material
Manager (B)	October 2002	700,000		\$13.00	\$0.4 (A)
Manager (B)	July 2003	460,000		\$20.35	\$0.8 (A)
Manager (B)	December 2003	328,227		\$22.85	\$0.4 (A)
Manager (B)	January 2004	330,000		\$26.30	\$0.6 (A)
Manager (B)	May 2004	345,000		\$25.75	\$0.5 (A)
Manager (B)	November 2004	162,500		\$31.40	\$0.5 (A)
Exercised (B)	Prior to 2004	(2,500)		\$13.90	
Exercised (B)	2004	(107,500)		\$13.29	
				-----	
Outstanding		2,231,727		\$21.25	=====

</TABLE>

(A) The fair value of the options was estimated by reference to a binomial option pricing model. Since the Newcastle Option Plan has characteristics significantly different from those of traded options, and since the assumptions used in such model, particularly the volatility assumption, are subject to significant judgment and variability, the actual value of the options could vary materially from management's estimate. The assumptions used in such model were as follows:

Date of Grant	Volatility	Dividend Yield	Expected Life (Years)	Risk-Free Rate
<S>	<C>	<C>	<C>	<C>
October 2002	15%	13.85%	10	4.05%
July 2003	15%	9.83%	10	3.63%
December 2003	15%	8.75%	10	4.23%
January 2004	15%	7.60%	10	4.23%
May 2004	15%	9.32%	10	4.77%
November 2004	18%	7.64%	10	4.21%

</TABLE>

(B) The Manager assigned certain of its options to its employees as follows:

Strike Price	Year Assigned		
	2004	2003	Total Inception to Date
<S>	<C>	<C>	<C>
\$13.00	267,750	1,750	269,500
\$20.35	192,050	1,150	193,200
\$22.85	147,702	--	147,702
\$26.30	136,950	--	136,950
\$31.40	67,438	--	67,438
	-----	-----	-----
Total	811,890	2,900	814,790
	=====	=====	=====

</TABLE>

107,000 of the exercised options were exercised by employees of the Manager subsequent to their assignment. 3,000 of the exercised options were exercised by directors.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

10. MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

MANAGER

Newcastle entered into the Management Agreement with the Manager in June 2002, which provided for an initial term of one year with automatic one-year extensions, subject to certain termination rights. After the initial one year term, the Manager's performance is reviewed annually and the Management Agreement may be terminated by Newcastle by payment of a termination fee, as defined in the Management Agreement, equal to the amount of management fees earned by the Manager during the twelve consecutive calendar months immediately preceding the termination, upon the

affirmative vote of at least two-thirds of the independent directors, or by a majority vote of the holders of common stock. Pursuant to the Management Agreement, the Manager, under the supervision of Newcastle's board of directors, formulates investment strategies, arranges for the acquisition of assets, arranges for financing, monitors the performance of Newcastle's assets and provides certain advisory, administrative and managerial services in connection with the operations of Newcastle. For performing these services, Newcastle pays the Manager an annual management fee equal to 1.5% of the gross equity of Newcastle, as defined. Holdings' management agreement with the Manager contained substantially the same terms.

The Management Agreement provides that Newcastle will reimburse the Manager for various expenses incurred by the Manager or its officers, employees and agents on Newcastle's behalf, including costs of legal, accounting, tax, auditing, administrative and other similar services rendered for Newcastle by providers retained by the Manager or, if provided by the Manager's employees, in amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis.

To provide an incentive for the Manager to enhance the value of the common stock, the Manager is entitled to receive an incentive return (the "Incentive Compensation") on a cumulative, but not compounding, basis in an amount equal to the product of (A) 25% of the dollar amount by which (1) (a) the Funds from Operations, as defined (before the Incentive Compensation) of Newcastle per share of common stock (based on the weighted average number of shares of common stock outstanding) plus (b) gains (or losses) from debt restructuring and from sales of property and other assets per share of common stock (based on the weighted average number of shares of common stock outstanding), exceed (2) an amount equal to (a) the weighted average of the price per share of common stock in the IPO and the value attributed to the net assets transferred to us by Holdings, and in any subsequent offerings by Newcastle (adjusted for prior capital dividends or capital distributions) multiplied by (b) a simple interest rate of 10% per annum (divided by four to adjust for quarterly calculations) multiplied by (B) the weighted average number of shares of common stock outstanding. An affiliate of the Manager was entitled to a similar incentive return from Holdings.

<TABLE>  
<CAPTION>

AMOUNTS INCURRED (IN MILLIONS)

	2004	2003	2002
<S>	<C>	<C>	<C>
Management Fee .....	\$10.1	\$6.0	\$4.3
Expense Reimbursement ....	\$ 0.5	\$0.5	\$0.5
Incentive Compensation ...	\$ 8.0	\$6.2	\$3.5

</TABLE>

At December 31, 2004, an affiliate of the Manager, and its principals, owned 2.3 million shares of Newcastle's common stock and had options to purchase an additional 1.5 million shares of Newcastle's common stock (Note 9).

At December 31, 2004, Due To Affiliates is comprised of \$8.0 million of incentive compensation payable and \$1.0 million of management fees and expense reimbursements payable to the Manager.

OTHER AFFILIATES

In November 2003, Newcastle and a private investment fund managed by an affiliate of our manager co-invested and each indirectly own an approximately 38% interest in a limited liability company (Note 3) that has acquired a pool of franchise loans from a third party financial institution. Newcastle's investment in this entity, reflected as an investment in an unconsolidated subsidiary on Newcastle's consolidated balance sheet, was approximately

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

\$23.5 million at December 31, 2004. The remaining approximately 24% interest in the limited liability company is owned by the above-referenced third party financial institution.

In January 2004, Newcastle purchased from an underwriter \$31.5 million face

amount of B and BB rated real estate securities (Note 4) of Global Signal Trust I, a special purpose vehicle established by Global Signal Inc. Two of Newcastle's directors are the CEO and President of Global Signal, Inc., respectively. A private equity fund managed by an affiliate of Newcastle's manager owns a significant portion of Global Signal Inc.'s common stock. Approximately \$418.0 million of Global Signal Trust I securities were issued in 7 classes, rated AAA through B, of which the B and BB classes constituted \$73.0 million. The balance of the B and BB securities was sold on identical terms to a private investment fund managed by an affiliate of our manager and to a large third party mutual fund complex. The proceeds of the offering were utilized by Global Signal Inc. to repay an existing credit facility, to pay an extraordinary dividend of approximately \$140 million to its stockholders of which approximately \$67 million was paid to the above-referenced private equity fund, and for general working capital purposes. In December 2004, through its warehouse, Newcastle placed a deposit of approximately \$2.6 million on \$17.0 million of BB rated securities of Global Signal Trust II, a special purpose vehicle established by Global Signal Inc. Pursuant to an underwritten 144A offering, approximately \$293.8 million of Global Signal Trust II securities were issued in 7 classes, rated AAA through BB-, of which the BB class constituted approximately \$35.4 million.

In March 2004, Newcastle and a private investment fund managed by an affiliate of Newcastle's manager co-invested and each indirectly own an approximately 49% interest in a limited liability company (Note 3) that has acquired, in a sale-leaseback transaction, a portfolio of convenience and retail gas stores from a public company. The properties are subject to a number of master leases, the initial term of which in each case is a minimum of 15 years. This investment was financed with nonrecourse debt at the limited liability company level and Newcastle's investment in this entity, reflected as an investment in an unconsolidated subsidiary on Newcastle's consolidated balance sheet, was approximately \$17.8 million at December 31, 2004.

In December 2004, Newcastle and a private investment fund managed by an affiliate of Newcastle's manager each made an initial investment in a new real estate related loan (Note 5) with a maximum loan amount of \$128 million, subject to being drawn down under certain conditions. The loan is secured by a first mortgage on a large development project and related assets. Newcastle owns a 27.3% interest in the loan and the private investment fund owns a 72.7% interest in the loan. Major decisions require the unanimous approval of holders of interests in the loan while for other decisions, holders of interests in the loan vote based on their percentage interest therein. Newcastle and our affiliated investment fund are each entitled to transfer all or any portion of their respective interests in the loan to third parties. Newcastle's investment in this loan was approximately \$11.9 million at December 31, 2004.

In January 2005, Newcastle entered into a servicing agreement with a portfolio company of a private equity fund advised by an affiliate of Newcastle's manager for them to service a portfolio of manufactured housing loans (Note 5). As compensation under the servicing agreement, the portfolio company will receive, on a monthly basis, a net servicing fee equal to 1.00% per annum on the unpaid principal balance of the loans being serviced. Newcastle acquired a portfolio of such loans in January 2005 at a cost of \$308.2 million.

In each instance described above, affiliates of Newcastle's manager have an investment in the applicable affiliated fund and receive from the fund, in addition to management fees, incentive compensation if the fund's aggregate investment returns exceed certain thresholds.

## NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004, 2003 AND 2002

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

#### 11. COMMITMENTS AND CONTINGENCIES

REMARKETING AGREEMENTS -- One tranche of Newcastle's CBO bonds (Note 8), with a \$395.0 million face amount, was issued subject to remarketing procedures and related agreements whereby such bonds are remarketed and sold on a periodic basis. These bonds are fully insured by a third party with respect to the timely payment of interest and principal thereon, pursuant to a financial guaranty insurance policy ("wrap"). Newcastle pays annual fees of 0.12% of the outstanding face amount of such bonds under this agreement.

In connection with the remarketing procedures described above, a backstop agreement has been created whereby a third party financial institution is

required to purchase such bonds at the end of any remarketing period if such bonds could not be resold in the market by the remarketing agent. Newcastle pays an annual fee of 0.20% of the outstanding face amount of such bonds under this agreement.

In addition, the remarketing agent is paid an annual fee of 0.05% of the outstanding face amount of such bonds under the remarketing agreement.

REAL ESTATE SECURITIES PORTFOLIO DEPOSIT -- Newcastle has the option to purchase certain real estate securities from an investment bank. To the extent that such securities decline in value, Newcastle must either purchase such securities or lose an amount equal to the lesser of such decline or its deposit. See Note 4.

GUARANTEE OF SWAP PAYMENTS -- In connection with the Bell Canada bonds (Note 8), Newcastle has guaranteed certain payments under an interest rate swap to be entered into in 2007, if the Bell Canada bonds are not fully repaid by such date. Newcastle believes the fair value of this guarantee is negligible at December 31, 2004.

LOAN COMMITMENT-- With respect to one of its real estate related loans, Newcastle was committed to fund up to an additional \$22.7 million at December 31, 2004, subject to certain conditions to be met by the borrower.

STOCKHOLDER RIGHTS AGREEMENT -- Newcastle has adopted a stockholder rights agreement (the "Rights Agreement"). Pursuant to the terms of the Rights Agreement, Newcastle will attach to each share of common stock one preferred stock purchase right (a "Right"). Each Right entitles the registered holder to purchase from Newcastle a unit consisting of one one-hundredth of a share of Series A Junior Participation Preferred Stock, par value \$0.01 per share, at a purchase price of \$70 per unit. Initially, the Rights are not exercisable and are attached to and transfer and trade with the outstanding shares of common stock. The Rights will separate from the common stock and will become exercisable upon the acquisition or tender offer to acquire a 15% beneficial ownership interest by an acquiring person, as defined. The effect of the Rights Agreement will be to dilute the acquiring party's beneficial interest. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of Newcastle.

LITIGATION -- Newcastle is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions which existed at December 31, 2004, if any, will not materially affect Newcastle's consolidated results of operations or financial position.

ENVIRONMENTAL COSTS -- As a commercial real estate owner, Newcastle is subject to potential environmental costs. At December 31, 2004, management of Newcastle is not aware of any environmental concerns that would have a material adverse effect on Newcastle's consolidated financial position or results of operations.

DEBT COVENANTS -- Newcastle's debt obligations contain various customary loan covenants. Such covenants do not, in management's opinion, materially restrict Newcastle's investment strategy or ability to raise capital. Newcastle is in compliance with all of its loan covenants at December 31, 2004.

## NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004, 2003 AND 2002

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

#### 12. INCOME TAXES

Newcastle Investment Corp. is organized and conducts its operations to qualify as a REIT under the Code. A REIT will generally not be subject to federal income tax on that portion of its income that it distributes to its stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements. Newcastle has elected to treat NC Circle Holdings II LLC as a taxable REIT subsidiary ("TRS"), effective February 27, 2004. NC Circle Holdings II LLC owns a portion of Newcastle's investment in a portfolio of convenience and retail gas stores as described in Note 3. To the extent that NC Circle Holdings II LLC generates taxable income, Newcastle has provided for relevant income taxes based on a blended statutory rate of 40%. Newcastle accounts for income taxes in accordance with the provisions of SFAS No. 109 "Accounting for Income Taxes." Under SFAS No. 109, Newcastle accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the

future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. No such material differences have been recognized through December 31, 2004.

13. SUBSEQUENT EVENTS

In January 2005, NCT sold 3.3 million shares of its common stock in a public offering at a price to the public of \$29.60 per share, for net proceeds of approximately \$96.6 million. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 330,000 shares of Newcastle's common stock at the public offering price, which were valued at approximately \$1.1 million.

In January 2005, Newcastle's Manager and certain of the Manager's employees exercised approximately 0.6 million options for shares of Newcastle's common stock. In connection with this exercise, Newcastle received proceeds of approximately \$8.9 million.

In January 2005, Newcastle agreed to the terms for a sale of the vacant property in the Bell Canada portfolio (Note 6). The terms include a sales price of \$14.3 million CAD (\$11.9 million USD at December 31, 2004) and Newcastle has received a nonrefundable deposit thereon. In March 2005, Newcastle agreed to the terms for a sale of the industrial/distribution property in the Bell Canada portfolio (Note 6). The terms include a gross sale price of \$47.6 million CAD (\$39.6 million USD at December 31, 2004) and Newcastle has received a nonrefundable deposit thereon.

In January 2005, Newcastle, through a consolidated subsidiary, acquired a portfolio of approximately 8,100 manufactured housing loans for an aggregate purchase price of approximately \$308.2 million. The loans, which were all current at the time of acquisition, are primarily fixed rate with a weighted average coupon of approximately 9.00% and a weighted average remaining term of approximately 5.00 years. Newcastle's acquisition was initially funded with approximately \$246.5 million of one-year debt provided by two investment banks which is subject to adjustment based on the market value and performance of the related portfolio. The debt bears interest at LIBOR + 1.25%. Newcastle obtained an interest rate swap in order to hedge its exposure to the risk of changes in market interest rates with respect to this debt.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004, 2003 AND 2002

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

14. SUMMARY QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

The following is unaudited summary information on Newcastle's quarterly operations. The distribution of investments, and related liabilities, to Holdings and the commencement of Newcastle's independent operations occurred at the beginning of the quarter ended September 30, 2002. Therefore, periods prior to this quarter are not reflective of Newcastle's ongoing operations nor are they comparable to subsequent quarters.

<TABLE>  
<CAPTION>

----- -- Year Ended	----- 2004 ----- QUARTER ENDED -----			
	March 31 (A)	June 30 (A)	September 30 (A)	December 31
	-----	-----	-----	-----
December 31				
<S>	<C>	<C>	<C>	<C>
<C>				
Gross Revenues	\$ 58,857	\$ 63,326	\$ 64,886	\$ 71,077
\$ 258,146				
Operating expenses	(8,860)	(7,417)	(8,952)	(8,326)
(33,555)	-----	-----	-----	-----
-----				
Operating income	49,997	55,909	55,934	62,751
224,591				
Interest expense	(28,926)	(33,148)	(34,152)	(42,621)
(138,847)				

Depreciation and amortization (1,304)	(333)	(306)	(319)	(346)
Equity in earnings of unconsolidated subsidiaries (A) 9,957	1,223	2,218	3,179	3,337
-----	-----	-----	-----	-----
Income from continuing operations 94,397	21,961	24,673	24,642	23,121
Income (loss) from discontinued operations 4,018	(110)	(1,498)	325	5,301
Preferred dividends (6,094)	(1,523)	(1,524)	(1,523)	(1,524)
-----	-----	-----	-----	-----
Income available for common stockholders \$ 92,321	\$ 20,328	\$ 21,651	\$ 23,444	\$ 26,898
=====	=====	=====	=====	=====
Net Income per share of common stock				
Basic	\$ 0.59	\$ 0.60	\$ 0.61	\$ 0.70
\$ 2.50	=====	=====	=====	=====
Diluted	\$ 0.58	\$ 0.59	\$ 0.60	\$ 0.69
\$ 2.46	=====	=====	=====	=====
Income from continuing operations per share of common stock, after preferred dividends and related accretion				
Basic	\$ 0.59	\$ 0.64	\$ 0.60	\$ 0.56
\$ 2.39	=====	=====	=====	=====
Diluted	\$ 0.58	\$ 0.63	\$ 0.59	\$ 0.55
\$ 2.35	=====	=====	=====	=====
Income (loss) from discontinued operations per share of common stock				
Basic	\$ --	\$ (0.04)	\$ 0.01	\$ 0.14
\$ 0.11	=====	=====	=====	=====
Diluted	\$ --	\$ (0.04)	\$ 0.01	\$ 0.14
\$ 0.11	=====	=====	=====	=====
Weighted average number of shares of common stock outstanding				
Basic	34,402	36,161	38,234	38,941
36,944	=====	=====	=====	=====
Diluted	34,976	36,671	38,883	39,663
37,558	=====	=====	=====	=====

</TABLE>

(A) Net of income taxes on related taxable subsidiaries.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004, 2003 AND 2002

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

-- Year Ended	2003			
	-----			
	QUARTER ENDED			
December 31	March 31 (A)	June 30 (A)	September 30 (A)	December 31
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<C>	<C>	<C>	<C>	<C>

Gross Revenues \$164,054	\$ 31,398	\$ 38,678	\$ 40,772	\$ 53,206
Operating expenses (25,861)	(5,811)	(6,257)	(6,171)	(7,622)
-----	-----	-----	-----	-----
Operating income 138,193	25,587	32,421	34,601	45,584
Interest expense (79,084)	(13,896)	(18,892)	(19,244)	(27,052)
Depreciation and amortization (1,194)	(281)	(297)	(301)	(315)
Equity in earnings of unconsolidated subsidiaries 862	--	--	--	862
-----	-----	-----	-----	-----
Income from continuing operations 58,777	11,410	13,232	15,056	19,079
Income (loss) from discontinued operations (2,659)	(307)	185	(350)	(2,187)
Preferred dividends (4,773)	(203)	(1,524)	(1,523)	(1,523)
-----	-----	-----	-----	-----
Income available for common stockholders \$ 51,345	\$ 10,900	\$ 11,893	\$ 13,183	\$ 15,369
=====	=====	=====	=====	=====
Net Income per share of common stock				
Basic	\$ 0.46	\$ 0.51	\$ 0.48	\$ 0.53
\$ 1.98	=====	=====	=====	=====
Diluted	\$ 0.46	\$ 0.50	\$ 0.48	\$ 0.52
\$ 1.96	=====	=====	=====	=====
Income from continuing operations per share of common stock, after preferred dividends and related accretion				
Basic	\$ 0.48	\$ 0.50	\$ 0.49	\$ 0.61
\$ 2.08	=====	=====	=====	=====
Diluted	\$ 0.48	\$ 0.49	\$ 0.49	\$ 0.60
\$ 2.06	=====	=====	=====	=====
Income (loss) from discontinued operations per share of common stock				
Basic	\$ (0.02)	\$ 0.01	\$ (0.01)	\$ (0.08)
\$ (0.10)	=====	=====	=====	=====
Diluted	\$ (0.02)	\$ 0.01	\$ (0.01)	\$ (0.08)
\$ (0.10)	=====	=====	=====	=====
Weighted average number of shares of common stock outstanding				
Basic	23,489	23,489	27,340	29,197
25,898	=====	=====	=====	=====
Diluted	23,620	23,679	27,620	29,563
26,141	=====	=====	=====	=====

</TABLE>

<TABLE>  
<CAPTION>

2002

QUARTER ENDED

Year Ended	March 31 (A)	June 30 (A)	September 30 (A)	December 31
December 31				
<S>	<C>	<C>	<C>	<C>
<C>				
Gross Revenues	\$ 8,817	\$ 37,596	\$ 26,286	\$ 28,676
\$101,375				

Operating expenses (22,045)	(366)	(12,338)	(3,982)	(5,359)
-----	-----	-----	-----	-----
Operating income 79,330	8,451	25,258	22,304	23,317
Interest expense (46,375)	(7,747)	(12,469)	(12,835)	(13,324)
Depreciation and amortization (1,560)	(477)	(544)	(273)	(266)
Equity in earnings of unconsolidated subsidiaries 362	(452)	814	--	--
-----	-----	-----	-----	-----
Income from continuing operations 31,757	(225)	13,059	9,196	9,727
Income (loss) from discontinued operations (262)	1,096	329	(1,692)	5
Preferred dividends and related accretion (1,162)	(638)	(524)	--	--
Income available for common stockholders \$ 30,333	\$ 233	\$ 12,864	\$ 7,504	\$ 9,732
=====	=====	=====	=====	=====
Net Income per share of common stock, basic and diluted \$ 1.68	\$ 0.01	\$ 0.78	\$ 0.46	\$ 0.43
=====	=====	=====	=====	=====
Income (loss) from continuing operations per share of common stock, after preferred dividends and related accretion, basic and diluted \$ 1.69	\$ (0.06)	\$ 0.76	\$ 0.56	\$ 0.43
=====	=====	=====	=====	=====
Income (loss) from discontinued operations per share of common stock, basic and diluted \$ (0.01)	\$ 0.07	\$ 0.02	\$ (0.10)	\$ 0.00
=====	=====	=====	=====	=====
Weighted average number of shares of common stock outstanding				
Basic 18,080	16,489	16,489	16,489	22,804
=====	=====	=====	=====	=====
Diluted 18,090	16,489	16,489	16,489	22,843
=====	=====	=====	=====	=====

</TABLE>

(A) The Income Available for Common Stockholders shown agrees with Newcastle's quarterly report(s) on Form 10-Q as filed with the Securities and Exchange Commission. However, individual line items vary from such report(s) due to the operations of properties sold, or classified as held for sale, during subsequent periods being retroactively reclassified to Income for Discontinued Operations for all periods presented (Note 5).

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

(a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the

most recent fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment, management concluded that, as of December 31, 2004, the Company's internal control over financial reporting is designed and operating effectively.

The Company's independent auditors have issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears at the beginning of "Financial Statements and Supplementary Data."

By: /s/ Wesley R. Edens

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Wesley R. Edens  
Chairman of the Board

By: /s/ Debra A. Hess

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Debra A. Hess  
Chief Financial Officer

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#### CHANGES IN CONTROLS AND PROCEDURES

In 2005, the Company has begun implementation of new information technology systems. Such systems are designed to enhance the efficiency of our operations and will result in a change in our internal control procedures. The implementation is expected to be completed in the third quarter of 2005.

#### ITEM 9B. OTHER INFORMATION.

None.

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ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Incorporated by reference to our definitive proxy statement for the 2005 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2004.

ITEM 11. EXECUTIVE COMPENSATION.

Incorporated by reference to our definitive proxy statement for the 2005 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2004.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Incorporated by reference to our definitive proxy statement for the 2005 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2004.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated by reference to our definitive proxy statement for the 2005 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2004.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Incorporated by reference to our definitive proxy statement for the 2005 annual meeting of stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days after the fiscal year ended December 31, 2004.

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PART IV

ITEM 15. EXHIBITS; FINANCIAL STATEMENT SCHEDULES.

- (a) and (c) Financial statements and schedules:  
See "Financial Statements and Supplementary Data."
- (b) Exhibits filed with this Form 10-K:
  - 3.1 Articles of Amendment and Restatement (incorporated by reference to the Registrant's Registration Statement on Form S-11 (File No. 333-90578), Exhibit 3.1).
  - 3.2 Articles Supplementary relating to the Series B Preferred Stock (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2003, Exhibit 3.3).
  - 3.3 By-laws (incorporated by reference to the Registrant's Registration Statement on Form S-11, (File No. 333-90578), Exhibit 3.2).
  - 4.1 Rights Agreement between the Registrant and American Stock Transfer and Trust Company, as Rights Agent, dated October 16, 2002 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2003, Exhibit 4.1).
  - 10.1 Amended and Restated Management and Advisory Agreement by and among the Registrant and Fortress Investment Group LLC, dated June 23 2003 (incorporated by reference to the Registrant's Statement on Form S-11 (File No. 333-106135), Exhibit 10.1).
  - 12.1 Statements re: Computation of Ratios
  - 21.1 Subsidiaries of the Registrant.
  - 23.1 Consent of Ernst & Young LLP, independent accountants.
  - 31.1 Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C.

Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

NEWCASTLE INVESTMENT CORP.

March 16, 2005

By: /s/ Wesley R. Edens

-----  
Wesley R. Edens  
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following person on behalf of the Registrant and in the capacities and on the dates indicated.

March 16, 2005

By: /s/ Wesley R. Edens

-----  
Wesley R. Edens  
Chief Executive Officer

March 16, 2005

By: /s/ Debra A. Hess

-----  
Debra A. Hess  
Chief Financial Officer

March 16, 2005

By: /s/ David J. Grain

-----  
David J. Grain  
Director

March 16, 2005

By: /s/ Stuart A. McFarland

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Stuart A. McFarland  
Director

March 16, 2005

By: /s/ David K. McKown

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David K. McKown  
Director

March 16, 2005

By: /s/ Peter M. Miller

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Peter M. Miller  
Director

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- 3.1 Articles of Amendment and Restatement (incorporated by reference to the Registrant's Registration Statement on Form S-11 (File No. 333-90578), Exhibit 3.1).
- 3.2 Articles Supplementary relating to the Series B Preferred Stock (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2003, Exhibit 3.3).
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- 31.2 Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 12.1

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK  
DIVIDENDS AND RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to combined fixed charges and preferred share dividends and our ratio of earnings to fixed charges for each of the periods indicated:

<TABLE>  
<CAPTION>

	Year Ended December 31,				
	2004	2003	2002 (A)	2001 (A)	2000 (A)
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends	1.63	1.64	1.67	2.01	1.89
Ratio of Earnings to Fixed Charges	1.70	1.74	1.72	2.16	2.00

</TABLE>

(A) Represents the operations of our predecessor through the date of commencement of our operations, July 12, 2002.

For purposes of calculating the above ratios, (i) earnings represent "Income before equity in earnings of unconsolidated subsidiaries" from our consolidated statements of income, as adjusted for fixed charges and distributions from unconsolidated subsidiaries, and (ii) fixed charges represent "Interest expense" from our consolidated statements of income. The ratios are based solely on historical financial information.

Exhibit 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

<TABLE>  
<CAPTION>

<S>	<C>	STATE/COUNTRY OF INCORPORATION/FORMATION -----
1.	Fortress Realty Holdings, Inc.	Ontario
2.	Commercial Asset Holdings LLC	Delaware
3.	Fortress CBO Investments I Corp.	Delaware
4.	Fortress CBO Holdings I Inc.	Delaware
5.	Newcastle CDO I Corp.	Delaware
6.	Fortress CBO Investments I, Ltd.	Cayman Islands
7.	Newcastle CDO I, Ltd.	Cayman Islands
8.	Fortress Asset Trust	Delaware
9.	LIV Holdings LLC	Delaware
10.	Monterrey Belgium S.A.	Belgium
11.	Monterrey B.V.	Netherlands
12.	Karl S.A.	Belgium
13.	Steinhage B.V.	Netherlands
14.	Alfa Invest s.p.r.l.	Belgium
15.	NIC Holdings I LLC	Delaware
16.	Newcastle CDO Holdings LLC	Delaware
17.	Fortress Finance (Belgium) s.p.r.l.	Belgium
18.	Newcastle CDO II Holdings LLC	Delaware
19.	Newcastle CDO II, Ltd.	Cayman Islands
20.	Impac Commercial Holdings, Inc.	Maryland
21.	Impac Commercial Assets Corporation	California
22.	Impac Commercial Capital Corporation	California
23.	Newcastle CDO II Corp.	Delaware
24.	NIC TRS Holdings, Inc.	Delaware
25.	Newcastle CDO III Holdings LLC	Delaware
26.	Newcastle CDO III, Ltd.	Cayman Islands
27.	Newcastle CDO III Corp.	Delaware
28.	NIC GCMRepo LLC	Delaware
29.	NIC DBRepo LLC	Delaware
30.	NIC NK LLC	Delaware
31.	DBNC Peach Holding LLC	Delaware
32.	DBNC Peach LLC	Delaware
33.	DBNC Peach I Trust LLC	Delaware
34.	DBNCF Circle LLC	Delaware
35.	DBNCH Circle LLC	Delaware
36.	NC Circle Holdings LLC	Delaware
37.	NC Circle Holdings II LLC	Delaware
38.	Newcastle CDO IV Corp.	Delaware
39.	Newcastle CDO IV Holdings LLC	Delaware
40.	Newcastle CDO IV, Ltd.	Cayman Islands
41.	Newcastle CDO V Corp.	Delaware

</TABLE>

Exhibit 21.1

NEWCASTLE INVESTMENT CORP. SUBSIDIARIES

<TABLE>  
<CAPTION>

<S>	<C>	STATE/COUNTRY OF INCORPORATION/FORMATION -----
42.	Newcastle CDO V Holdings LLC	Delaware
43.	Newcastle CDO V, Ltd.	Cayman Islands
44.	Newcastle Mortgage Securities LLC	Delaware
45.	Newcastle Mortgage Securities Trust 2004-1	Delaware
46.	Newcastle 2005-1 Asset-Backed Note LLC	Delaware
47.	NIC BR LLC	Delaware
48.	NIC CNL LLC	Delaware
49.	NIC CSR LLC	Delaware
50.	NIC GS LLC	Delaware
51.	NIC GSE LLC	Delaware
52.	NIC CR LLC	Delaware

</TABLE>

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-109597) of Newcastle Investment Corporation and in the related Prospectus of our reports dated March 3, 2005, with respect to the consolidated financial statements of Newcastle Investment Corporation, Newcastle Investment Corporations' management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Newcastle Investment Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2004.

/s/ Ernst & Young LLP

New York, New York  
March 16, 2005

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Wesley R. Edens, certify that:

1. I have reviewed this annual report on Form 10-K of Newcastle Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d - 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d - 15(f1) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 16, 2005  
(Date)

/s/ Wesley R. Edens  
-----  
Wesley R. Edens  
Chief Executive Officer

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Debra A. Hess, certify that:

1. I have reviewed this annual report on Form 10-K of Newcastle Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f1) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 16, 2005  
(Date)

/s/ Debra A. Hess

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Debra A. Hess  
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CEO PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Newcastle Investment Corp. (the "Company") for the annual period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Wesley R. Edens, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Wesley R. Edens

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Wesley R. Edens  
Chief Executive Officer  
March 16, 2005

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF CFO PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Newcastle Investment Corp. (the "Company") for the annual period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Debra A. Hess, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Debra A. Hess

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Debra A. Hess  
Chief Financial Officer  
March 16, 2005

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

END OF FILING