

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2003

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)

Maryland

81-0559116

(State or other jurisdiction of incorporation
or organization)

(I.R.S. Employer
Identification No.)

1251 Avenue of the Americas, New York, NY

10020

(Address of principal executive offices)

(Zip Code)

(212) 798-6100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last
report)

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. Yes No .

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Securities Exchange Act). Yes No .

APPLICABLE ONLY TO CORPORATE ISSUERS:

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: 28,090,057 OUTSTANDING AS OF NOVEMBER
10, 2003.

NEWCASTLE INVESTMENT CORP.
FORM 10-Q

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CAUTIONARY STATEMENTS

The information contained in this quarterly report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our Company. We urge you to carefully review and consider the various disclosures made by us in this report and in our other filings with the SEC, including our December 31, 2002 annual report on Form 10-K filed with the SEC, that discuss our business in greater detail.

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 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; the relation of any impairments in the value of our real estate securities portfolio 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 operating real estate warrant changes in carrying values; carrying 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 in our SEC reports. 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.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	SEPTEMBER 30, 2003 (UNAUDITED)	DECEMBER 31,
2002	-----	-----
<S>	<C>	<C>
ASSETS		
Real estate securities, available for sale	\$ 2,117,278	\$
1,069,892		
Real estate securities portfolio deposit	-	
37,777		
Operating real estate, net	126,606	
113,652		
Real estate held for sale	-	
3,471		
Mortgage loans, net	427,197	
258,198		
Other securities, available for sale	33,649	
11,209		
Cash and cash equivalents	94,099	
45,463		
Restricted cash	13,445	
10,380		
Deferred costs, net	9,137	
6,489		
Receivables and other assets	23,512	
16,036		
	-----	-----
1,572,567	\$ 2,844,923	\$
	=====	
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
CBO bonds payable	\$ 1,792,503	\$
868,497		
Other bonds payable	40,381	
37,389		
Notes payable	69,237	
62,952		
Repurchase agreements	407,740	
248,169		
Derivative liabilities	53,791	
54,095		
Dividends payable	15,061	
9,161		
Due to affiliates	2,046	
1,335		
Accrued expenses and other liabilities	8,145	
6,728		
	-----	-----
	2,388,904	
1,288,326	-----	-----

STOCKHOLDERS' EQUITY

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 at September 30, 2003	62,500	
-		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 28,090,057 and 23,488,517 shares issued and outstanding at September 30, 2003 and December 31, 2002, respectively	281	
235		
Additional paid-in capital	377,100	
290,935		
Dividends in excess of earnings	(14,350)	
(13,966)		
Accumulated other comprehensive income	30,488	
7,037		

	456,019	
284,241		

	\$ 2,844,923	\$
1,572,567		
=====		

</TABLE>

See accompanying notes

1

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

ENDED	THREE MONTHS ENDED		NINE MONTHS
	SEPTEMBER 30, 2003	SEPTEMBER 30, 2002	SEPTEMBER 30, 2003

SEPTEMBER 30, 2002			

<S>	<C>	<C>	<C>
<C>			
REVENUES			
Interest income	\$ 33,909	\$ 20,202	\$ 89,771
51,693			
Rental and escalation income	5,621	5,035	17,639
14,751			
Gain on settlement of investments	2,928	2,604	9,047
7,605			
Management fee from affiliate	-	-	-
4,470			
Incentive income from affiliate	-	-	-
(1,218)			

	42,458	27,841	116,457
77,301			

EXPENSES			
Interest expense	20,220	13,483	54,998
34,992			
Property operating expense	2,223	2,131	7,380
6,363			
Loan servicing expense	665	126	1,588
327			
General and administrative expense	673	659	2,434
2,214			
Management fee to affiliate	1,783	917	4,537
8,085			
Incentive compensation to affiliate	1,436	614	4,392
1,441			
Depreciation and amortization	776	695	2,262
2,483			

55,905	27,776	18,625	77,591
Income before equity in earnings (losses) of unconsolidated subsidiaries	14,682	9,216	38,866
Equity in earnings (losses) of unconsolidated subsidiaries	-	-	-
Income from continuing operations	14,682	9,216	38,866
Income (loss) from discontinued operations	24	(1,712)	360
NET INCOME	14,706	7,504	39,226
Preferred dividends and related accretion	(1,523)	-	(3,250)
INCOME AVAILABLE FOR COMMON STOCKHOLDERS	\$ 13,183	\$ 7,504	\$ 35,976
NET INCOME PER SHARE OF COMMON STOCK, BASIC	\$ 0.48	\$ 0.46	\$ 1.45
NET INCOME PER SHARE OF COMMON STOCK, DILUTED	\$ 0.48	\$ 0.46	\$ 1.44
Income from continuing operations per share of common stock, after preferred dividends and related accretion, basic	\$ 0.48	\$ 0.56	\$ 1.44
Income from continuing operations per share of common stock, after preferred dividends and related accretion, diluted	\$ 0.48	\$ 0.56	\$ 1.43
Income (loss) from discontinued operations per share of common stock, basic	\$ 0.00	\$ (0.10)	\$ 0.01
Income (loss) from discontinued operations per share of common stock, diluted	\$ 0.00	\$ (0.10)	\$ 0.01
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING, BASIC	27,340,057	16,488,517	24,786,517
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING, DILUTED	27,620,076	16,488,517	24,987,583
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.50	\$ 0.40	\$ 1.45

</TABLE>

See accompanying notes

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(dollars in thousands)

<TABLE>
<CAPTION>

	PREFERRED STOCK		COMMON STOCK	
	SHARES	AMOUNT	SHARES	AMOUNT
AMOUNT				
<S>	<C>	<C>	<C>	<C>
STOCKHOLDERS' EQUITY - DECEMBER 31, 2002	-	\$ -	23,488,517	\$ 235
Dividends declared	-	-	-	-
Issuance of preferred stock	2,500,000	62,500	-	-
Issuance of common stock to directors	-	-	1,540	-
Issuance of common stock	-	-	4,600,000	-
46				
Comprehensive income:				
Net income	-	-	-	-
Unrealized gain on securities	-	-	-	-
Realized (gain) on securities: reclassification adjustment	-	-	-	-
Foreign currency translation	-	-	-	-
Unrealized (loss) on derivatives designated as cash flow hedges	-	-	-	-
Total comprehensive income				
Stockholders' equity - September 30, 2003	2,500,000	\$ 62,500	28,090,057	\$ 281
=====	=====	=====	=====	=====
STOCKHOLDERS' EQUITY - DECEMBER 31, 2001			16,488,517	\$ 165
Dividends declared by predecessor prior to commencement of our operations			-	-
Distribution to predecessor upon commencement of our operations			-	-
Dividends declared to predecessor after commencement of our operations, but prior to our initial public offering			-	-
Comprehensive income:				
Net income			-	-
Unrealized gain on securities			-	-
Realized (gain) on securities: reclassification adjustment			-	-
Foreign currency translation			-	-
Foreign currency translation: reclassification adjustment			-	-
Unrealized (loss) on derivatives designated as cash flow hedges			-	-
Realized (gain) on derivatives designated as cash flow hedges: reclassification adjustment			-	-
Total comprehensive income				
Stockholders' equity - September 30, 2002			16,488,517	\$ 165

</TABLE>

<TABLE>
<CAPTION>

TOTAL STOCKHOLDERS' EQUITY	ADDITIONAL PD. IN CAPITAL	DIVIDENDS	ACCUM. OTHER
		IN EXCESS OF EARNINGS	COMP. INCOME
<S>	<C>	<C>	<C>
STOCKHOLDERS' EQUITY - DECEMBER 31, 2002	\$ 290,935	\$ (13,966)	\$ 7,037
\$ 284,241			
Dividends declared (39,610)	-	(39,610)	-
Issuance of preferred stock 60,064	(2,436)	-	-
Issuance of common stock to directors 30	30	-	-

Issuance of common stock	88,571	-	-
88,617			
Comprehensive income:			
Net income	-	39,226	-
39,226			
Unrealized gain on securities	-	-	32,654
32,654			
Realized (gain) on securities: reclassification adjustment	-	-	(9,260)
(9,260)			
Foreign currency translation	-	-	3,991
3,991			
Unrealized (loss) on derivatives designated as cash flow hedges	-	-	(3,934)
(3,934)			

Total comprehensive income			
62,677			
	-----	-----	-----
-			
Stockholders' equity - September 30, 2003	\$ 377,100	\$ (14,350)	\$ 30,488
\$ 456,019			
	=====	=====	=====
=====			
STOCKHOLDERS' EQUITY - DECEMBER 31, 2001	\$ 309,356	\$ (7,767)	\$ 8,791
\$ 310,545			
Dividends declared by predecessor prior to commencement of our operations	-	(20,949)	-
(20,949)			
Distribution to predecessor upon commencement of our operations	(98,378)	-	(11,075)
(109,453)			
Dividends declared to predecessor after commencement of our operations,			
but prior to our initial public offering	-	(6,595)	-
(6,595)			
Comprehensive income:			
Net income	-	21,763	-
21,763			
Unrealized gain on securities	-	-	80,799
80,799			
Realized (gain) on securities: reclassification adjustment	-	-	(2,550)
(2,550)			
Foreign currency translation	-	-	3,364
3,364			
Foreign currency translation: reclassification adjustment	-	-	(258)
(258)			
Unrealized (loss) on derivatives designated as cash flow hedges	-	-	(50,629)
(50,629)			
Realized (gain) on derivatives designated as cash flow hedges:			
reclassification adjustment	-	-	
(130) (130)			

Total comprehensive income			
52,359			
	-----	-----	-----
-			
Stockholders' equity - September 30, 2002	\$ 210,978	\$ (13,548)	\$ 28,312
\$ 225,907			
	=====	=====	=====

</TABLE>

See accompanying notes

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)
(dollars in thousands)

<TABLE>
<CAPTION>

	NINE MONTHS ENDED	

	SEPTEMBER 30, 2003	-----
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 39,226	\$
21,763		

Adjustments to reconcile net income to net cash provided by operating activities (inclusive of amounts related to discontinued operations):		
Depreciation and amortization		2,263
7,882		
Accretion of discount and other amortization		(3,097)
(3,135)		
Equity in (earnings) losses of unconsolidated subsidiaries		-
(362)		
Accrued incentive (income) loss from affiliate		-
1,218		
Non-cash incentive compensation to affiliate		-
14		
Deferred rent		(1,292)
(1,149)		
Gain on settlement of investments		(9,182)
(5,935)		
Unrealized gain on non-hedge derivatives		(3,065)
-		
Non-cash directors' compensation		30
-		
Change in:		
Restricted cash		(2,972)
(5,880)		
Receivables and other assets		(5,957)
(3,956)		
Due to affiliates		711
(1,002)		
Accrued expenses and other liabilities		2,194
5,876		
-----		-----
Net cash provided by operating activities		18,859
15,334		-----
-----		-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase and improvement of operating real estate		(316)
(2,254)		
Proceeds from sale of operating real estate		5,228
42,826		
Purchase of mortgage loans		(358,594)
-		
Repayments of loan and security principal		61,618
12,055		
Proceeds from settlement of mortgage loans		164,406
364		
Contributions to unconsolidated subsidiaries		-
(19,991)		
Distributions from unconsolidated subsidiaries		-
8,265		
Purchase of real estate securities		(1,086,214)
(646,420)		
Proceeds from sale of real estate securities		145,993
225,923		
Deposit on real estate securities		(40,602)
-		
Payment of deferred transaction costs		-
(1,432)		
Purchase of other securities		(48,692)
(6,941)		
-----		-----
Net cash used in investing activities		(1,157,173)
(387,605)		-----
-----		-----

</TABLE>

Continued on Page 5

See accompanying notes

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW (UNAUDITED)
(dollars in thousands)

<TABLE>
<CAPTION>

NINE MONTHS ENDED

	SEPTEMBER 30, 2003	SEPTEMBER 30, 2002
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under repurchase agreements	340,591	-
Repayments of repurchase agreements	(181,020)	-
Repayments of notes payable	(667)	(65,840)
Issuance of CBO bonds payable	921,513	438,787
Repayments of CBO bonds payable	-	(17,742)
Issuance of other bonds payable	-	37,169
Repayments of other bonds payable	(3,084)	(8,151)
Draws under credit facility	-	20,000
Repayments of credit facility	-	(1,750)
Issuance of preferred stock	62,500	-
Costs related to issuance of preferred stock	(2,436)	-
Redemption of preferred stock	-	(20,410)
Issuance of common stock	93,610	-
Costs related to issuance of common stock	(4,993)	-
Dividends paid	(33,710)	(19,938)
Distribution of cash to predecessor	-	(12,423)
Payment of deferred financing costs	(5,354)	(1,672)
	-----	-----
Net cash provided by financing activities	1,186,950	348,030
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,636	(24,241)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	45,463	31,360
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 94,099	\$ 7,119
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest expense	\$ 53,714	\$ 42,608
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Common stock dividends declared but not paid	\$ 14,045	\$ 6,595
Preferred stock dividends declared but not paid	\$ 1,016	\$ -
Deposits used in acquisition of real estate securities	\$ 81,492	\$ 23,631
Contribution of assets to unconsolidated subsidiary	\$ -	\$ 1,454
Distribution of non-cash assets and liabilities to predecessor	\$ -	\$ 109,453

</TABLE>

See accompanying notes

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2003
(dollars in tables in thousands, except per share data)

1. GENERAL

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

Newcastle was formed as a wholly owned subsidiary of Newcastle Investment Holdings Corp. ("Holdings") for the purpose of separating the real estate securities and certain of the credit leased operating real estate businesses from Holdings' other investments. Prior to Newcastle's initial public offering, Holdings contributed to Newcastle certain assets and liabilities in exchange for 16,488,517 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 on July 12, 2002. On May 19, 2003, Holdings distributed to its stockholders all of the shares of Newcastle's common stock that it held. Approximately 2.8 million of such shares were distributed by Holdings to an affiliate of the Manager (see below).

In October 2002, Newcastle sold 7 million shares of its common stock in a public offering at a price to the public of \$13.00 per share, for net proceeds of approximately \$80 million. In July 2003, Newcastle sold 4.6 million shares of its common stock in a public offering at a price to the public of \$20.35 per share, for net proceeds of approximately \$88.6 million. Newcastle had 28,090,057 shares of common stock outstanding at September 30, 2003.

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").

The consolidated financial statements include the accounts of Newcastle and its controlled subsidiaries, subsequent to the date of commencement of its operations, and also include the accounts of its predecessor, Holdings, prior to such date.

Holdings is a Maryland corporation that invests in real estate-related assets on a global basis. Its primary businesses as our predecessor were (1) investing in real estate securities, (2) investing in operating real estate, primarily credit leased operating real estate, (3) investing in Fund I and (4) investing in distressed, sub-performing and performing residential and commercial mortgage loans, or portfolios thereof, and related properties acquired in foreclosure or by deed-in-lieu of foreclosure.

Holdings' investments in real estate securities and a portion of its investments in operating real estate were transferred to Newcastle in connection with Newcastle's organization. The operating real estate and mortgage 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 SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets."

The accompanying consolidated financial statements and related notes of Newcastle have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Newcastle's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Newcastle's December 31, 2002 consolidated financial statements and notes thereto included in Newcastle's annual report on Form 10-K filed with the Securities and Exchange

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) SEPTEMBER 30, 2003

Commission. Capitalized terms used herein, and not otherwise defined, are defined in Newcastle's December 31, 2002 consolidated financial statements.

2. INFORMATION REGARDING BUSINESS SEGMENTS

Newcastle conducts its business through three primary segments: real estate securities, operating real estate and mortgage loans.

Holdings conducted its business as our predecessor in four primary segments: real estate securities, operating real estate, mortgage loans, and its investment in Fund I.

The real estate securities segment was 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 mortgage loans and Fund I segments were distributed to Holdings.

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 Note 1):

<TABLE>
<CAPTION>

	Real Estate Securities	Operating Real Estate	Mortgage Loans	Unallocated
Total				
<S>	<C>	<C>	<C>	<C>
<C>				
September 30, 2003 and the Nine Months then Ended				
Gross revenues	\$ 88,882	\$ 17,677	\$ 9,732	\$ 166
\$ 116,457				
Operating expenses	(604)	(8,037)	(1,097)	(10,593)
(20,331)				
Operating income (loss)	88,278	9,640	8,635	(10,427)
96,126				
Interest expense	(45,522)	(4,966)	(4,510)	-
(54,998)				
Depreciation and amortization	-	(2,262)	-	-
(2,262)				
Income (loss) from continuing operations	42,756	2,412	4,125	(10,427)
38,866				
Income from discontinued operations	-	360	-	-
360				
Net Income (Loss)	\$ 42,756	\$ 2,772	\$ 4,125	\$ (10,427)
\$ 39,226				
Revenue derived from non-US sources:				
Canada	\$ -	\$ 12,774	\$ -	\$ -
\$ 12,774				
Belgium	\$ -	\$ 5,609	\$ -	\$ -
\$ 5,609				
Total assets	\$ 2,183,260	\$ 140,653	\$ 428,352	\$ 92,658
\$ 2,844,923				
Long-lived assets outside the US:				
Canada	\$ -	\$ 52,261	\$ -	\$ -
\$ 52,261				
Belgium	\$ -	\$ 74,345	\$ -	\$ -
\$ 74,345				
Three Months Ended September 30, 2003				
Gross revenues	\$ 33,444	\$ 5,632	\$ 3,288	\$ 94
\$ 42,458				
Operating expenses	(275)	(2,359)	(432)	(3,714)
(6,780)				
Operating income (loss)	33,169	3,273	2,856	(3,620)
35,678				
Interest expense	(16,958)	(1,674)	(1,588)	-
(20,220)				
Depreciation and amortization	-	(776)	-	-
(776)				
Income (loss) from continuing operations	16,211	823	1,268	(3,620)
14,682				
Income from discontinued operations	-	24	-	-
24				
Net Income (Loss)	\$ 16,211	\$ 847	\$ 1,268	\$ (3,620)
\$ 14,706				
Revenue derived from non-US sources:				
Canada	\$ -	\$ 3,949	\$ -	\$ -
\$ 3,949				

Belgium	\$	-	\$	1,686	\$	-	\$	-
\$ 1,686								

</TABLE>

Continued in next page

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2003

<TABLE>
<CAPTION>

Unallocated	Total	Real Estate Securities	Operating Real Estate	Mortgage Loans	Fund I	
---	-----	-----	-----	-----	-----	-----
<S>		<C>	<C>	<C>	<C>	<C>
<C>						
December 31, 2002						
Total assets		\$ 1,138,767	\$ 128,831	\$ 259,381	\$ -	\$ -
45,588	\$ 1,572,567					
=====	=====	=====	=====	=====	=====	=====
Long-lived assets outside the US:						
Canada		\$ -	\$ 45,800	\$ -	\$ -	\$ -
- \$ 45,800						
=====	=====	=====	=====	=====	=====	=====
Belgium		\$ -	\$ 67,852	\$ -	\$ -	\$ -
- \$ 67,852						
=====	=====	=====	=====	=====	=====	=====
Nine Months Ended September 30, 2002						
Gross revenues		\$ 59,151	\$ 14,693	\$ -	\$ 3,287	\$ -
170 \$ 77,301						
Operating expenses		(370)	(6,908)	-	(3,861)	
(7,291) (18,430)						
-----	-----	-----	-----	-----	-----	-----
Operating income (loss)		58,781	7,785	-	(574)	
(7,121) 58,871						
Interest expense		(28,864)	(3,792)	-	-	
(2,336) (34,992)						
Depreciation and amortization		-	(2,053)	-	(329)	
(101) (2,483)						
Equity in earnings (loss) of unconsolidated subsidiaries		-	-	-	303	
59 362						
-----	-----	-----	-----	-----	-----	-----
Income (loss) from continuing operations		29,917	1,940	-	(600)	
(9,499) 21,758						
Income (loss) from discontinued operations		-	504	(499)	-	
- 5						
-----	-----	-----	-----	-----	-----	-----
Net Income (Loss)		\$ 29,917	\$ 2,444	\$ (499)	\$ (600)	\$ -
(9,499) \$ 21,763						
=====	=====	=====	=====	=====	=====	=====
Revenue derived from non-US sources:						
Canada		\$ -	\$ 10,198	\$ -	\$ -	\$ -
- \$ 10,198						
=====	=====	=====	=====	=====	=====	=====
Belgium		\$ -	\$ 3,736	\$ -	\$ -	\$ -
- \$ 3,736						
=====	=====	=====	=====	=====	=====	=====
Italy		\$ -	\$ -	\$ 180	\$ -	\$ -
- \$ 180						
=====	=====	=====	=====	=====	=====	=====
Three Months Ended September 30, 2002						
Gross revenues		\$ 22,870	\$ 4,966	\$ -	\$ -	\$ -
5 \$ 27,841						
Operating expenses		(137)	(2,217)	-	-	

	(2,093)	(4,447)					
Operating income (loss)	22,733	2,749	-	-			
(2,088)	23,394						
Interest expense	(12,197)	(1,286)	-	-			
(13,483)							
Depreciation and amortization	-	(695)	-	-			
(695)							
Equity in earnings (loss) of unconsolidated subsidiaries	-	-	-	-			
-							
Income (loss) from continuing operations	10,536	768	-	-			
(2,088)	9,216						
Income (loss) from discontinued operations	-	(1,712)	-	-			
(1,712)							
Net Income (Loss)	\$ 10,536	\$ (944)	\$ -	\$ -	\$ -	\$ -	\$ -
(2,088)	\$ 7,504						
Revenue derived from non-US sources:							
Canada	\$ -	\$ 2,446	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 2,446							
Belgium	\$ -	\$ 1,101	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 1,101							
Italy	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -							

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2003

3. REAL ESTATE SECURITIES

The following is a summary of Newcastle's real estate securities at September 30, 2003, all of which are classified as available for sale and are therefore marked to market through other comprehensive income pursuant to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities." Unrealized losses that are considered other than temporary are recognized currently in income. There were no such losses incurred during the nine months ended September 30, 2003.

<TABLE>
<CAPTION>

Average	Gross Unrealized				Weighted		
Term to Maturity	Current Face Amount	Amortized Cost Basis	Gains	Losses	Carrying Value	S&P Rating	Coupon
Yield (Years)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>	<C>						
Portfolio I							
CMBS	\$ 326,722	\$ 293,761	\$ 25,723	\$ (3,719)	\$ 315,765	BB+	6.72%
9.10% 6.58							
Unsecured REIT debt	224,192	226,199	22,980	(903)	248,276	BBB	7.24%
7.08% 6.48							
Subtotal - Portfolio I	550,914	519,960	48,703	(4,622)	564,041	BBB-	6.93%
8.22% 6.54							

Portfolio II

CMBS	305,417	293,083	17,928	(634)	310,377	BBB-	6.28%
7.12% 6.48							
Unsecured REIT debt	113,858	113,463	15,091	-	128,554	BBB-	7.80%
7.82% 7.48							
Asset-backed securities	59,239	57,254	972	(1,164)	57,062	AA	7.30%
8.24% 7.01							

Subtotal - Portfolio II	478,514	463,800	33,991	(1,798)	495,993	BBB	6.77%
7.43% 6.78							

Portfolio III

CMBS	332,931	346,074	1,898	(1,860)	346,112	BBB	5.88%
5.26% 6.34							
Unsecured REIT debt	105,110	109,820	5,207	-	115,027	BBB-	7.04%
6.32% 8.37							
Asset-backed securities	60,836	59,175	1,100	(318)	59,957	A	4.09%
4.82% 5.18							

Subtotal - Portfolio III	498,877	515,069	8,205	(2,178)	521,096	BBB	5.91%
5.44% 6.63							

Portfolio IV

CMBS	283,196	274,580	5,862	(115)	280,327	BBB	4.26%
4.77% 5.25							
Unsecured REIT debt	95,628	99,281	5,197	-	104,478	BBB	6.66%
6.02% 8.65							
Asset-backed securities	19,932	19,943	25	-	19,968	A-	3.34%
3.34% 4.73							

Subtotal - Portfolio IV	398,756	393,804	11,084	(115)	404,773	BBB	4.79%
5.01% 6.04							

Total Real Estate

Securities*	\$1,927,061	\$1,892,633	\$101,983	\$(8,713)	\$1,985,903	BBB-	6.18%
6.60% 6.52							
=====							

</TABLE>

* Carrying value excludes restricted cash included in Real Estate Securities pending its reinvestment of \$131.4 million (\$26.2 million at November 6, 2003). At September 30, 2003, the total current face amount of fixed rate securities was \$1,515.5 million, and of floating rate securities was \$411.6 million.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2003

4. RECENT ACTIVITIES

In February 2003, Newcastle sold its entire position in conforming residential mortgage loans (a portion of its mortgage loan portfolio) for gross proceeds of approximately \$162.6 million at a gain of approximately \$0.7 million. As a result of the sale, the existing repurchase agreement allocated to the conforming loans was satisfied for approximately \$153.9 million. Simultaneously, Newcastle purchased additional non-conforming residential mortgage loans at a cost of approximately \$210.2 million. In connection with this purchase, the outstanding balance of the existing repurchase agreement was increased by a net of \$45.9 million, after the repayment described above.

In March 2003, Newcastle completed its third CBO financing ("CBO III") whereby a portfolio of real estate securities was contributed to a consolidated subsidiary which issued \$472.0 million face amount of investment grade senior bonds and \$28.0 million face amount of non-investment grade subordinated bonds in a private placement. At September 30, 2003, the subordinated bonds were retained by Newcastle and the \$467.2 million carrying amount of senior bonds, which bore interest at a weighted average effective rate, including discount and cost

amortization, of 2.40%, had an expected weighted average life of approximately 8.45 years. One class of the senior bonds bears a floating interest rate. Newcastle has obtained an interest rate swap and cap in order to hedge its exposure to the risk of changes in market interest rates with respect to these bonds, at an initial cost of approximately \$1.3 million. CBO III's weighted average effective interest rate, including the effect of such hedges, was 4.00% at September 30, 2003.

In March 2003, Newcastle issued 2.5 million shares 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 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.

In March 2003, an affiliate of the Manager purchased an additional 50,000 shares of Holdings' common stock from a third party. In April 2003, Holdings repurchased 2,178 shares of Newcastle's common stock from an affiliate of the Manager.

Subsequent to Newcastle's initial public offering, options to purchase an aggregate of 12,000 shares of its common stock were automatically granted by Newcastle to certain of its non-officer directors, in accordance with the terms of the Newcastle Stock Option and Incentive Award Plan (the "Award Plan").

In April 2003, Newcastle purchased additional non-conforming residential floating rate mortgage loans at a cost of approximately \$148.3 million. The purchase was 95% financed subject to a floating rate repurchase agreement, which bears interest at LIBOR + 0.425% for a term commitment of six months.

In June 2003, Newcastle issued an aggregate of 1,540 shares of its common stock to its non-officer directors pursuant to the Award Plan.

In June 2003, Newcastle entered into an agreement with an investment bank whereby such bank would purchase up to \$500 million of real estate securities (the "Portfolio IV Collateral"), subject to Newcastle's right, but not the obligation, to purchase such securities from them. This agreement was treated as a non-hedge derivative for accounting purposes and was therefore marked-to-market through current income; a mark of approximately \$1.4 million has been recorded prior to September 30, 2003, which is included in Interest Income. In September 2003, Newcastle completed a financing transaction ("CBO IV") whereby the Portfolio IV Collateral was purchased by a consolidated subsidiary which issued \$460.0 million face amount of investment grade bonds and \$40.0 million face amount of non-investment grade bonds in a private placement. At September 30, 2003, the non-investment grade bonds were retained by Newcastle and the \$454.4 million carrying amount of investment grade bonds, which bore interest at a weighted average effective rate, including discount and cost amortization, of 2.01%, had an expected weighted average life of approximately 8.62 years. The largest tranche, the \$395.0 million face amount of Class I-MM notes, was issued subject to remarketing procedures and related agreements whereby the securities are remarketed and sold on a periodic basis. The Class I-MM notes are fully insured by a third party with respect to the timely payment of interest and principal thereon. Four tranches of the investment grade bonds bear a floating interest rate. Newcastle has obtained an interest rate swap and cap in order to hedge its exposure to the risk of changes in market interest rates with respect to these bonds, at an initial cost of \$3.1 million. CBO IV's weighted average effective interest rate, including the effect of such hedges, was 3.59% at September 30, 2003.

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) SEPTEMBER 30, 2003

In July 2003, Newcastle sold 4.6 million shares of its common stock in a public offering at a price to the public of \$20.35 per share, for net proceeds of approximately \$88.6 million. In connection with this offering, Newcastle granted an option to the Manager to purchase 460,000 shares of its common stock at the offering price as compensation for its efforts in raising capital for Newcastle. This option was valued at approximately \$0.8 million using an option pricing model. The estimated value of this option was recorded as a reduction of the proceeds from the offering. The calculation of the value of such option is subject to significant judgment and the actual value of such option could vary materially from management's estimate.

In October 2003, Newcastle entered into an agreement with a major investment bank for the right to purchase commercial mortgage backed securities, unsecured REIT debt, real estate loans and asset backed securities (the "Portfolio V Collateral") for Newcastle's next real estate securities portfolio which is targeted to be \$500 million. The agreement will be treated as a non-hedge derivative for accounting purposes and will therefore be marked-to-market through current income. The Portfolio V Collateral is expected to be included in a financing transaction in which Newcastle would acquire the equity interest

("CBO V"). As the Portfolio V Collateral is acquired by such bank, Newcastle will make deposits (the "Portfolio V Deposit") which will earn an Excess Carry Amount, as defined, to be settled upon closing. If CBO V is not consummated as a result of Newcastle's failure to acquire the equity interest, except as a result of Newcastle's gross negligence or willful misconduct, Newcastle would be required to either purchase the Portfolio V Collateral or pay the Realized Loss, as defined, up to the Portfolio V Deposit, less any Excess Carry Amount. Although Newcastle currently anticipates completing CBO V in the near term, there is no assurance that CBO V will be consummated or on what terms it will be consummated.

In October 2003, Newcastle entered into an arrangement whereby it will own a 37% interest in a limited liability company that will acquire approximately 135 loans from a third party financial institution. An investment fund managed by an affiliate of the Manager will acquire an equal ownership interest in such company on identical terms. The remaining 26% interest is being retained by the seller. The expected purchase price of the loans is approximately \$80 million. The transaction is expected to close in the fourth quarter of 2003.

At September 30, 2003, Due To Affiliates was comprised of \$1.4 million of preferred incentive compensation and \$0.6 million of management fees and expense reimbursements payable to the Manager.

One of Newcastle's Other Securities represents a \$2.9 million residual interest in a securitization of real estate securities. Newcastle has no funding or other obligations with respect to this securitization, which contained approximately \$250 million of assets at September 30, 2003. Newcastle has not yet determined whether this interest represents a "variable interest entity" pursuant to FASB Interpretation No. 46 "Consolidation of Variable Interest Entities." Should such a determination be made, Newcastle would consolidate the gross assets and liabilities of the securitization beginning in the fourth quarter of 2003. This would increase both the assets and liabilities of Newcastle, but would not effect equity or net income.

5. DERIVATIVE INSTRUMENTS

The following table summarizes the notional amounts and fair (carrying) values of Newcastle's derivative financial instruments as of September 30, 2003.

<TABLE> <CAPTION>	Notional Amount -----	Fair Value -----	Longest Maturity -----
<S>	<C>	<C>	<C>
Interest rate caps treated as hedges (A)	\$ 555,313	\$ 7,609	October 2015
Interest rate swaps, treated as hedges (B)	\$1,158,613	\$(49,789)	March 2015
Non-hedge derivative obligations (B)	(C)	\$ (792)	July 2038

</TABLE>

(A) Included in Deferred Costs, Net.

(B) Included in Derivative Liabilities.

(C) Represents two essentially offsetting interest rate caps and two essentially offsetting interest rate swaps, each with notional amounts of \$32.5 million, an interest rate cap with a notional amount of \$17.5 million, and an interest rate cap with a notional amount of approximately \$65.5 million..

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) SEPTEMBER 30, 2003

6. 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, of which 1,176,000 were outstanding at September 30, 2003. Net income available for common stockholders is equal to net income less preferred dividends, and also less accretion of the discount on Holdings' Series A Preferred, which was fully redeemed in June 2002.

The following is a reconciliation of the weighted average number of shares of common stock outstanding on a diluted basis.

<TABLE>
<CAPTION>

ENDED	THREE MONTHS ENDED		NINE MONTHS	
	SEPTEMBER 30, 2003	SEPTEMBER 30, 2002	SEPTEMBER 30, 2003	
Weighted average number of shares of common stock outstanding, basic	27,340,057	16,488,517	24,786,517	
Dilutive effect of stock options, based on the treasury stock method	280,019	-	201,066	
Weighted average number of shares of common stock outstanding, diluted	27,620,076	16,488,517	24,987,583	

Newcastle accounts for its stock options using the intrinsic value method pursuant to Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," whereby no compensation cost is recorded for options issued to employees (including directors) when the strike price is at market at the date of grant. If Newcastle had accounted for such options using the fair value method pursuant to SFAS No. 123 "Accounting for Stock-Based Compensation, as amended by SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure," the options issued during the nine months ended September 30, 2003 to its directors would have been recorded as compensation expense at their fair value, which was immaterial (less than \$10,000) on the date of grant.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following should be read in conjunction with the unaudited consolidated financial statements and notes included herein.

GENERAL

We own a diversified portfolio of moderately credit sensitive real estate securities, including commercial mortgage backed securities, senior unsecured debt issued by property REITs and asset backed securities. Mortgage backed securities are interests in or obligations secured by pools of mortgage loans. We generally target investments rated A through BB. We also own credit leased operating real estate in Canada and Belgium. We consider credit leased operating real estate to be real estate that is leased primarily to tenants with, or whose major tenant has, investment grade credit ratings. We also own, directly and indirectly, interest in pools of mortgage loans, including residential mortgage loans.

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. Our objective is to maximize the difference between the yield on our investments and the cost of financing these investments while hedging our positions.

We focus on investing in moderately credit sensitive real estate securities, including commercial mortgage backed securities, senior unsecured debt issued by property REITs and asset backed securities. We seek to finance our real estate securities 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 structural flexibility to buy and sell certain investments to manage risk and, subject to certain limitations, to optimize returns.

We were formed in June 2002 as a wholly owned subsidiary of Newcastle Investment Holdings Corp. (referred to as Holdings) for the purpose of separating the real estate securities and certain of the credit leased operating real estate businesses from Holdings' other investments. Prior to our initial public offering, Holdings contributed to us certain assets and liabilities in exchange for 16,488,517 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 Holdings and not contributed to us are accounted for as if they were distributed at their historical book basis through a

spin-off to Holdings. Our operations commenced on July 12, 2002.

The analysis in this section treats us as the successor to Holdings and therefore includes historical information, through the date of the commencement of our operations, regarding operations of Holdings which were distributed to them and therefore are unrelated to our ongoing operations. Transactions completed by Holdings related to investments retained by Holdings (not contributed to us) are referred to as being completed by our predecessor.

In October 2002, we sold 7 million shares of our common stock in a public offering at a price to the public of \$13.00 per share, for net proceeds of approximately \$80 million. In July 2003, we sold 4.6 million shares of our common stock in a public offering at a price to the public of \$20.35 per share, for net proceeds of approximately \$88.6 million. Subsequent to this offering, we had 28,090,057 shares of common stock outstanding.

On May 19, 2003, Holdings distributed to its stockholders all of the shares of Newcastle's common stock that it held. Approximately 2.8 million of such shares were distributed by Holdings to an affiliate of our manager.

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

We conduct our business through three primary segments: (i) real estate securities, (ii) operating real estate, primarily credit leased operating real estate, including a portfolio of properties located in Canada, which we refer to as our Bell Canada portfolio, and a portfolio of properties located in Belgium, which we refer to as our LIV portfolio, and (iii) mortgage loans.

As our predecessor, Holdings conducted its business through four primary segments: (1) real estate securities, (2) operating real estate, primarily credit leased operating real estate, (3) its investment in Fortress Investment Fund LLC ("Fund I") and (4) mortgage loans. Holdings' investments in real estate securities and a portion of its investments in operating real estate were contributed to us. The operating real estate and mortgage loans distributed to Holdings have been treated as discontinued

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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 SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." Revenues attributable to each segment are disclosed below (unaudited) (in thousands).

<TABLE>
<CAPTION>

For the Nine Months Ended	Real Estate Securities	Operating Real Estate	Mortgage Loans	Fund I	Unallocated	Total
-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
September 30, 2003	\$88,882	\$17,677	\$9,732	\$ -	\$166	\$116,457
September 30, 2002	\$59,151	\$14,693	\$ -	\$3,287	\$170	\$ 77,301

</TABLE>

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. The following is a summary of our accounting policies that are most effected by judgments, estimates and assumptions.

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 multiple broker quotations, which provide valuation estimates based upon reasonable market order indications or a good faith estimate thereof. These quotations are subject to significant variability based on market conditions, such as interest rates and 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 recorded.

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.

Similarly, our derivative instruments, held for hedging purposes, 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.

We purchase mortgage loans to be held for investment. We must periodically evaluate each of these loans 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. 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. To date, we have determined that no loss allowances have been necessary on the loans in our portfolio.

We own operating real estate held for investment. We review our operating real estate for impairment 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.

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RESULTS OF OPERATIONS

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2003 TO THE NINE MONTHS ENDED SEPTEMBER 30, 2002

Interest income, derived primarily from our investments in real estate securities and mortgage loans, increased by \$38.1 million, or 74%, from \$51.7 million to \$89.8 million. This increase is primarily the result of the acquisition of real estate securities used as collateral for the CBO II, CBO III and CBO IV financings (\$28.5 million) as well as the acquisition of the mortgage loans (\$9.0 million).

Rental and escalation income, derived from our Bell Canada and LIV portfolios, increased by \$2.8 million, or 20%, from \$14.8 million to \$17.6 million. This increase is primarily the result of foreign currency fluctuations related to our Bell Canada and LIV portfolios, net of the disposition of certain smaller properties. Escalation income represents contractual increases in rental income to offset increases in expenses or general price increases over a base amount.

Gain on settlement of investments increased by \$1.4 million, from \$7.6 million to \$9.0 million, primarily as a result of an increase in the volume of sales of certain 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. Furthermore, market conditions can reduce or eliminate the availability of gains. The increased volume of sales of securities during this period reflects management's determination that the portfolio required more adjustment than in prior periods.

Management fee and incentive income from affiliate related solely to our predecessor's investment in Fund I.

Interest expense increased by \$20.0 million, or 57%, from \$35.0 million to \$55.0 million. This increase is primarily the result of interest on the CBO II, CBO III and CBO IV financings (\$19.3 million), as well as interest on the financing of the mortgage loans (\$4.5 million) and foreign currency fluctuations related

to our Bell Canada and LIV debt (\$1.2 million), offset by lower interest rates on the CBO I financing (\$2.6 million) and the elimination of interest on our predecessor's line of credit (\$2.3 million).

Property operating expense increased by \$1.0 million, or 16%, from \$6.4 million to \$7.4 million, primarily as the result of foreign currency fluctuations related to our Bell Canada and LIV portfolios, net of the disposition of certain smaller properties.

Loan servicing expense increased by \$1.3 million, or 386%, from \$0.3 million to \$1.6 million, primarily as a result of the acquisition of the collateral for the CBO II, CBO III and CBO IV financings and the acquisition of the mortgage loans.

General and administrative expense increased by \$0.2 million, or 10%, from \$2.2 million to \$2.4 million, primarily as a result of increased costs related to being a public company.

Management fee to affiliate, excluding \$4.5 million of management fee expense in 2002 relating to our predecessor's investment in Fund I, increased by \$0.9 million, or 26%, from \$3.6 million to \$4.5 million, primarily as a result of our initial public offering, our preferred stock offering and our additional common stock offering, which increased our equity, offset by the distribution of assets to Holdings which reduced our equity.

Incentive compensation to affiliate, excluding an expense reversal of \$0.6 million in 2002 related to our predecessor's investment in Fund I, increased by \$2.4 million, from \$2.0 million to \$4.4 million, primarily as a result of increased earnings.

Depreciation and amortization decreased by \$0.2 million, or 9%, from \$2.5 million to \$2.3 million, primarily as a result of the distribution to Holdings of depreciable assets.

Equity in earnings of unconsolidated subsidiaries related solely to our predecessor's activities.

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2003 TO THE THREE MONTHS ENDED SEPTEMBER 30, 2002

Interest income, derived primarily from our investments in real estate securities and mortgage loans, increased by \$13.7 million, or 68%, from \$20.2 million to \$33.9 million. This increase is primarily the result of the acquisition of real estate securities used as collateral for the CBO III and CBO IV financings (\$9.6 million) as well as the acquisition of the mortgage loans (\$3.3 million).

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Rental and escalation income, derived from our Bell Canada and LIV portfolios, increased by \$0.6 million, or 12%, from \$5.0 million to \$5.6 million. This increase is primarily the result of foreign currency fluctuations related to our Bell Canada and LIV portfolios, net of the disposition of certain smaller properties. Escalation income represents contractual increases in rental income to offset increases in expenses or general price increases over a base amount.

Gain on settlement of investments increased by \$0.3 million, from \$2.6 million to \$2.9 million, primarily as a result of an increase in the volume of sales of certain 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. Furthermore, market conditions can reduce or eliminate the availability of gains. The increased volume of sales of securities during this period reflects management's determination that the portfolio required more adjustment than in prior periods.

Interest expense increased by \$6.7 million, or 50%, from \$13.5 million to \$20.2 million. This increase is primarily the result of interest on the CBO III and CBO IV financings (\$5.7 million), as well as interest on the financing of the mortgage loans (\$1.6 million) and foreign currency fluctuations related to our Bell Canada and LIV debt (\$0.4 million), offset by lower interest rates on the CBO I financing (\$0.9 million).

Property operating expense increased by \$0.1 million, or 4%, from \$2.1 million to \$2.2 million, primarily as the result of foreign currency fluctuations related to our Bell Canada and LIV portfolios, net of the disposition of certain smaller properties.

Loan servicing expense increased by \$0.6 million, or 428%, from \$0.1 million to \$0.7 million, primarily as a result of the acquisition of the collateral for the CBO III and CBO IV financings and the acquisition of the mortgage loans.

General and administrative expense was approximately \$0.7 million for both periods.

Management fee to affiliate increased by \$0.9 million, or 94%, from \$0.9 million to \$1.8 million, primarily as a result of our initial public offering, our preferred stock offering and our additional common stock offering, which increased our equity.

Incentive compensation to affiliate increased by \$0.8 million, from \$0.6 million to \$1.4 million, primarily as a result of increased earnings.

Depreciation and amortization increased by \$0.1 million, or 12%, from \$0.7 million to \$0.8 million, primarily as a result of foreign currency fluctuations related to our Bell Canada and LIV portfolios.

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 and the issuance of debt and equity securities. Our loans and debt securities are generally secured directly by our investment assets. As of September 30, 2003, our real estate securities purchased in connection with our CBO financings as well as our Bell Canada portfolio were securitized, while our LIV portfolio, mortgage loan portfolio, and one of our other real estate related securities served as collateral for loans.

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 issue the match-funded debt we use to finance our real estate securities at spreads that provide a positive arbitrage. If spreads for CBO liabilities widen or if demand for such liabilities ceases to exist, then our ability to execute future CBO 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 September 30, 2003 we had an unrestricted cash balance of \$94.1 million. Our cash flow provided by operations differs from our net income due to four primary factors: (i) depreciation of our operating real estate, (ii) accretion of discount on our real estate securities, discount on our debt obligations, and deferred hedge gains and losses, (iii) straight-lined rental income, and (iv) gains and losses. Proceeds from the sale of real estate securities 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.

Our operating real estate is financed long-term and primarily leased to credit tenants with long-term leases and is therefore expected to generate generally stable current cash flows. Our real estate securities are also financed long-term and their credit status is continuously monitored; therefore, these investments are also expected to generate a generally stable current return,

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subject to interest rate fluctuations. See "Quantitative and Qualitative Disclosures About Market Risk -- Interest Rate Exposure" below. We consider our ability to generate cash to be adequate and expect it to continue to be adequate to meet operating requirements both in the short- and long-term.

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 obligations at maturity. 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 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.

With respect to our operating real estate, we expect to incur expenditures of approximately \$3.8 million relating to tenant improvements in connection with the inception of leases and capital expenditures during the twelve months ending September 30, 2004.

The following table presents certain information regarding Newcastle's debt obligations as of September 30, 2003 (unaudited) (dollars in thousands):

Weighted Average Expected Life	Carrying Amount	Face Amount	Unhedged Weighted Average Effective Interest Rate	Stated Maturity	Weighted Average Effective Interest Rate (B)
<S>	<C>	<C>	<C>	<C>	<C>
CBO I Bonds 4.93 Years	\$ 431,174	\$ 437,500	3.81% (C)	July 2038	5.04%
CBO II Bonds 6.72 Years	439,686	444,000	2.87% (C)	April 2037	6.02%
CBO III Bonds 8.75 Years	467,198	472,000	2.40% (C)	March 2038	4.00%
CBO IV Bonds 8.59 Years	454,445	460,000	2.01% (C)	Sept. 2038	3.59%
Total CBO Bonds 7.29 Years	1,792,503	1,813,500			4.64%
Bell Canada Securitization 2.32 Years	40,381	41,119	7.00%	April 2012	7.00%
LIV Mortgage 3.00 Years	69,237	69,237	6.10%	Nov. 2006	6.10%
CMBS Repo 1 Month	1,457	1,457	LIBOR+1.35%	One Month	2.47%
Mortgage Loan Repo (A) 6 Months	406,283	406,283	LIBOR+0.40%	March 2004	1.52%
Total repurchase agreements	407,740	407,740			1.52%
Total debt obligations	\$2,309,861	\$2,331,596			4.17%

</TABLE>

(A) The counterparty on this repo is Bear Stearns Mortgage Capital Corporation.

(B) Including the effect of applicable hedges.

(C) Weighted average, including floating and fixed rate classes.

Our long-term debt obligations existing at September 30, 2003 (gross of \$21.7 million of discounts) are expected to mature as follows (unaudited) (in millions):

Period from October 1, 2003 through December 31, 2003	<C>
2004	\$ 1.7
2005	411.4
2006	1.9
2007	64.9
2008	-
Thereafter	-
Total	1,851.7

	\$2,331.6
	=====

</TABLE>

CBO Bonds Payable

In July 1999, we completed our first CBO financing, CBO I, whereby a portfolio of real estate securities was contributed to a consolidated subsidiary which issued \$437.5 million face amount of investment grade senior bonds and \$62.5 million face amount of non-investment grade subordinated bonds, which were retained by us, in a private placement. Two classes of the senior bonds bear floating interest rates. In 1999, we obtained an interest rate swap and cap in order to hedge our exposure to the risk of changes in market interest rates with respect to these bonds, at an initial cost of approximately \$14.3 million. In June 2003, we obtained an additional interest rate swap and cap in order to further hedge our exposure to the risk of changes in market interest rates with respect to these bonds, at an initial cost of approximately \$1.1 million. In

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

In April 2002, we completed our second CBO financing, CBO II, whereby a portfolio of real estate securities was contributed to a consolidated subsidiary which issued \$444.0 million face amount of investment grade senior bonds and \$56.0 million face amount of non-investment grade subordinated bonds, which were retained by us, in a private placement. One class of the senior bonds bears a floating interest rate. We obtained an interest rate swap and cap in order to hedge our exposure to the changes in market interest rates with respect to these bonds, at an initial cost of \$1.2 million.

In November 2001, we sold the retained subordinated \$17.5 million Class E Note from CBO I 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 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

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bonds payable. The Class E Note is included in the collateral for CBO II. The Class E Note is eliminated in consolidation.

In March 2003, we completed our third CBO financing, CBO III, whereby a portfolio of real estate securities was contributed to a consolidated subsidiary which issued \$472.0 million face amount of investment grade senior bonds and \$28.0 million face amount on non-investment grade subordinated bonds, which were retained by us, in a private placement. One class of the senior bonds bears a floating interest rate. We obtained an interest rate swap and cap in order to hedge our exposure to the risk of changes in market interest rates with respect to these bonds, at an initial cost of approximately \$1.3 million.

In June 2003, we entered into an agreement with an investment bank whereby such bank would purchase up to \$500 million of real estate securities (the "Portfolio IV Collateral"), subject to our right, but not the obligation, to purchase such securities from them. The agreement was treated as a non-hedge derivative for accounting purposes and was therefore marked-to-market through current income; a mark of approximately \$1.4 million has been recorded prior to September 30, 2003. In September 2003, we completed a financing transaction ("CBO IV") whereby the Portfolio IV Collateral was purchased by a consolidated subsidiary which issued \$460.0 million face amount of investment grade bonds and \$40.0 million face amount of non-investment grade bonds, which were retained by us, in a private placement. The largest tranche, the \$395.0 million face amount of Class I-MM notes, was issued subject to remarketing procedures and related agreements whereby the securities are remarketed and sold on a periodic basis. The Class I-MM notes are fully insured by a third party with respect to the timely payment of interest and principal thereon. Four tranches of the investment grade bonds bear a floating interest rate. We have obtained an interest rate swap and cap in order to hedge our exposure to the risk of changes in market interest rates with respect to these bonds, at an initial cost of \$3.1 million.

In October 2003, we entered into an agreement with a major investment bank for the right to purchase commercial mortgage backed securities, unsecured REIT debt, real estate loans and asset backed securities (the "Portfolio V Collateral") for our next real estate securities portfolio which is targeted to be \$500 million. The agreement will be treated as a non-hedge derivative for accounting purposes and will therefore be marked-to-market through current income. The Portfolio V Collateral is expected to be included in a financing transaction which we would acquire the equity interest ("CBO V"). As the Portfolio V Collateral is acquired by such bank, we will make deposits (the "Portfolio V Deposit") which will earn an Excess Carry Amount, as defined, to be settled upon closing (the "Portfolio V Deposit"). If CBO V is not consummated as a result of our failure to acquire the equity interest, except as a result of our gross negligence or willful misconduct, we would be required to either purchase the Portfolio V Collateral or pay the Realized Loss, as defined, up to the Portfolio V Deposit, less and Excess Carry Amount. Although we currently anticipate completing CBO V in the near term, there is no assurance that CBO V will be consummated or on what terms it will be consummated.

Other Bonds Payable

In April 2002, we refinanced the Bell Canada portfolio through a securitization transaction denominated in CAD. We have retained one class of the issued bonds. In connection with this securitization, we guaranteed certain payments under an interest rate swap to be entered into in 2007 if the bonds are not fully repaid by such date. We believe the fair value of this guarantee is negligible at September 30, 2003.

Notes Payable

In November 2002, we refinanced the LIV portfolio with a loan denominated in EUR.

Repurchase Agreements

In November 2002, we purchased a portfolio of floating rate residential mortgage loans subject to floating rate financing. In February 2003, we sold our entire position in conforming residential mortgage loans (a portion of our mortgage loan portfolio) for gross proceeds of approximately \$162.6 million at a gain of approximately \$0.7 million. As a result of the sale, the existing repurchase agreement allocated to the conforming loans was satisfied for approximately \$153.9 million. Simultaneously, we purchased additional non-conforming residential mortgage loans at a cost of approximately \$210.2 million. In connection with this purchase, the outstanding balance of the existing repurchase agreement was increased by a net of \$45.9 million, after the repayment described above. In April 2003, we purchased additional non-conforming residential mortgage loans at a cost of approximately \$148.3 million, subject to approximately \$140.9 million of additional financing.

Stockholders' Equity

In October 2002, we sold 7 million shares of our common stock in a public offering at a price to the public of \$13.00 per share, for net proceeds of approximately \$80 million.

In March 2003, we issued 2.5 million shares of our 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 has a \$25 per share liquidation preference, no maturity date and no mandatory redemption. We have the option to redeem the Series B Preferred beginning in March 2008.

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In July 2003, we sold 4.6 million shares of our common stock in a public offering at a price to the public of \$20.35 per share, for net proceeds of approximately \$88.6 million. In connection with this offering, we granted an option to the Manager to purchase 460,000 shares of our common stock at the offering price.

Other

In October 2003, we entered into an arrangement whereby we will own a 37% interest in a limited liability company that will acquire approximately 135 loans from a third party financial institution. An investment fund managed by an affiliate of the Manager will acquire an equal ownership interest in such company on identical terms. The remaining 26% interest is being retained by the seller. The expected purchase price of the loans is approximately \$80 million. The transaction is expected to close in the fourth quarter of 2003.

We declared a dividend of \$0.45 per share of common stock to our stockholders of record at the close of business on April 7, 2003 for the quarter ended March 31, 2003. This dividend was paid in April 2003. We declared a dividend of \$0.50 per share of common stock to our stockholders of record at the close of business on July 7, 2003 for the quarter ended June 30, 2003. This dividend was paid in July 2003. We declared a dividend of \$0.50 per share of common stock to our stockholders of record at the close of business on October 27, 2003 for the quarter ended September 30, 2003. This dividend was paid in October 2003.

Cash Flow

Net cash flow provided by operating activities increased from \$15.3 million for the nine months ended September 30, 2002 to \$18.9 million for the nine months ended September 30, 2003. This change resulted from the acquisition and settlement of our investments as described above, including the distribution of investments to Holdings.

Investing activities (used) (\$1,157.2 million) and (\$387.6 million) during the nine months ended September 30, 2003 and 2002, respectively. Investing activities consisted primarily of investments made in certain real estate securities and mortgage loans, net of proceeds from the settlement of investments as well as the sale of properties.

Financing activities provided \$1,187.0 million and \$348.0 million during the nine months ended September 30, 2003 and 2002, respectively. The borrowings, debt and equity issuances described above served as the primary sources of cash flow from financing activities. Offsetting uses included the payment of related deferred financing costs (including the purchase of hedging instruments), the payment of dividends, and the repayment of debt obligations as described above.

See the consolidated statements of cash flows included in our consolidated financial statements included herein 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.

CREDIT AND INTEREST RATE RISK

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

The commercial mortgage-backed securities (CMBS) 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 mortgage backed securities, and the issuer's underlying equity and subordinated debt, in the case of REIT 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.

Our real estate securities portfolio is diversified by asset type, industry, location and issuer. We believe that this diversification also helps to minimize the risk of capital loss.

At September 30, 2003, our real estate securities which serve as collateral for our CBO financings had an overall weighted average credit rating of approximately BBB-, and approximately 78% of these securities had an investment grade rating (BBB- or higher).

Our real estate securities are also subject to spread risk. The majority of such securities are fixed rate securities, which are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. In other words,

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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 would tend to increase. Such changes in the market value of our real estate securities portfolio may affect 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. 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 affect the yield required on our 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.

Returns on our real estate securities are sensitive to interest rate volatility. 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 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 earnings. In addition, we generally match-fund interest rates with like-kind debt (i.e., fixed rate assets are financed with fixed rate debt and floating rate assets are financed with floating rate debt), directly or through the use of interest rate swaps, caps, or other financial instruments, or through a combination of these strategies. Our financing strategy is dependent on our ability to place the match-funded debt we use to finance our real estate securities at spreads that provide a positive arbitrage. If spreads for CBO liabilities (i.e., bonds issued by CBOs) widen or if demand for such liabilities ceases to exist, then our ability to execute future CBO financings will be severely restricted. See "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Exposure" below.

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. Generally, as interest rates increase, the value of our fixed rate securities,

such as CMBS, decreases and as interest rates decrease, the value of such securities will increase. We seek to hedge changes in value attributable to changes in interest rates by entering into interest rate swaps and other derivative instruments. 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 real estate securities portfolio will not directly affect our recurring earnings or our ability to pay a dividend.

Similar to our real estate securities portfolio, we are subject to credit and spread risk with respect to our mortgage loan portfolio.

Unlike our real estate securities portfolio, our mortgage loan portfolio does not benefit from the support of junior classes of securities, but rather bears the first risk of default and loss. We believe that this credit risk is mitigated through our extensive due diligence process, periodic reviews of the borrower's payment history, delinquency status, and the relationship of the loan balance to the underlying property value.

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

Our mortgage loan portfolio is also subject to spread risk. The majority of such loans are floating rate loans, which are valued based on a market credit spread to LIBOR. The value of the loans is dependent upon the yield demanded by the market based on their credit relative to LIBOR. The value of our portfolio 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). If the value of our mortgage loan portfolio were to decline, it could affect our ability to refinance such portfolio upon the maturity of the related repurchase agreement.

Any credit or spread losses incurred with respect to our mortgage loan portfolio would effect us in the same way as similar losses on our real estate securities portfolio as described above.

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OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2003, we had the following material off-balance sheet arrangements:

- A \$2.9 million equity interest in a securitization, described in Note 7 to our consolidated financial statements included in our December 31, 2002 annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC").
- 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 bonds are not fully repaid by such date. We believe the fair value of this guarantee is negligible at September 30, 2003.

In the first case, our potential loss is limited to the amount shown above which is included in our consolidated balance sheet. At this time, we do not anticipate a substantial risk of incurring a loss with respect to any of the arrangements.

INFLATION

Substantially all of our office leases provide for separate escalations of real estate taxes and operating expenses over a base amount, and/or increases in the base rent based on changes in 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.

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

FUNDS FROM OPERATIONS

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 the Manager. FFO, for our purposes, represents net income available for common stockholders (computed in accordance with GAAP), excluding extraordinary items, plus depreciation of operating real estate, and after adjustments for unconsolidated subsidiaries, if any. We consider gains and losses on resolution of our investments to be a normal part of our recurring operations and therefore do not exclude such gains and losses when arriving at FFO. Adjustments for unconsolidated subsidiaries, if any, are calculated to reflect FFO on the same basis. FFO prior to the commencement of our operations includes certain adjustments related to our predecessor's investment in Fund I. 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 Nine Months Ended September 30, 2003	For the Three Months Ended September 30, 2003
	-----	-----
<S>	<C>	<C>
Income available for common stockholders	\$35,976	\$13,183
Operating real estate depreciation	2,225	765
	-----	-----
Funds from Operations (FFO)	\$38,201	\$13,948
	=====	=====

</TABLE>

Funds from Operations was derived from the Company's segments as follows (unaudited) (in thousands):

<TABLE>
<CAPTION>

	Book Equity at	Average Invested Common Equity for the Nine Months Ended September 30, 2003	FFO for the Nine Months Ended
	September 30, 2003	(2)	September 30, 2003
	-----	-----	-----
<S>	<C>	<C>	<C>
Real estate and other securities	\$ 302,255	\$255,412	\$ 42,756
22.3%			
Operating real estate	39,793	39,287	4,997
17.0%			
Mortgage loans	21,836	19,141	4,125
28.7%			
Unallocated (1)	12,199	1,200	(13,677)
N/A			
	-----	-----	-----

Total (2)	376,083	\$315,040	\$ 38,201
16.2%		=====	=====
====			
Preferred stock	62,500		
Accumulated depreciation	(13,052)		
Accumulated other comprehensive income	30,488		

Net book equity	\$ 456,019		
	=====		

</TABLE>

<TABLE>
<CAPTION>

	Book Equity at	Average Invested Common Equity for the Three Months Ended September 30, 2003	FFO for the Three Months Ended
	September 30, 2003	(2)	September 30, 2003
	-----	-----	-----
<S>	<C>	<C>	<C>

<S>	<C>	<C>	<C>
Real estate and other securities	\$ 302,255	\$299,724	\$ 16,211
21.6%			
Operating real estate	39,793	39,243	1,612
16.4%			
Mortgage loans	21,836	21,762	1,268
23.3%			
Unallocated (1)	12,199	(4,367)	(5,143)
N/A			
----	-----	-----	-----
Total (2)	376,083	\$356,362	\$ 13,948
15.7%		=====	=====
====			
Preferred stock	62,500		
Accumulated depreciation	(13,052)		
Accumulated other comprehensive income	30,488		

Net book equity	\$ 456,019		
	=====		

</TABLE>

(1) Unallocated FFO represents (\$1,523) and (\$3,250) of preferred dividends and (\$3,620) and (\$10,427) of corporate general and administrative expense, management fees and incentive compensation for the three and nine months ended September 30, 2003, respectively.

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

(3) FFO divided by average invested common equity, annualized.

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ITEM 3. 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 affect Newcastle's financial position or operating results, please refer to the "Application of Critical Accounting Policies" section of Management's Discussion and Analysis.

INTEREST RATE EXPOSURE

Our primary interest rate exposures relate to our mortgage loans, real estate securities 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. Changes in the level of interest rates also can affect, among other things, our ability to acquire mortgage loans and securities, the value of our mortgage loans and real estate securities, and our ability to realize gains from the settlement of such assets.

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 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 earnings. In addition, we generally match-fund interest rates with like-kind debt (i.e., fixed rate assets are financed with fixed rate debt and floating rate assets are financed with floating rate debt), directly or through the use of interest rate swaps, caps, or other financial instruments, or through a combination of these strategies. Our financing strategy is dependent on our ability to place the match-funded debt we use to finance our real estate securities at spreads that provide a positive arbitrage. If spreads for CBO liabilities widen or if demand for such liabilities ceases to exist, then our ability to execute future CBO 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 rate 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.

While our strategy is to utilize interest rate swaps, caps and match-funded financing 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 October 29, 2003, a 100 basis point increase in short term interest rates would effect our earnings by no more than \$0.5 million per annum.

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

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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.

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. Generally, as interest rates increase, the value of our fixed rate securities, such as CMBS, decreases and as interest rates decrease, the value of such securities will increase. We seek to hedge changes in value attributable to changes in interest rates by entering into interest rate swaps and other derivative instruments. 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 real estate securities portfolio will not directly affect our recurring earnings or our ability to pay a dividend. As of September 30, 2003, a 100 basis point increase in short term interest rates would impact our net book value by approximately \$17.6 million.

CREDIT SPREAD CURVE EXPOSURE

Our real estate securities are also subject to spread risk. The majority of such securities are fixed rate securities, which 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 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 cashflow 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 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.

As of September 30, 2003, a 25 basis point movement in credit spreads would impact our net book value by approximately \$25.4 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 international holdings. We have attempted to mitigate this impact in part by utilizing local currency-denominated financing on our foreign investments to partially hedge, in effect, these assets.

We have material investments in a portfolio of Belgian properties, the LIV portfolio, and a portfolio of Canadian properties, the Bell Canada portfolio. These properties are financed utilizing debt denominated in their respective local currencies (the Euro and the Canadian Dollar). The net equity invested in these portfolios at September 30, 2003, approximately \$7.2 million and \$20.4 million, respectively, is exposed to foreign currency exchange risk.

FAIR VALUES

For certain of our financial instruments, fair values are not readily available since there are no active trading markets as characterized by current exchanges between willing parties. Accordingly, fair values can only be derived or estimated for these investments using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. We note that minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values, and that the fair values reflected below are indicative of the interest rate, credit spread and currency rate environments as of September 30, 2003 and do not take into consideration the effects of subsequent interest rate, credit spread or currency rate fluctuations.

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We note that the values of our investments in real estate securities and in 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. Historically, the values of our real estate securities have tended to vary inversely with those of our derivative instruments.

We held the following interest rate risk sensitive instruments at September 30, 2003 (unaudited) (dollars in thousands):

<TABLE>
<CAPTION>

Fair Value	Carrying Amount	Principal Balance or Notional Amount	Weighted Average Effective Interest Rate	Maturity Date
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<C>				
ASSETS:				
Real estate securities, available for sale (A) \$2,117,278	\$2,117,278	\$2,058,434	6.60%	(A)
Mortgage loans (B) 427,197	427,197	421,737	2.98%	(B)
Other securities, available for sale (C) 33,649	33,649	45,776	13.02%	(C)
Interest rate caps, treated as hedges (D) 7,609	7,609	555,313	N/A	(D)
LIABILITIES:				
CBO bonds payable (E) 1,841,074	1,792,503	1,813,500	4.64%	(E)
Other bonds payable (F)	40,381	41,119	7.00%	April 2012

40,503				
Notes payable (F)	69,237	69,237	6.10%	Nov 2006
69,731				
Repurchase agreements (G)	407,740	407,740	1.52%	Short-term
407,740				
Interest rate swaps, treated as hedges (H)	49,789	1,158,613	N/A	(H)
49,789				
Non-hedge derivative obligations (I)	792	(I)	N/A	(I)
792				

</TABLE>

- (A) These securities serve as collateral for our CBO financings and contain various terms, including floating and fixed rates, self-amortizing and interest only. Their weighted average term to maturity is 6.52 years. The fair value of these securities is estimated by obtaining third party broker quotations, if available and practicable, or counterparty quotations.
- (B) This portfolio of mortgage loans bears a floating rate of interest and has a weighted average term to maturity of 23.42 years. We believe that for similar financial investments with comparable credit risks, the effective rate on this portfolio approximates the market rate. Accordingly, the carrying amount of this portfolio is believed to approximate fair value.
- (C) These five securities have maturity dates ranging from July 2005 to December 2027. Two of these securities represent subordinate and residual interests in securitizations, two represent asset-backed securities and one represents a CMBS. The fair values of the former two securities, for which quoted market prices are not readily available, are estimated by means of a price/yield analysis based on our expected disposition strategies for such assets. The fair value of the other securities were obtained from third party broker quotations.
- (D) Represents five agreements as follows (dollars in thousands):

<TABLE>

<CAPTION>

September 30, 2003

Notional Balance	Effective Date	Maturity Date	Capped Rate	Strike Rate
<S>	<C>	<C>	<C>	<C>
\$237,847	Current	March 2009	1-Month LIBOR	6.50%
237,847	Current	December 2004	1-Month LIBOR	1.32%*
18,000	January 2010	October 2015	3-Month LIBOR	8.00%
8,619	December 2010	June 2015	3-Month LIBOR	7.00%
53,000	May 2011	September 2015	1-Month LIBOR	7.50%

</TABLE>

*up to 6.50%

- (E) 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 stated maturity of the CBO bonds payable is February 2037. The CBO bonds payable amortize principal prior to maturity based on collateral receipts, subject to reinvestment requirements.

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- (F) The Bell Canada Securitization and LIV Mortgage were valued by discounting expected future payments by a rate calculated by imputing a spread over a market index on the date of borrowing. They both amortize principal periodically with a balloon payment at maturity.
- (G) 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 pay interest only prior to maturity.
- (H) Represents five agreements as follows (dollars in the thousands):

<TABLE>

<CAPTION>

September 30, 2003

Notional Balance	Effective Date	Maturity Date	Swapped Rate	Fixed Rate
<S>	<C>	<C>	<C>	<C>
\$104,653	Current	July 2005	1-Month LIBOR	6.1755%
290,000	Current	April 2011	3-Month LIBOR	5.9325%
276,060	Current	March 2013	3-Month LIBOR	3.865%
192,500	Current	March 2015	1-Month LIBOR	4.888%
295,400	December 2004	March 2009	1-Month LIBOR*	3.125%

</TABLE>

*up to 6.50%

(I) 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 an interest rate cap with a notional balance of approximately \$65.5 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 date of the \$65.5 million cap is August 2004. They have been valued by reference to counterparty quotations.

Currency Rate Risk

We held the following currency rate risk sensitive balances at September 30, 2003 (unaudited) (U.S. dollars; dollars in thousands, except exchange rates):

of a 5% Negative Change in CAD Rate	Carrying Amount	Local Currency	Current Exchange Rate to USD	Effect of a 5% Negative Change in Euro Rate	Effect
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Assets:					
LIV portfolio N/A	\$ 74,345	Euro	0.85793	\$ (3,717)	
Bell Canada portfolio \$(2,613)	52,261	CAD	1.35210	N/A	
LIV other, net N/A	2,072	Euro	0.85793	(104)	
Bell Canada other, net (424)	8,474	CAD	1.35210	N/A	
Liabilities:					
LIV mortgage N/A	69,237	Euro	0.85793	3,462	
Bell Canada bonds 2,019	40,381	CAD	1.35210	N/A	

Total \$(1,018)				\$ (359)	
=====					

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

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ITEM 4. 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 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.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not party to any material legal proceedings.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On September 9, 2003, Newcastle CDO III, Limited and Newcastle CDO III Corp. issued \$460 million face amount of collateralized bond obligations in a transaction exempt from the registration requirements of the Securities Act pursuant to Rule 144A and Regulation S thereunder to qualified institutional buyers and persons outside the United States.

On June 23, 2003, Newcastle issued 385 shares of the Company's common stock to each of its directors, other than Mr. Edens (for a total of 1,540 shares) to provide such directors the benefit of the change in director compensation for the remainder of the 2003 fiscal year. The shares were issued in a transaction exempt from the registration requirements of the Securities Act pursuant to Section 4 (2).

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits filed with this Form 10-Q:

- 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 By-laws (incorporated by reference to the Registrant's Registration Statement on Form S-11 (File No. 333-90578), Exhibit 3.2).
- 3.3 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).
- 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, 2002, 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 Registration Statement on Form S-11 (File No. 333-106135), Exhibit 10.1).
- 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.

(b) Reports on Form 8-K filed by the registrant during its fiscal quarter ended September 30, 2003:

Form 8-K filed with the Securities and Exchange Commission on July 30, 2003, regarding the Registrant's results of operations for the quarter ended June 30, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

(REGISTRANT)

By: /s/ Wesley R. Edens

Wesley R. Edens
Chairman of the Board
Chief Executive Officer
Date: November 10, 2003

By: /s/ Debra A. Hess

Debra A. Hess
Chief Financial Officer
Date: November 10, 2003

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Wesley R. Edens, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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) 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) 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 evaluation; and
 - c) 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.

November 10, 2003

(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 quarterly report on Form 10-Q 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) 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) 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 evaluation; and
 - c) 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.

November 10, 2003

(Date)

/s/ Debra A. Hess

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 Quarterly Report on Form 10-Q of Newcastle Investment Corp. (the "Company") for the quarterly period ended September 30, 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

Wesley R. Edens
Chief Executive Officer
November 10, 2003

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 Quarterly Report on Form 10-Q of Newcastle Investment Corp. (the "Company") for the quarterly period ended September 30, 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

Debra A. Hess
Chief Financial Officer
November 10, 2003

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.