

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, 2004

or

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

For the transition period from ----- to -----

Commission File Number: 001-31458

NEWCASTLE INVESTMENT CORP.

(Exact name of registrant as specified in its charter)

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

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: 38,234,481 SHARES OUTSTANDING AS OF NOVEMBER 5, 2004.

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 Securities and Exchange Commission ("SEC"), including our annual report on Form 10-K for the year ended December 31, 2003, 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, real estate related loans and residential mortgage loans; 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; 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, 2004 (UNAUDITED)	DECEMBER 31,
	-----	-----
2003		
<S>	<C>	<C>
ASSETS		
Real estate securities, available for sale	\$ 3,079,852	\$ 2,089,712
Real estate securities portfolio deposit	-	19,541
Other securities, available for sale	256,073	221,577
Real estate related loans, net	352,275	341,193
Investments in unconsolidated subsidiaries	53,397	30,640
Operating real estate, net	91,112	102,995
Real estate held for sale	11,355	29,404
Residential mortgage loans, net	711,056	586,237
Cash and cash equivalents	62,598	60,403
Restricted cash	13,232	13,132
Deferred costs, net	6,968	10,304
Receivables and other assets	31,696	27,943
	-----	-----
-	\$ 4,669,614	\$ 3,533,081
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
CBO bonds payable	\$ 2,656,247	\$ 1,793,533
Other bonds payable	235,245	260,674
Notes payable	154,556	154,562
Repurchase agreements	824,340	715,783
Derivative liabilities	27,669	32,457
Dividends payable	23,956	16,703
Due to affiliates	7,013	2,445
Accrued expenses and other liabilities	12,998	17,561
	-----	-----
-	3,942,024	2,993,718
	-----	-----
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	62,500	62,500
Common stock, \$0.01 par value, 500,000,000 shares authorized, 38,234,481 and 31,374,833 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	382	314
Additional paid-in capital	625,937	451,806
Dividends in excess of earnings	(15,955)	(14,670)
Accumulated other comprehensive income	54,726	39,413
	-----	-----
-	727,590	539,363
	-----	-----
-	\$ 4,669,614	\$ 3,533,081

</TABLE>

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS
ENDED SEPTEMBER 30,	2004	2003	2004
2003			
REVENUES			
Interest income	\$ 55,770	\$ 33,909	\$ 160,942
\$ 89,743			
Rental and escalation income	3,817	4,839	13,341
15,064			
Gain on settlement of investments	6,227	2,928	15,809
9,047			
113,854	65,814	41,676	190,092
EXPENSES			
Interest expense	34,645	19,655	97,684
53,336			
Property operating expense	1,946	1,920	6,143
6,475			
Loan and security servicing expense	742	665	2,385
1,588			
General and administrative expense	1,259	671	3,715
2,268			
Management fee to affiliate	2,790	1,783	7,750
4,537			
Incentive compensation to affiliate	2,494	1,436	6,104
4,392			
Depreciation and amortization	550	498	1,622
1,450			
74,046	44,426	26,628	125,403
Income before equity in earnings of unconsolidated subsidiaries	21,388	15,048	64,689
39,808			
Equity in earnings of unconsolidated subsidiaries	4,893	-	8,334
-			
Income taxes on related taxable subsidiaries	(1,714)	-	(1,714)
-			
Income from continuing operations	24,567	15,048	71,309
39,808			
Income (loss) from discontinued operations	401	(342)	(1,316)
(582)			
NET INCOME	24,968	14,706	69,993
39,226			
Preferred dividends	(1,523)	(1,523)	(4,570)
(3,250)			
INCOME AVAILABLE FOR COMMON STOCKHOLDERS	\$ 23,445	\$ 13,183	\$ 65,423
\$ 35,976			
NET INCOME PER SHARE OF COMMON STOCK			
BASIC	\$ 0.61	\$ 0.48	\$ 1.80
\$ 1.45			

=====	=====	=====	=====
DILUTED	\$ 0.60	\$ 0.48	\$ 1.77
\$ 1.44	=====	=====	=====
=====			
Income from continuing operations per share of common stock, after preferred dividends			
Basic	\$ 0.60	\$ 0.49	\$ 1.84
\$ 1.47	=====	=====	=====
=====			
Diluted	\$ 0.59	\$ 0.49	\$ 1.81
\$ 1.46	=====	=====	=====
=====			
Income (loss) from discontinued operations per share of common stock			
Basic	\$ 0.01	\$ (0.01)	\$ (0.04)
\$ (0.02)	=====	=====	=====
=====			
Diluted	\$ 0.01	\$ (0.01)	\$ (0.04)
\$ (0.02)	=====	=====	=====
=====			
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING			
BASIC	38,234,481	27,340,057	36,273,142
24,786,517	=====	=====	=====
=====			
DILUTED	38,882,991	27,620,076	36,851,038
24,987,583	=====	=====	=====
=====			
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.60	\$ 0.50	\$ 1.80
\$ 1.45	=====	=====	=====
=====			

</TABLE>

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(dollars in thousands)

<TABLE>
<CAPTION>

COMMON STOCK	PREFERRED STOCK	
	SHARES	AMOUNT
-----	-----	-----
SHARES	AMOUNT	
-----	-----	-----
<S>	<C>	<C>
<C>		
STOCKHOLDERS' EQUITY - DECEMBER 31, 2003	2,500,000	\$ 62,500
31,374,833 \$ 314		
Dividends declared	-	-
-	-	-
Issuance of common stock	-	-
6,750,000 67	-	-
Exercise of common stock options	-	-
107,500 1	-	-
Issuance of common stock to directors	-	-
2,148 -	-	-
Comprehensive income:		
Net income	-	-
-	-	-
Unrealized gain on securities	-	-
-	-	-
Reclassification of realized (gains) on securities into earnings	-	-
-	-	-
Foreign currency translation	-	-
-	-	-

Reclassification of realized foreign currency translation into earnings	-	-	-
Unrealized gain on derivatives designated as cash flow hedges	-	-	-
Reclassification of realized losses on derivatives designated as cash flow hedges into earnings	-	-	-
Total comprehensive income	-----	-----	----

STOCKHOLDERS' EQUITY - SEPTEMBER 30, 2004
38,234,81 \$ 382

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	-	-	-
Reclassification of realized (gains) on securities into earnings	-	-	-
Foreign currency translation	-	-	-
Unrealized (loss) on derivatives designated as cash flow hedges	-	-	-
Total comprehensive income	-----	-----	----

STOCKHOLDERS' EQUITY - SEPTEMBER 30, 2003
28,090,057 \$ 281

<CAPTION>

ACCUM.	ADDITIONAL	DIVIDENDS	OTHER
TOTAL STOCK-	PAID-IN	IN EXCESS OF	COMP.
HOLDERS'	CAPITAL	EARNINGS	
INCOME EQUITY	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
STOCKHOLDERS' EQUITY - DECEMBER 31, 2003	\$ 451,806	\$ (14,670)	\$
39,413 \$ 539,363			
Dividends declared	-	(71,278)	
- (71,278)			
Issuance of common stock	172,643	-	
- 172,710			
Exercise of common stock options	1,428	-	
- 1,429			
Issuance of common stock to directors	60	-	
- 60			
Comprehensive income:			
Net income	-	69,993	
- 69,993			
Unrealized gain on securities	-	-	
26,468 26,468			
Reclassification of realized (gains) on securities into earnings	-	-	
(12,547) (12,547)			
Foreign currency translation	-	-	
535 535			
Reclassification of realized foreign currency translation into earnings	-	-	
(396) (396)			
Unrealized gain on derivatives designated as cash flow hedges	-	-	
1,193 1,193			
Reclassification of realized losses on derivatives designated as cash flow hedges into earnings	-	-	
60 60			

Total comprehensive income			
85,306			

STOCKHOLDERS' EQUITY - SEPTEMBER 30, 2004	\$ 625,937	\$ (15,955)	\$
54,726 \$ 727,590			
=====	=====	=====	
STOCKHOLDERS' EQUITY - DECEMBER 31, 2002	\$ 290,935	\$ (13,966)	\$
7,037 \$ 284,241			
Dividends declared	-	(39,610)	
- (39,610)			
Issuance of preferred stock	(2,436)	-	
- 60,064			
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			
Reclassification of realized (gains) on securities into earnings	-	-	
(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			
=====	=====	=====	

</TABLE>

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

<TABLE>			
<CAPTION>			
			NINE MONTHS ENDED
SEPTEMBER 30,			

2003		2004	
-----		-----	
<S>		<C>	
<C>			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		\$ 69,993	\$
39,226			
Adjustments to reconcile net income to net cash provided by operating activities			
(inclusive of amounts related to discontinued operations):			
Depreciation and amortization		1,675	
2,263			
Accretion of discount and other amortization		81	
(3,097)			
Equity in earnings of unconsolidated subsidiaries		(8,334)	
-			
Deferred rent		(1,112)	
(1,292)			
Gain on settlement of investments		(14,600)	
(9,182)			
Unrealized gain on non-hedge derivatives		(2,559)	
(3,065)			
Non-cash directors' compensation		60	
30			
Change in:			
Restricted cash		(390)	
(2,972)			

Receivables and other assets	(2,380)	
(5,957)		
Due to affiliates	4,568	
711		
Accrued expenses and other liabilities	(4,841)	
2,194		

Net cash provided by operating activities	42,161	
18,859		

CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of real estate securities	(1,206,707)	
(1,086,214)		
Proceeds from sale of real estate securities	153,105	
145,993		
Deposit on real estate securities (treated as a derivative)	(55,408)	
(40,602)		
Purchase of other securities	(83,987)	
(48,692)		
Proceeds from sale of other securities	26,385	
-		
Purchase of loans	(400,365)	
(358,594)		
Repayments of loan and security principal	340,494	
61,618		
Proceeds from settlement of loans	123,595	
164,406		
Purchase and improvement of operating real estate	(292)	
(316)		
Proceeds from sale of operating real estate	27,426	
5,228		
Contributions to unconsolidated subsidiaries	(26,789)	
-		
Distributions from unconsolidated subsidiaries	12,366	
-		
Payment of deferred costs	(276)	
-		

Net cash used in investing activities	(1,090,453)	
(1,157,173)		

</TABLE>

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

	NINE MONTHS ENDED SEPTEMBER	
	2004	2003
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of CBO bonds payable	859,643	921,513
Repayments of other bonds payable	(26,762)	(3,084)
Borrowings under notes payable	40,000	-
Repayments of notes payable	(38,612)	(667)
Borrowings under repurchase agreements	368,300	340,591
Repayments of repurchase agreements	(259,743)	(181,020)
Issuance of preferred stock	-	62,500
Costs related to issuance of preferred stock	-	(2,436)
Issuance of common stock	175,628	93,610
Costs related to issuance of common stock	(2,918)	(4,993)
Exercise of common stock options	1,429	-
Dividends paid	(64,025)	(33,710)
Payment of deferred financing costs	(2,453)	(5,354)
	-----	-----
Net cash provided by financing activities	1,050,487	1,186,950
	-----	-----

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,195	48,636
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	60,403	45,463
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 62,598	\$ 94,099
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest expense	\$ 94,569	\$ 53,714
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Common stock dividends declared but not paid	\$ 22,940	\$ 14,045
Preferred stock dividends declared but not paid	\$ 1,016	\$ 1,016
Deposits used in acquisition of real estate securities (treated as a derivative)	\$ 75,824	\$ 81,492

</TABLE>

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2004
 (dollars in tables in thousands, except per share data)

1. GENERAL

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

In October 2002, Newcastle sold 7.0 million shares of its common stock in its initial public offering (the "IPO") at a price to the public of \$13.00 per share, for net proceeds of approximately \$80.0 million. During 2003, Newcastle sold an aggregate of approximately 7.9 million shares of its common stock in two public offerings for net proceeds of approximately \$163.3 million. During the first nine months of 2004, Newcastle sold an aggregate of approximately 6.8 million shares of its common stock in two public offerings for net proceeds of approximately \$172.7 million. Newcastle had 38,234,481 shares of common stock outstanding at September 30, 2004. Approximately 2.3 million shares of Newcastle's common stock were held by an affiliate of the Manager (as defined below) at September 30, 2004. In addition, an affiliate of the Manager held options to purchase approximately 1.4 million shares of Newcastle's common stock at September 30, 2004.

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 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, 2003 consolidated financial statements and notes thereto included in Newcastle's annual report on Form 10-K filed with the Securities and Exchange Commission. Capitalized terms used herein, and not otherwise defined, are defined in Newcastle's December 31, 2003 consolidated financial statements.

2. INFORMATION REGARDING BUSINESS SEGMENTS

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

Belgium		\$	-	\$	-	\$	78,149	\$	-	\$
-	\$ 78,149									
Three Months Ended September 30, 2004										
Gross revenues		\$	50,773	\$	6,114	\$	3,825	\$	4,888	\$
214	\$ 65,814									
Operating expenses			(149)		(18)		(2,127)		(600)	
(6,337)	(9,231)									
Operating income (loss)			50,624		6,096		1,698		4,288	
(6,123)	56,583									
Interest expense			(26,487)		(4,145)		(1,180)		(2,833)	
-	(34,645)									
Depreciation and amortization			-		-		(549)		-	
(1)	(550)									
Equity in earnings of unconsolidated subsidiaries			-		944		3,949		-	
-	4,893									
Income taxes on related taxable subsidiaries			-		-		(1,714)		-	
-	(1,714)									
Income (loss) from continuing operations			24,137		2,895		2,204		1,455	
(6,124)	24,567									
Income from discontinued operations			-		-		401		-	
-	401									
Net Income (Loss)		\$	24,137	\$	2,895	\$	2,605	\$	1,455	\$
(6,124)	\$ 24,968									
Revenue derived from non-US sources:										
Canada		\$	-	\$	-	\$	2,895	\$	-	\$
-	\$ 2,895									
Belgium		\$	-	\$	-	\$	1,650	\$	-	\$
-	\$ 1,650									

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NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 SEPTEMBER 30, 2004
 (dollars in tables in thousands, except per share data)

Unallocated	Total	Real Estate Securities	Real Estate Related Loans	Operating Real Estate	Residential Mortgage Loans					
<S>										
<C>										
Nine Months Ended September 30, 2003										
Gross revenues		\$	88,882	\$	-	\$	15,074	\$	9,732	\$
166	\$ 113,854									
Operating expenses			(604)		-		(6,966)		(1,097)	
(10,593)	(19,260)									
Operating income (loss)			88,278		-		8,108		8,635	
(10,427)	94,594									
Interest expense			(45,522)		-		(3,304)		(4,510)	-
(53,336)										
Depreciation and amortization			-		-		(1,450)		-	
-	(1,450)									
Income (loss) from continuing operations			42,756		-		3,354		4,125	
(10,427)	39,808									
Income (loss) from discontinued operations			-		-		(582)		-	-

(582)

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					
Three Months Ended September 30, 2003					
Gross revenues	\$ 33,444	\$ -	\$ 4,850	\$ 3,288	\$ -
94 \$ 41,676					
Operating expenses	(275)	-	(2,054)	(432)	
(3,714) (6,475)					
Operating income (loss)	33,169	-	2,796	2,856	
(3,620) 35,201					
Interest expense	(16,958)	-	(1,109)	(1,588)	-
(19,655)					
Depreciation and amortization	-	-	(498)	-	
- (498)					
Income (loss) from continuing operations	16,211	-	1,189	1,268	
(3,620) 15,048					
Income from discontinued operations	-	-	(342)	-	
- (342)					
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>

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
SEPTEMBER 30, 2004
(dollars in tables in thousands, except per share data)

3. REAL ESTATE SECURITIES

The following is a summary of Newcastle's real estate securities at September 30, 2004, 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."

		Gross Unrealized				Weighted	
Average		-----				-----	
Maturity	Current Face	Amortized					
Yield (Years)	Amount	Cost Basis	Gains	Losses	Carrying Value	S&P Rating	Coupon
	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>							
Portfolio I							
CMBS	\$ 321,041	\$ 295,945	\$ 28,400	\$ (3,024)	\$ 321,321	BB+	6.85%
8.72% 6.05							
Unsecured REIT debt	232,261	233,525	15,726	(1,068)	248,183	BBB-	6.47%

6.36%	6.64							
-----	-----							
Subtotal - Portfolio I	553,302	529,470	44,126	(4,092)	569,504	BBB-	6.69%	
7.68%	6.30							
-----	-----							
Portfolio II								
CMBS	238,807	231,913	17,686	(665)	248,934	BBB-	6.33%	
6.97%	6.24							
Unsecured REIT debt	144,371	144,117	12,566	(402)	156,281	BBB-	7.19%	
7.19%	7.21							
Asset-backed securities	72,521	70,762	2,131	(3,326)	69,567	A-	6.51%	
7.09%	6.28							
-----	-----							
Subtotal - Portfolio II	455,699	446,792	32,383	(4,393)	474,782	BBB-	6.63%	
7.06%	6.55							
-----	-----							
Portfolio III								
CMBS	299,532	311,259	5,100	(242)	316,117	BBB	6.11%	
5.36%	6.05							
Unsecured REIT debt	97,110	101,368	5,032	-	106,400	BBB	6.88%	
6.12%	7.73							
Asset-backed securities	72,030	70,665	1,117	(452)	71,330	A-	4.50%	
5.04%	3.96							
-----	-----							
Subtotal - Portfolio III	468,672	483,292	11,249	(694)	493,847	BBB	6.02%	
5.47%	6.08							
-----	-----							
Portfolio IV								
CMBS	298,683	291,071	7,951	(149)	298,873	BBB	4.83%	
5.30%	4.42							
Unsecured REIT debt	105,848	109,475	5,558	(17)	115,016	BBB	6.60%	
5.95%	7.66							
Asset-backed securities	49,467	46,818	2,624	-	49,442	A-	5.19%	
6.02%	5.46							
-----	-----							
Subtotal - Portfolio IV	453,998	447,364	16,133	(166)	463,331	BBB	5.28%	
5.54%	5.29							
-----	-----							
Portfolio V								
CMBS	273,894	270,301	1,761	(2,412)	269,650	BBB-	5.05%	
5.16%	6.26							
Unsecured REIT debt	77,445	81,599	86	(2,252)	79,433	BBB	5.80%	
5.06%	8.73							
Asset-backed securities	90,905	91,070	430	(113)	91,387	A-	3.47%	
3.47%	4.47							
-----	-----							
Subtotal - Portfolio V	442,244	442,970	2,277	(4,777)	440,470	BBB	4.86%	
4.79%	6.33							
-----	-----							
Portfolio VI								
CMBS	194,020	194,192	-	(1,520)	192,672	BBB-	5.34%	
5.34%	8.10							
Unsecured REIT debt	82,904	86,133	-	(546)	85,587	BBB-	6.03%	
5.51%	9.89							
Asset-backed securities	101,416	101,502	66	(79)	101,489	A-	3.13%	
3.16%	4.84							
-----	-----							
Subtotal - Portfolio VI	378,340	381,827	66	(2,145)	379,748	BBB	4.90%	
4.80%	7.62							
-----	-----							
Total Real Estate Securities*	\$ 2,752,255	\$ 2,731,715	\$ 106,234	\$ (16,267)	\$ 2,821,682	BBB-	5.79%	
5.97%	6.32							
=====	=====	=====	=====	=====	=====	=====	=====	=====
Other Securities								
Rated	\$ 260,587	\$ 238,792	\$ 4,986	\$ (670)	\$ 243,108	B	6.72%	
8.00%	4.34							
Unrated	16,558	12,965	-	-	12,965	N/R	11.91%	
19.19%	2.38							
-----	-----							
Total Other Securities	\$ 277,145	\$ 251,757	\$ 4,986	\$ (670)	\$ 256,073	B	7.03%	

8.53%	4.22							
====	====							
Total Securities**		\$ 3,029,400	\$ 2,983,472	\$ 111,220	\$ (16,937)	\$ 3,077,755	BBB-	5.91%
6.18%	6.13							
====	====							

*Carrying value excludes restricted cash of \$258.2 million included in Real Estate Securities pending its reinvestment.

**The total current face amount of fixed rate securities was \$2,215.1 million, and of floating rate securities was \$814.3 million.

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, 2004. The unrealized losses on Newcastle's securities are primarily the result of market factors, rather than credit impairment, and Newcastle believes their carrying amounts are fully recoverable. One of the securities had an immaterial interest shortfall at September 30, 2004, which has subsequently been brought current; no other securities are delinquent.

Securities in an Unrealized Loss Position

<S>		<C>	<C>	<C>	<C>	<C>	<C>	
<C>	<C>							
Less Than Twelve Months		\$ 892,131	\$ 887,301	\$ -	\$ (9,689)	\$ 877,612	BB+	5.42%
5.41%	6.85							
Twelve or More Months		84,462	78,646	-	(7,248)	71,398	BB	5.28%
7.26%	4.49							
----	----							
Total		\$ 976,593	\$ 965,947	\$ -	\$ (16,937)	\$ 949,010	BB+	5.40%
5.56%	6.65							
====	====							

The unrealized losses on the securities in the "Twelve or More Months" category were primarily caused by changes in credit spreads which management believes to be temporary; no material loss is expected to be realized on such securities.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 SEPTEMBER 30, 2004
 (dollars in tables in thousands, except per share data)

4. RECENT ACTIVITIES

In October 2004, Newcastle executed an agreement with a major investment bank for the right to purchase commercial mortgage backed securities, unsecured REIT debt, real estate loans and other asset-backed securities (the "Portfolio VII Collateral") for its next real estate securities portfolio which is targeted to be approximately \$500 million. The agreement will be treated as a non-hedge derivative for accounting purposes and will therefore be marked-to-market through income. The Portfolio VII Collateral is expected to be included in a financing transaction in which Newcastle would acquire the equity interest ("CBO VII"). Although Newcastle currently anticipates completing CBO VII in the near term, there is no assurance that CBO VII will be consummated or on what terms it will be consummated.

In July 2004, Newcastle refinanced \$342.5 million of the AAA and AA bonds in its first collateralized debt obligation which was issued in 1999. \$322.5 million of AAA bonds were refinanced at LIBOR + 0.30% from LIBOR + 0.65% and \$20.0 million of AA bonds were refinanced at LIBOR + 0.50% from LIBOR + 0.80%. In connection with this transaction, Newcastle incurred approximately \$1.5 million of costs, which are included in "Gain on Settlement of Investments."

In June 2004, Newcastle consummated the sale of five properties in its LIV portfolio in Belgium. These properties had been classified as held for sale since December 2003. Newcastle recognized a \$1.5 million loss on this sale in December 2003. In addition, Newcastle recognized a \$1.2 million loss in 2004, primarily related to the prepayment of the \$25.4 million of debt on such properties.

In May 2004, Newcastle sold 3.45 million shares of its common stock in a public offering at a price to the public of \$25.75 per share, for net proceeds of approximately \$87.1 million. For the purpose of compensating the Manager for its

successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 345,000 shares of Newcastle's common stock at the public offering price, which were valued at approximately \$0.5 million.

In May 2004, Newcastle executed an agreement with a major investment bank for the right to purchase commercial mortgage backed securities, unsecured REIT debt, real estate loans and other asset-backed securities (the "Portfolio VI Collateral") for its next real estate securities portfolio. The agreement was treated as a non-hedge derivative for accounting purposes and was therefore marked-to-market through current income; a gain of approximately \$1.6 million has been recorded in interest income through September 30, 2004. In September 2004, Newcastle completed its sixth CBO financing, CBO VI, whereby the Portfolio VI Collateral was purchased by a consolidated subsidiary which issued \$454.5 million face amount of investment grade senior bonds and \$45.5 million face amount of non-investment grade subordinated bonds, which were retained by Newcastle, in a private placement. Four classes of the senior bonds bear floating interest rates. Newcastle obtained an interest rate swap in order to hedge its exposure to the risk of changes in market interest rates with respect to these bonds.

In March 2004, Newcastle committed to a plan to sell one property in the LIV portfolio (in addition to the five classified as held for sale at December 31, 2003 and sold in June 2004). Newcastle expects a sale of this property be completed by the first quarter of 2005. Accordingly, this property has been reclassified as Real Estate Held for Sale. Although Newcastle currently anticipates completing this sale in the near term, there is no assurance that this sale will be completed or on what terms it will be completed. Pursuant to SFAS No. 144, Newcastle has retroactively recorded the operations of such property, including the interest expense on the related mortgage balance which would be repaid upon its sale, in Income from Discontinued Operations for all periods presented.

In 2003, Newcastle entered into an agreement for the right to purchase securities (the "Portfolio V Collateral") for its next real estate securities portfolio. The agreement was treated as a non-hedge derivative for accounting purposes and was therefore marked-to-market through current income; a gain of approximately \$1.1 million has been recorded during the period ended September 30, 2004. In March 2004, Newcastle completed its fifth CBO financing, CBO V, whereby the Portfolio V Collateral was purchased by a consolidated subsidiary which issued \$414.0 million face amount of investment grade senior bonds and \$36.0 million face amount of non-investment grade subordinated bonds, which were retained by Newcastle, in a private placement. Four classes of the senior bonds bear floating interest rates. Newcastle obtained an interest rate swap in order to hedge its exposure to the risk of changes in market interest rates with respect to these bonds.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

In March 2004, Newcastle purchased a 49% interest in a \$153 million portfolio of approximately 200 convenience and retail gas stores located in ten states throughout the southeastern and southwestern regions of the U.S. The properties are subject to a sale-leaseback arrangement under long-term triple net leases with a 15 year minimum term. Circle K Stores Inc. ("Tenant"), an indirect wholly owned subsidiary of Alimentation Couche-Tard Inc. ("ACT"), is the counterparty under the leases. ACT guarantees the obligations of Tenant under the leases. Newcastle structured this transaction through a joint venture in a limited liability company, in which it invested approximately \$26.8 million of equity, with a private investment fund managed by an affiliate of the Manager, pursuant to which it co-invested on equal terms. This investment was initially financed with a bridge loan at the limited liability company level. Newcastle and the affiliate of the Manager had each guaranteed 50% of such loan. In October 2004, this loan was refinanced with a \$53 million term loan, which bears interest at a fixed rate of 6.04%. The required payments under the loan consist of interest only during the first two years, followed by a 25-year amortization schedule with a balloon payment due in October 2014. The proceeds from the permanent financing were used to repay the balance of the initial bridge loan financing, at which time Newcastle's 50% guaranty was terminated. The Manager receives from this private investment fund, in addition to management fees, incentive compensation if the fund's aggregate investment returns exceed certain thresholds. This limited liability company is an investment company and therefore maintains its financial records on a fair value basis. Newcastle has retained such accounting relative to its investment in such limited liability company, which is accounted for under the equity method at fair value. This investment is included in the operating real estate segment.

In January 2004, Newcastle purchased from an underwriter \$31.5 million face amount of B and BB rated securities of Global Signal Trust I, a special purpose vehicle established by Global Signal Inc., at a price resulting in a weighted

average yield of approximately 9.00%. Newcastle financed these securities with approximately \$21.3 million of repurchase agreements. Newcastle obtained interest rate swaps in order to hedge its risk of exposure to changes in market interest rates with respect to this debt. Two of Newcastle's directors are the CEO and President of Global Signal, Inc., respectively. A private equity fund managed by an affiliate of the Manager owns a significant portion of Global Signal Inc.'s common stock; the Manager receives from this private equity fund, in addition to management fees, incentive compensation if the fund's aggregate investment returns exceed certain thresholds. Pursuant to this underwritten 144A offering, approximately \$418.0 million of Global Signal Trust I securities were issued in 7 classes, rated AAA through B, of which the B and BB classes constituted \$73.0 million. The balance of the B and BB securities was sold on identical terms to a private investment fund managed by an affiliate of the Manager and to a large third party mutual fund complex; the Manager receives from this private investment fund, in addition to management fees, incentive compensation if the fund's aggregate investment returns exceed certain thresholds. The proceeds of the 144A offering were utilized by Global Signal Inc. to repay an existing credit facility, to pay an extraordinary dividend of approximately \$140 million to its stockholders of which approximately \$67 million was paid to the above-referenced private equity fund, and for general working capital purposes.

In January 2004, Newcastle sold 3.3 million shares of its common stock in a public offering at a price to the public of \$26.30 per share, for net proceeds of approximately \$85.8 million. For the purpose of compensating the Manager for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to the Manager to purchase 330,000 shares of Newcastle's common stock at the public offering price, which were valued at approximately \$0.6 million.

5. DERIVATIVE INSTRUMENTS

The following table summarizes the notional amounts and fair (carrying) values of Newcastle's derivative financial instruments as of September 30, 2004.

<S>	Notional Amount -----	Fair Value -----	Longest Maturity -----
<C>	<C>	<C>	<C>
Interest rate caps treated as hedges (A)	\$ 669,481	\$ 4,707	October 2015
Interest rate swaps, treated as hedges (B)	\$1,575,697	\$ (24,101)	November 2018
Non-hedge derivative obligations (B)	(C)	\$ (792)	July 2038

</TABLE>

(A) Included in Deferred Costs, Net.

(B) Included in Derivative Liabilities, which also includes accrued interest.

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

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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(dollars in tables in thousands, except per share data)

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 outstanding stock options. Net income available for common stockholders is equal to net income less preferred dividends.

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

<TABLE>
<CAPTION>

SEPTEMBER 30,	THREE MONTHS ENDED SEPTEMBER 30,	NINE MONTHS ENDED
-----	-----	-----
2003	2004	2004
-----	-----	-----
<S>	<C>	<C>
<C>		
Weighted average number of shares of common stock outstanding, basic	38,234,481	27,340,057
24,786,517		36,273,142
Dilutive effect of stock options, based on the treasury stock method	648,510	280,019
201,066		577,896
-----	-----	-----
Weighted average number of shares of common stock outstanding, diluted	38,882,991	27,620,076
24,987,583		36,851,038
=====	=====	=====

</TABLE>

During and after the first quarter of 2004, the Manager assigned, for no value, options to purchase approximately 0.7 million shares of Newcastle's common stock to certain of the Manager's employees, of which approximately 0.1 million were exercised immediately. As of September 30, 2004, Newcastle's outstanding options were summarized as follows:

<TABLE>	<C>
<CAPTION>	
<S>	
Held by the Manager	1,417,525
Issued to the Manager and subsequently transferred to certain of the Manager's employees	638,702
Held by directors	13,000

Total	2,069,227
	=====

</TABLE>

7. INCOME TAXES

Newcastle Investment Corp. expects to qualify as a REIT under the Internal Revenue Code. A REIT will generally not be subject to federal income tax on that portion of its income that it distributes to its stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements. Newcastle has elected to treat NC Circle Holdings II LLC as a taxable REIT subsidiary ("TRS"), effective February 27, 2004. NC Circle Holdings II LLC owns a portion of Newcastle's investment in one of its unconsolidated subsidiaries. To the extent that NC Circle Holdings II LLC generates taxable income, Newcastle has provided for relevant income taxes based on a blended statutory rate of 40%. Newcastle accounts for income taxes in accordance with the provisions of SFAS No. 109 "Accounting for Income Taxes." Under SFAS No. 109, Newcastle accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. No such material differences have been recognized through September 30, 2004.

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 (including B-notes), senior unsecured debt issued by property REITs and real estate related 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, directly and indirectly, interest in loans and pools of loans, including real estate related loans and residential mortgage loans. We also own, directly and indirectly, interests in operating real estate, including 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 seek to match-fund our investments with respect to interest rates and maturities in order to minimize the impact of interest rate fluctuations on earnings and reduce the risk of refinancing our liabilities prior to the maturity of the investments. We seek to finance a substantial portion of our real estate securities 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.

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

We were formed in June 2002 as a wholly owned subsidiary of Newcastle Investment Holdings Corp. (referred to herein 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 16.5 million shares of our common stock. Our operations commenced on July 12, 2002. On May 19, 2003, Holdings distributed to its stockholders all of the shares of our common stock that it held, and it no longer owns any of our common equity. Approximately 2.3 million shares of our common stock were held by an affiliate of our manager at September 30, 2004. In addition, an affiliate of our manager held options to purchase approximately 1.4 million shares of our common stock at September 30, 2004.

In October 2002, we sold 7.0 million shares of our common stock in our initial public offering at a price to the public of \$13.00 per share, for net proceeds of approximately \$80.0 million. During 2003, we sold an aggregate of approximately 7.9 million shares of our common stock in two public offerings for net proceeds of approximately \$163.3 million. During the first nine months of 2004, we sold an aggregate of approximately 6.8 million shares of our common stock in two public offerings for net proceeds of approximately \$172.7 million. At September 30, 2004, we had 38,234,481 shares of common stock outstanding.

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 by investing in four primary investment categories (business segments): (i) real estate securities, (ii) real estate related loans, (iii) operating real estate, including 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 (iv) residential mortgage loans.

Revenues attributable to each segment are disclosed below (unaudited) (in thousands).

<TABLE>
<CAPTION>

For the Nine Months Ended September 30,	Real Estate Securities	Real Estate Related Loans	Operating Real Estate	Residential Mortgage Loans	Unallocated	Total
-						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
2004	\$ 143,012	\$ 19,971	\$ 13,363	\$ 13,331	\$ 415	\$ 190,092
2003	\$ 88,882	\$ -	\$ 15,074	\$ 9,732	\$ 166	\$ 113,854

</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.

In December 2003, Financial Accounting Standards Board Interpretation ("FIN") No. 46R "Consolidation of Variable Interest Entities" was issued as a modification of FIN 46. FIN 46R, which became effective in the first quarter of 2004, clarifies the methodology for determining whether an entity is a variable

interest entity ("VIE") and the methodology for assessing who is the primary beneficiary of a VIE. Under FIN 46R, only the primary beneficiary of a VIE may consolidate the VIE. We have historically consolidated our five existing CBO transactions (the "CBO Entities") because we own the entire equity interest in each of them, representing a substantial portion of their capitalization, and we control the management and resolution of their assets.

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

We have determined that certain of the CBO Entities are VIEs and that we are the primary beneficiary of each of these VIEs and will therefore continue to consolidate them. We have also determined that the application of FIN 46R did not result in a change in our accounting for any other entities. We will continue to analyze future CBO entities, as well as other investments, pursuant to the requirements of FIN 46R. These analyses require considerable judgment in determining the primary beneficiary of a VIE since they involve subjective probability weighting of subjectively determined possible cash flow scenarios. The result could be the consolidation of an entity acquired or formed in the future that would otherwise not have been consolidated or the non-consolidation of such an entity that would otherwise have been consolidated.

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

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 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, directly and indirectly, real estate related and residential 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. In 2003, a loss allowance of \$0.1 million was recorded with respect to the residential mortgage loans in our portfolio. No other loan impairments have been recorded to date.

Income on these loans is recognized similarly to that on our securities and is

subject to similar uncertainties and contingencies.

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. In addition, when operating real estate is classified as held for sale, it must be recorded at the lower of its carrying amount or fair value less costs of sale. Significant judgment is required in determining the fair value of such properties. At September 30, 2004, we have one property classified as held for sale. Five properties were sold in June 2004; these properties were classified as held for sale in 2003 and an aggregate loss of approximately \$1.5 million was recorded at such time.

RESULTS OF OPERATIONS

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

Explanation	Period to Period Change		Period to Period Percent Change	
	Nine Months Ended	Three Months Ended	Nine Months Ended	Three Months
	September 30, 2004/2003	September 30, 2004/2003	September 30, 2004/2003	September 30, 2004/2003
<S>	<C>	<C>	<C>	<C>
<C>				
Interest Income	\$ 71,199	\$ 21,861	79.3%	64.5%
(A)				
Rental and escalation income	(1,723)	(1,022)	-11.4%	-21.1%
(B)				
Gain on settlement of investments	6,762	3,299	74.7%	112.7%
(C)				
Interest expense	44,348	14,990	83.1%	76.3%
(A)				
Property operating expense	(332)	26	-5.1%	1.4%
(B)				
Loan and security servicing expense	797	77	50.2%	11.6%
(A)				
General and administrative expense	1,447	588	63.8%	87.6%
(D)				
Management fee to affiliate	3,213	1,007	70.8%	56.5%
(E)				
Incentive compensation to affiliate	1,712	1,058	39.0%	73.7%
(E)				
Depreciation and amortization	172	52	11.9%	10.4%
(B)				
Equity in earnings of unconsolidated subsidiaries, net of taxes on related taxable subsidiaries	6,620	3,179	N/A	N/A
(F)				
Income from continuing operations	31,501	9,519	79.1%	63.3%

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

Expense	Period to Period Change		
	Interest Income		Interest
	Nine Months Ended	Three Months Ended	Nine Months Ended
	September 30,	September 30,	September 30,
	2004/2003	2004/2003	2004/2003
<S>	<C>	<C>	<C>
<C>			
Real Estate Securities Portfolio III	\$ 4,314	\$ (126)	\$ 4,249

\$ 218			
Real Estate Securities Portfolio IV 3,374	17,096	4,084	11,615
Real Estate Securities Portfolio V 3,532	11,149	5,229	6,849
Real Estate Securities Portfolio VI 45	1,623	1,477	45
Other real estate securities* 1,509	13,490	4,524	4,451
Real estate related loan #1 575	4,251	1,450	1,639
Real estate related loan #2 340	1,912	771	820
Residential Mortgage Loan Portfolio 1,245	4,478	1,601	2,698
ICH CMO Loan Portfolio 3,230	13,278	3,719	11,386
Other 922	(392)	(868)	596
-----	-----	-----	-----
	\$ 71,199	\$ 21,861	\$ 44,348
\$ 14,990			

*Represents a portfolio of securities collateralized by first mortgage loans on manufactured housing units as well as the Global Signal securities.

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

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- (B) These changes are primarily the result of foreign currency fluctuations with respect to our Bell Canada and LIV portfolios, offset by the sale of certain properties and the termination of a lease.
- (C) These changes are primarily a result of the volume of sales of real estate securities. Sales of real estate securities are based on a number of factors including credit, asset type and industry and can be expected to increase or decrease from time to time. Periodic fluctuations in the volume of sales of securities is dependent upon, among other things, management's assessment of credit risk, asset concentration, portfolio balance and other factors. The current period includes losses related to the refinancing of CBO I (\$1.5 million) and the sale of certain Belgian properties (\$1.2 million).
- (D) The increases in general and administrative expense are primarily a result of our increased size, resulting from our equity issuances during this period, as well as due to increased professional fees related to our compliance with the Sarbanes-Oxley Act of 2002.
- (E) The increase in management fees is a result of our increased size resulting from our equity issuances during this period. The increase in incentive compensation is primarily a result of our increased earnings.
- (F) The increase in earnings from unconsolidated subsidiaries is primarily a result of our acquisition of an interest in an LLC which owns a portfolio of real estate related loans and of an interest in an LLC which owns a portfolio of convenience and retail gas stores.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, and other general business needs. Additionally, to maintain our status as a REIT under the Internal Revenue Code, we must distribute annually at least 90% of our REIT taxable income. Our primary sources of funds for liquidity consist of net cash provided by operating activities, borrowings under loans, the issuance of debt securities and the issuance of equity securities. Our debt obligations, which consist of loans and debt securities, are generally secured directly by our investment assets. As of September 30, 2004, our real estate securities purchased in connection with our CBO financings as well as our Bell Canada portfolio and ICH CMO loans were securitized, while our LIV portfolio, our residential mortgage loan portfolio, several of our other real estate securities and two of our other real estate related loans served as collateral for loan obligations (including repurchase agreements).

We expect that our cash on hand and our cash flow provided by operations will satisfy our liquidity needs with respect to our current investment portfolio over the next twelve months. However, we currently expect to seek additional capital in order to grow our investment portfolio. We have an effective shelf registration statement with the SEC which allows us to issue various types of securities, such as common stock, preferred stock, depository shares, debt

securities and warrants, from time to time, up to an aggregate of \$750 million, of which approximately \$499 million remains available as of September 30, 2004.

We expect to meet our long-term liquidity requirements, specifically the repayment of our debt obligations, through additional borrowings and the liquidation or refinancing of our assets at maturity. We believe that the value of these assets is, and will continue to be, sufficient to repay our debt at maturity under either scenario. Our ability to meet our long-term liquidity requirements relating to capital required for the growth of our investment portfolio is subject to obtaining additional equity and debt financing. Decisions by investors and lenders to enter into such transactions with us will depend upon a number of factors, such as our historical and projected financial performance, compliance with the terms of our current credit arrangements, industry and market trends, the availability of capital and our investors' and lenders' policies and rates applicable thereto, and the relative attractiveness of alternative investment or lending opportunities.

Our ability to execute our business strategy, particularly the growth of our investment portfolio, depends to a significant degree on our ability to obtain additional capital. Our core business strategy is dependent upon our ability to finance our real estate securities and other real estate related assets with match-funded debt (loans and debt securities) at rates that provide a positive net spread. A significant portion of our investments are financed with collateralized bond obligations, known as CBOs. 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, 2004 we had an unrestricted cash balance of \$62.6 million. Our cash flow provided by operations differs from our net income due to four primary factors: (i) accretion of discount or premium on our real estate securities and loans, discount on our debt obligations, deferred financing costs and interest rate cap premiums, and deferred hedge gains and losses, (ii) gains and losses from sales of real estate securities financed with CBOs, (iii) depreciation of our operating real estate, and (iv) straight-lined rental income. 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.

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Our real estate securities and real estate related loans are generally financed long-term and their credit status is continuously monitored; therefore, these investments are expected to generate a generally stable current return, subject to interest rate fluctuations. Our operating real estate is also financed long-term and primarily leased to credit tenants with long-term leases and is therefore expected to generate generally stable current cash flows. However, the primary tenant of one of the office buildings in our Bell Canada portfolio vacated in March 2004. See "Quantitative and Qualitative Disclosures About Market Risk -- Interest Rate Exposure" below.

With respect to our operating real estate, we expect to incur expenditures approximately \$2.5 million relating to tenant improvements, in connection with the inception of leases, and capital expenditures during the twelve months ending September 30, 2005.

Debt Obligations

The following tables present certain information regarding our debt obligations as of September 30, 2004 (unaudited) (dollars in thousands):

<TABLE>
<CAPTION>

Weighted Average Maturity (Years)	Carrying Amount	Face Amount	Unhedged Weighted Average Funding Cost	Final Stated Maturity	Weighted Average Funding Cost (A)
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
<C>					
CBO Bonds Payable					
CBO I	\$ 433,358	\$ 437,500	3.72% (B)	July 2038	4.61%
4.37					
CBO II	440,276	444,000	3.32% (B)	April 2037	6.12%
5.70					
CBO III	467,714	472,000	3.14% (B)	March 2038	4.25%
7.83					
CBO IV	454,970	460,000	2.73% (B)	Sept. 2038	4.01%
7.90					
CBO V	409,898	414,000	2.76% (B)	March 2039	3.52%

7.23 CBO VI 8.42	450,031	454,500	2.60% (B)	Sept. 2039	3.58%
-----	-----	-----	-----	-----	-----
6.93	2,656,247	2,682,000			4.35%
-----	-----	-----	-----	-----	-----
Other Bonds Payable					
Bell Canada Securitization 1.45	40,355	40,866	7.02%	April 2012	7.02%
ICH CMO 2.82	194,890	194,890	6.59% (B)	August 2030	6.60%
-----	-----	-----	-----	-----	-----
	235,245	235,756			6.67%
-----	-----	-----	-----	-----	-----
Notes Payable					
LIV Mortgage 1.31	46,632	46,632	6.10%	Nov. 2006	6.10%
Real Estate Loan Financing #1 1.87	67,924	67,924	LIBOR+1.50%	Nov. 2006	3.26%
Real Estate Loan Financing #2 0.32	40,000	40,000	LIBOR+1.50%	Feb. 2005	3.65%
-----	-----	-----	-----	-----	-----
	154,556	154,556			4.22%
-----	-----	-----	-----	-----	-----
Repurchase Agreements					
Residential Mortgage Loans (C) 0.12	671,584	671,584	LIBOR+0.12%	Nov. 2004 (E)	1.89%
MH Securities (D) 0.17	106,612	106,612	LIBOR+0.64%	Dec. 2004	4.21%
Other Securities 0.19	46,144	46,144	LIBOR+0.60%	Dec. 2004	3.02%
-----	-----	-----	-----	-----	-----
	824,340	824,340			2.25%
-----	-----	-----	-----	-----	-----
Total debt obligations	\$ 3,870,388	\$ 3,896,652			4.04%
=====	=====	=====	=====	=====	=====

</TABLE>

- (A) Including the effect of applicable hedges.
- (B) Weighted average, including floating and fixed rate classes.
- (C) The counterparty on these repos is Bear Stearns Mortgage Capital Corporation.
- (D) The counterparty on these repos is Greenwich Capital Markets Inc.
- (E) Extended in October 2004.

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<TABLE>
<CAPTION>

Initial	Month	Collateral	Fee Amount of Floating Rate Debt	Hedges Owned
Hedge	Issued			
Cost	-----	-----	-----	-----
CBO Bonds Payable	<S>	<C>	<C>	<C>
<C>				
CBO I caps \$ 15,400	July 1999	Real Estate Securities-Portfolio I	\$ 342,500	Two swaps, two
CBO II cap 1,200	April 2002	Real Estate Securities-Portfolio II	372,000	One swap, one
CBO III cap 1,300	March 2003	Real Estate Securities-Portfolio III	427,800	One swap, one
CBO IV cap 3,100	September 2003	Real Estate Securities-Portfolio IV	442,500	One swap, one
CBO V -	March 2004	Real Estate Securities-Portfolio V	382,750	One swap
CBO VI -	September 2004	Real Estate Securities-Portfolio VI	442,500	One swap

Other Bonds Payable

Operating Real Estate-Bell Canada

Bell Canada Securitization (B) N/A	April 2002	portfolio	None	None
ICH CMO N/A	See Below	Real Estate Related Loans-ICH CMO	3,703	None
Notes Payable LIV Mortgage (C) N/A	November 2002	Operating Real Estate-LIV Portfolio	None	None
Real Estate Loan Financing #1 N/A	November 2003	Real Estate Related Loan	67,924	None (A)
Real Estate Loan Financing #2 N/A	February 2004	Real Estate Related Loan-public REIT	40,000	None (A)
Repurchase Agreements Residential Mortgage Loans N/A	Rolling	Residential Mortgage Loan portfolio	671,584	None (A)
MH Securities swaps N/A	Rolling	Other Securities-MH securities	106,612	Eight
Other Securities N/A	Rolling	Other Securities	46,144	Two swaps

- (A) Asset bears floating rate.
(B) Denominated in Canadian dollars.
(C) Denominated in Euros.

Our long-term debt obligations existing at September 30, 2004 (gross of \$26.3 million of discounts) are expected to mature as follows (unaudited) (in thousands):

<S>	<C>
Period from October 1, 2004 through December 31, 2004	\$ 826,965
2005	45,250
2006	106,681
2007	-
2008	-
2009	-
Thereafter	2,917,756
Total	\$ 3,896,652

</TABLE>
The CBO and Other Bonds Payable are not recourse to our general credit.

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

In November 2001, we sold the retained subordinated \$17.5 million Class E Note from 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 of ours repurchased the Class E Note. The repurchase of the Class E Note represented a repayment of debt and was recorded as a reduction of CBO bonds payable. The Class E Note is included in the collateral for CBO II. The Class E Note is eliminated in consolidation.

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

In October 2003, we entered into an agreement for the right to purchase securities (the "Portfolio V Collateral") for our next real estate securities portfolio. The agreement was treated as a non-hedge derivative for accounting purposes and was therefore marked-to-market through current income; a gain of approximately \$1.1 million has been recorded during the period ended

September 30, 2004. In March 2004, we completed our fifth CBO financing, CBO V, whereby the Portfolio V Collateral was purchased by a consolidated subsidiary which issued \$414.0 million face amount of investment grade senior bonds and \$36.0 million face amount of non-investment grade subordinated bonds, which were retained by us, in a private placement.

In October 2003, pursuant to FIN 46 "Consolidation of Variable Interest Entities," we consolidated an entity which holds a portfolio of commercial mortgage loans which has been securitized. This investment, which we refer to as the ICH CMO, was previously treated as a non-consolidated residual interest in

such securitization. We exercise no control over the management or resolution of these assets and our residual investment in this entity was recorded at \$2.9 million prior to its consolidation. The primary effect of the consolidation is the requirement that we reflect the gross loan assets and gross bonds payable of this entity in our financial statements.

In May 2004, we executed an agreement with a major investment bank for the right to purchase commercial mortgage backed securities, unsecured REIT debt, real estate loans and other asset-backed securities (the "Portfolio VI Collateral") for our next real estate securities portfolio. The agreement was treated as a non-hedge derivative for accounting purposes and was therefore marked-to-market through current income; a gain of approximately \$1.6 million has been recorded in interest income through September 30, 2004. In September 2004, we completed our sixth CBO financing, CBO VI, whereby the Portfolio VI Collateral was purchased by a consolidated subsidiary which issued \$454.5 million face amount of investment grade senior bonds and \$45.5 million face amount of non-investment grade subordinated bonds, which were retained by us, in a private placement. Four classes of the senior bonds bear floating interest rates. We obtained an interest rate swap in order to hedge our exposure to the risk of changes in market interest rates with respect to these bonds.

In June 2004, we consummated the sale of five properties in our LIV portfolio in Belgium. These properties have been classified as held for sale since December 2003. We recognized a \$1.5 million loss on this sale in December 2003. In addition, we recognized a \$1.2 million loss in 2004, primarily related to the prepayment of the \$25.4 million of debt on such properties.

In July 2004, we refinanced \$342.5 million of the AAA and AA bonds in our first collateralized debt obligation which was issued in 1999. \$322.5 million of AAA bonds were refinanced at LIBOR + 0.30% from LIBOR + 0.65% and \$20.0 million of AA bonds were refinanced at LIBOR + 0.50% from LIBOR + 0.80%.

In October 2004, we executed an agreement with a major investment bank for the right to purchase commercial mortgage backed securities, unsecured REIT debt, real estate loans and other asset-backed securities (the "Portfolio VII Collateral") for our next real estate securities portfolio which is targeted to be approximately \$500 million. The agreement will be treated as a non-hedge derivative for accounting purposes and will therefore be marked-to-market through income. The Portfolio VII Collateral is expected to be included in a financing transaction in which we would acquire the equity interest ("CBO VII"). Although we currently anticipate completing CBO VII in the near term, there is no assurance that CBO VII will be consummated or on what terms it will be consummated.

Other

In March 2004, we purchased a 49% interest in a \$153 million portfolio of approximately 200 convenience and retail gas stores located in ten states throughout the southeastern and southwestern regions of the U.S. The properties are subject to a sale-leaseback arrangement under long-term triple net leases with a 15 year minimum term. We structured this transaction through a joint venture, in which we invested approximately \$26.8 million of equity, with an affiliate of the Manager on equal terms. In October 2004, a bridge loan, which was used to initially finance the acquisition of the portfolio, was refinanced with a \$53 million term loan. The term loan bears interest at a fixed rate of 6.04%, with payments of interest only during the first two years and a 25-year amortization schedule with a balloon payment due in October 2014. The investment is reflected as an investment in an unconsolidated subsidiary and is included in the operating real estate segment.

Stockholders' Equity

Common Stock

The following table summarizes information regarding our common stock offerings since December 31, 2003:

Date	Shares Issued (millions)	Price to Public per Share	Net Proceeds (millions)	Options Granted to Manager
January 2004	3.3	\$ 26.30	\$ 85.7	330,000
May 2004	3.5	\$ 25.75	\$ 87.0	345,000

At September 30, 2004, we had 38,234,481 shares of common stock outstanding.

During and after the first quarter of 2004, the Manager assigned, for no value,

options to purchase approximately 0.7 million shares of our common stock to certain of the Manager's employees, of which approximately 0.1 million were exercised immediately.

As of September 30, 2004, our outstanding options were summarized as follows:

<TABLE>	
<S>	
Held by the Manager	1,417,525
Issued to the Manager and subsequently transferred to certain of the Manager's employees	638,702
Held by directors	13,000

Total	2,069,227
	=====

</TABLE>

Preferred Stock

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

Other Comprehensive Income

During the nine months ended September 30, 2004, our accumulated other comprehensive income increased due to the following factors (in thousands):

<TABLE>	
<S>	
Accumulated other comprehensive income, December 31, 2003	\$
39,413	
Unrealized gain on securities	
26,468	
Reclassification of realized (gains) on securities into earnings (12,547)	
Foreign currency translation	
535	
Reclassification of realized foreign currency translation into earnings (396)	
Unrealized gain on derivatives designated as cash flow hedges	
1,193	
Reclassification of realized losses on derivatives designated as cash flow hedges into earnings	
60	

Accumulated other comprehensive income, September 30, 2004	\$
54,726	

=====
</TABLE>

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

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

Common Dividends Paid

<TABLE>		
<CAPTION>		
Declared for the Period Ended	Paid	Amount Per Share
-----	-----	-----
<S>		
March 31, 2004	April 26, 2004	\$ 0.60
June 30, 2004	July 28, 2004	\$ 0.60
September 30, 2004	October 27, 2004	\$ 0.60

</TABLE>

Cash Flow

Net cash flow provided by operating activities increased from \$18.9 million for the nine months ended September 30, 2003 to \$42.2 million for the nine months ended September 30, 2004. This change primarily resulted from the acquisition and settlement of our investments as described above.

Investing activities (used) (\$1,090.5 million) and (\$1,157.2 million) during the nine months ended September 30, 2004 and 2003, respectively. Investing activities consisted primarily of investments made in certain real estate securities and other real estate related assets, net of proceeds from the sale or settlement of investments.

Financing activities provided \$1,050.5 million and \$1,187.0 million during the nine months ended September 30, 2004 and 2003, respectively. The equity issuances, borrowings and debt issuances described above served as the primary sources of cash flow from financing activities. Offsetting uses included the payment of related deferred financing costs (including the purchase of hedging instruments), the payment of dividends, and the repayment of debt 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 for the periods described herein.

CREDIT, SPREAD AND INTEREST RATE RISK

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

The commercial mortgage and other asset backed securities (including B Notes) we invest in are generally junior in right of payment of interest and principal to one or more senior classes, but benefit from the support of one or more subordinate classes of securities or other form of credit support within a securitization transaction. The senior unsecured REIT debt securities we invest in reflect comparable credit risk. Credit risk refers to each individual borrower's ability to make required interest and principal payments on the scheduled due dates. We believe, based on our due diligence process, that these securities offer attractive risk-adjusted returns with long-term principal protection under a variety of default and loss scenarios. While the expected yield on these securities is sensitive to the performance of the underlying assets, the more subordinated securities or other features of the securitization transaction, in the case of commercial mortgage and other asset backed securities, and the issuer's underlying equity and subordinated debt, in the case of senior unsecured REIT debt securities, are designed to bear the first risk of default and loss. We further minimize credit risk by actively monitoring our real estate securities portfolio and the underlying credit quality of our holdings and, where appropriate, repositioning our investments to upgrade the credit quality and yield on our investments. While we have not experienced any significant credit losses, in the event of a significant rising interest rate environment and/or economic downturn, loan and collateral defaults may increase and result in credit losses that would adversely affect our liquidity and operating results.

Our real estate securities portfolio is diversified by asset type, industry, location and issuer. We expect that this diversification also helps to minimize the risk of capital loss. At September 30, 2004, our real estate securities had an overall weighted average credit rating of approximately BBB-, and approximately 71.3% of these securities had an investment grade rating (BBB- or higher). Our residential mortgage loan portfolio is characterized by high credit quality borrowers with a weighted average FICO score of 723 at origination. At September 30, 2004, approximately \$616 million of our residential mortgage loans were held in securitized form, of which over 98% of the principal balance was investment grade (over 95% AAA).

Our real estate securities are also subject to spread risk. Our fixed rate securities are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. In other words, their value is dependent on the yield demanded on such securities by the market based on their credit relative to U.S. Treasuries. Excessive supply of such securities combined with reduced demand will generally cause the market to require a higher yield on such securities, resulting in the use of a higher (or "wider") spread over the benchmark rate (usually the applicable U.S. Treasury security yield) to value such securities. Under such conditions, the value of our real estate securities portfolio would tend to decline. Conversely, if the spread used to value such securities were to decrease (or "tighten"), the value of our real estate securities portfolio would tend to increase. Our floating rate securities are valued based on a market credit spread over LIBOR and are effected similarly by changes in LIBOR spreads. Such changes in the market value of our real estate securities portfolio may 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 real estate securities and therefore their value. This would have similar effects on our real estate securities portfolio and our financial position and operations to a change in spreads.

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Returns on our real estate securities are sensitive to interest rate volatility. 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. 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 predominantly 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 earnings or our ability to pay a dividend.

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 rates assets are financed with floating rate debt), directly or through the use of interest rate swaps, caps, or other financial instruments, or through a combination of these strategies, which allows us to reduce the impact of changing interest rates on our earnings. Our 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 net spread. 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.

Loans

Similar to our real estate securities portfolio, we are subject to credit and spread risk with respect to our real estate related and residential mortgage loan portfolios. Unlike our real estate securities portfolio, our loans do not benefit from the support of junior classes of securities, but rather bear the first risk of default and loss. We believe that this credit risk is mitigated through our due diligence process and periodic reviews of the borrower's payment history, delinquency status, and the relationship of the loan balance to the underlying property value.

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

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

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

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2004, we had the following material off-balance sheet arrangements:

- 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, 2004. At this time, we do not anticipate a substantial risk of incurring a loss with respect to this arrangement.

- \$53.1 million of bridge financing at our 49% owned unconsolidated subsidiary formed to own a portfolio of approximately 200 convenience and retail gas stores. In addition, we had guaranteed 50% of such loan. On October 1, 2004, the 49% owned unconsolidated subsidiary successfully completed the permanent financing of its portfolio, at which time the bridge financing was repaid and our 50% guaranty terminated. At September 30, 2004, in connection with the permanent financing, we had an agreement to reimburse the lender for certain costs incurred, had the permanent financing not been completed by a specified date. No such costs were incurred.

CONTRACTUAL OBLIGATIONS

During the first nine months of 2004, we had all of the material contractual obligations referred to in our annual report on Form 10-K for the year ended December 31, 2003, as well as the following:

Contract Category	Change
CBO bonds payable	CBOs V and VI were issued. A portion of CBO I was refinanced.
Interest rate swaps, treated as hedges	The floating rate CBO V and VI bonds and certain repurchase agreements were hedged with interest rate swaps.
Real estate securities portfolio deposit	We have begun accumulating collateral for CBO VII under an agreement with a major investment bank.

The terms of these contracts are described under "Quantitative and Qualitative Disclosures About Market Risk" below.

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.

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

<TABLE>
<CAPTION>

	For the Nine Months Ended September 30, 2004	For the Three Months Ended September 30, 2004
	----- <C>	----- <C>
<S>		
Income available for common stockholders	\$ 65,423	\$ 23,445
Operating real estate depreciation	1,631	532
Accumulated depreciation on operating real estate sold	(3,469)	-
	-----	-----
Funds from Operations (FFO)	\$ 63,585	\$ 23,977
	=====	=====

</TABLE>

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

<TABLE>
<CAPTION>

		Average Invested Common Equity for the Nine Months	FFO for the Nine Months
		Ended	Ended
	Book Equity at	September 30, 2004	September 30,
	September 30, 2004	(2)	2004
(ROE) (3)	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
Real estate and other securities (4)	\$ 494,922	\$ 418,966	\$ 69,432
22.1%			
Real estate related loans	56,130	59,069	9,016
20.4%			
Operating real estate	64,796	57,968	1,972
4.5%			
Residential mortgage loans	41,540	32,954	4,432
17.9%			
Unallocated (1)	(35,056)	10,753	(21,267)
N/A			
	-----	-----	-----
Total (2)	622,332	\$ 579,710	\$ 63,585
14.6%		=====	=====
=====			
Preferred stock	62,500		
Accumulated depreciation	(11,968)		
Accumulated other comprehensive income	54,726		

Net book equity	\$ 727,590		
	=====		

</TABLE>

<TABLE>
<CAPTION>

		Average Invested Common Equity for the Three Months	FFO for the Three Months
		Ended	Ended
	Book Equity at	September 30, 2004	September 30,
	September 30, 2004	(2)	2004
(ROE) (3)	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
Real estate and other securities (4)	\$ 494,922	\$ 461,283	\$ 24,137
20.9%			
Real estate related loans	56,130	57,994	2,895
20.0%			
Operating real estate	64,796	64,095	3,137
19.6%			
Residential mortgage loans	41,540	36,943	1,455
15.8%			
Unallocated (1)	(35,056)	6,186	(7,647)
N/A			
	-----	-----	-----

Total (2)	622,332	\$ 626,501	\$ 23,977
15.3%			

Preferred stock	62,500
Accumulated depreciation	(11,968)
Accumulated other comprehensive income	54,726
Net book equity	\$ 727,590

</TABLE>

- (1) Unallocated FFO represents (\$1,523) and (\$4,570) of preferred dividends and (\$6,124) and (\$16,697) of corporate general and administrative expense, management fees and incentive compensation for the three and nine months ended September 30, 2004 respectively.
- (2) Invested common equity is equal to book equity excluding preferred stock, accumulated depreciation and accumulated other comprehensive income.
- (3) FFO divided by average invested common equity, annualized.
- (4) By investment portfolio:

<TABLE>
<CAPTION>

	Uninvested Restricted Cash	Invested Common Equity
<S>	<C>	<C>
CBO I	\$ 13,451	\$ 127,243
CBO II	31,353	64,789
CBO III	31,763	51,191
CBO IV	49,737	50,030
CBO V	10,819	45,948
CBO VI	121,047	54,721
Other Securities	-	101,000
Total	\$ 258,170	\$ 494,922

</TABLE>

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RELATED PARTY TRANSACTIONS

In January 2004, we purchased from an underwriter \$31.5 million face amount of B and BB rated securities of Global Signal Trust I, a special purpose vehicle established by Global Signal Inc., at a price resulting in a weighted average yield of approximately 9.00%. Two of our directors are the CEO and President of Global Signal, Inc., respectively. A private equity fund managed by an affiliate of our manager owns a significant portion of Global Signal Inc.'s common stock; our manager receives from this private equity fund, in addition to management fees, incentive compensation if the fund's aggregate investment returns exceed certain thresholds. Pursuant to this underwritten 144A offering, approximately \$418.0 million of Global Signal Trust I securities were issued in 7 classes, rated AAA through B, of which the B and BB classes constituted \$73.0 million. The balance of the B and BB securities was sold on identical terms to a private investment fund managed by an affiliate of our manager and to a large third party mutual fund complex; our manager receives from this private investment fund, in addition to management fees, incentive compensation if the fund's aggregate investment returns exceed certain thresholds. The proceeds of the 144A offering were utilized by Global Signal Inc. to repay an existing credit facility, to pay an extraordinary dividend of approximately \$140 million to its stockholders of which approximately \$67 million was paid to the above-referenced private equity fund, and for general working capital purposes.

In March 2004, we and a private investment fund managed by an affiliate of our manager co-invested and each indirectly own an approximately 49% interest in a limited liability company that has acquired, in a sale-leaseback transaction, approximately 200 properties from a public company for a purchase price of approximately \$153 million. The properties are subject to a number of master leases, the initial term of which in each case is a minimum of 15 years. This investment was financed with debt at the limited liability company level and our investment in this entity, reflected as an investment in an unconsolidated subsidiary on our consolidated balance sheet, was approximately \$26.8 million as of the date of acquisition. Our manager receives from the affiliated private investment fund with which we co-invested, in addition to management fees, incentive compensation if the fund's aggregate investment returns exceed certain thresholds.

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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 our financial position or operating results, please refer to the "Application of Critical Accounting Policies" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations."

INTEREST RATE EXPOSURE

Our primary interest rate exposures relate to our real estate securities, loans and floating rate debt obligations, as well as our interest rate swaps and caps. Changes in the general level of interest rates can effect our net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities. Changes in the level of interest rates also can affect, among other things, our ability to acquire real estate securities and loans, the value of our real estate securities and loans, 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 on our investments with like-kind debt (i.e., fixed rate assets are financed with fixed rate debt and floating rate assets are financed with floating rate debt), directly or through the use of interest rate swaps, caps, or other financial instruments, or through a combination of these strategies, which allows us to reduce the impact of changing interest rates on our earnings.

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 financings in order to limit the effects of changes in interest rates on our operations, there can be no assurance that our profitability will not be adversely affected during any period as a result of changing interest rates. As of September 30, 2004, an immediate 100 basis point increase in interest rates would effect our earnings by no more than \$1.3 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 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.

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Interest rate changes may also impact our net book value as our real estate securities and related hedge derivatives are marked-to-market each quarter. Our loan investments and debt obligations are not marked-to-market. Generally, as interest rates increase, the value of our fixed rate securities, 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 earnings or our ability to pay a dividend. As of September 30, 2004, an immediate 100 basis point increase in interest rates would impact our net book value by approximately \$43.8 million. Such a change in net book value would not directly affect our earnings or cash flow.

CREDIT SPREAD CURVE EXPOSURE

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

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

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

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

As of September 30, 2004, an immediate 25 basis point movement in credit spreads would impact our net book value by approximately \$37.2 million, but would not directly affect our earnings or cash flow.

CURRENCY RATE EXPOSURE

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

effect, these assets.

We have material investments in the LIV portfolio and the Bell Canada portfolio. These properties are financed utilizing debt denominated in their respective local currencies (the Euro and the Canadian Dollar). The net equity invested in these portfolios at September 30, 2004, approximately \$4.1 million and \$21.8 million, respectively, is exposed to foreign currency exchange risk.

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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 instruments using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated future cash flows is inherently subjective and imprecise. We note that minor changes in assumptions or estimation methodologies can have a material effect on these derived or estimated fair values, and that the fair values reflected below are indicative of the interest rate, credit spread and currency rate environments as of September 30, 2004 and do not take into consideration the effects of subsequent interest rate, credit spread or currency rate fluctuations.

We note that the values of our investments in real estate securities 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.

Interest Rate Risk

We held the following interest rate risk sensitive instruments at September 30, 2004 (unaudited) (dollars in thousands):

Maturity	Carrying Amount	Principal Balance or Notional Amount	Weighted Average Yield/Funding Cost	Date
Fair Value	-----	-----	-----	---
-	-----	-----	-----	---
<S>	<C>	<C>	<C>	<C>
<C>				
ASSETS:				
Real estate securities, available for sale (A) \$3,079,852	\$3,079,852	\$3,010,425	5.97%	(A)
Other securities, available for sale (B) 256,073	256,073	277,145	8.53%	(B)
Real estate related loans (C) 372,318	352,275	354,748	7.46%	(C)
Residential mortgage loans (D) 711,056	711,056	700,694	3.15%	(D)
Interest rate caps, treated as hedges (E) 4,707	4,707	669,481	N/A	(E)
LIABILITIES:				
CBO bonds payable (F) 2,723,385	2,656,247	2,682,000	4.35%	(F)
Other bonds payable (G) 250,669	235,245	235,756	6.67%	(G)
Notes payable (H) 154,778	154,556	154,556	4.22%	(H)
Repurchase agreements (I) 824,340	824,340	824,340	2.28%	(I)
Interest rate swaps, treated as hedges (J) 24,101	24,101	1,575,697	N/A	(J)
Non-hedge derivative obligations (K) 792	792	(K)	N/A	(K)

(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 maturity is 6.32 years. The fair value of these securities is estimated by obtaining third party broker quotations, if available and practicable, and counterparty quotations.

(B) These securities have a weighted average maturity of 4.22 years. The fair value of these securities is estimated by obtaining third party broker

quotations, if available and practicable, and counterparty quotations.

(C) Represents the following loan portfolios:

<CAPTION>		Loan	Carrying	Weighted Avg.	Weighted Average	Floating Rate Loans
as a		Count	Amount	Yield	Maturity	% of Carrying
Name	Fair Value					
Amount						
-----	-----	-----	-----	-----	-----	-----
<S>		<C>	<C>	<C>	<C>	<C>
<C>						
ICH CMO Loans		127	\$ 217,720	8.14%	2.91 years	1.7%
\$237,763						
Real Estate Related Loan #1		1	84,555	6.40%	1.87 years	100.0%
84,555						
Real Estate Related Loan #2		1	50,000	6.28%	2.35 years	100.0%
50,000						
-----			-----	-----		
			\$ 352,275	7.46%		
\$372,318			-----	-----		
=====			=====	=====		

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The ICH CMO loans were valued by discounting expected future receipts by a rate calculated based on current market conditions for comparable financial instruments, including market interest rates and credit spreads. The other loans bear floating rates of interest and we believe that, for similar financial instruments with comparable credit risks, their effective rates approximate market rates. Accordingly, the carrying amounts outstanding are believed to approximate fair value.

(D) This portfolio of residential mortgage loans bears a floating rate of interest and has a weighted average maturity of 3.88 years. We believe that, for similar financial instruments with comparable credit risks, the effective rate on this portfolio approximates a market rate. Accordingly, the carrying amount of this portfolio is believed to approximate fair value.

(E) Represents cap agreements as follows:

<CAPTION>					
Notional Balance	Effective Date	Maturity Date	Capped Rate	Strike Rate	Fair
Value					
-----	-----	-----	-----	-----	--
<S>	<C>	<C>	<C>	<C>	<C>
\$294,931	Current	March 2009	1-Month LIBOR	6.50%	\$
953					
294,931	Current	December 2004	1-Month LIBOR	1.32%*	
479					
18,000	January 2010	October 2015	3-Month LIBOR	8.00%	
773					
8,619	December 2010	June 2015	3-Month LIBOR	7.00%	
953					
53,000	May 2011	September 2015	1-Month LIBOR	7.50%	
1,549					
-----					--
\$669,481					
\$4,707					
=====					

*up to 6.50%

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

(F) These bonds were valued by discounting expected future payments by a rate calculated based on current market conditions for comparable financial instruments, including market interest rates and credit spreads. The weighted average maturity of the CBO bonds payable is 6.93 years. The CBO bonds payable amortize principal prior to maturity based on collateral receipts, subject to reinvestment requirements.

(G) The Bell Canada Securitization was valued, in U.S. dollars at the period

end exchange rate, by discounting expected future payments by a rate calculated by imputing a spread over a market index on the date of borrowing. It amortizes principal periodically with a balloon payment at maturity in April 2012. The ICH CMO bonds were valued by discounting expected future payments by a rate calculated based on current market conditions for comparable financial instruments, including market interest rates and credit spreads. They amortize principal prior to maturity based on collateral receipts and their weighted average maturity is approximately 2.82 years.

- (H) The LIV Mortgage was valued, in U.S. dollars at the period end exchange rate, by discounting expected future payments by a rate calculated by imputing a spread over a market index on the date of borrowing. It amortizes principal periodically with a balloon payment at maturity in November 2006. The real estate related loan #1 financing matures in November 2006, bears a floating rate of interest and amortizes principal based on collateral receipts. The real estate related loan #2 financing matures in February 2005, bears a floating rate of interest and amortizes principal based on collateral receipts. We believe that, for similar financial instruments with comparable credit risks, their effective rates approximate market rates. Accordingly, the carrying amounts outstanding are believed to approximate fair value.
- (I) 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 and mature in one to five months.

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(J) Represents swap agreements as follows:

<TABLE>
<CAPTION>

Notional Balance	Effective Date	Maturity Date	Swapped Rate	Fixed Rate	Fair Value
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
\$ 47,569	Current	July 2005	1-Month LIBOR	6.1755%	\$ 833
295,400	December 2004	March 2009	1-Month LIBOR*	3.1250%	(2,819)
290,000	Current	April 2011	3-Month LIBOR	5.9325%	29,665
276,060	Current	March 2013	3-Month LIBOR	3.8650%	(6,366)
192,500	Current	March 2015	1-Month LIBOR	4.8880%	8,339
165,300	Current	March 2014	3-Month LIBOR	3.9945%	(3,927)
189,373	Current	September 2014	3-Month LIBOR	4.3731%	(1,640)
11,000	Current	November 2008	1-Month LIBOR	3.5400%	(6)
8,000	Current	July 2018	1-Month LIBOR	4.8300%	158
5,500	Current	November 2018	1-Month LIBOR	4.4800%	67
67,200	Current	January 2009	1-Month LIBOR	3.6500%	144
6,500	Current	March 2009	1-Month LIBOR	3.3360%	(79)
21,295	Current	January 2009	1-Month LIBOR	3.2900%	(268)
- - - - -					- - - - -
\$1,575,697					\$24,101
=====					=====

</TABLE>

*up to 6.50%

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

- (K) These are two essentially offsetting interest rate caps and two essentially offsetting interest rate swaps, each with notional amounts of \$32.5 million, and an interest rate cap with a notional balance of \$17.5 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, and the maturity date of the \$17.5 million cap is July 2009. They have been valued by reference to counterparty quotations.

Currency Rate Risk

We held the following currency rate risk sensitive balances at September 30, 2004 (unaudited) (U.S. dollars; in thousands, except exchange rates):

<TABLE>
<CAPTION>

a 5% Change in Rate	Carrying Amount (USD)	Local Currency	Current Exchange Rate to USD	Effect of a 5% Negative Change in Euro Rate	Effect of Negative CAD
---------------------------	-----------------------------	-------------------	------------------------------------	---	------------------------------

	<C>	<C>	<C>	<C>	<C>
Assets:					
LIV portfolio	\$ 47,638	Euro	0.80412	\$ (2,382)	N/A
Bell Canada portfolio	54,829	CAD	1.26130	N/A	\$ (2,741)
LIV other, net	3,096	Euro	0.80412	(155)	N/A
Bell Canada other, net	7,293	CAD	1.26130	N/A	(365)
Liabilities:					
LIV Mortgage	46,632	Euro	0.80412	2,332	N/A
Bell Canada Securitization	40,354	CAD	1.26130	N/A	2,018
Total				\$ (205)	\$
(1,088)				=====	=====

</TABLE>

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. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

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

- 3.1 Articles of Amendment and Restatement (incorporated by reference to the Registrant's Registration Statement on Form S-11 (File No. 333-90578), Exhibit 3.1).
- 3.2 Articles Supplementary Relating to the Series B Preferred Stock (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2003, Exhibit 3.3).
- 3.3 By-laws (incorporated by reference to the Registrant's Registration Statement on Form S-11 (File No. 333-90578), Exhibit 3.2).
- 4.1 Rights Agreement between the Registrant and American Stock Transfer and Trust Company, as Rights Agent, dated October 16, 2002

(incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2002, Exhibit 4.1).

- 10.1 Amended and Restated Management and Advisory Agreement by and among the Registrant and Fortress Investment Group LLC, dated September 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.

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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:

NEWCASTLE INVESTMENT CORP.
(REGISTRANT)

By: /s/ Wesley R. Edens

Name: Wesley R. Edens
Title: Chairman of the Board
Chief Executive Officer
Date: November 5, 2004

By: /s/ Debra A. Hess

Name: Debra A. Hess
Title: Chief Financial Officer
Date: November 5, 2004

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EXHIBIT 31.1

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 5, 2004
(Date)

/s/ Wesley R. Edens

Wesley R. Edens
Chief Executive Officer

EXHIBIT 31.2

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 5, 2004
(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, 2004 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 5, 2004

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, 2004 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 5, 2004

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

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

END OF FILING