UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

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 |X| No |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act). Yes |X| 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: 43,912,909 shares outstanding as of November 4, 2005.

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, 2004, 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. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "could," "project," "predict," "continue" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in economic conditions generally and the real estate and bond markets specifically; adverse changes in the financing markets we access affecting our ability to finance our real estate securities portfolios in general or particular real estate related assets, or in a manner that maintains our historic net spreads; changes in interest rates and/or credit spreads, as well as the success of our hedging strategy in relation to such changes; the quality and size of the investment pipeline and the rate at which we can invest our cash, including cash inside our CBOs; impairments in the value of the collateral underlying our real estate securities, real estate related loans and residential mortgage loans and the relation of any such impairments to our judgments as to whether changes in the market value of our securities, loans or real estate are temporary or not and whether circumstances bearing on the value of such assets warrant changes in carrying values; 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.

In addition, risks relating to our management and business, which are described in our SEC reports include, specifically, (1) the following risks relating to our management: (i) We are dependent on our manager and may not find a suitable replacement if our manager terminates the management agreement. Furthermore, we are dependent on the services of certain key employees of our manager and the loss of such services could temporarily adversely affect our operations; (ii) There are conflicts of interest inherent in our relationship with our manager insofar as our manager and its affiliates manage and invest in other pooled investment vehicles (investment funds, private investment funds, or businesses) that invest in real estate securities, real estate related loans and operating real estate and whose investment objectives overlap with our investment objectives. Our management agreement with our manager does not limit or restrict our manager or its affiliates from managing other investment vehicles that invest in investments which meet our investment objectives. Certain investments appropriate for Newcastle may also be appropriate for one or more of these other investment vehicles and our manager or its affiliates may determine to make a particular investment through another investment vehicle rather than through Newcastle. It is possible that we may not be given the opportunity to participate at all in certain investments made by our affiliates that meet our investment objectives; and (iii) Our investment strategy may evolve, in light of existing market conditions and investment opportunities, to continue to take advantage of opportunistic investments in real estate related assets, which may involve additional risks depending upon the nature of such assets and our ability to finance such assets on a short or long term basis; and (2) the following risks relating to our business: (i) Although we seek to match fund our investments to limit refinance risk, in particular with respect to a substantial portion of our investments in real estate securities and loans, we do not employ this strategy with respect to certain of our investments, which increases refinance risks for and, therefore, the yield of these investments; (ii) We may not be able to match fund our investments with respect to maturities and interest rates, which exposes us to the risk that we may not be able to finance or refinance our investments on economically favorable terms; (iii) Prepayment rates can increase, adversely affecting yields on certain of our loans; (iv) The real estate related loans and other direct and indirect interests in pools of real estate properties or loans that we invest in may be subject to additional risks relating to the privately negotiated structure and terms of the transaction, which may result in losses to us; and (v) We finance certain of our investments with debt subject to margin calls based on a decrease in the value of such investments, which could adversely impact our liquidity.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

<TABLE>
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<S>	<C> September 30, 2005 (Unaudited)	<C> December 31, 2004
Assets		
Real estate securities, available for sale	$ 4,088,443	$ 3,369,496
Real estate securities portfolio deposit	24,055	25,411
Real estate related loans, net	668,558	591,890
Residential mortgage loans, net	684,321	654,784
Investments in unconsolidated subsidiaries	32,687	41,230
Operating real estate, net	16,839	57,193
Real estate held for sale	--	12,376
Cash and cash equivalents	16,409	37,911
Restricted cash	246,132	77,974
Derivative assets	54,161	27,122
Receivables and other assets	36,320	37,333
	$ 5,867,925	$

		4,932,720
	===============	===============
Liabilities and Stockholders' Equity		
Liabilities		
CBO bonds payable	$ 3,093,865	$ 2,656,510
Other bonds payable	369,082	222,266
Notes payable	324,920	652,000
Repurchase agreements	983,573	490,620
Credit facility	42,000	--
Derivative liabilities	24,106	39,661
Dividends payable	28,384	25,928
Due to affiliates	6,380	8,963
Accrued expenses and other liabilities	101,811	40,057
	---------------	---------------
	4,974,121	4,136,005
	---------------	---------------
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, 43,789,819 and 39,859,481 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	438	399
Additional paid-in capital	782,091	676,015
Dividends in excess of earnings	(13,265)	(13,969)
Accumulated other comprehensive income	62,040	71,770
	---------------	---------------
	893,804	796,715
	---------------	---------------
	$ 5,867,925	$ 4,932,720
	===============	===============

</TABLE>

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

<TABLE>
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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<S>	<C>	<C>	<C>	<C>
Revenues				
Interest income	$ 91,191	$ 55,767	$ 257,617	$ 160,937
Rental and escalation income	1,871	1,152	4,850	3,321
Gain on investments	6,788	6,227	13,111	

				15,809
	99,850	63,146	275,578	180,067
Expenses				
Interest expense	58,681	33,612	163,238	94,318
Property operating expense	594	616	1,827	1,787
Loan and security servicing expense	1,483	742	4,646	2,385
Provision for credit losses	4,091	--	5,990	--
General and administrative expense	1,034	1,180	3,251	3,484
Management fee to affiliate	3,316	2,790	9,895	7,750
Incentive compensation to affiliate	2,416	2,494	5,271	6,104
Depreciation and amortization	182	108	453	316
	71,797	41,542	194,571	116,144
Income before equity in earnings of unconsolidated subsidiaries	28,053	21,604	81,007	63,923
Equity in earnings of unconsolidated subsidiaries	1,104	4,893	4,628	8,334
Income taxes on related taxable subsidiaries	(43)	(1,714)	(321)	(1,714)
Income from continuing operations	29,114	24,783	85,314	70,543
Income (loss) from discontinued operations	86	185	2,051	(550)
Net Income	29,200	24,968	87,365	69,993
Preferred dividends	(1,523)	(1,523)	(4,570)	(4,570)
Income Available For Common Stockholders	$ 27,677	$ 23,445	$ 82,795	$ 65,423
Net Income Per Share of Common Stock				
Basic	$ 0.63	$ 0.61	$ 1.90	$ 1.80
Diluted	$ 0.63	$ 0.60	$ 1.88	$ 1.77
Income from continuing operations per share of common stock, after preferred dividends				
Basic	$ 0.63	$ 0.61	$ 1.85	$ 1.82
Diluted	$ 0.63	$ 0.60	$ 1.84	$ 1.79
Income (loss) from discontinued operations per share of common stock				
Basic	$ 0.00	$ 0.00	$ 0.05	$ (0.02)
Diluted	$ 0.00	$ 0.00	$ 0.04	$ (0.02)
Weighted Average Number of Shares of				

Common Stock Outstanding				
Basic	43,789,819	38,234,481	43,595,411	36,273,142
Diluted	44,121,263	38,882,991	43,961,044	36,851,038
Dividends Declared per Share of Common Stock	$ 0.625	$ 0.600	$ 1.875	$ 1.800

</TABLE>

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004
(dollars in thousands)

<TABLE>
<CAPTION>

	Preferred Stock		Common Stock		Additional Paid-in	Dividends in Excess of
	Shares	Amount	Shares	Amount	Capital	Earnings
Stockholders' equity - December 31, 2004	2,500,000	$ 62,500	39,859,481	$ 399	$ 676,015	$ (13,969)
Dividends declared	--	--	--	--	--	(86,661)
Issuance of common stock	--	--	3,300,000	33	96,518	--
Exercise of common stock options	--	--	628,330	6	9,491	--
Issuance of common stock to directors	--	--	2,008	--	67	--
Comprehensive income:						
Net income	--	--	--	--	--	87,365
Net unrealized loss on securities	--	--	--	--	--	--
Reclassification of net realized (gain) on securities into earnings	--	--	--	--	--	--
Foreign currency translation	--	--	--	--	--	--
Reclassification of realized foreign currency translation into earnings	--	--	--	--	--	--
Unrealized gain on derivatives designated as cash flow hedges	--	--	--	--	--	--
Reclassification of realized loss on derivatives designated as cash flow hedges into earnings	--	--	--	--	--	--
Total comprehensive income						
Stockholders' equity - September 30, 2005	2,500,000	$ 62,500	43,789,819	$ 438	$ 782,091	$ (13,265)
Stockholders' equity - December 31, 2003	2,500,000	$ 62,500	31,374,833	$ 314	$ 451,806	$ (14,670)
Dividends declared	--	--	--	--	--	(71,278)
Issuance of common stock	--	--	6,750,000	67	172,643	--
Exercise of common stock options	--	--	107,500	1	1,428	

Issuance of common stock to directors	--	--	2,148	--	60	--
Comprehensive income:						
Net income	--	--	--	--	--	69,993
Net unrealized gain on securities	--	--	--	--	--	--
Reclassification of net 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	2,500,000	$ 62,500	38,234,481	$ 382	$ 625,937	$ (15,955)

<CAPTION>

<S>	Accum. Other Comp. Income <C>	Total Stock-holders' Equity <C>
Stockholders' equity - December 31, 2004	$ 71,770	$ 796,715
Dividends declared	--	(86,661)
Issuance of common stock	--	96,551
Exercise of common stock options	--	9,497
Issuance of common stock to directors	--	67
Comprehensive income:		
Net income	--	87,365
Net unrealized loss on securities	(41,202)	(41,202)
Reclassification of net realized (gain) on securities into earnings	(7,157)	(7,157)
Foreign currency translation	(1,103)	(1,103)
Reclassification of realized foreign currency translation into earnings	(626)	(626)
Unrealized gain on derivatives designated as cash flow hedges	38,701	38,701
Reclassification of realized loss on derivatives designated as cash flow hedges into earnings	1,657	1,657
Total comprehensive income		77,635
Stockholders' equity - September 30, 2005	$ 62,040	$ 893,804
Stockholders' equity - December 31, 2003	$ 39,413	$ 539,363
Dividends declared	--	(71,278)
Issuance of common stock	--	172,710
Exercise of common stock options	--	1,429
Issuance of common stock to directors	--	60
Comprehensive income:		
Net income	--	69,993
Net unrealized gain on securities	26,468	26,468
Reclassification of net 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	$ 54,726	$ 727,590

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</TABLE>

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

	Nine Months Ended September 30,	
	2005	2004
Cash Flows From Operating Activities		
Net income	$ 87,365	$ 69,993
Adjustments to reconcile net income to net cash provided by operating activities (inclusive of amounts related to discontinued operations):		
Depreciation and amortization	629	1,675
Accretion of discount and other amortization	174	81
Equity in earnings of unconsolidated subsidiaries	(4,628)	(8,334)
Distributions of operating earnings from unconsolidated subsidiaries	4,049	--
Deferred rent	(1,776)	(1,112)
Gain on investments	(13,893)	(14,600)
Unrealized gain on non-hedge derivatives	(6,559)	(2,559)
Provision for credit losses	5,990	--
Non-cash directors' compensation	67	60
Change in:		
Restricted cash	(117,679)	(390)
Receivables and other assets	(1,016)	(2,380)
Due to affiliates	(2,583)	4,568
Accrued expenses and other liabilities	61,993	(4,841)
Net cash provided by operating activities	12,133	42,161
Cash Flows From Investing Activities		
Purchase of real estate securities	(815,728)	(1,290,694)
Proceeds from sale of real estate securities	50,082	179,490
Deposit on real estate securities (treated as a derivative)	(32,439)	(55,408)
Purchase of and advances on loans	(609,567)	(400,365)
Proceeds from settlement of loans	1,024	123,595
Repayments of loan and security principal	540,749	340,494
Margin deposit on derivative instruments	(39,099)	--
Proceeds from sale of derivative instruments	762	--
Payments on settlement of derivative instruments	(1,112)	--
Purchase and improvement of operating real estate	(188)	(292)
Proceeds from sale of operating real estate	52,333	27,426
Contributions to unconsolidated subsidiaries	--	(26,789)

	2005	2004
Distributions of capital and gains from unconsolidated subsidiaries	9,122	12,366
Payment of deferred transaction costs	(38)	(276)
Net cash used in investing activities	(844,099)	(1,090,453)

Continued on Page 5

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

	Nine Months Ended September 30,	
	2005	2004
Cash Flows From Financing Activities		
Issuance of CBO bonds payable	442,034	859,643
Repayments of CBO bonds payable	(7,364)	(26,762)
Issuance of other bonds payable	246,547	--
Repayments of other bonds payable	(98,786)	--
Borrowings under notes payable	--	40,000
Repayments of notes payable	(327,080)	(38,612)
Borrowings under repurchase agreements	675,500	368,300
Repayments of repurchase agreements	(182,547)	(259,743)
Draws on credit facility	42,000	--
Issuance of common stock	97,680	175,628
Costs related to issuance of common stock	(1,129)	(2,918)
Exercise of common stock options	9,497	1,429
Dividends paid	(84,205)	(64,025)
Payment of deferred financing costs	(1,683)	(2,453)
Net cash provided by financing activities	810,464	1,050,487
Net Increase in Cash and Cash Equivalents	(21,502)	2,195
Cash and Cash Equivalents, Beginning of Period	37,911	60,403
Cash and Cash Equivalents, End of Period	$ 16,409	$ 62,598
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest expense	$ 153,122	$ 94,569
Cash paid during the period for income taxes	$ 443	$ --
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Common stock dividends declared but not paid	$ 27,369	$

22,940		
Preferred stock dividends declared but not paid	$ 1,016	$ 1,016
Deposits used in acquisition of real estate securities (treated as derivatives)	$ 44,504	$ 75,824

</TABLE>

1. GENERAL

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

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

Year	Shares Issued	Range of Issue Prices (1)	Net Proceeds (millions)
Formation	16,488,517	N/A	N/A
2002	7,000,000	$ 13.00	$ 80.0
2003	7,886,316	$20.35-$22.85	$163.4
2004	8,484,648	$26.30-$31.40	$224.3
Nine Months 2005	3,930,338	$ 29.60	$106.1
September 30, 2005	43,789,819		

(1) Excludes prices of shares issued pursuant to the exercise of options and shares issued to Newcastle's independent directors.

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

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.

Approximately 2.8 million shares of Newcastle's common stock were held by an affiliate of the Manager and its principals at September 30, 2005. In addition, an affiliate of the Manager held options to purchase approximately 1.3 million shares of Newcastle's common stock at September 30, 2005.

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, 2004 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, 2004 consolidated financial statements.

2. INFORMATION REGARDING BUSINESS SEGMENTS

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

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2005
(dollars in tables in thousands, except per share data)

Summary financial data on Newcastle's segments is given below, together with a reconciliation to the same data for Newcastle as a whole:

	Real Estate Securities and Real Estate Related Loans	Residential Mortgage Loans	Operating Real Estate	Unallocated	Total
September 30, 2005 and the Nine Months then Ended					
Gross revenues	$ 232,803	$ 37,270	$ 4,892	$ 613	$ 275,578
Operating expenses	(3,236)	(7,472)	(1,878)	(18,294)	(30,880)
Operating income (loss)	229,567	29,798	3,014	(17,681)	244,698
Interest expense	(140,240)	(22,646)	(249)	(103)	(163,238)
Depreciation and amortization	--	--	(350)	(103)	(453)
Equity in earnings of unconsolidated subsidiaries (A)	2,567	--	1,740	--	4,307
Income (loss) from continuing operations	91,894	7,152	4,155	(17,887)	85,314
Income (loss) from discontinued operations	--	--	2,051	--	2,051
Net Income (Loss)	$ 91,894	$ 7,152	$ 6,206	$ (17,887)	$ 87,365
Revenue derived from non-U.S. sources:					
Canada	$ --	$ --	$ 10,269	$ --	$ 10,269
Belgium	$ --	$ --	$ 58	$ --	$ 58
Total assets	$ 5,125,114	$ 690,540	$ 35,241	$ 17,030	$ 5,867,925
Long-lived assets outside the U.S.:					
Canada	$ --	$ --	$ 16,839	$ --	$ 16,839
December 31, 2004					
Total assets	$ 4,136,203	$ 658,643	$ 108,322	$ 29,552	$ 4,932,720
Long-lived assets outside the U.S.:					
Canada	$ --	$ --	$ 57,193	$ --	$ 57,193
Belgium	$ --	$ --	$ 12,376	$ --	$ 12,376

Three Months Ended September 30, 2005					
Gross revenues	$ 85,742	$ 11,932	$ 1,889	$ 287	$ 99,850
Operating expenses	(2,460)	(3,144)	(618)	(6,712)	(12,934)
Operating income (loss)	83,282	8,788	1,271	(6,425)	86,916
Interest expense	(50,992)	(7,588)	2	(103)	(58,681)
Depreciation and amortization	--	--	(119)	(63)	(182)
Equity in earnings of unconsolidated subsidiaries (A)	724	--	337	--	1,061
Income (loss) from continuing operations	33,014	1,200	1,491	(6,591)	29,114
Income (loss) from discontinued operations	--	--	86	--	86
Net Income (Loss)	$ 33,014	$ 1,200	$ 1,577	$ (6,591)	$ 29,200
Revenue derived from non-U.S. sources:					
Canada	$ --	$ --	$ 1,917	$ --	$ 1,917
Belgium	$ --	$ --	$ (4)	$ --	$ (4)

</TABLE>

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

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	Real Estate Securities and Real Estate Related Loans	Residential Mortgage Loans	Operating Real Estate	Unallocated	Total
<S>	<C>	<C>	<C>	<C>	<C>
Nine Months Ended September 30, 2004					
Gross revenues	$ 162,983	$ 13,331	$ 3,338	$ 415	$ 180,067
Operating expenses	(754)	(1,691)	(1,954)	(17,111)	(21,510)
Operating income (loss)	162,229	11,640	1,384	(16,696)	158,557
Interest expense	(86,703)	(7,208)	(407)	--	(94,318)
Depreciation and amortization	--	--	(315)	(1)	(316)
Equity in earnings of unconsolidated subsidiaries (A)	2,922	--	3,698	--	6,620

Income (loss) from continuing operations	78,448	4,432	4,360	(16,697)	70,543
Income from discontinued operations	--	--	(550)	--	(550)
Net Income (Loss)	$ 78,448	$ 4,432	$ 3,810	$ (16,697)	$ 69,993
Revenue derived from non-US sources:					
Canada	$ --	$ --	$ 10,338	$ --	$ 10,338
Belgium	$ --	$ --	$ 3,955	$ --	$ 3,955
Three Months Ended September 30, 2004					
Gross revenues	$ 56,887	$ 4,888	$ 1,157	$ 214	$ 63,146
Operating expenses	(167)	(600)	(717)	(6,338)	(7,822)
Operating income (loss)	56,720	4,288	440	(6,124)	55,324
Interest expense	(30,632)	(2,833)	(147)	--	(33,612)
Depreciation and amortization	--	--	(107)	(1)	(108)
Equity in earnings of unconsolidated subsidiaries (A)	944	--	2,235	--	3,179
Income (loss) from continuing operations	27,032	1,455	2,421	(6,125)	24,783
Income from discontinued operations	--	--	185	--	185
Net Income (Loss)	$ 27,032	$ 1,455	$ 2,606	$ (6,125)	$ 24,968
Revenue derived from non-US sources:					
Canada	$ --	$ --	$ 2,895	$ --	$ 2,895
Belgium	$ --	$ --	$ 1,650	$ --	$ 1,650

</TABLE>

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

Unconsolidated Subsidiaries

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

<TABLE>
<CAPTION>

<S>	Operating Real Estate Subsidiary <C>	Real Estate Loan Subsidiary <C>
Balance at December 31, 2004	$ 17,778	$ 23,452
Contributions to unconsolidated subsidiaries	--	--
Distributions from unconsolidated subsidiaries	(7,686)	(5,485)

Equity in earnings of unconsolidated subsidiaries	2,061	2,567
Balance at September 30, 2005	$ 12,153	$ 20,534

</TABLE>

Summarized financial information related to Newcastle's unconsolidated subsidiaries was as follows (in thousands):

<TABLE>
<CAPTION>

	Operating Real Estate Subsidiary (A) (B)		Real Estate Loan Subsidiary (A) (C)	
	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004
<S>	<C>	<C>	<C>	<C>
Assets	$ 77,762	$ 89,222	$ 41,301	$ 47,170
Liabilities	(53,000)	(53,000)	--	--
Minority interest	(456)	(666)	(233)	(266)
Equity	$ 24,306	$ 35,556	$ 41,068	$ 46,904
Equity held by Newcastle	$ 12,153	$ 17,778	$ 20,534	$ 23,452

<CAPTION>

	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<S>	<C>	<C>	<C>	<C>
Revenues	$ 8,287	$ 16,869	$ 5,195	$ 5,963
Expenses	(4,088)	(5,843)	(32)	(99)
Minority interest	(77)	(203)	(29)	(34)
Net income (loss)	$ 4,122	$ 10,823	$ 5,134	$ 5,830
Newcastle's equity in net income (loss)	$ 2,061	$ 5,412	$ 2,567	$ 2,922

</TABLE>

(A) The unconsolidated subsidiaries' summary financial information is presented on a fair value basis, consistent with their internal basis of accounting.

(B) Included in the operating real estate segment.

(C) Included in the real estate securities and real estate related loans segment.

- --

(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, 2005, all of which are classified as available for sale and are therefore marked to market through other comprehensive income.

<TABLE>
<CAPTION>

Asset Type	Current Face Amount	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
<S>	<C>	<C>	<C>	<C>	<C>
CMBS-Conduit	$ 1,210,967	$ 1,175,653	$ 36,083	$ (15,800)	$ 1,195,936
CMBS-Large Loan	489,390	486,538	9,728	(509)	495,757
CMBS- B-Note	180,484	177,245	4,681	(867)	

Asset Type	Current Face Amount	Amortized Cost Basis	Gains	Losses	Carrying Value
					181,059
Unsecured REIT Debt	842,618	858,526	24,646	(6,707)	876,465
ABS-Manufactured Housing	176,590	159,968	2,415	(1,801)	160,582
ABS-Home Equity	448,959	447,143	5,156	(97)	452,202
ABS-Franchise	63,996	62,306	1,610	(1,052)	62,864
Agency RMBS	667,346	670,308	76	(6,806)	663,578
Total/Average (A)	$ 4,080,350	$ 4,037,687	$ 84,395	$ (33,639)	$ 4,088,443

<CAPTION>

Asset Type	Number of Securities	Weighted Average S&P Equivalent Rating	Weighted Average Coupon	Weighted Average Yield	Weighted Average Maturity (Years)
<S>	<C>	<C>	<C>	<C>	<C>
CMBS-Conduit	179	BBB-	6.10%	6.66%	7.46
CMBS-Large Loan	58	BBB	6.38%	6.62%	2.00
CMBS- B-Note	32	BBB-	6.63%	6.87%	6.21
Unsecured REIT Debt	93	BBB-	6.39%	6.02%	7.10
ABS-Manufactured Housing	9	B	7.11%	8.63%	6.44
ABS-Home Equity	72	A-	5.54%	5.63%	3.09
ABS-Franchise	16	A-	6.59%	8.24%	5.07
Agency RMBS	18	AAA	4.74%	4.60%	5.07
Total/Average (A)	477	BBB+	5.98%	6.17%	5.72

</TABLE>

(A) The total current face amount of fixed rate securities was $3,211.2 million, and of floating rate securities was $869.1 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, 2005. The unrealized losses on Newcastle's securities are primarily the result of market factors, rather than credit impairment, and Newcastle believes their carrying values are fully recoverable over their expected holding period. None of the securities were delinquent as of September 30, 2005.

<TABLE>
<CAPTION>

Securities in an Unrealized Loss Position	Current Face Amount	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
<S>	<C>	<C>	<C>	<C>	<C>
Less Than Twelve Months	$ 1,487,651	$ 1,483,409	$ --	$ (15,749)	$ 1,467,660
Twelve or More Months	541,803	547,981	--	(17,890)	530,091
Total	$ 2,029,454	$ 2,031,390	$ --	$ (33,639)	$ 1,997,751

<CAPTION>

Securities in an Unrealized Loss Position	Number of Securities	Weighted Average S&P Equivalent Rating	Weighted Average Coupon	Weighted Average Yield	Weighted Average Maturity (Years)
<S>	<C>	<C>	<C>	<C>	<C>
Less Than Twelve Months	158	A-	5.68%	5.62%	6.12
Twelve or More Months	60	A-	5.49%	5.22%	6.99
Total	218	A-	5.63%	5.51%	6.35

</TABLE>

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

As of September 30, 2005, Newcastle had $172.4 million of restricted cash held in CBO financing structures pending its investment in real estate securities and loans.

4. REAL ESTATE RELATED LOANS AND RESIDENTIAL MORTGAGE LOANS

The following is a summary of real estate related loans and residential mortgage loans at September 30, 2005. The loans contain various terms, including fixed and floating rates, self-amortizing and interest only. They are generally subject to prepayment.

Loan Type	Current Face Amount	Carrying Value	Loan Count	Wtd. Avg. Yield	Weighted Average Maturity (Years) (C)	Delinquent Carrying Amount (D)
B-Notes	$ 124,999	$ 125,281	26	7.46%	2.19	$ --
Mezzanine Loans (A)	298,522	298,524	7	7.86%	2.17	--
Bank Loans	57,344	57,657	3	5.96%	2.76	--
Real Estate Loans	20,222	19,792	1	20.02%	2.25	--
ICH CMO Loans (B)	170,951	167,304	100	8.65%	2.90	22,276
Total Real Estate Related Loans	$ 672,038	$ 668,558	137	8.18%	2.41	$ 22,276
Residential Loans	$ 397,141	$ 403,562	1,087	4.72%	2.80	$ 8,099
Manufactured Housing Loans	$ 298,330	280,759	7,386	7.85%	4.93	7,637
Total Residential Mortgage Loans	$ 695,471	$ 684,321	8,473	6.00%	3.71	$ 15,736

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

(A) One of these loans has a contractual exit fee which Newcastle will begin to accrue if and when management believes it is probable that such exit fee will be received.

(B) In October 2003, pursuant to FIN No. 46, Newcastle consolidated an entity which holds a portfolio of commercial mortgage loans which has been securitized. This investment, which is referred to as the ICH CMO, was previously treated as a non-consolidated residual interest in such securitization. The primary effect of the consolidation is the requirement that Newcastle reflect the gross loan assets and gross bonds payable of this entity in its financial statements.

(C) The weighted average maturity for the residential mortgage loan portfolio was calculated based on a constant prepayment rate (CPR) of approximately 30%.

(D) This face amount of loans is 30 or more days delinquent.

Newcastle has entered into credit derivative instruments with a major investment bank, whereby Newcastle receives the sum of all interest, fees and any positive change in value amounts (the total return cash flows) from a reference asset with a specified notional amount, and pays interest on such notional plus any negative change in value amounts from such asset. These agreements are recorded in Derivative Assets and treated as non-hedge derivatives for accounting purposes and are therefore marked to market through income. Under the agreements, Newcastle is required to post an initial margin deposit to an

interest bearing account and additional margin may be payable in the event of a decline in value of the reference asset. Any margin on deposit (recorded in Restricted Cash), less any negative change in value amounts, will be returned to Newcastle upon termination of the contract. The following table presents information on these instruments as of September 30, 2005.

Month Executed	Loan Type of Reference Asset	Notional Amount	Margin Amount	Receive Interest Rate	Pay Interest Rate	Fair Value
November 2004	Bank Loan	$106,314	$ 18,149	LIBOR + 2.000%	LIBOR + 0.500%	$ 1,396
February 2005	Bank Loan	97,997	19,600	LIBOR + 3.000%	LIBOR + 0.625%	1,406
June 2005	Mezzanine Loan	15,000	5,224	LIBOR +4.985%	LIBOR + 1.350%	99
August 2005	Bank Loan	118,954	15,000	LIBOR + 2.000%	LIBOR + 0.500%	1,933
		$338,265	$ 57,973			$ 4,834

5. RECENT ACTIVITIES

In October 2005, Newcastle issued 1.6 million shares ($40.0 million face amount) of its 8.05% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred") for net proceeds of approximately $38.6 million. The Series C Preferred is non-voting, has a $25 per share liquidation preference, no maturity date and no mandatory redemption. Newcastle has the option to redeem the Series C Preferred beginning in October 2010.

In October 2005, Newcastle's Manager exercised options to acquire approximately 0.1 million shares of Newcastle's common stock for $2.2 million.

In July 2005, Newcastle entered into a three-year, $50.0 million revolving credit facility with Key Bank, secured by a deposit account into which cash received by Newcastle from certain eligible CBO investments is deposited. This credit facility involved an upfront fee paid by Newcastle of 0.75% of the $50 million commitment and bears interest at LIBOR + 2.50%. The facility also calls for unused commitment fees of 0.25% if drawn 50% or less, and 0.125% if drawn greater than 50%. In October 2005, the facility was increased to $75.0 million in exchange for an upfront fee of $0.2 million.

In June 2005, Newcastle closed on the sale of the industrial/distribution property in the Bell Canada portfolio for CAD $47.6 million (USD $38.1 million) and recorded a gain (net of Canadian taxes) of approximately $0.9 million, net of $2.1 million of prepayment penalties on the related debt. Newcastle posted a CAD $4.9 million letter of credit to cover potential Canadian taxes arising from this sale, however no taxes are expected to be paid in excess of those accrued at closing.

In June 2005, Newcastle closed on the sale of the last property in the LIV portfolio for EUR 10.4 million (USD $12.7 million) and recorded a loss of approximately $0.7 million.

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

In April 2005, Newcastle completed its seventh CBO financing, whereby a portfolio of real estate securities and loans was purchased by a consolidated subsidiary which issued $447.0 million face amount of investment grade senior bonds and $53.0 million face amount of non-investment grade subordinated bonds in a private placement. The non-investment grade bonds were retained by Newcastle and the $442.1 million carrying amount of the investment grade bonds, which bore interest at a weighted average effective rate, including discount and issue cost amortization and the effect of hedges, of 4.48%, had an expected weighted average life of approximately 8.9 years. The largest tranche, the $323.0 million face amount of Class I-MM notes, was issued subject to remarketing procedures and related agreements whereby the securities are remarketed and sold on a periodic basis. $439.6 million face amount 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 enters into short-term warehouse agreements with major investment banks for the right to purchase commercial mortgage backed securities, unsecured REIT debt and preferred equity, real estate related loans and real estate related asset backed securities for its real estate securities portfolios, prior to their being financed with CBOs. These agreements are treated as non-hedge

derivatives for accounting purposes and are therefore marked to market through current income. If the related CBO is not consummated, except as a result of Newcastle's gross negligence, willful misconduct or breach of contract, Newcastle will be required to pay the Net Loss, if any, as defined, up to the related deposit, less any Excess Carry Amount, as defined, earned on such deposit. Although Newcastle currently anticipates completing the most recent CBO in the near term, there is no assurance that such CBO will be consummated or on what terms it will be consummated. The following table summarizes the agreements:

	September 30, 2005			Income Recorded
Deal Status	Collateral Accumulated (1)	Aggregate Deposit	Fair Value	Nine Months Ended September 30, 2005
Closed	N/A	N/A	N/A	$ 1,662
Open	$ 242,954	$ 23,567	$ $24,055	137
				$ 1,799

(1) Excludes $98.3 million of collateral accumulated on balance sheet and recorded in real estate securities.

In March 2005, Newcastle closed on the sale of the vacant property in the Bell Canada portfolio for CAD $14.3 million (USD $11.8 million) and recorded a gain of approximately $0.4 million, net of $0.9 million of prepayment penalties on the related debt. Newcastle posted a CAD $1.1 million letter of credit to cover potential Canadian taxes arising from this sale, however no taxes are expected to be paid.

An unconsolidated subsidiary of Newcastle's that owns a portfolio of convenience and retail gas stores had entered into a property management agreement with a third party servicer which, in March 2005, was transferred to an affiliate of our Manager; our allocable portion of the related fees, approximately $20,000 per year for three years, were not changed.

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

During the nine months of 2005, Newcastle's Manager and certain of the Manager's employees exercised options to purchase approximately 0.6 million shares of Newcastle's common stock. In connection with these exercises, Newcastle received proceeds of approximately $9.5 million.

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

In January 2005, Newcastle entered into a servicing agreement with a portfolio company of a private equity fund advised by an affiliate of Newcastle's manager for such company to service the above described portfolio of manufactured housing loans. As compensation under the servicing agreement, the portfolio company will receive, on a monthly basis, a net servicing fee equal to 1.00% per annum on the unpaid principal balance of the loans being serviced.

6. DERIVATIVE INSTRUMENTS

The following table summarizes the notional amounts and fair (carrying) values of Newcastle's derivative financial instruments, excluding the credit derivative instruments described in Note 4 and the warehouse agreements described in Note 5, as of September 30, 2005.

	Notional Amount	Fair Value	Longest Maturity
Interest rate caps, treated as hedges (A)	$ 361,526	$ 2,127	October 2015
Interest rate swaps, treated as hedges (A)	$ 2,599,255	$ 24,691	November 2018
Non-hedge derivative obligations (A) (B)	(B)	$ (54)	July 2038

(A) Included in Derivative Assets or Derivative Liabilities, as applicable. Derivative Liabilities also include accrued interest.

(B) Represents two essentially offsetting interest rate caps and two essentially offsetting interest rate swaps, each with notional amounts of $32.5 million, an interest rate cap with a notional amount of $17.5 million, and five interest rate swaps with an aggregate notional amount of $16.8 million.

7. 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Weighted average number of shares of common stock outstanding, basic	43,789,819	38,234,481	43,595,411	36,273,142
Dilutive effect of stock options, based on the treasury stock method	331,444	648,510	365,633	577,896
Weighted average number of shares of common stock outstanding, diluted	44,121,263	38,882,991	43,961,044	36,851,038

As of September 30, 2005, Newcastle's outstanding options were summarized as follows:

Held by the Manager	1,293,407
Issued to the Manager and subsequently transferred to certain of the Manager's employees	627,490
Held by directors and former directors	14,500
Total	1,935,397

8. INCOME TAXES

Newcastle Investment Corp. is organized and conducts its operations to qualify

as a REIT under the Internal Revenue Code of 1986, as amended. A REIT will generally not be subject to U.S. federal corporate 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 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, 2005.

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

Newcastle Investment Corp. is a real estate investment and finance company. We invest in real estate securities, loans and other real estate related assets. We seek to deliver stable dividends and attractive risk-adjusted returns to our stockholders through prudent asset selection, active management and the use of match funded financing structures, which reduce our interest rate and financing risks. 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 own a diversified portfolio of moderately credit sensitive real estate debt investments including securities and loans.

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

We employ leverage in order to achieve our return objectives. We do not have a predetermined target debt to equity ratio as we believe the appropriate leverage for the particular assets we are financing depends on the credit quality of those assets. As of September 30, 2005, our debt to equity ratio was approximately 5.4 to 1. We maintain access to a broad array of capital resources in an effort to insulate our business from potential fluctuations in the availability of capital. We utilize multiple forms of financing including collateralized bond obligations (CBOs), other securitizations, and term loans, as well as short term financing in the form of repurchase agreements and our credit facility.

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

We were formed in 2002 as a subsidiary of Newcastle Investment Holdings Corp. (referred to herein as Holdings). Prior to our initial public offering, Holdings contributed to us certain assets and liabilities in exchange for approximately 16.5 million shares of our common stock. Our operations commenced in July 2002. In May 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.

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

	Range of	Net Proceeds

Year	Shares Issued	Issue Prices (1)	(millions)
Formation	16,488,517	N/A	N/A
2002	7,000,000	$ 13.00	$ 80.0
2003	7,886,316	$20.35-$22.85	$163.4
2004	8,484,648	$26.30-$31.40	$224.3
Nine Months 2005	3,930,338	$ 29.60	$106.1
September 30, 2005	43,789,819		

(1) Excludes prices of shares issued pursuant to the exercise of options and shares issued to Newcastle's independent directors.

As of September 30, 2005, approximately 2.8 million shares of our common stock were held by an affiliate of our manager and its principals. In addition, an affiliate of our manager held options to purchase approximately 1.3 million shares of our common stock at September 30, 2005.

We are organized and conduct our operations to qualify as a REIT for U.S. federal income tax purposes. As such, we will generally not be subject to U.S. federal corporate 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 three primary business segments: (i) real estate securities and real estate related loans, (ii) residential mortgage loans and (iii) operating real estate.

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

<TABLE>
<CAPTION>

For the Nine Months Ended September 30,	Real Estate Securities and Real Estate Related Loans	Residential Mortgage Loans	Operating Real Estate	Unallocated	Total
<S>	<C>	<C>	<C>	<C>	<C>
2005	$ 232,803	$ 37,270	$ 4,892	$ 613	$ 275,578
2004	$ 162,983	$ 13,331	$ 3,338	$ 415	$ 180,067

</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 U.S. generally accepted accounting principles ("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.

Variable Interest Entities

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

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

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

Valuation and Impairment of Securities

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

Revenue Recognition on Securities

Income on these securities is recognized using a level yield methodology based upon a number of assumptions that are subject to uncertainties and contingencies. Such assumptions include the expected disposal date of such security and the rate and timing of principal and interest receipts (which may be subject to prepayments, delinquencies and defaults). These uncertainties and contingencies are difficult to predict and are subject to future events, and economic and market conditions, which may alter the assumptions. For securities acquired at a discount for credit quality, the net income recognized is based on a "loss adjusted yield" whereby a gross interest yield is recorded in Interest Income, offset by a provision for expected credit losses which is accrued on a periodic basis to Provision for Credit Losses.

Valuation of Derivatives

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

Impairment of Loans

We purchase, directly and indirectly, real estate related, commercial mortgage and residential mortgage loans, including manufactured housing loans, to be held for investment. We must periodically evaluate each of these loans or loan pools for possible impairment. Impairment is indicated when it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the loan, or, for loans acquired at a discount for credit quality, when it is deemed probable that we will be unable to collect as anticipated. Upon determination of impairment, we would establish a specific valuation allowance with a corresponding charge to earnings. Significant judgment is required both in determining impairment and in estimating the resulting loss allowance. We have recorded approximately $2.3 million of impairment with respect to the ICH CMO loans in 2005. To date, no other impairments have been recorded.

Revenue Recognition on Loans

Income on these loans is recognized similarly to that on our securities and is subject to similar uncertainties and contingencies. For loans acquired at a discount for credit quality, the net income recognized is based on a "loss adjusted yield" whereby a gross interest yield is recorded in Interest Income, offset by a provision for expected credit losses which is accrued on a periodic

basis to Provision for Credit Losses. We have recorded approximately $3.7 million of provision with respect to our residential mortgage loan segment in 2005.

Impairment of Operating Real Estate

We own operating real estate held for investment. We review our operating real estate for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon determination of impairment, we would record a write-down of the asset, which would be charged to earnings. Significant judgment is required both in determining impairment and in estimating the resulting write-down. To date, we have determined that no write-downs have been necessary on the operating real estate in our portfolio. In addition, when operating real estate is classified as held for sale, it must be recorded at the lower of its carrying amount or fair value less costs of sale. Significant judgment is required in determining the fair value of such properties. In December 2003, we classified five properties as held for sale and recorded a loss of $1.5 million; these properties were sold in June 2004. In March 2004, we classified one property as held for sale, which did not result in a loss; this property was sold in June 2005 at a loss of $0.7 million. No other losses have been recorded with respect to operating real estate subsequent to our initial public offering.

RESULTS OF OPERATIONS

The following table summarizes the changes in our results of operations from the three and nine months ended September 30, 2004 to the three and nine months ended September 30, 2005 (dollars in thousands):

<TABLE>
<CAPTION>

	Period to Period Change		Period to Period Percent Change		
	Nine Months Ended September 30, 2005/2004	Three Months Ended September 30, 2005/2004	Nine Months Ended September 30, 2005/2004	Three Months Ended September 30, 2005/2004	Explanation
Interest Income	$ 96,680	$ 35,424	60%	64%	(1)
Rental and escalation income	1,529	719	46%	62%	(2)
Gain on investments	(2,698)	561	(17%)	9%	(3)
Interest expense	68,920	25,069	73%	75%	(1)
Property operating expense	40	(22)	2%	(4%)	(2)
Loan and security servicing expense	2,261	741	95%	100%	(1)
Provision for credit losses	5,990	4,091	N/A	N/A	(4)
General and administrative expense	(233)	(146)	(7%)	(12%)	(5)
Management fee to affiliate	2,145	526	28%	19%	(6)
Incentive compensation to affiliate	(833)	(78)	(14%)	(3%)	(6)
Depreciation and amortization	137	74	43%	69%	(2)
Equity in earnings of unconsolidated subsidiaries, net of taxes on related taxable subsidiaries	(2,313)	(2,118)	(35%)	(67%)	(7)
Income from continuing operations	$ 14,771	$ 4,331	21%	17%	

</TABLE>

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

<TABLE>
<CAPTION>

	Nine Months Ended September 30, 2005/2004		Three Months Ended September 30, 2005/2004	
	Period to Period Increase (Decrease)		Period to Period Increase (Decrease)	
	Interest Income	Interest Expense	Interest Income	Interest Expense
<S>	<C>	<C>	<C>	<C>
Real estate security and loan portfolios (A)	$ 40,578	$ 29,750	$ 14,135	$ 11,381
Agency RMBS	11,641	10,728	5,428	5,071
Residential mortgage loan portfolio	2,764	5,491	(307)	1,400
Manufactured housing loan portfolio	20,650	9,947	7,353	3,355
Other real estate related loans (B)	17,165	1,938	8,615	857
Other (C)	3,882	11,066	200	3,005
	$ 96,680	$ 68,920	$ 35,424	$ 25,069

</TABLE>

(A) Represents our fifth through our seventh CBO financings and the acquisition of the related collateral, as well as the deposit on our eighth CBO financing (including unrealized gains thereon).

(B) Includes unrealized gains on total return swaps.

(C) Primarily due to increasing interest rates on floating rate assets and liabilities owned during the entire period, with interest expense offset by the repayment of debt as a result of property sales.

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

(2) These changes are primarily the result of the effect of the sale of certain properties and the termination of a lease (including the acceleration of lease termination income), offset by foreign currency fluctuations.

(3) These changes are primarily a result of the volume of sales of real estate securities. Sales of real estate securities are based on a number of factors including credit, asset type and industry and can be expected to increase or decrease from time to time. Periodic fluctuations in the volume of sales of securities is dependent upon, among other things, management's assessment of credit risk, asset concentration, portfolio balance and other factors.

(4) These changes are primarily the result of the acquisition of manufactured housing and residential mortgage loan pools at a discount for credit quality and $2.3 million of impairment recorded with respect to the ICH CMO loans.

(5) The decrease in general and administrative expense is primarily a result of decreased insurance and Canadian taxes, offset by increased costs as a result of our increased size.

(6) The increase in management fees is a result of our increased size resulting from our equity issuances during this period. The decrease in incentive compensation is primarily a result of the FFO loss we recorded related to the sale of properties during the period, offset by our increased earnings.

(7) The decrease in earnings from unconsolidated subsidiaries is primarily a result of a decrease in earnings from an interest in an LLC which owns a portfolio of convenience and retail gas stores. A significant portion of such portfolio, which was held for sale from the date it was acquired, has been sold during the period. Note that the amounts shown are net of income taxes on related taxable subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

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

generally secured directly by our investment assets.

We expect that our cash on hand and our cash flow provided by operations, as well as our credit facility, 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 $351 million remained available as of September 30, 2005 ($311 million after the issuance of the Series C Preferred as described below under "- Preferred Stock").

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

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

We expect to meet our short-term liquidity requirements generally through our cash flow provided by operations and our credit facility, as well as investment specific borrowings. In addition, at September 30, 2005 we had an unrestricted cash balance of $16.4 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 (including the accrual of interest and fees payable at maturity), discount on our debt obligations, deferred financing costs and interest rate cap premiums, and deferred hedge gains and losses, (ii) gains and losses from sales of assets financed with CBOs, (iii) depreciation of our operating real estate, and (iv) straight-lined rental income. Proceeds from the sale of assets which serve as collateral for our CBO financings, including gains thereon, are required to be retained in the CBO structure until the related bonds are retired and are therefore not available to fund current cash needs.

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

With respect to our operating real estate, we expect to incur expenditures of approximately $4.4 million relating to tenant improvements, in connection with the inception of leases, and capital expenditures during the twelve months ending September 30, 2006.

With respect to one of our real estate related loans, we were committed to fund up to an additional $13.3 million at October 31, 2005, subject to certain conditions to be met by the borrower.

Debt Obligations

The following tables present certain information regarding our debt obligations and related hedges as of September 30, 2005 (unaudited) (dollars in thousands):

<TABLE>
<CAPTION>

Debt Obligation/Collateral
- --------------------------

	Month Issued	Current Face Amount	Carrying Value	Unhedged Weighted Average Funding Cost	Final Stated Maturity	Weighted Average Funding Cost (1)	Weighted Average Maturity Years
CBO Bonds Payable							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate securities	Jul 1999	$ 429,530	$ 425,998	5.23% (2)	Jul 2038	4.76%	3.53
Real estate securities and loans	Apr 2002	444,000	440,878	4.97% (2)	Apr 2037	6.46%	4.74
Real estate securities and loans	Mar 2003	472,000	468,291	4.96% (2)	Mar 2038	4.90%	6.45
Real estate securities and loans	Sep 2003	460,000	455,543	4.64% (2)	Sep 2038	5.08%	6.83
Real estate securities and loans	Mar 2004	414,000	410,386	4.63% (2)	Mar 2039	4.65%	7.42
Real estate securities and loans	Sep 2004	454,500	450,514	4.55% (2)	Sep 2039	4.72%	7.45
Real estate securities and loans	Apr 2005	447,000	442,255	3.94% (2)	Apr 2040	4.50%	8.47
		3,121,030	3,093,865			5.01%	6.40
Other Bonds Payable							
ICH CMO loans (3)	(3)	146,748	146,748	6.66% (2)	Aug 2030	6.66%	1.60
Manufactured housing loans (4)	Jan 2005	222,576	222,334	LIBOR+1.25%	Jan 2006	5.49%	0.33
		369,324	369,082			5.96%	0.83
Notes Payable							
Residential mortgage loans (4)	Nov 2004	324,920	324,920	LIBOR+0.16%	Nov 2007	4.14%	1.50
		324,920	324,920			4.14%	1.50
Repurchase Agreements (4)(10)							
Residential mortgage loans	Rolling	44,729	44,729	LIBOR+ 0.43%	Dec 2005	4.40%	0.25
ABS-manufactured housing	Rolling	88,596	88,596	LIBOR+ 0.63%	Various (7)	4.44%	0.23
Agency RMBS (5)	Rolling	644,415	644,415	LIBOR+ 0.13%	Oct 2005 (5)	4.45%	0.08
Real estate securities	Rolling	26,335	26,335	LIBOR+ 0.71%	Oct 2005	4.23%	0.08
Real estate related loans	Rolling	179,498	179,498	LIBOR+ 1.04%	Oct 2005	4.81%	0.08
		983,573	983,573			4.51%	0.10
Credit facility (6)		42,000	42,000	LIBOR+ 2.50% (8)	Jul 2008	5.34%	2.80
Total debt obligations		$4,840,847	$4,813,440			4.93%	4.34

<CAPTION>

Debt Obligation/Collateral	Collateral	Aggregate Notional

	Face Amount of Floating Rate Debt	Collateral Carrying Value	Weighted Average Maturity (Years)(9)	Face Amount of Floating Rate Collateral	Amount of Currently Effective Hedges
CBO Bonds Payable					
<S>	<C>	<C>	<C>	<C>	<C>
Real estate securities	$ 334,530	$ 576,480	5.29	$ -	$ 281,907
Real estate securities and loans	372,000	501,700	5.80	73,142	290,000
Real estate securities and loans	427,800	520,490	5.33	146,860	276,060
Real estate securities and loans	442,500	508,978	4.73	189,679	192,500
Real estate securities and loans	382,750	446,844	5.59	196,300	165,300
Real estate securities and loans	442,500	497,418	5.80	228,453	189,373
Real estate securities and loans	439,600	487,247	6.81	195,809	243,421
	2,841,680	3,539,157	5.63	1,030,243	1,638,561
Other Bonds Payable					
ICH CMO loans (3)	3,626	167,304	2.90	3,626	-
Manufactured housing loans (4)	222,576	280,759	4.93	-	237,820
	226,202	448,063	4.19	3,626	237,820
Notes Payable					
Residential mortgage loans (4)	324,920	356,147	2.80	350,640	-
	324,920	356,147	2.80	350,640	-
Repurchase Agreements (4)(10)					
Residential mortgage loans	44,729	47,415	2.80	46,501	-
ABS-manufactured housing	88,596	110,133	5.83	-	70,000
Agency RMBS (5)	644,415	663,578	5.07	-	638,579
Real estate securities	26,335	40,067	2.36	12,450	14,295
Real estate related loans	179,498	263,293	2.05	263,330	-
	983,573	1,124,486	4.27	322,281	722,874
Credit facility (6)	42,000	-	0.00	-	-
Total debt obligations	$ 4,418,375	$ 5,467,853	5.02	$ 1,706,790	$ 2,599,255

</TABLE>

(1) Includes the effect of applicable hedges.
(2) Weighted average, including floating and fixed rate classes.
(3) See "Liquidity and Capital Resources" below regarding the consolidation of ICH CMO.
(4) Subject to potential mandatory prepayments based on collateral value.
(5) A maximum of $1 billion is available. The commitment matures in November 2005.
(6) A maximum of $75 million can be drawn.
(7) The longest maturity is December 2005.
(8) In addition, unused commitment fees of between 0.125% and 0.250% are paid.
(9) Total excludes credit facility.
(10) The counterparties on our repurchase agreements include: Bank of America Securities LLC ($658.7 million), Bear Stearns Mortgage Capital Corporation ($178.2 million), Greenwich Capital Markets Inc. ($76.6 million), and others ($70.1 million).

Our debt obligations existing at September 30, 2005 (gross of $27.4 million of discounts) had contractual maturities as follows (unaudited) (in thousands):

Period from October 1, 2005 through December 31, 2005	$ 983,573
2006	222,576
2007	324,920
2008	42,000
2009	--
2010	--
Thereafter	3,267,778
Total	$4,840,847

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

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

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

Two classes of CBO bonds, with an aggregate $718.0 million face amount, were issued subject to remarketing procedures and related agreements whereby such bonds are remarketed and sold on a periodic basis. $395.0 million of these bonds are fully insured by a third party with respect to the timely payment of interest and principal thereon.

In October 2003, pursuant to FIN No. 46R, we consolidated an entity which holds a portfolio of commercial mortgage loans which has been securitized. This investment, which we refer to as the ICH CMO, was previously treated as a non-consolidated residual interest in such securitization. The primary effect of the consolidation is the requirement that we reflect the gross loan assets and gross bonds payable of this entity in our financial statements.

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

In July 2005, we entered into a revolving credit facility with KeyBank, secured by a deposit account into which cash received by us from certain eligible CBO investments is deposited.

Other

We have entered into credit derivative instruments with a major investment bank, whereby we receive the sum of all interest, fees and any positive change in value amounts (the total return cash flows) from a reference asset with a specified notional amount, and pay interest on such notional plus any negative change in value amounts from such asset. These agreements are recorded in Derivative Assets and treated as non-hedge derivatives for accounting purposes and are therefore marked to market through income. Under the agreements, we are required to post an initial margin deposit to an interest bearing account and additional margin may be payable in the event of a decline in value of the reference asset. Any margin on deposit, less any negative change in value amounts, will be returned to us upon termination of the contract. The following table presents information on these instruments as of September 30, 2005.

Month Executed	Loan Type of Reference Asset	Notional Amount	Margin Amount	Receive Interest Rate	Pay Interest Rate	Fair Value
November 2004	Bank Loan	$106,314	$ 18,149	LIBOR + 2.000%	LIBOR + 0.500%	$ 1,396
February 2005	Bank Loan	97,997	19,600	LIBOR + 3.000%	LIBOR + 0.625%	1,406
June 2005	Mezzanine Loan	15,000	5,224	LIBOR +4.985%	LIBOR + 1.350%	99
August 2005	Bank Loan	118,954	15,000	LIBOR + 2.000%	LIBOR + 0.500%	1,933
		$338,265	$ 57,973			$ 4,834

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

September 30, 2005				Income Recorded
Deal Status	Collateral Accumulated (1)	Aggregate Deposit	Fair Value	Nine Months Ended September 30, 2005

Closed	N/A	N/A	N/A	$ 1,662
Open	$ 242,954	$ 23,567	$ $24,055	137
				$ 1,799

(1) Excludes $98.3 million of collateral accumulated on balance sheet and recorded in real estate securities.

Stockholders' Equity

Common Stock

The following table presents information on shares of our common stock issued since December 31, 2004:

<TABLE>
<CAPTION>

Period	Shares Issued	Range of Issue Prices (1)	Net Proceeds (millions)	Options Granted to Manager
<S>	<C>	<C>	<C>	<C>
Nine Months 2005	3,930,338	$ 29.60	$ 106.1	330,000

</TABLE>

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

At September 30, 2005, we had 43,789,819 shares of common stock outstanding.

As of September 30, 2005, our outstanding options were summarized as follows:

Held by the Manager	1,293,407
Issued to the Manager and subsequently transferred to certain of the Manager's employees	627,490
Held by directors and former directors	14,500
Total	1,935,397

In October 2005, our Manager exercised options to acquire approximately 0.1 million shares of our common stock for $2.2 million.

Preferred Stock

In March 2003, we issued 2.5 million shares of 9.75% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred"). In October 2005, we issued 1.6 million shares of 8.05% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred"). The Series B Preferred and Series C Preferred have 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 and the Series C Preferred beginning in October 2010.

Other Comprehensive Income

During the nine months ended September 30, 2005, our accumulated other comprehensive income changed due to the following factors (in thousands):

<TABLE>

<S>	<C>
Accumulated other comprehensive income, December 31, 2004	$ 71,770
Net unrealized loss on securities	(41,202)
Reclassification of net realized (gain) on securities into earnings	(7,157)
Foreign currency translation	(1,103)
Reclassification of realized foreign currency translation into earnings	(626)
Unrealized gain on derivatives designated as cash flow hedges	38,701
Reclassification of realized loss on derivatives designated as cash flow hedges into earnings	1,657
Accumulated other comprehensive income, September 30, 2005	$ 62,040

</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, increasing interest rates and tightening credit spreads resulted in a net decrease 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 dividends.

In addition, the slight strengthening of the U.S. dollar against the Canadian dollar has resulted in a decrease in unrealized gains on our Canadian operating real estate.

Common Dividends Paid

Declared for the Period Ended	Paid	Amount Per Share
March 31, 2005	April 27, 2005	$0.625
June 30, 2005	July 27, 2005	$0.625
September 30, 2005	October 27, 2005	$0.625

Cash Flow

Net cash flow provided by operating activities decreased from $42.2 million for the nine months ended September 30, 2004 to $12.1 million for the nine months ended September 30, 2005. This change primarily resulted from the acquisition and settlement of our investments as described above.

Investing activities (used) ($844.1 million) and ($1,090.5 million) during the nine months ended September 30, 2005 and 2004, 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 $810.5 million and $1,050.5 million during the nine months ended September 30, 2005 and 2004, respectively. The equity issuances, borrowings and debt issuances described above served as the primary sources of cash flow from financing activities. Offsetting uses included the payment of related deferred financing costs, the purchase of hedging instruments, the payment of dividends, 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.

INTEREST RATE, CREDIT AND SPREAD RISK

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

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

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

Real Estate Securities

Interest rate changes may also impact our net book value as our real estate securities and related hedge derivatives are marked to market each quarter. Our loan investments and debt obligations are not marked to market. Generally, as interest rates increase, the value of our fixed rate securities decreases, and as interest rates decrease, the value of such securities will increase. In general, we would expect that over time, decreases in the value of our real estate securities portfolio attributable to interest rate changes will be offset to some degree by increases in the value of our swaps, and vice versa. However,

the relationship between spreads on securities and spreads on swaps may vary from time to time, resulting in a net aggregate book value increase or decline. Our real estate securities portfolio is largely financed to maturity through long-term CBO financings that are not redeemable as a result of book value changes. Accordingly, unless there is a material impairment in value that would result in a payment not being received on a security, changes in the book value of our securities portfolio will not directly affect our recurring earnings or our ability to pay dividends.

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

Our real estate securities portfolio is diversified by asset type, industry, location and issuer. At September 30, 2005, we had 516 real estate securities and loans, excluding the ICH CMO loans as described above. Our largest investment in a real estate security or real estate related loan was $139 million and our average investment size was $9.6 million at September 30, 2005. The weighted average credit spread on this portfolio (i.e. the yield premium on our investments over the comparable U.S. Treasury rate or LIBOR) was 2.47% as of September 30, 2005. Furthermore, our real estate securities are supported by pools of underlying loans. For instance, our CMBS investments had over 18,700 underlying loans at September 30, 2005. We expect that this diversification helps to minimize the risk of capital loss, and will also enhance the terms of our financing structures. At September 30, 2005, our real estate securities and real estate related loans (excluding the ICH CMO loans) had an overall weighted average credit rating of approximately BBB-, and approximately 69% had an investment grade rating (BBB- or higher).

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

Furthermore, shifts in the U.S. Treasury yield curve, which represents the market's expectations of future interest rates, would also 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.

Loans

Similar to our real estate securities portfolio, we are subject to credit and spread risk with respect to our real estate related, commercial mortgage and residential mortgage loan portfolios. However, unlike our real estate securities

portfolio, our loans generally do not benefit from the support of junior classes of securities, but rather bear the first risk of default and loss. We believe that this credit risk is mitigated through our due diligence process and periodic reviews of the borrower's payment history, delinquency status, and the relationship of the loan balance to the underlying property value. At September 30, 2005, our residential mortgage loan portfolio was characterized by high credit quality borrowers with a weighted average FICO score of 713 at origination, and had a weighted average loan to value ratio of 72.5%. As of September 30, 2005, approximately $351 million face amount of our residential mortgage loans were held in securitized form, of which over 92% of the principal balance was AAA rated.

Our loan portfolios are diversified by geographic location and by borrower. Our residential mortgage loans and manufactured housing loans were well diversified with 1,087 loans and 7,386 loans, respectively, at September 30, 2005. 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 affect us in the same way as similar losses on our real estate securities portfolio as described above, except that our loan portfolios are not marked to market.

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2005, we had the following material off-balance sheet arrangement:

- The $24.1 million carrying value of our deposit on our eighth real estate securities portfolio, as described above under "- Liquidity and Capital Resources." Except as a result of our gross negligence, willful misconduct or breach of contract, our potential loss is limited to the amount shown, which is included in our consolidated balance sheet.

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

We are also party to total return swaps which are treated as non-hedge derivatives. For further information on these investments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

CONTRACTUAL OBLIGATIONS

During the first nine months of 2005, we had all of the material contractual obligations referred to in our annual report on Form 10-K for the year ended December 31, 2004, as well as the following:

Contract Category	Change
CBO bonds payable	The financing for our seventh real estate securities and loans portfolio was closed in April 2005.
Other bonds payable	The financing for the January 2005 purchase of a portfolio of manufactured housing loans was obtained.
Credit facility	We entered into our credit facility.
Interest rate swaps, treated as hedges	The floating rate bonds in our seventh CBO transaction and other floating rate debt issuances, as well as certain assets, were hedged with interest rate swaps.
Real estate securities	

portfolio deposit	We began accumulating collateral for our eighth CBO transaction 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

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, 2005	For the Three Months Ended September 30, 2005
<S>	<C>	<C>
Income available for common stockholders	$ 82,795	$ 27,677
Operating real estate depreciation	523	118
Accumulated depreciation on operating real estate sold	(6,939)	--
Funds from Operations (FFO)	$ 76,379	$ 27,795

</TABLE>

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

<TABLE>
<CAPTION>

	Book Equity at September 30, 2005	Average Invested Common Equity for the Nine Months Ended September 30, 2005 (2)	FFO for the Nine Months Ended September 30, 2005	Return on Invested Common Equity (ROE) (3)
<S>	<C>	<C>	<C>	<C>
Real estate securities and real estate related loans	$ 767,574	$ 678,203	$ 91,894	18.1%
Residential mortgage loans	93,940	97,197	7,152	

				9.8%
Operating real estate	34,953	51,244	(210)	(0.5%)
Unallocated (1)	(123,851)	(53,320)	(22,457)	N/A
Total (2)	772,616	$ 773,324	$ 76,379	13.2%
Preferred stock	62,500			
Accumulated depreciation	(3,352)			
Accumulated other comprehensive income	62,040			
Net book equity	$ 893,804			

</TABLE>

<TABLE>
<CAPTION>

<S>	Book Equity at September 30, 2005 <C>	Average Invested Common Equity for the Three Months Ended September 30, 2005 (2) <C>	FFO for the Three Months Ended September 30, 2005 <C>	Return on Invested Common Equity (ROE) (3) <C>
Real estate securities and real estate related loans	$ 767,574	$ 695,459	$ 33,014	19.0%
Residential mortgage loans	93,940	98,176	1,200	4.9%
Operating real estate	34,953	35,212	1,695	19.3%
Unallocated (1)	(123,851)	(52,693)	(8,114)	N/A
Total (2)	772,616	$ 776,154	$ 27,795	14.3%
Preferred stock	62,500			
Accumulated depreciation	(3,352)			
Accumulated other comprehensive income	62,040			
Net book equity	$ 893,804			

</TABLE>

(1) Unallocated FFO represents ($1,523) and ($4,570) of preferred dividends and ($6,591) and ($17,887) of corporate general and administrative expense, management fees and incentive compensation for the three and nine months ended September 30, 2005, 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.

RELATED PARTY TRANSACTIONS

In January 2005, we entered into a servicing agreement with a portfolio company of a private equity fund advised by an affiliate of our manager for such company to service our portfolio of manufactured housing loans. As compensation under the servicing agreement, the portfolio company will receive, on a monthly basis, a net servicing fee equal to 1.00% per annum on the unpaid principal balance of the loans being serviced. We acquired a portfolio of such loans in January 2005, in which we had an investment of approximately $280.8 million at September 30, 2005.

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 and credit spread 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Application of Critical Accounting Policies."

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 affect our net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with our interest-bearing liabilities and hedges. Changes in the level of interest rates also can affect, among other things, our ability to acquire real estate securities and loans, the value of our real estate securities, loans and derivatives, and our ability to realize gains from the settlement of such assets. While our strategy is to utilize interest rate swaps, caps and match funded financings in order to limit the effects of changes in interest rates on our operations, there can be no assurance that our profitability will not be adversely affected during any period as a result of changing interest rates. 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. As of September 30, 2005, a 100 basis point increase in short term interest rates would increase our earnings by approximately $0.4 million per annum.

Interest rate changes may also impact our net book value as our real estate securities and related hedge derivatives are marked to market each quarter. Our loan investments and debt obligations are not marked to market. Generally, as interest rates increase, the value of our fixed rate securities decreases, and as interest rates decrease, the value of such securities will increase. In general, we would expect that over time, decreases in the value of our real estate securities portfolio attributable to interest rate changes will be offset to some degree by increases in the value of our swaps, and vice versa. However, the relationship between spreads on securities and spreads on swaps may vary from time to time, resulting in a net aggregate book value increase or decline. Our real estate securities portfolio is largely financed to maturity through long-term CBO financings that are not redeemable as a result of book value changes. Accordingly, unless there is a material impairment in value that would result in a payment not being received on a security, changes in the book value of our portfolio will not directly affect our recurring earnings or our ability to pay dividends. As of September 30, 2005, a 100 basis point change in short term interest rates would impact our net book value by approximately $43.4 million.

Our general financing strategy focuses on the use of match funded structures. This means that we seek to match the maturities of our debt obligations with the maturities of our investments to minimize the risk that we have to refinance our liabilities prior to the maturities of our assets, and to reduce the impact of changing interest rates on our earnings. In addition, we generally match fund interest rates on our investments with like-kind debt (i.e., fixed rate assets are financed with fixed rate debt and floating rate assets are financed with floating rate debt), directly or through the use of interest rate swaps, caps, or other financial instruments, or through a combination of these strategies, which allows us to reduce the impact of changing interest rates on our earnings. Our entire portfolio of assets and the related liabilities had weighted average lives of 4.83 years and 4.34 years, respectively, as of September 30, 2005. Our financing strategy is dependent on our ability to place the match funded debt we use to finance our investments at rates that provide a positive net spread. If spreads for such liabilities widen or if demand for such liabilities ceases to exist, then our ability to execute future financings will be severely restricted.

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

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

contracted strike rate.

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

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

CREDIT SPREAD CURVE EXPOSURE

Our real estate securities are also subject to spread risk. Our fixed rate securities are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. In other words, their value is dependent on the yield demanded on such securities by the market based on their credit relative to U.S. Treasuries. Excessive supply of such securities combined with reduced demand will generally cause the market to require a higher yield on such securities, resulting in the use of 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, 2005, an immediate 25 basis point movement in credit spreads would impact our net book value by approximately $43.7 million, but would not directly affect our earnings or cash flow.

FAIR VALUES

Fair values for a majority of our investments are readily obtainable through broker quotations. 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 and credit spread environments as of September 30, 2005 and do not take into consideration the effects of subsequent interest rate or credit spread fluctuations.

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

Interest Rate and Credit Spread Risk

We held the following interest rate and credit spread risk sensitive instruments at September 30, 2005 (unaudited) (dollars in thousands):

	Carrying Value	Principal Balance or Notional Amount	Weighted Average Yield/Funding Cost	Maturity Date	Fair Value
Assets:					
Real estate securities, available for sale (1)	$ 4,088,443	$ 4,080,350	6.17%	(1)	$ 4,088,443
Real estate securities portfolio deposit (2)	24,055	Note (2)	Note (2)	(2)	24,055
Real estate related loans (3)	668,558	672,038	8.18%	(3)	668,345
Residential mortgage loans (4)	684,321	695,471	6.00%	(4)	684,321
Interest rate caps, treated as hedges (5)	2,127	361,526	N/A	(5)	2,127
Total return swaps (6)	4,834	Note (6)	N/A	(6)	4,834
Liabilities:					
CBO bonds payable (7)	3,093,865	3,121,030	5.01%	(7)	3,157,337
Other bonds payable (8)	369,082	369,324	5.96%	(8)	373,346
Notes payable (9)	324,920	324,920	4.14%	(9)	324,920
Repurchase agreements (10)	983,573	983,573	4.51%	(10)	983,573
Credit facility (11)	42,000	42,000	5.34%	(11)	42,000
Interest rate swaps, treated as hedges (12)	(24,691)	2,599,255	N/A	(12)	(24,691)
Non-hedge derivative obligations (13)	54	Note (13)	N/A	(13)	54

(1) These securities contain various terms, including fixed and floating rates, self-amortizing and interest only. Their weighted average maturity is 5.72 years. The fair value of these securities is estimated by obtaining third party broker quotations, if available and practicable, and counterparty quotations.

(2) The fair value of the real estate securities portfolio deposit, which is treated as a non-hedge derivative, is determined by obtaining third party broker quotations on the underlying securities, if available and practicable, and counterparty quotations, including a counterparty quotation on the portion of the fair value resulting from the Excess Carry Amount, as defined, earned on such deposit. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" for a further discussion of this deposit.

(3) Represents the following loans:

Loan Type	Current Face Amount	Carrying Value	Weighted Avg. Yield	Weighted Average Maturity (Years)	Floating Rate Loans as a % of Carrying Value	Fair Value

B-Notes	$ 124,999	$ 125,281	7.46%	2.19	84.7%	$ 125,170
Mezzanine Loans	298,522	298,524	7.86%	2.17	100.0%	298,524
Bank Loans	57,344	57,657	5.96%	2.76	100.0%	57,657
Real Estate Loans	20,222	19,792	20.02%	2.25	-%	19,690
ICH CMO Loans	170,951	167,304	8.65%	2.90	2.1%	167,304
	$ 672,038	$ 668,558	8.18%	2.41	69.7%	$ 668,345

</TABLE>

The fixed rate B-Notes were valued by obtaining counterparty quotations. The rest of the B-Notes, as well as the mezzanine loans and bank 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. The one fixed rate real estate loan was valued by obtaining a third party valuation. The ICH CMO loans were valued by discounting expected future receipts by a rate calculated based on current market conditions for comparable financial instruments, including market interest rates and credit spreads.

(4) This aggregate portfolio of residential loans consists of a portfolio of floating rate residential mortgage loans as well as a portfolio of primarily fixed rate manufactured housing loans. The $403.6 million portfolio of residential mortgage loans has a weighted average maturity of 2.80 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. The $280.7 million manufactured housing loan portfolio, which has a weighted average maturity of 4.93 years, was 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. Based on this analysis, the carrying amount of this portfolio is believed to approximate fair value.

(5) Represents cap agreements as follows:

<TABLE>
<CAPTION>

Notional Balance	Effective Date	Maturity Date	Capped Rate	Strike Rate	Fair Value
<S>	<C>	<C>	<C>	<C>	<C>
$ 281,907	Current	March 2009	1-Month LIBOR	6.50%	$ 206
18,000	January 2010	October 2015	3-Month LIBOR	8.00%	342
8,619	December 2010	June 2015	3-Month LIBOR	7.00%	541
53,000	May 2011	September 2015	1-Month LIBOR	7.50%	1,038
$ 361,526					$ 2,127

</TABLE>

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

(6) Represents total return swaps which are treated as non-hedge derivatives. The fair value of these agreements, which is included in Derivative Assets, is estimated by obtaining counterparty quotations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a further discussion of these swaps.

(7) These bonds were valued by discounting expected future payments by a rate calculated based on current market conditions for comparable financial instruments, including market interest rates and credit spreads. The weighted average maturity of the CBO bonds payable is 6.40 years. The CBO bonds payable amortize principal prior to maturity based on collateral receipts, subject to reinvestment requirements.

(8) 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 have a weighted average maturity of 1.60 years. The manufactured housing loan bonds have a weighted average maturity of 0.33 years, bear a floating rate of interest, and are subject to adjustment monthly based on the market value of the loan portfolio. We believe that, for similar financial instruments with comparable credit risks, their effective rate approximates a market rate. Accordingly, the carrying amount outstanding is believed to approximate fair value.

(9) The residential mortgage loan financing has a weighted average maturity of 1.50 years, bears a floating rate of interest, and is subject to adjustment monthly based on the market value of the loan portfolio. We believe that, for similar financial instruments with comparable credit risks, its effective rate approximates a market rate. Accordingly, the carrying amount outstanding is believed to approximate fair value.

(10) These agreements bear floating rates of interest and we believe that, for similar financial instruments with comparable credit risks, the effective rates approximate market rates. Accordingly, the carrying amounts outstanding are believed to approximate fair value. These agreements have a weighted average maturity of 0.10 years.

(11) This facility, which has a weighted average maturity of 2.80 years, bears a floating rate of interest and we believe that, for similar financial instruments with comparable credit risk, the effective rate approximates a market rate. Accordingly, the carrying amount outstanding is believed to approximate fair value.

(12) Represents swap agreements as follows (in thousands):

Notional Balance	Effective Date	Maturity Date	Swapped Rate	Fixed Rate	Fair Value
$ 281,907	Current	March 2009	1-Month LIBOR*	3.1250%	$ (9,380)
290,000	Current	April 2011	3-Month LIBOR	5.9325%	15,904
276,060	Current	March 2013	3-Month LIBOR	3.8650%	(12,231)
192,500	Current	March 2015	1-Month LIBOR	4.8880%	2,496
165,300	Current	March 2014	3-Month LIBOR	3.9945%	(6,938)
189,373	Current	September 2014	3-Month LIBOR	4.3731%	(4,595)
243,421	Current	March 2015	1-Month LIBOR	4.8495%	2,513
237,820	Current	February 2014	1-Month LIBOR	4.2070%	(3,559)
5,000	Current	November 2008	1-Month LIBOR	3.5400%	(146)
5,000	Current	November 2018	1-Month LIBOR	4.4800%	(51)
48,000	Current	January 2009	1-Month LIBOR	3.6500%	(1,332)
12,000	Current	January 2015	1-Month LIBOR	4.5100%	(217)
72,542	Current	October 2009	1-Month LIBOR	3.7150%	(1,508)
69,001	Current	September 2009	1-Month LIBOR	3.7090%	(1,426)
23,754	Current	December 2009	1-Month LIBOR	3.8290%	(438)
8,051	Current	August 2009	1-Month LIBOR	4.0690%	(98)
23,359	Current	February 2010	1-Month LIBOR	4.1030%	(292)
36,682	Current	April 2010	1-Month LIBOR	4.5310%	(33)
31,786	Current	March 2010	1-Month LIBOR	4.5260%	(30)
26,781	Current	April 2010	1-Month LIBOR	4.1640%	(298)
45,418	Current	March 2010	1-Month LIBOR	4.0910%	(543)
46,644	Current	May 2010	1-Month LIBOR	3.9900%	(744)
23,301	Current	April 2010	1-Month LIBOR	3.9880%	(368)
39,744	Current	September 2010	1-Month LIBOR	4.3980%	(196)
19,406	Current	September 2010	1-Month LIBOR	4.4300%	(78)
47,766	Current	August 2010	1-Month LIBOR	4.4865%	(114)
29,962	Current	August 2010	1-Month LIBOR	4.4210%	(112)
22,909	Current	June 2010	1-Month LIBOR	4.4870%	(50)
24,128	Current	August 2010	1-Month LIBOR	4.4900%	(54)
47,345	Current	July 2010	1-Month LIBOR	4.4290%	(217)
14,295	Current	January 2009	1-Month LIBOR	3.2900%	(556)
$ 2,599,255					$ (24,691)

*up to 6.50%

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

(13) These are two essentially offsetting interest rate caps and two essentially offsetting interest rate swaps, each with notional amounts of $32.5 million, an interest rate cap with a notional balance of $17.5 million, and five interest rate swaps with an aggregate notional amount of $16.8 million. The maturity date of the purchased swap is July 2009; the maturity date of the sold swap is July 2014, the maturity date of the $32.5 million caps is July 2038, the maturity date of the $17.5 million cap is July 2009, and the maturity dates of the latter swaps range from November 2008 through January 2009. The fair value of these agreements is estimated by obtaining counterparty quotations.

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. During the fiscal quarter to which this report relates, the Company began using two new information technology systems in a live environment. As a result of, and in conjunction with, the implementation of the new systems, the Company implemented certain new internal controls and modified others. The nature of these new or modified internal controls did not have a material impact on the Company's financial reporting. No other 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) occurred 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.

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 September23, 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.

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 9, 2005

By: /s/ Debra A. Hess

Name: Debra A. Hess
Title: Chief Financial Officer
Date: November 9, 2005

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 9, 2005
(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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 9, 2005
(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, 2005 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 9, 2005

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

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

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Newcastle Investment Corp. (the "Company") for the quarterly period ended September 30, 2005 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 9, 2005

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

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