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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

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 **(State or other jurisdiction of incorporation or organization)**	**81-0559116** **(I.R.S. Employer Identification No.)**
1345 Avenue of the Americas, New York, NY **(Address of principal executive offices)**	**10105** **(Zip Code)**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company)
Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Common stock, $0.01 par value per share: 52,789,050 shares outstanding as of August 8, 2008.

NEWCASTLE INVESTMENT CORP.
FORM 10-Q

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Real estate securities, available for sale	$ 3,116,151	$ 4,835,884
Real estate related loans, net	1,761,940	1,856,978
Residential mortgage loans, net	585,155	634,605
Subprime mortgage loans subject to call option	395,906	393,899
Investments in unconsolidated subsidiaries	1,882	24,477
Operating real estate, held for sale	27,980	34,399
Cash and cash equivalents	181,967	55,916
Restricted cash	91,560	133,126
Derivative assets	1,647	4,114
Receivables and other assets	52,119	64,372
	$ 6,216,307	$ 8,037,770
Liabilities and Stockholders' Equity		
Liabilities		
CBO bonds payable	$ 4,368,784	$ 4,716,535
Other bonds payable	446,988	546,798
Repurchase agreements	657,690	1,634,362
Financing of subprime mortgage loans subject to call option	395,906	393,899
Junior subordinated notes payable (security for trust preferred)	100,100	100,100
Derivative liabilities	114,581	133,510
Dividends payable	15,447	40,251
Due to affiliates	7,741	7,741
Accrued expenses and other liabilities	13,327	16,949
	6,120,564	7,590,145
Stockholders' Equity		
Preferred stock, $0.01 par value, 100,000,000 shares authorized,2,500,000 shares of 9.75% Series B Cumulative Redeemable Preferred Stock, 1,600,000 shares of 8.05% Series C Cumulative Redeemable Preferred Stock, and2,000,000 shares of 8.375% Series D Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, issued and outstanding	152,500	152,500
Common stock, $0.01 par value, 500,000,000 shares authorized, 52,786,441 and 52,779,179 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	528	528
Additional paid-in capital	1,033,401	1,033,326
Dividends in excess of earnings	(394,538)	(236,213)
Accumulated other comprehensive income (loss)	(696,148)	(502,516)
	95,743	447,625
	$ 6,216,307	$ 8,037,770

See notes to consolidated financial statements

Table of Contents

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

	Three Months ended June 30, 2008	Three Months ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues				
Interest income	$ 115,018	$ 191,864	$ 247,912	$ 354,080
	115,018	191,864	247,912	354,080
Expenses				
Interest expense	73,713	133,898	163,088	250,649
Loan and security servicing expense	1,788	3,698	3,518	5,681
Provision for credit losses	1,868	3,089	4,373	5,125
General and administrative expense	1,892	1,435	3,484	2,728
Management fee to affiliate	4,597	4,545	9,194	8,451
Incentive compensation to affiliate	—	2,521	—	6,209
Depreciation and amortization	73	71	145	144
	83,931	149,257	183,802	278,987
Operating Income	31,087	42,607	64,110	75,093
Other Income (Loss)				
Gain (loss) on sale of investments, net	(37)	6,977	6,489	9,189
Other income (loss), net	1,427	5,747	(17,881)	6,464
Other-than-temporary impairment	(101,797)	(5,953)	(148,169)	(5,953)
Loan impairment	(16,759)	—	(37,085)	—
Provision for losses, loans held for sale	—	(5,754)	—	(5,754)
Gain (loss) on extinguishment of debt	—	(7,280)	8,533	(7,280)
Equity in earnings of unconsolidated subsidiaries	7,062	819	7,770	1,666
	(110,104)	(5,444)	(180,343)	(1,668)
Income (loss) from continuing operations	(79,017)	37,163	(116,233)	73,425
Income (loss) from discontinued operations	(5,263)	(50)	(8,951)	(121)
Net Income (Loss)	(84,280)	37,113	(125,184)	73,304
Preferred dividends	(3,376)	(3,375)	(6,751)	(5,890)
Income (Loss) Applicable to Common Stockholders	$ (87,656)	$ 33,738	$ (131,935)	$ 67,414
Income (Loss) Per Share of Common Stock				
Basic	$ (1.66)	$ 0.65	$ (2.50)	$ 1.35
Diluted	$ (1.66)	$ 0.64	$ (2.50)	$ 1.34
Income (loss) from continuing operations per share of common stock, after preferred dividends				
Basic	$ (1.56)	$ 0.65	$ (2.33)	$ 1.35
Diluted	$ (1.56)	$ 0.64	$ (2.33)	$ 1.34
Income (loss) from discontinued operations per share of common stock				
Basic	$ (0.10)	$ (0.00)	$ (0.17)	$ (0.00)
Diluted	$ (0.10)	$ (0.00)	$ (0.17)	$ (0.00)
Weighted Average Number of Shares of Common Stock Outstanding				
Basic	52,783,006	52,273,988	52,781,662	49,936,428
Diluted	52,783,006	52,467,019	52,781,662	50,158,085
Dividends Declared per Share of Common Stock	$ 0.25	$ 0.72	$ 0.50	$ 1.41

See notes to consolidated financial statements

Table of Contents

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2008
(dollars in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Dividends in Excess of Earnings	Accum. Other Comp. Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Stockholders' equity—December 31, 2007	6,100,000	$ 152,500	52,779,179	$ 528	$ 1,033,326	$ (236,213)	$ (502,516)	$ 447,625
Dividends declared	—	—	—	—	—	(33,141)	—	(33,141)
Issuance of common stock to directors	—	—	7,262	—	75	—	—	75
Comprehensive income:								
Net (loss)	—	—	—	—	—	(125,184)	—	(125,184)
Net unrealized (loss) on securities	—	—	—	—	—	—	(189,979)	(189,979)
Reclassification of net realized (gain) on securities into earnings	—	—	—	—	—	—	(7,439)	(7,439)
Foreign currency translation	—	—	—	—	—	—	(515)	(515)
Net unrealized gain on derivatives designated as cash flow hedges	—	—	—	—	—	—	5,069	5,069
Reclassification of net realized (gain) on derivatives designated as cash flow hedges into earnings	—	—	—	—	—	—	(768)	(768)
Total comprehensive income (loss)								(318,816)
Stockholders' equity—June 30, 2008	6,100,000	$ 152,500	52,786,441	$ 528	$ 1,033,401	$ (394,538)	$ (696,148)	$ 95,743

See notes to consolidated financial statements

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash Flows From Operating Activities		
Net income (loss)	$ (125,184)	$ 73,304
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities (inclusive of amounts related to discontinued operations):		
Depreciation and amortization	493	671
Accretion of discount and other amortization	(20,739)	(13,649)
Deferred rent	174	151
Provision for credit losses	4,373	5,125
Provision for losses, loans held for sale	—	5,754
Non-cash directors' compensation	75	60
(Gain) on sale of investments	(6,913)	(9,113)
Unrealized (gain) loss on non-hedge derivatives and hedge ineffectiveness	20,376	(6,338)
Other-than-temporary impairment	157,219	5,953
Loan impairment	37,085	—
(Gain) loss on extinguishment of debt	(8,533)	6,260
Equity in earnings of unconsolidated subsidiaries	(7,770)	(1,666)
Distributions of earnings from unconsolidated subsidiaries	7,770	1,666
Purchase of loans held for sale	—	(1,089,202)
Change in:		
Restricted cash	3,196	62,681
Receivables and other assets	16,034	(10,458)
Due to affiliates	—	(5,724)
Accrued expenses and other liabilities	(1,874)	899
Net cash provided by (used in) operating activities	75,782	(973,626)
Cash Flows From Investing Activities		
Purchase of real estate securities	—	(289,027)
Proceeds from sale of real estate securities	1,151,012	116,555
Proceeds from settlement of loans	12,636	—
Purchase of and advances on loans	—	(862,978)
Repayments of loan and security principal	219,447	632,005
Margin received on derivative instruments	60,471	55,152
Return of margin on derivative instruments	(52,022)	(39,960)
Margin deposits on total rate of return swaps (treated as derivative instruments)	(22,200)	(56,249)
Return of margin deposits on total rate of return swaps (treated as derivative instruments)	29,891	59,941
Net proceeds from termination of derivative instruments	(37,591)	24,191
Purchase and improvement of operating real estate	(604)	(865)
Contributions to unconsolidated subsidiaries	—	(201)
Distributions of capital from unconsolidated subsidiaries	22,595	435
Change in restricted cash from investment in CBOs	—	(11,614)
Net cash provided by (used in) in investing activities	1,383,635	(372,615)

Continued on Page 5

Table of Contents

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

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

	Six Months Ended June 30, 2008	2007
Cash Flows From Financing Activities		
Repayments of CBO bonds payable	(332,643)	(984,776)
Issuance of other bonds payable	—	587,628
Repayments of other bonds payable	(100,443)	(55,123)
Repayments of notes payable	—	(35,073)
Borrowings under repurchase agreements	20,819	3,399,557
Repayments of repurchase agreements	(997,991)	(1,709,386)
Return of margin deposits under repurchase agreements	78,963	—
Margin deposits under repurchase agreements	(72,656)	—
Issuance of repurchase agreements subject to ABCP facility	—	247,409
Repayments of repurchase agreements subject to ABCP facility	—	(110,002)
Draws under credit facility	—	382,800
Repayments of credit facility	—	(476,600)
Issuance of common stock	—	199,791
Exercise of common stock options	—	1,443
Issuance of preferred stock	—	50,000
Costs related to issuance of preferred stock	—	(1,760)
Dividends paid	(57,944)	(69,464)
Payment of deferred financing costs	(337)	(1,711)
Restricted cash returned from refinancing activities	128,866	20,000
Net cash provided by (used in) financing activities	(1,333,366)	1,444,733
Net Increase (Decrease) in Cash and Cash Equivalents	126,051	98,492
Cash and Cash Equivalents, Beginning of Period	55,916	5,371
Cash and Cash Equivalents, End of Period	$ 181,967	$ 103,863
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest expense	$ 146,339	$ 231,226
Cash paid during the period for income taxes	$ —	$ —
Cash paid during the year for federal excise tax	$ 316	$ —
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Common stock dividends declared but not paid	$ 13,197	$ 38,001
Preferred stock dividends declared but not paid	$ 2,250	$ 2,785

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2008
(dollars in tables in thousands, except share data)

1. GENERAL

Newcastle Investment Corp. (and its subsidiaries, "Newcastle") is a Maryland corporation that was formed in 2002. Newcastle conducts its business through four primary segments: (i) investments financed with non-recourse collateralized bond obligations ("CBOs"), (ii) investments financed with other non-recourse debt, (iii) investments financed with recourse debt, including FNMA / FHLMC securities, and (iv) unlevered investments.

In the second quarter of 2008, Newcastle changed the structure of its internal organization such that the basis of the composition of its reportable segments changed from investment type to financing type. Management believes this presentation better reflects the benefits and risks of the company's structure.

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 FIG LLC (the "Manager"), an affiliate of Fortress Investment Group LLC, 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 5.0 million shares of Newcastle's common stock were held by the Manager, through its affiliates, and its principals at June 30, 2008. In addition, the Manager, through its affiliates, held options to purchase approximately 1.5 million shares of Newcastle's common stock at June 30, 2008.

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 U.S. generally accepted accounting principles 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 consolidated financial statements for the year ended December 31, 2007 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 consolidated financial statements for the year ended December 31, 2007.

(dollars in tables in thousands, except share data)

Table of Contents

2. INFORMATION REGARDING BUSINESS SEGMENTS

Newcastle conducts its business through four primary segments: (i) investments financed with non-recourse collateralized bond obligations ("CBOs"), (ii) investments financed with other non-recourse debt, (iii) investments financed with recourse debt, including FNMA / FHLMC securities, and (iv) unlevered investments. In the second quarter of 2008, Newcastle changed the structure of its internal organization such that the basis of the composition of its reportable segments changed from investment type to financing type. Management believes this presentation better reflects the benefits and risks of the company's structure.

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

	CBOs	Other Non-Recourse (A)	Recourse (B)	Unlevered (C)	Unallocated	Total
June 30, 2008 and the Six Months then Ended						
Gross revenues	$ 157,600	$ 46,257	$ 27,957	$ 14,966	$ 1,132	$ 247,912
Operating expenses	(820)	(7,041)	(25)	(39)	(12,644)	(20,569)
Interest expense	(104,585)	(34,436)	(20,006)	(302)	(3,759)	(163,088)
Depreciation and amortization	—	—	—	—	(145)	(145)
Operating income (loss)	52,195	4,780	7,926	14,625	(15,416)	64,110
Other-than-temporary and loan impairment	(145,422)	(1,222)	(2,432)	(36,178)	—	(185,254)
Other income (loss) excluding impairment	3,037	(548)	(5,434)	8,443	(587)	4,911
Income (loss) from continuing operations	(90,190)	3,010	60	(13,110)	(16,003)	(116,233)
Income (loss) from discontinued operations	—	—	—	(8,951)	—	(8,951)
Net income (loss)	(90,190)	3,010	60	(22,061)	(16,003)	(125,184)
Preferred dividends	—	—	—	—	(6,751)	(6,751)
Income (loss) applicable to common stockholders	$ (90,190)	$ 3,010	$ 60	$ (22,061)	$ (22,754)	$ (131,935)
Three Months Ended June 30, 2008						
Gross revenues	$ 73,401	$ 22,002	$ 11,547	$ 7,472	$ 596	$ 115,018
Operating expenses	(408)	(3,235)	(6)	(39)	(6,457)	(10,145)
Interest expense	(47,492)	(16,540)	(7,614)	(187)	(1,880)	(73,713)
Depreciation and amortization	—	—	—	—	(73)	(73)
Operating income (loss)	25,501	2,227	3,927	7,246	(7,814)	31,087
Other-than-temporary and loan impairment	(84,545)	—	—	(34,011)	—	(118,556)
Other income (loss) excluding impairment	821	(548)	440	7,736	3	8,452
Income (loss) from continuing operations	(58,223)	1,679	4,367	(19,029)	(7,811)	(79,017)
Income (loss) from discontinued operations	—	—	—	(5,263)	—	(5,263)
Net income (loss)	(58,223)	1,679	4,367	(24,292)	(7,811)	(84,280)
Preferred dividends	—	—	—	—	(3,376)	(3,376)
Income (loss) applicable to common stockholders	$ (58,223)	$ 1,679	$ 4,367	$ (24,292)	$ (11,187)	$ (87,656)
June 30, 2008						
GAAP						
Assets, carrying value	$ 4,103,169	$ 889,815	$ 803,358	$ 235,249	$ 184,716	$ 6,216,307
Liabilities, carrying value (D)	4,452,588	863,256	674,695	2,469	127,556	6,120,564
Preferred stock					152,500	152,500
GAAP book value	$ (349,419)	$ 26,559	$ 128,663	$ 232,780	$ (95,340)	$ (56,757)
GAAP book value per share						$ (1.08)
Fair Value						
Assets, fair value (E)	$ 3,961,953	$ 825,425	$ 773,855	$ 224,311	$ 184,716	$ 5,970,260
Liabilities, fair value	$ 3,149,305	$ 832,189	$ 674,695	$ 2,469	$ 102,977	$ 4,761,635
Preferred stock					152,500	152,500
Adjusted book value	$ 812,648	$ (6,764)	$ 99,160	$ 221,842	$ (70,761)	$ 1,056,125
Adjusted book value per share (F)						$ 20.01

(A) Includes all of the manufactured housing loan financing (Note 5) of which $91.4 million (carrying value) is recourse.
(B) Includes FNMA/FHLMC securities as shown in Note 5.
(C) Includes real estate held for sale.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2008
(dollars in tables in thousands, except share data)

(D) Carrying values of recourse and nonrecourse debt at June 30, 2008 are as follows:

	CBOs	Other Non-Recourse (A)	Recourse (B)	Unlevered (C)	Unallocated	Total
Nonrecourse	$ 4,368,784	$ 751,463	$ —	$ —	$ —	$ 5,120,247
Recourse	$ —	$ 91,431	$ 657,690	$ —	$ 100,100	$ 849,221

(E) Only financial instruments are reflected at fair value, other assets are reflected at their carrying value.
(F) Represents GAAP book value as if Newcastle had elected to measure all of its financial assets and liabilities at fair value under SFAS 159.

	CBOs	Other Non-Recourse (A)	Recourse (B)	Unlevered (C)	Unallocated	Total
December 31, 2007						
Total assets	$ 4,968,184	$ 995,594	$ 1,750,643	$ 265,026	$ 58,323	$ 8,037,770
Six Months Ended June 30, 2007						
Gross revenues	$ 190,681	$ 51,911	$ 94,229	$ 16,958	$ 301	$ 354,080
Operating expenses	(979)	(8,199)	(1,644)	(5)	(17,367)	(28,194)
Interest expense	(141,042)	(38,436)	(64,282)	(815)	(6,074)	(250,649)
Depreciation and amortization	—	—	—	—	(144)	(144)
Operating income (loss)	48,660	5,276	28,303	16,138	(23,284)	75,093
Other income (loss)	(2,894)	522	(1,244)	1,944	4	(1,668)
Income (loss) from continuing operations	45,766	5,798	27,059	18,082	(23,280)	73,425
Income (loss) from discontinued operations	—	—	—	(121)	—	(121)
Net income (loss)	45,766	5,798	27,059	17,961	(23,280)	73,304
Preferred dividends	—	—	—	—	(5,890)	(5,890)
Income (loss) applicable to common stockholders	$ 45,766	$ 5,798	$ 27,059	$ 17,961	$ (29,170)	$ 67,414
Three Months Ended June 30, 2007						
Gross revenues	$ 98,795	$ 25,313	$ 58,324	$ 9,211	$ 221	$ 191,864
Operating expenses	(538)	(4,727)	(1,510)	(3)	(8,510)	(15,288)
Interest expense	(72,982)	(18,989)	(39,220)	(304)	(2,403)	(133,898)
Depreciation and amortization	—	—	—	—	(71)	(71)
Operating income (loss)	25,275	1,597	17,594	8,904	(10,763)	42,607
Other income (loss)	(5,530)	472	(1,348)	959	3	(5,444)
Income (loss) from continuing operations	19,745	2,069	16,246	9,863	(10,760)	37,163
Income (loss) from discontinued operations	—	—	—	(50)	—	(50)
Net income (loss)	19,745	2,069	16,246	9,813	(10,760)	37,113
Preferred dividends	—	—	—	—	(3,375)	(3,375)
Income (loss) applicable to common stockholders	$ 19,745	$ 2,069	$ 16,246	$ 9,813	$ (14,135)	$ 33,738

(A) Includes all of the manufactured housing loan financing (Note 5) of which $98.3 million (carrying value) is recourse.
(B) Includes FNMA/FHLMC securities as shown in Note 5.
(C) Includes real estate held for sale.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2008
(dollars in tables in thousands, except share data)

At June 30, 2008 and December 31, 2007, Newcastle had $14.0 million and $21.4 million, respectively, of long-lived assets in Canada. In connection with such assets, Newcastle recognized revenue of $1.8 million and $1.5 million for the six months ended June 30, 2008 and 2007, respectively.

Newcastle has committed to a plan, and is actively working, to sell all of its operating real estate. As a result, all of the real estate has been classified as held for sale at June 30, 2008 and marked to the lower of cost or market, resulting in a recorded loss of $9.1 million for the six months ended June 30, 2008. All of the related operations, including this loss, have been classified as discontinued operations for all periods presented. In July 2008, Newcastle closed on the sales of two real estate properties and received net proceeds of approximately $11.5 million.

Gain (Loss) on Sale of Investments, Net and Other Income (Loss), Net

These items are comprised of the following:

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Gain (loss) on sale of investments, net		
Gain on sale of real estate securities	$ 6,459	$15,502
Loss on sale of real estate securities	(979)	(6,390)
Gain on disposition of loans held for sale	1,434	—
Realized gain (loss) on termination of derivative instruments	(425)	77
	$ 6,489	$ 9,189
Other income (loss), net		
Realized (loss) on total rate of return swaps	$ (7,145)	$ —
Unrealized (loss) on total rate of return swaps	(3,624)	(113)
Gain (loss) on non-hedge derivative instruments	(8,405)	5,887
Unrealized (loss) recognized at de-designation of hedges	(990)	—
Hedge ineffectiveness	213	488
Other income	2,070	202
	$(17,881)	$ 6,464

Unconsolidated Subsidiaries

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

	Operating Real Estate	Real Estate Loan
Balance at December 31, 2007	$ 13,391	$ 10,984
Contributions to unconsolidated subsidiaries	—	—
Distributions from unconsolidated subsidiaries	(20,307)	(10,053)
Equity in earnings of unconsolidated subsidiaries	6,916	850
Balance at June 30, 2008	$ —	$ 1,781

In April 2008, Newcastle closed on the sale of our interests in the operating real estate joint venture and received net proceeds of $19.8 million. As a result, Newcastle recorded a gain of approximately $6.2 million.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2008
(dollars in tables in thousands, except share data)

3. REAL ESTATE SECURITIES

The following is a summary of Newcastle's real estate securities at June 30, 2008, all of which are classified as available for sale and are therefore reported at fair value with changes in fair value recorded in other comprehensive income, except for securities that are other-than-temporarily impaired.

		Amortized Cost Basis			Gross Unrealized					Weighted Average		
Asset Type	Outstanding Face Amount	Before Impairment	Other-Than-Temporary Impairment (A)	After Impairment	Gains	Losses	Carrying Value	Number of Securities	S&P Equivalent Rating	Coupon	Yield	Maturity (Years)
CMBS-Conduit	$1,371,182	$1,314,336	$ (1,893)	$1,312,443	$ 10	$(393,138)	$ 919,315	171	BBB	5.67%	6.33%	6.8
CMBS- Single Borrower	781,362	769,052	—	769,052	2,273	(89,084)	682,241	72	BB+	5.77%	6.10%	3.7
CMBS-Large Loan	95,159	95,147	—	95,147	—	(17,494)	77,653	13	BB+	4.23%	4.26%	1.9
CMBS- CDO	16,000	14,730	(14,730)	—	—	—	—	1	CC	10.14%	0.00%	—
REIT Debt	652,516	663,071	—	663,071	109	(55,526)	607,654	65	BBB	6.24%	5.78%	5.2
ABS-Subprime	578,928	546,124	(244,411)	301,713	4,817	(38,884)	267,646	124	BB-	4.10%	10.43%	5.6
ABS-Manufactured Housing	61,723	59,982	—	59,982	—	(6,342)	53,640	9	BBB-	6.68%	7.44%	4.8
ABS-Franchise	41,316	41,452	—	41,452	—	(15,566)	25,886	17	BBB	5.72%	5.74%	4.4
FNMA/FHLMC (B)	409,190	414,517	—	414,517	6,571	—	421,088	15	AAA	5.65%	5.61%	3.8
Subtotal/Average (C)	4,007,376	3,918,411	(261,034)	3,657,377	13,780	(616,034)	3,055,123	487	BBB	5.55%	6.40%	5.2
Retained Securities (D)	80,380	73,591	(22,686)	50,905	1,119	(4,271)	47,753	7	B+	4.58%	14.60%	12.2
Residual Interests (D)	13,275	60,200	(46,925)	13,275	—	—	13,275	2	NR	0.00%	20.00%	2.8
Total/Average	$4,101,031	$4,052,202	$ (330,645)	$3,721,557	$14,899	$(620,305)	$ 3,116,151	496	BBB-	5.52%	6.56%	5.4

(A) Represents the cumulative impairment against amortized cost basis recorded through earnings.
(B) FNMA/FHLMC securities have an implied AAA rating. Amortized cost basis and carrying value include principal receivable of $4.0 million.
(C) The total outstanding face amount of fixed rate securities was $3.0 billion, and of floating rate securities was $1.1 billion.
(D) Represents the retained bonds and equity from Subprime Portfolios I and II. The residuals do not have stated coupons and therefore their coupons have been treated as zero for purposes of the table.

Unrealized losses that are considered other-than-temporary are recognized currently in income. During the six months ended June 30, 2008, Newcastle recorded other-than-temporary impairment charges of $148.2 million, relating to securities with an aggregate post impairment amortized cost basis of $195.3 million at June 30, 2008. Management closely monitors market valuations and, based on the results of recent events, has concluded that these securities are other-than-temporarily impaired under GAAP. The remaining unrealized losses on Newcastle's securities are primarily the result of changes in market factors, rather than issuer-specific credit impairment, 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. Such market factors include changes in market interest rates and credit spreads, or certain macroeconomic events, including market disruptions and supply changes, which do not directly impact our ability to collect amounts contractually due. Management continually evaluates the credit status of each of Newcastle's securities and the collateral supporting those securities. This evaluation includes a review of the credit of the issuer of the security (if applicable), the credit rating of the security, the key terms of the security (including credit support), debt service coverage and loan to value ratios, the performance of the pool of underlying loans and the estimated value of the collateral supporting such loans, including the effect of local, industry and broader economic trends and factors. These factors include loan default expectations and loss severities, which are analyzed in connection with a particular security's credit support, as well as prepayment rates. The result of this evaluation is considered in relation to the amount of the unrealized loss and the period elapsed since it was incurred. Significant judgment is required in this analysis.

		Amortized Cost Basis		Gross Unrealized					Weighted Average		
Securities in an Unrealized Loss Position	Outstanding Face Amount	Before Impairment	Other-Than-Temporary Impairment	Gains	Losses	Carrying Value	Number of Securities	S&P Equivalent Rating	Coupon	Yield	Maturity (Years)
Less Than Twelve Months	$ 455,833	$ 429,157	$ —	$—	$ (39,876)	$ 384,281	62	BBB+	5.91%	7.06%	4.8
Twelve or More Months	2,632,852	2,589,166	—	—	(580,429)	2,008,737	304	BBB-	5.58%	5.81%	5.4
Total	$3,088,685	$3,018,323	$ —	$—	$(620,305)	$ 2,393,018	366	BBB	5.63%	5.99%	5.3

(dollars in tables in thousands, except share data)

4. REAL ESTATE RELATED LOANS, RESIDENTIAL MORTGAGE LOANS AND SUBPRIME MORTGAGE LOANS

The following is a summary of real estate related loans, residential mortgage loans and subprime mortgage loans at June 30, 2008. The loans contain various terms, including fixed and floating rates, self-amortizing and interest only. They are generally subject to prepayment.

Loan Type	Outstanding Face Amount	Carrying Value	Loan Count	Wtd. Avg. Yield	Weighted Average Maturity (Years) (A)	Floating Rate Loans as a % of Face Amount	Delinquent Face Amount (B)
Mezzanine Loans	$ 766,733	$ 763,192	22	6.46%	3.5	87.2%	$ —
Corporate Bank Loans	540,794	515,004	16	6.98%	3.5	100.0%	—
B-Notes	420,140	392,627	15	5.83%	3.1	86.0%	—
Whole Loans	80,755	80,671	3	4.41%	2.8	100.0%	—
ICH Loans	11,229	10,446	5	7.64%	8.1	0.0%	—
Total Real Estate Related Loans	$1,819,651	$1,761,940	61	6.38%	3.4	90.8%	$ —
Residential Loans	$ 92,740	$ 93,139	292	3.85%	3.6	100.0%	$ 7,394
Manufactured Housing Loans	503,802	492,016	14,668	8.51%	6.0	10.8%	3,611
Total Residential Mortgage Loans (C)	$ 596,542	$ 585,155	14,960	7.76%	5.6	24.7%	$ 11,005
Subprime Mortgage Loans Subject to Call Option	$ 406,217	$ 395,906					

(A) The weighted average maturities were calculated based on constant prepayment rates (CPR) of 20% and 30% for the residential loan pools, and 8% and 9% for the manufactured housing loan pools.

(B) This face amount of loans is 60 or more days past due, in foreclosure or real estate owned. The face amount of non-accrual loans was $39.7 million at June 30, 2008.

(C) Carrying value includes interest receivable of $0.4 million for the residential housing loans and principal and interest receivable of $12.4 million for the manufactured housing loans.

The following is a reconciliation of the related loss allowance.

	Real Estate Related Loans	Residential Mortgage Loans
Balance at December 31, 2007	$ (600)	$ (6,917)
Provision for credit losses	(200)	(4,173)
Provision for impaired loans	(35,863)	(1,222)
Realized losses	—	2,920
Balance at June 30, 2008	$ (36,663)	$ (9,392)

As of June 30, 2008, Newcastle held an aggregate of $124.0 million notional amount of total rate of return swaps (including an unfunded asset with a notional amount of $19.1 million) on 5 reference assets on which it had deposited $36.2 million of margin. These total rate of return swaps had an aggregate fair value of approximately ($5.3) million, a weighted average receive interest rate of LIBOR + 2.9%, a weighted average pay interest rate of LIBOR + 0.93%, and a weighted average swap maturity of 0.3 years.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2008
(dollars in tables in thousands, except share data)

The following table presents information on the retained interests in Newcastle's securitizations of subprime mortgage loans and the sensitivity of their fair value to maturity date for immediate 10% and 20% adverse changes in the assumptions utilized in calculating such fair value, at June 30, 2008:

	Subprime Portfolio	
	I	II
Total securitized loans (unpaid principal balance)	$797,756	$975,641
Average loan seasoning (months)	34	17
Loans subject to call option (carrying value)	$293,025	$102,881
Retained interests (fair value) (A)	$ 31,257	$ 29,770
Weighted average life (years) of residual interest	2.7	2.8
Weighted average expected credit losses (B)	11.2%	16.3%
Effect on fair value of retained interests of 10% adverse change	$ (6,460)	$ (3,755)
Effect on fair value of retained interests of 20% adverse change	$ (15,809)	$ (6,875)
Weighted average constant prepayment rate (C)	16.9%	13.3%
Effect on fair value of retained interests of 10% adverse change	$ (1,982)	$ (1,895)
Effect on fair value of retained interests of 20% adverse change	$ (4,053)	$ (3,777)
Weighted average discount rate	13.0%	13.4%
Effect on fair value of retained interests of 10% adverse change	$ (1,477)	$ (2,019)
Effect on fair value of retained interests of 20% adverse change	$ (2,798)	$ (3,776)

(A) The retained interests include residual interests and retained bonds of the securitizations. Their fair value is estimated based on pricing models.
(B) Represents the percentage of losses on the original principal balance of the loans at the time of the respective securitizations (April 2006 and July 2007) to the maturity of the loans.
(C) Represents the weighted average voluntary prepayment rate for the loans from the time of the respective securitizations (April 2006 and July 2007) to the maturity of such loans.

The sensitivity analysis is hypothetical and should be used with caution. In particular, the results are calculated by stressing a particular economic assumption independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might counteract or amplify the sensitivities. Also, changes in the fair value based on a 10% or 20% variation in an assumption generally may not be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear.

The following table summarizes certain characteristics of the underlying subprime mortgage loans in the securitizations as of June 30, 2008:

	Subprime Portfolio	
	I	II
Loan unpaid principal balance (UPB)	$797,756	$975,641
Delinquencies of 60 or more days (UPB)	$153,802	$118,007
Net credit losses for the six months ended June 30, 2008	$ 14,013	$ 3,052
Cumulative net credit losses	$ 17,584	$ 3,052
Cumulative net credit losses as a % of original UPB	1.17%	0.28%
Percentage of ARM loans (A)	60.1%	69.2%
Percentage of loans with loan-to-value ratio >90%	10.5%	17.6%
Percentageof interest-only loans	28.5%	4.5%

(A) ARM loans are adjustable-rate mortgage loans. An option ARM is an adjustable-rate mortgage that provides the borrower with an option to choose from several payment amounts each month for a specified period of the loan term. None of the loans in the subprime portfolios are an option ARM.

Delinquencies include loans 60 or more days past due, in foreclosure or real estate owned. Newcastle received net cash inflows of $5.0 million and $10.0 million from the retained interests of Subprime Portfolios I and II, respectively, during the six months ended June 30, 2008.

The weighted average yields of the retained notes of Subprime Portfolios I and II were 11.7% and 15.0%, respectively, as of June 30, 2008. The loans subject to call option and the corresponding financing recognize interest income and expense based on the expected weighted average coupons of the loans subject to call option at the call date of 9.24% and 8.68%, for Subprime Portfolios I and II, respectively.

(dollars in tables in thousands, except share data)

Table of Contents

5. DEBT OBLIGATIONS

The following table presents certain information regarding Newcastle's debt obligations and related hedges at June 30, 2008:

Debt Obligation/Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Unhedged Weighted Average Funding Cost (A)	Final Stated Maturity	Weighted Average Funding Cost (B)	Weighted Average Maturity (Years)	Face Amount of Floating Rate Debt	Collateral Amortized Cost Basis (C)	Collateral Carrying Value (D)	Collateral Weighted Average Maturity (Years)	Face Amount of Floating Rate Collateral (C)	Aggregate Notional Amount of Current Hedges
CBO Bonds Payable													
Portfolio V	Mar 2004	$ 411,085	$ 408,890	3.54%	Mar 2039	4.09%	4.1	$ 382,750	$ 438,842	$ 366,378	4.5	$ 191,121	$ 177,300
Portfolio VI	Sep 2004	454,500	451,912	3.40%	Sep 2039	4.17%	4.7	442,500	486,467	391,478	4.9	224,422	208,836
Portfolio VII	Apr 2005	447,000	443,660	2.97%	Apr 2040	4.26%	5.7	439,600	453,233	364,918	5.9	191,417	242,429
Portfolio VIII	Dec 2005	426,800	423,596	2.98%	Dec 2050	5.00%	7.0	420,800	456,724	339,676	7.6	133,081	341,506
Portfolio IX	Nov 2006	807,500	806,687	3.14%	Nov 2052	3.65%	5.6	799,900	789,373	733,259	4.7	577,646	161,655
Portfolio X	May 2007	585,750	586,894	3.07%	May 2052	3.46%	5.3	585,750	777,877	770,773	3.6	598,990	91,979
Portfolio XI	Jul 2007	1,247,750	1,247,145	2.60%	Jul 2052	4.93%	6.6	1,247,750	1,250,849	1,074,821	5.2	311,076	980,974
		4,380,385	4,368,784			4.28%	5.7	4,319,050	4,653,365	4,041,303	5.1	2,227,753	2,204,679
Other Bonds Payable													
Manufactured housing loans	Jan 2006	173,593	173,237	LIBOR+1.25%	Jan 2009	6.08%	0.5	173,593	192,293	192,293	6.5	3,109	175,050
Manufactured housing loans	Aug 2006	275,257	273,751	LIBOR+1.25%	Aug 2011	7.07%	2.5	275,257	299,722	299,722	5.6	51,442	244,043
		448,850	446,988			6.69%	1.7	448,850	492,015	492,015	6.0	54,551	419,093
Repurchase Agreements (E)													
Real estate related loans	Rolling	240,945	240,945	LIBOR+1.03%	Various (G)	3.49%	0.6	240,945	331,877	331,877	2.6	332,033	—
Other real estate securities (F)	Rolling	19,220	19,220	LIBOR+2.50%	Apr 2009	6.71%	0.8	19,220	—	—	—	—	—
		260,165	260,165			3.73%	0.6	260,165	331,877	331,877	2.6	332,033	—
FNMA/FHLMC securities	Rolling	397,525	397,525	LIBOR+0.05%	Jul 2008 (H)	4.61%	0.2	397,525	414,516	421,088	3.8	—	301,952
		657,690	657,690			4.26%	0.4	657,690	746,393	752,965	3.2	332,033	301,952
Corporate													
Junior subordinated notes payable	Mar 2006	100,100	100,100	7.57%(I)	Apr 2036	7.71%	27.8	—	—	—	—	—	—
		100,100	100,100			7.71%	27.8	—	—	—	—	—	—
Subtotal debt obligations		5,587,025	5,573,562			4.53%	5.2	$5,425,590	$5,891,773	$5,286,283	4.9	$2,614,337	$2,925,724
Financing on subprime mortgage loans subject to call option (J)	(J)	406,217	395,906										
Total debt obligations		$ 5,993,242	$5,969,468										

(A) Weighted average, including floating and fixed rate classes and excluding the amortization of deferred financing costs.
(B) Including the effect of applicable hedges.
(C) Including restricted cash held in CBOs.
(D) Collateral carrying value represents the aggregate of fair value for real estate securities and amortized cost basis for loans in accordance to GAAP, and restricted cash held in CBOs.
(E) Subject to potential mandatory prepayments based on collateral value. The counterparties on these repurchase agreements include: JP Morgan Chase ($226.4 million), Goldman Sachs ($234.5 million), Deutsche Bank ($99.6 million), Credit Suisse ($57.1 million) and Citigroup ($40.1 million).
(F) Debt carrying value exceeds collateral amortized cost basis as these repurchase agreements are secured by investments in Newcastle's CBO bonds, which are eliminated in consolidation.
(G) The longest maturity is June 2009.
(H) These repurchase agreements were rolled in July 2008 with one-month and three-month maturities.
(I) LIBOR + 2.25% after April 2016.
(J) Issued in April 2006 and July 2007. See Note 4 regarding the securitizations of Subprime Portfolios I and II.

(dollars in tables in thousands, except share data)

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Newcastle's non-cash financial instruments fall into four major categories:

- real estate securities, which are marked to market through other comprehensive income,
- derivatives, which are generally marked to market through other comprehensive income (or through income if they are not effective hedges),
- real estate related and residential mortgage loans, which are generally not marked to market, but for which fair value is disclosed, and
- debt obligations, which are generally not marked to market, but for which fair value is disclosed.

Newcastle held the following financial instruments at June 30, 2008:

	Principal Balance or Notional Amount	Carrying Value	Fair Value	Fair Value Method (A)	Weighted Average Yield/Funding Cost	Weighted Average Maturity (Years)
Assets:						
Real estate securities, available for sale*	$4,101,031	$ 3,116,151	$3,116,151	Broker quotations, counterparty quotations, pricing models	6.56%	5.4
Real estate related loans	1,819,651	1,761,940	1,590,112	Broker quotations, counterparty quotations, pricing models	6.38%	3.4
Residential mortgage loans	596,542	585,155	510,936	Pricing models	7.76%	5.6
Subprime mortgage loans subject to call option (B)	406,217	395,906	395,906	(B)	9.09%	(B)
Interest rate swaps, treated as hedges (C)*	181,549	1,647	1,647	Counterparty quotations	N/A	(C)
Liabilities:						
CBO bonds payable	4,380,385	4,368,784	3,065,501	Counterparty quotations, pricing models	4.28%	5.7
Other bonds payable	448,850	446,988	415,921	Pricing models	6.69%	1.7
Repurchase agreements	657,690	657,690	657,690	Market comparables, pricing models	4.26%	0.4
Financing of subprime mortgage loans subject to call option (B)	406,217	395,906	395,906	(B)	9.09%	(B)
Junior subordinated notes payable	100,100	100,100	75,521	Pricing models	7.71%	27.8
Interest rate swaps, treated as hedges (C)*	2,744,175	107,839	107,839	Counterparty quotations	N/A	(C)
Total rate of return swaps (D)*	124,002	5,255	5,255	Broker quotations, counterparty quotations	N/A	(D)
Non-hedge derivatives (E)*	199,234	1,488	1,488	Counterparty quotations	N/A	(E)

* Measured at fair value on a recurring basis.

(A) Based on order of priority. In the case of real estate securities and real estate related loans, broker quotations are obtained if available and practicable, otherwise counterparty quotations are obtained or, finally, internal pricing models are used. Internal pricing models are only used for (i) securities and loans which are not traded in an active market, and therefore have little or no price transparency, and for which significant unobservable inputs must be used in estimating fair value, or (ii) loans or debt obligations which are private and untraded.

(B) These two items results from an option, not an obligation, to repurchase loans from Newcastle's subprime mortgage loan securitizations (Note 4), are noneconomic until such option is exercised, and are equal and offsetting.

NEWCASTLE INVESTMENT CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2008
(dollars in tables in thousands, except share data)

(C) Represents current swap agreements as follows:

Year of Maturity	Weighted Average Maturity	Aggregate Notional Amount	Weighted Average Fixed Pay Rate	Aggregate Fair Value
Agreements which receive 1-Month LIBOR:				
2010	Dec 2010	$ 35,565	4.711%	$ 854
2011	Sep 2011	291,944	5.204%	10,261
2012	Apr 2012	66,422	5.224%	2,371
2014	Oct 2014	17,451	5.098%	699
2015	Oct 2015	1,354,924	5.252%	59,728
2016	Apr 2016	599,248	5.124%	23,085
2017	Aug 2017	174,034	5.235%	8,964
Agreements which receive 3-Month LIBOR:				
2011	Feb 2011	32,000	5.078%	1,249
2014	Jun 2014	354,136	4.196%	(1,019)
		$ 2,925,724		$ 106,192

A positive fair value is recorded as a liability. Newcastle has recorded $1.6 million of gross interest rate swap assets and $109.3 million of gross interest rate swap liabilities.

(D) Represents total rate of return swaps which are treated as non-hedge derivatives. See Note 4 for a further discussion of these swaps. A positive fair value represents a liability; therefore, Newcastle has a net total rate of return swap liability.

(E) These include an interest rate swap with a notional balance of $30.6 million treated as a non-hedge derivative and two interest rate caps with notional balances of $151.1 million and $17.5 million, respectively. The maturity dates of the $30.6 million interest rate swap, the $151.1 million cap and the $17.5 million cap are June 2016, March 2009 and July 2009, respectively. The interest rate swap was recorded as a liability of $1.5 million and the caps had zero fair value at June 30, 2008.

Pursuant to SFAS 157, the methodologies used for valuing such instruments have been categorized into three broad levels as follows:

Level 1—Quoted prices in active markets for identical instruments.

Level 2—Valuations based principally on other observable market parameters, including

- Quoted prices in active markets for similar instruments,
- Quoted prices in less active or inactive markets for identical or similar instruments,
- Other observable inputs (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates), and
- Market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3—Valuations based significantly on unobservable inputs.

- Level 3A—Valuations based on third party indications (broker quotes or counterparty quotes) which were, in turn, based significantly on unobservable inputs or were otherwise not supportable as Level 2 valuations.
- Level 3B—Valuations based on internal models with significant unobservable inputs.

Pursuant to SFAS 157, these levels form a hierarchy. Newcastle follows this hierarchy for its financial instruments measured at fair value on a recurring basis. The classifications are based on the lowest level of input that is significant to the fair value measurement.

The following table summarizes such financial assets and liabilities at June 30, 2008:

	Principal Balance or Notional	Carrying Value	Fair Value			
			Level 2	Level 3A	Level 3B	Total
Assets:						
Real estate securities, available for sale	$ 4,101,031	$ 3,116,151	$ 2,848,798	$ 41,203	$ 226,150	$ 3,116,151
Interest rate swaps, treated as hedges	181,549	1,647	1,647	—	—	1,647
Liabilites:						
Interest rate swaps, treated as hedges	2,744,175	107,839	107,839	—	—	107,839
Total rate of return swaps	124,002	5,255	5,255	—	—	5,255
Non-hedge derivatives	199,234	1,488	1,488	—	—	1,488

(dollars in tables in thousands, except share data)

Newcastle's investments in instruments measured at fair value using Level 3 inputs changed during the six months ended June 30, 2008 as follows:

	Level 3A	Level 3B	Total
Assets			
Balance at January 1, 2008	$130,968	$ 177,518	$ 308,486
Total gains (losses) (A)			
Included in net income (loss) (B)	(3,571)	(42,801)	(46,372)
Included in other comprehensive income	(19,622)	27,854	8,232
Amortization included in interest income	68	6,657	6,725
Settlements or repayments	(2,312)	(20,087)	(22,399)
Transfers in (out) of Level 3	(25,427)	12,414	(13,013)
Balance at March 31, 2008	80,104	161,555	241,659
Total gains (losses) (A)			
Included in net income (loss) (B)	(215)	(101,619)	(101,834)
Included in other comprehensive income	(2,072)	97,015	94,943
Amortization included in interest income	115	6,127	6,242
Settlements or repayments	(1,797)	(18,983)	(20,780)
Transfers in (out) of Level 3	(34,932)	82,055	47,123
Balance at June 30, 2008	$ 41,203	$ 226,150	$ 267,353

(A) None of the gains (losses) recorded in earnings during the periods is attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting dates.
(B) These gains (losses) are recorded in the following line items in the consolidated statement of operations:

	Assets	
	Three Months Ended June 30, 2008	Three Months Ended March 31, 2008
Gain (loss) on sale of investments, net	$ (37)	$ —
Other income (loss), net	—	—
Other-than-temporary impairment	(101,797)	(46,372)
Total	$ (101,834)	$ (46,372)

During the six months ended June 30, 2008, Newcastle recorded $35.9 million of impairment on three real estate loans (Note 4) with an aggregate post impairment amortized cost basis of $23.7 million. These loans were written down to fair value at the time of the impairment, based on internal pricing models (level 3B valuations).

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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Weighted average number of shares of common stock outstanding, basic	52,783,006	52,273,988	52,781,662	49,936,428
Dilutive effect of stock options, based on the treasury stock method	—	193,031	—	221,657
Weighted average number of shares of common stock outstanding, diluted	52,783,006	52,467,019	52,781,662	50,158,085

As of June 30, 2008, Newcastle's outstanding options were summarized as follows:

Held by the Manager	1,549,340
Issued to the Manager and subsequently transferred to certain of the Manager's employees	935,269
Held by the independent directors	14,000
Total	2,498,609

8. RECENT ACTIVITIES

In January 2008, Newcastle repurchased $16.0 million face amount of a class of Portfolio V's CBO bond for $6.7 million. As a result, Newcastle extinguished $16.0 million face amount of CBO debt and recorded a gain on extinguishment of debt of $9.2 million.

In February 2008, Newcastle repaid in full the debt associated with its first CBO in the amount of $331.2 million.

In February 2008, Newcastle terminated its credit facility. At the date of termination, no amounts were outstanding under the credit facility (and Newcastle did not incur any material costs related to the termination); at that time, previously incurred and deferred financing costs of $0.6 million were written off through gain (loss) on extinguishment of debt in the statement of operations.

In March 2008, Newcastle repurchased $2.9 million face amount of a class of Portfolio VIII's CBO bond for $0.6 million. As a result, Newcastle extinguished $2.9 million face amount of CBO debt and recorded a gain on extinguishment of debt of $2.3 million.

In the first quarter of 2008, Newcastle sold face amounts of approximately $762.5 million of FNMA/FHLMC securities and $525.2 million of non-FNMA/FHLMC securities. Concurrent with the sales, Newcastle terminated the related interest rate swap and interest rate cap agreements, which were de-designated as hedges for accounting purposes at December 31, 2007. As a result, a portion of the gain on sale from these assets was offset by the loss on the termination of the derivatives. In connection with the investments sold in the first quarter, Newcastle recognized a net mark-to-market loss of $17.2 million in December 2007.

In the first quarter of 2008, Newcastle repaid $924.0 million of repurchase agreements.

In April 2008, Newcastle closed on a sale of its interest in the operating real estate joint venture and received net proceeds of approximately $19.9 million, resulting in a gain of approximately $6.2 million.

In April 2008, a $400 million term financing agreement was not extended. At such time, $99.6 million was drawn and the final maturity of such amount is April 2009.

In April 2008, a $400 million term financing agreement was not extended. At such time, $40.0 million was drawn and the final maturity of such amount is May 2010.

In July 2008, Newcastle closed on the sales of two real estate properties and received net proceeds of approximately $11.5 million. No additional gain (loss) is expected to be recorded in the third quarter of 2008 relating to these sales.

In July 2008, Newcastle repurchased $5.0 million face amount of a class of Portfolio VIII's CBO bond for $0.6 million. As a result, Newcastle extinguished $5.0 million face amount of CBO debt and will record a gain on extinguishment of debt of $4.4 million in the third quarter of 2008.

In March 2008, Newcastle's board of directors approved expanding the previously approved share repurchase to allow a potential repurchase of up to $125 million of Newcastle's common stock or preferred stock. As of August 8, 2008, no shares have been repurchased.

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. In addition, we consider other opportunistic investments which capitalize on our manager's expertise and which we believe present attractive risk/return profiles and are consistent with our investment guidelines. 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, when appropriate and available, 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 portfolio management, asset quality, diversification, match funded financing and credit risk management.

We currently own a diversified portfolio of 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 FNMA/FHLMC securities. 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 FNMA/FHLMC securities which have an implied AAA rating. We also own, directly and indirectly, interests in loans and pools of loans, including real estate related loans, commercial mortgage loans, residential mortgage loans, manufactured housing loans, and subprime mortgage loans.

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 a result of our negative GAAP equity, our GAAP debt to equity ratio is not a meaningful measure as of June 30, 2008.) Our general investment guidelines adopted by our board of directors limit total leverage (as defined under the governing documents) to a maximum 9.0 to 1 debt to equity ratio. As of June 30, 2008, our debt to equity ratio, as computed under this method, was approximately 5.0 to 1.

We strive to 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, term loans, and trust preferred securities, as well as short term financing in the form of repurchase agreements.

We seek to match fund our investments with respect to interest rates and maturities in order to minimize the impact of interest rate fluctuations on earnings and reduce the risk of refinancing our liabilities prior to the maturity of the investments. We seek to finance a substantial portion of our real estate securities and loans through the issuance of term debt, which generally represents obligations issued in multiple classes secured by an underlying portfolio of assets. Specifically, 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 conduct our business through four primary segments: (i) investments financed with non-recourse collateralized bond obligations ("CBOs"), (ii) investments financed with other non-recourse debt, (iii) investments financed with recourse debt, including FNMA / FHLMC securities, and (iv) unlevered investments. In the second quarter of 2008, Newcastle changed the structure of its internal organization such that the basis of the composition of its reportable segments changed from investment type to financing type. Revenues attributable to each segment are disclosed below (in thousands).

For the Six Months Ended June 30,	CBOs	Other Non-Recourse	Recourse	Unlevered	Unallocated	Total
2008	$ 157,600	$ 46,257	$ 27,957	$ 14,966	$ 1,132	$ 247,912
2007	$ 190,681	$ 51,911	$ 94,229	$ 16,958	$ 301	$ 354,080

Market Considerations

Our ability to maintain our dividends is dependent on our ability to invest our capital on a timely basis at attractive levels. The primary market factors that bear on this are credit spreads and the availability of financing on favorable terms.

Generally speaking, widening credit spreads reduce the unrealized gains on our current investments (or cause or increase unrealized losses) and increase our costs for new financings, but increase the yields available on potential new investments, while tightening credit spreads increase the unrealized gains (or reduce unrealized losses) on our current investments and reduce our costs for new financings, but reduce the yields available on potential new investments. By reducing unrealized gains (or causing unrealized losses), widening credit spreads also impact our ability to realize gains on existing investments if we were to sell such assets.

In the first six months of 2008, credit spreads widened substantially. This net widening of credit spreads caused the net unrealized losses on our securities and derivatives, recorded in accumulated other comprehensive income, to increase and therefore caused our book value per share to be negative at the end of the first and second quarters of 2008. One of the key drivers of the widening of credit spreads has been the continued disruption in the subprime mortgage lending sector. This disruption has spread rapidly, causing adverse conditions and liquidity concerns throughout the credit markets.

Widening credit spreads, while reducing our book value per share, also result in higher yields on new investment opportunities. However, we must have access to capital at attractive terms in order to take advantage of these investment opportunities. Currently, we are unable to take meaningful advantage of the increased yields available on investments due to a lack of available capital, and we may continue to experience the same restrictions throughout the rest of 2008 and likely into 2009. Non-recourse term financing not subject to margin requirements is generally not available, and we must maintain our current sources of capital in order to meet our working capital needs.

In addition, the recent credit and liquidity crisis has adversely affected the market in which we operate in a number of other ways. For example, it has reduced the market trading activity for many real estate securities, resulting in less liquid markets for those securities. As the securities held by us and many other companies in our industry are marked to market at the end of each quarter, the decreased liquidity and concern over market conditions have resulted in what we believe are relatively conservative mark-to-market valuations of many real estate securities. These lower valuations, and expectations of future cash flows, have affected us by, among other things, decreasing our net book value, contributing to our decision to record significant impairment charges during the last five consecutive fiscal quarters and requiring us to pay additional amounts under certain financing arrangements.

In order to increase our liquidity, we have elected to retain the majority of our investment proceeds (including those from recent asset sales) in lieu of using those proceeds to make new investments, and to reduce our dividend below the level of our operating income. This approach has increased our available cash while reducing the earnings from our investments. We may elect to adjust any future dividend payments to reflect our current and expected cash from operations.

We do not currently know the full extent to which this market disruption will affect us or the markets in which we operate, and we are unable to predict its length or ultimate severity. If the disruption continues, we will likely experience further tightening of liquidity, additional impairment charges and increased margin requirements, as well as additional challenges in raising capital and obtaining investment financing on attractive terms. Future cash flows and our liquidity may be materially impacted if conditions do not improve. Should the current conditions worsen, or persist for an extended period of time, our available capital could be reduced upon the expiration or termination of our capital resources.

As of the date of this Quarterly Report on Form 10-Q, based on our cash balances and committed financing, as well as proceeds from select asset sales, we believe we have sufficient liquidity to maintain our ongoing operations in the current market environment.

Certain aspects of these effects are more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Interest Rate, Credit and Spread Risk” as well as in “Quantitative and Qualitative Disclosures About Market Risk.”

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. Management believes that the estimates and assumptions utilized in the preparation of the consolidated financial statements are prudent and reasonable. Actual results have been in line with management's estimates and judgments used in applying each of the accounting policies described below. 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.

We will continue to analyze future 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. Certain securities are not traded in an active market and therefore have little or no price transparency. For a further discussion on this trend, see "–Market Considerations" above. In the instances where we have securities on which we expect adverse cash flow changes either from principal loss or delayed receipt of cash flows, we have estimated the fair value of these securities based on internal pricing models rather than quotations.

With respect to securities valued using pricing models, as of June 30, 2008, approximately $226.4 million amortized cost basis of securities post impairment (or 6.1 % of our total securities portfolio) was valued at $226.2 million. Based on our estimated loss and other assumptions, we expect to receive approximately $273.5 million of principal (excluding cash flows on residual interests) from these securities over time (which includes zero principal expected from 32 of our subprime securities from various vintages). The difference between estimated fair value and expected principal receipts represents unrealized losses which are not expected to be permanent, offset by the present value of expected interest receipts. With respect to these securities, $143.9 million of loss was recorded to the statement of operations as other-than-temporary impairment during the six months ended June 30, 2008 and $0.3 million of unrealized loss was recorded within accumulated other comprehensive income at June 30, 2008.

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. For securities valued using quotations, a 100 basis point change in credit spreads could impact the fair value by approximately $102.0 million. For securities valued using pricing models, the inputs include the discount rate, assumptions relating to prepayments, default rates and loss severities, as well as other variables. We validated the inputs and outputs of our models by comparing them to available independent third party market parameters and models for reasonableness. A 10% increase in the default rate assumption would result in a $29.3 million decrease in the estimated fair value of our securities valued with models.

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, or if we do not have the ability and intent to hold a security in an unrealized loss position until its anticipated recovery (if any). 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. We continually evaluate the credit status of each of our securities and the collateral supporting our securities. This evaluation includes a review of the credit of the issuer of the security (if applicable), the credit rating of the security, the key terms of the security (including credit support), debt service coverage and loan to value ratios, the performance of the pool of underlying loans and the estimated value of the collateral supporting such loans, including the effect of local, industry and broader economic trends and factors. These factors include loan default expectations and loss severities, which are analyzed in connection with a particular security's credit support, as well as prepayment rates. The result of this evaluation is considered in relation to the amount of the unrealized loss and the period elapsed since it was incurred. Significant judgment is required in this analysis.

Revenue Recognition on Securities

Income on these securities is recognized using a level yield methodology based upon a number of cash flow assumptions that are subject to uncertainties and contingencies. Such assumptions include the rate and timing of principal and interest receipts (which may be subject to prepayments and defaults). These assumptions are updated on at least a quarterly basis to reflect changes related to a particular security, actual historical data, and market changes. 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 losses, the net income recognized is based on a "loss adjusted yield" whereby a gross interest yield is recorded to Interest Income, offset by a provision for probable, incurred credit losses which is accrued on a periodic basis to Provision for Credit Losses. The provision is determined based on an evaluation of the credit status of securities, as described in connection with the analysis of impairment above.

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 cash flow hedges under SFAS No. 133, net unrealized gains or losses are reported as a component of accumulated other comprehensive income; otherwise, they are reported currently in income. To the extent they qualify as fair value hedges, net unrealized gains or losses on both the derivative and the related portion of the hedged item are reported currently in 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 and subprime mortgage loans, to be held for investment. We must periodically evaluate each of these loans or loan pools for possible impairment. Impairment is indicated when it is deemed probable that we will be unable to collect all amounts due according to the contractual terms of the loan, or, for loans acquired at a discount for credit losses, when it is deemed probable that we will be unable to collect as anticipated. Upon determination of impairment, we would establish a specific valuation allowance with a corresponding charge to earnings. We continually evaluate our loans receivable for impairment. Our residential mortgage loans, including manufactured housing loans, are aggregated into pools for evaluation based on like characteristics, such as loan type and acquisition date. Individual loans are evaluated based on an analysis of the borrower's performance, the credit rating of the borrower, debt service coverage and loan to value ratios, the estimated value of the underlying collateral, the key terms of the loan, and the effect of local, industry and broader economic trends and factors. Pools of loans are also evaluated based on similar criteria, including trends in defaults and loss severities for the type and seasoning of loans being evaluated. This information is used to estimate specific impairment charges on individual loans as well as provisions for estimated unidentified incurred losses on pools of loans. Significant judgment is required both in determining impairment and in estimating the resulting loss allowance.

Revenue Recognition on Loans

Income on these loans is recognized using a methodology that is similar to the methodology used on our securities and is subject to similar uncertainties and contingencies, which are also analyzed on at least a quarterly basis. For loan pools acquired at a discount for credit losses, the net income recognized is based on a "loss adjusted yield" whereby a gross interest yield is recorded to Interest Income, offset by a provision for probable, incurred credit losses which is accrued on a periodic basis to Provision for Credit Losses. The provision is determined based on an evaluation of the loans as described under "Impairment of Loans" above. A rollforward of the provision is included in Note 4 to our consolidated financial statements.

Impairment of Operating Real Estate

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. 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.

Recent Accounting Pronouncements

In June 2007, Statement of Position No. 07-1, ‘‘Clarification of the Scope of the Audit and Accounting Guide — Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies” (‘‘SOP 07-1”) was issued. SOP 07-1 addresses whether the accounting principles of the Audit and Accounting Guide for Investment Companies may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1 eliminates the previously existing exemption for REITs from being considered investment companies. We are currently evaluating the potential effect on our financial condition, liquidity and results of operations upon adoption of SOP 07-1. If we, or any of our subsidiaries, are considered an investment company under this new guidance, it would result in material changes to our financial statements. The primary change would be the recording of all of our (or our subsidiaries’) investments at fair value, with changes in fair value being recorded through the income statement. In February 2008, the FASB indefinitely postponed the adoption of SOP 07-1.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to reporting periods beginning after November 15, 2007. We adopted SFAS 157 on January 1, 2008. To the extent they are measured at fair value, SFAS 157 did not materially change our fair value measurements for any of our existing financial statement elements. SFAS 157 did change the reported value for our derivative obligations, but this did not have a material effect on our liabilities or accumulated other comprehensive income. As a result, the adoption of SFAS 157 did not have a material impact on our financial condition, liquidity or results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” SFAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 applies to reporting periods beginning after November 15, 2007. We adopted SFAS 159 on January 1, 2008. We did not elect to measure any items at fair value pursuant to the provisions of SFAS 159. As a result, the adoption of SFAS 159 did not have a material impact on our financial condition, liquidity or results of operations.

In December 2007, the American Securitization Forum (“ASF”) issued the “Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans” (the “ASF Framework”). The ASF Framework provides guidance for servicers to streamline borrower evaluation procedures and to facilitate the use of foreclosure and loss prevention efforts in an attempt to reduce the number of U.S. subprime residential mortgage borrowers who might default in the coming year because the borrowers cannot afford to pay the increased interest rate after their variable loan rate resets. The ASF Framework is focused on U.S. subprime first-lien adjustable-rate residential mortgages that have an initial fixed interest rate period of 36 months or less, are included in securitized pools, were originated between January 1, 2005 and July 31, 2007, and have an initial interest rate reset date between January 1, 2008 and July 31, 2010.

The ASF Framework requires a borrower to meet specific conditions, primarily related to the ability of the borrower to meet the initial terms of the loan and obtain refinancing, to qualify for a fast track loan modification under which the qualifying borrower’s interest rate will be kept at the existing initial rate, generally for five years following the upcoming reset. To qualify for fast-track modification, a loan must currently be no more than 30 days delinquent and no more than 60 days delinquent in the past 12 months, have a loan-to-value ratio greater than 97%, be subject to payment increases greater than 10% upon reset, and be for the primary residence of the borrower.

In January 2008, the SEC’s Office of Chief Accountant (the “OCA”) issued a letter (the “OCA Letter”) addressing accounting issues that may be raised by the ASF Framework. The OCA Letter expressed the view that if a qualifying subprime loan is modified pursuant to the ASF Framework and that loan could legally be modified, the OCA will not object to the continued status of the transferee as a QSPE under SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, because it would be reasonable to conclude that defaults on such loans are “reasonably foreseeable” in the absence of any modification.

The servicer for Subprime Portfolios I and II may make loan modifications in accordance with the ASF Framework in 2008, but we do not expect any such modifications to have a material effect on the accounting for our subprime mortgage loans subject to call options or retained interests in the securitizations of Subprime Portfolios I and II. Furthermore, we do not expect that the ASF Framework will affect the off balance sheet treatment of the securitizations of Subprime Portfolios I and II.

In February 2008, the FASB issued FASB Staff Position No. FAS 140-3 (“FSP FAS 140-3”), “Accounting for Transfers of Financial Assets and Repurchase Financing Transactions.” FSP FAS 140-3 provides guidance on accounting for a transfer of a financial asset and a repurchase financing. It presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (a linked transaction) unless certain criteria are met. If the criteria are not met, the linked transaction would be recorded as a net investment, likely as a derivative, instead of recording the purchased financial asset on a gross basis along with a repurchase financing. FSP FAS 140-3 applies to reporting periods beginning after

November 15, 2008 and is only applied prospectively to transactions that occur on or after the adoption date. As a result of the prospective nature of the adoption, we do not expect the adoption of FSP FAS 140-3 to have a material impact on our financial condition, liquidity or results of operations, unless we enter into transactions of this type after January 1, 2009.

In March 2008, the FASB issued SFAS 161, "Disclosures about Derivative Instruments and Hedging Activities." SFAS 161 applies to reporting periods beginning after November 15, 2008. SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. It does not change the accounting for such activities. As a result, while the adoption of SFAS 161 will change our disclosures, we do not expect it to have a material impact on our financial condition, liquidity or results of operations.

RESULTS OF OPERATIONS

The following table summarizes the changes in our results of operations from the three and six months ended June 30, 2007 to the three and six months ended June 30, 2008 (dollars in thousands):

	Six Months		Three Months		Explanations of Material Changes
	Amount Change	Percent Change	Amount Change	Percent Change	
Interest income	$ (106,168)	(30.0)%	$ (76,846)	(40.1)%	(1)
Interest expense	(87,561)	(34.9)%	(60,185)	(44.9)%	(1)
Loan and security servicing expense	(2,163)	(38.1)%	(1,910)	(51.7)%	(1)
Provision for credit losses	(752)	(14.7)%	(1,221)	(39.5)%	(2)
General and administrative expense	756	27.7%	457	31.8%	(3)
Management fee to affiliate	743	8.8%	52	1.1%	(4)
Incentive compensation to affiliate	(6,209)	(100.0)%	(2,521)	(100.0)%	(4)
Depreciation and amortization	1	0.7%	2	2.8%	N/A
Gain (loss) on sale of investments, net	(2,700)	(29.4)%	(7,014)	(100.5)%	(5)
Other income (loss), net	(24,345)	N.M.	(4,320)	N.M.	(6)
Other-than-temporary impairment	(142,216)	N.M.	(95,844)	N.M.	(7)
Loan impairment	(37,085)	N.M.	(16,759)	N.M.	(7)
Provision for credit losses, loans held for sale	5,754	N.M.	5,754	N.M.	(8)
Gain (loss) on extinguishment of debt	15,813	N.M.	7,280	N.M.	(9)
Equity in earnings of unconsolidated subsidiaries	6,104	366.4%	6,243	762.3%	(10)
Income (loss) from continuing operations	$ (189,658)	(258.3)%	$ (116,180)	(312.6)%	

N.M. - Not meaningful

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

	Six Months		Three Months	
	Period to Period Increase (Decrease)		Period to Period Increase (Decrease)	
	Interest Income	Interest Expense	Interest Income	Interest Expense
Acquisition of securities and loans	$ (22,867)	$ (16,734)	$ (25,463)	$ (17,824)
Disposition of securities and loans	(18,387)	(17,455)	(11,311)	(11,146)
New debt obligations	(17,219)	(20,039)	(12,059)	(13,939)
Repayment of debt obligations	(15,034)	(10,438)	(8,882)	(6,642)
Other (primarily changes in rates)	(31,984)	(22,895)	(18,454)	(10,634)
	$ (105,491)	$ (87,561)	$ (76,169)	$ (60,185)

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

(2) This change is primarily due to the decreased provision for our pools of manufactured housing loans as a result of paydowns.

(3) This change is primarily due to the increases in insurance expenses, software license fees and professional fees.

(4) The increase in management fees is a result of our increased size resulting from our equity issuances. As a result of impairment charges, we will not owe incentive compensation to our manager for an indefinite period of time.

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

(6) This change is primarily due to the unrealized loss on total rate of return swaps and the realized loss on the termination of derivative instruments.

(7) This change is due to impairment changes recorded during 2008 as a result of continued credit market disruption.

(8) This change results from the 2007 unrealized loss on the pool of subprime mortgage loans which was considered held for sale as of June 30, 2007.

(9) This change is primarily due to the gain on the repurchase of our own debt offset by the write off of deferred financing fees upon repayments of debt obligations recorded during the six months ended June 30, 2008.

(10) This change is primarily the result of the gain on sale of our interests in the operating real estate joint venture recorded during the six months ended June 30, 2008.

Table of Contents

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 when available. Additional sources of liquidity include investments that are readily saleable prior to their maturity. Our debt obligations are generally secured directly by our investment assets.

As of the date of this Quarterly Report on Form 10-Q, management believes that our cash on hand, when combined with our cash flow provided by operations, as well as proceeds from the repayment or sale of investments and borrowings, is sufficient to satisfy our liquidity needs with respect to our current investment portfolio. In this regard, we had unencumbered assets with a carrying value of approximately $151.0 million at June 30, 2008, excluding unrestricted cash of $164.5 million. As of August 8, 2008, we had an unrestricted cash balance of $170 million and $39.2 million of restricted cash held in CBO financing structures pending its investment in real estate securities and loans.

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 our 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 strive to 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 core business strategy is dependent upon our ability to finance our real estate securities, loans and other real estate related assets with match funded debt at rates that provide a positive net spread. Currently, spreads for such liabilities have widened and demand for such liabilities has become extremely limited, thereby restricting our ability to execute future financings. This restriction is exacerbated by the requirement to post margin on existing obligations.

Our cash flow provided by operations differs from our net income due to these 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) the provision for credit losses recorded in connection with our loan assets, as well as other-than-temporary impairment recorded on our securities, (iv) unrealized gains or losses on our non-hedge derivatives, particularly our total rate of return swaps, and (v) the non-cash charges associated with our early extinguishment of debt. 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 outside of these structures.

Our match funded investments are financed under long-term arrangements and we continuously monitor their credit status. Consequently, we expect these investments 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.

With respect to two of our real estate related loans, we were committed to fund up to an additional $95.5 million at August 8, 2008, subject to certain conditions to be met by the borrowers, with details as follows (in thousands):

	Total Unfunded Commitment	Committed CBO Financing	Remaining Unfunded Commitment
Real estate loan 1	$ 76,466	$ 14,366	$ 62,100
Real estate loan 2	19,063	—	19,063
Total	$ 95,529	$ 14,366	$ 81,163

Real estate loan 1 is a construction loan, which is expected to be funded over the next twenty-one months.

As described below, under "Interest Rate, Credit and Spread Risk," we are subject to margin calls in connection with our assets financed with repurchase agreements or total rate of return swaps.

See "- Market Considerations" above for a further discussion of recent trends and events affecting our liquidity.

[Table of Contents](#)

Investment Portfolio

The following summarizes our investment portfolio at June 30, 2008 (dollars in millions).

Investment (3)	Outstanding Face Amount	Amortized Cost Basis	Percentage of Amortized Cost Basis	Number of Investments	Credit [1]	Weighted Average Life (years) (2)
Commercial						
CMBS	$ 2,264	$ 2,177	35.4%	257	BBB-	5.5
Mezzanine Loans	780	776	12.6%	23	67%	3.5
B-Notes	420	393	6.4%	15	61%	3.1
Whole Loans	83	82	1.3%	4	65%	2.8
ICH Loans	11	10	0.2%	5	—	8.1
Total Commercial Assets	3,558	3,438	55.9%			4.7
Residential						
Manufactured Housing and Residential Mortgage Loans	597	572	9.3%	14,960	695	5.6
Subprime Securities	579	302	4.9%	124	BB-	5.6
Subprime Retained Securities	80	51	0.8%	7	B+	12.2
Subprime Residual Interests	13	13	0.2%	2	645	2.8
Real Estate ABS	103	101	1.6%	26	BBB-	4.7
	1,372	1,039	16.8%			5.9
FNMA/FHLMC securities	409	411	6.7%	15	AAA	3.8
Total Residential Assets	1,781	1,450	23.5%			5.4
Corporate						
REIT Debt	653	663	10.8%	65	BBB	5.1
Corporate Bank Loans	632	602	9.8%	17	B-	3.2
Total Corporate Assets	1,285	1,265	20.6%			4.2
TOTAL	$ 6,624	$ 6,153	100.0%			4.8
Reconciliation to GAAP total assets:						
Net unrealized losses recorded in accumulated other comprehensive income		(605)				
Total rate of return swaps [4]		(100)				
Other assets						
Subprime mortgage loans subject to call option [5]		396				
Real estate held for sale		28				
Cash and restricted cash		274				
Other		70				
GAAP total assets		$ 6,216				

(1) Credit represents weighted average rating for rated assets, LTV for non-rated commercial assets, FICO score for non-rated residential assets and an implied AAA rating for FNMA/FHLMC securities.
(2) Mezzanine Loans, B-Notes and Whole Loans are based on the fully extended maturity dates.
(3) The following tables summarize certain supplemental data relating to our investments ($ in thousands):

CMBS

Deal Vintage (A)	Average Rating	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Amortized Cost Basis	Delinquency 60+/FC/REO (B)	Principal Subordination (C)	Weighted Average Life (years)
Pre 2004	A-	79	$ 410,892	$ 406,905	18.6%	0.9%	9.4%	4.4
2004	BBB-	59	435,703	428,733	19.7%	0.2%	5.0%	5.6
2005	BB+	50	586,285	554,368	25.5%	0.4%	4.8%	6.5
2006	BB+	35	446,768	426,219	19.6%	0.1%	5.1%	3.8
2007	BBB+	34	384,056	360,418	16.6%	0.1%	9.0%	6.8
Total / WA	BBB-	257	$2,263,704	$ 2,176,643	100.0%	0.3%	6.4%	5.5

(A) The year in which the securities were issued.
(B) The percentage of underlying loans that are 60+ days delinquent, or in foreclosure or considered real estate owned (REO).
(C) The percentage of the outstanding face amount of securities and residual interests that is subordinate to our investments.
WA – Weighted average, in all tables.

Table of Contents

Mezzanine Loans, B-Notes and Whole Loans

	Mezzanine	B-Note	Whole Loan	Total / WA
Outstanding Face Amount	$780,181	$420,140	$ 82,536	$1,282,857
Amortized Cost Basis	$775,550	$392,627	$ 82,452	$1,250,629
Number	23	15	4	42
Weighted Average First $ Loan to Value	55.6%	45.4%	0.0%	48.7%
Weighted Average Last $ Loan to Value	66.9%	60.5%	64.8%	64.6%
Delinquency	0%	0%	0%	0%

Manufactured Housing Loans

Deal	Outstanding Face Amount	Amortized Cost Basis	Pertcentage of Amortized Cost Basis	Weightetd Average Loan Age (months)	Original Balance	Delinquency 90+/FC/REO (A)	Actual Cumulative Loss to Date	Projected Cumulative Loss to Date
Portfolio I	$ 202,254	$189,024	39.4%	83	$327,855	0.7%	3.7%	5.3%
Portfolio II	301,548	290,544	60.6%	112	434,743	0.5%	2.0%	3.4%
Total / WA	$ 503,802	$479,568	100.0%	100	$762,598	0.6%	2.7%	4.2%

(A) The percentage of loans that are 90+ days delinquent, or in foreclosure or considered real estate owned (REO).

Subprime Securities

	Security Characteristics						
Vintage (A)	Weighted Average Rating	Number of Securities	Outstanding Face Amount	Amortized Cost Basis (B)	Percentage of Amortized Cost Basis	Principal Subordination (C)	Excess Spread (D)
2003	A-	16	$ 32,818	$ 28,974	9.6%	19.6%	3.1%
2004	BBB	30	139,665	117,541	39.0%	13.9%	3.5%
2005	B+	44	195,720	108,354	35.9%	14.3%	4.3%
2006	CCC+	29	185,304	36,315	12.0%	8.0%	3.6%
2007	A	5	25,421	10,529	3.5%	18.2%	2.9%
Total / WA	BB-	124	$ 578,928	$ 301,713	100.0%	12.6%	3.8%

	Collateral Characteristics				
Vintage (A)	Average Loan Age (months)	Collateral Factor (E)	3 month CPR (F)	Delinquency (G)	Cumulative Losses to Date
2003	58	0.12	16.1%	12.3%	2.0%
2004	48	0.17	18.0%	14.8%	1.8%
2005	35	0.33	25.6%	25.4%	2.4%
2006	22	0.69	19.7%	24.7%	2.3%
2007	14	0.86	13.0%	18.9%	0.5%
Total / WA	34	0.42	20.8%	21.6%	2.1%

(A) The year in which the securities were issued.
(B) Excludes subprime retained securities and residual interests of $61.0 million.
(C) The percentage of the amortized cost basis of securities and residual interests that is subordinate to our investments.
(D) The annualized amount of interest received on the underlying loans in excess of the interest paid on the securities, as a percentage of the outstanding collateral balance.
(E) The ratio of original unpaid principal balance of loans still outstanding.
(F) Three month average constant prepayment rate.
(G) The percentage of underlying loans that are 90+ days delinquent, or in foreclosure or considered real estate owned (REO).

Subprime Retained Securities and Residual Interests

Represents $50.9 million and $13.3 million of amortized cost basis of retained bonds and residual interests, respectively, in the securitizations of Subprime Portfolios I and II. For further information on these securitizations, see Note 4 to our consolidated financial statements included herein. The following table summarizes our subprime portfolio securitizations:

	Security Characteristics			Portfolio Characteristics					
Deal	Outstanding Face Amount	Amortized Cost Basis	Percentage of Amortized Cost Basis	Average Loan Age (months)	Original Securitization Balance	Current Balance	Delinquency 90+/FC/REO (A)	Actual Cumulative Loss to Date	Projected Cumulative Loss to Date
Portfolio I	$ 43,312	$ 34,409	53.6%	34	$1,502,181	$ 797,756	16.7%	1.2%	1.0%
Portfolio II	50,342	29,770	46.4%	17	1,087,942	975,641	9.7%	0.3%	0.1%
Total / WA	$ 93,654	$ 64,179	100.0%	25	$2,590,123	$1,773,397	12.9%	0.7%	0.5%

(A) The percentage of loans that are 90+ days, or in foreclosure or considered real estate owned (REO).

Table of Contents

REIT Debt

Industry	Average Rating	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Amortized Cost Basis
Retail	BBB-	16	$ 200,035	$202,713	30.6%
Office	BBB	14	132,919	135,898	20.5%
Diversified	BBB	14	151,463	152,100	22.9%
Hotel	BBB-	4	42,720	43,441	6.6%
Multifamily	BBB+	8	44,508	45,769	6.9%
Healthcare	BBB	4	36,600	37,221	5.6%
Industrial	BBB	3	20,865	21,764	3.3%
Storage	A-	2	23,406	24,164	3.6%
Total / WA	BBB	65	$ 652,516	$663,070	100.0%

Corporate Bank Loans

Industry	Average Rating	Number	Outstanding Face Amount	Amortized Cost Basis	Percentage of Amortized Cost Basis
Real Estate	B-	4	$ 174,310	$169,050	28.1%
Resorts	BB-	1	110,488	107,797	17.9%
Media	B	2	112,000	101,513	16.9%
Retail	B-	2	100,000	96,680	16.1%
Restaurant	CCC	2	44,301	37,088	6.2%
Transportation	NR	2	37,000	35,887	6.0%
Gaming	CCC-	3	29,624	29,624	4.9%
Theatres	BB-	1	24,562	24,562	4.1%
Total / WA	B-	17	$ 632,285	$602,201	100.0%

(4) Total rate of return swaps are reflected in the consolidated balance sheet on a net basis, as derivatives. For purposes of the investment statistics, they are reflected on a gross basis, based on the underlying reference asset. As of June 30, 2008, we held an aggregate of $124.0 million notional amount of total rate of return swaps (including an unfunded asset with a notional amount of $19.1 million) on 5 reference assets on which we had deposited $36.2 million of margin. These total rate of return swaps had an aggregate fair value of approximately ($5.3) million, a weighted average receive interest rate of LIBOR + 2.90%, a weighted average pay interest rate of LIBOR + 0.93%, and a weighted average maturity of 0.3 years.

(5) The subprime mortgage loans subject to call option are excluded from the statistics because they result from an option, not an obligation, to repurchase such loans, are noneconomic until such option is exercised, and are offset by an equal liability on the consolidated balance sheet.

Debt Obligations

Our debt obligations, as summarized in Note 5 to our consolidated financial statements, existing at June 30, 2008 (gross of $23.8 million of discounts) had contractual maturities as follows (in thousands):

	Nonrecourse	Recourse (1) (2)	Total
Period from July 1, 2008 through December 31, 2008	$ —	$ 495,182	$ 495,182
2009	136,832	174,268	311,100
2010	—	40,000	40,000
2011	220,206	40,051	260,257
2012	—	—	—
2013	—	—	—
Thereafter	4,786,602	100,100	4,886,702
Total	$5,143,640	$ 849,601	$ 5,993,241

(1) Subject to potential mandatory prepayments based on collateral value.
(2) Includes $91.8 million face amount of the manufactured housing loan financing which is recourse.

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.

Our debt obligations contain various customary loan covenants. Such covenants do not, in management's opinion, materially restrict our investment strategy or ability to raise capital. We are in compliance with all of our loan covenants as of June 30, 2008.

In January 2008, we repurchased $16.0 million face amount of a class of Portfolio VIII's CBO bond for $6.7 million. As a result, $16.0 million face amount of CBO debt was extinguished.

In February 2008, we terminated the credit facility. As the date of termination, no amounts were outstanding under the credit facility (and we did not incur any material costs related to the termination); at that time, previously incurred and deferred financing costs of $0.6 million were written off.

In March 2008, we repurchased $2.9 million face amount of a class of Portfolio V's CBO bond for $0.6 million. As a result, $2.9 million face amount of CBO debt was extinguished.

In the first quarter of 2008, we sold face amounts of approximately $762.5 million of FNMA/FHLMC securities and $525.2 million of non-FNMA/FHLMC securities. Concurrent with the sales, we terminated the related interest rate swap and interest rate cap agreements which were de-designated as hedges for accounting purposes at December 31, 2007.

In the first quarter of 2008, we repaid $924.0 million of repurchase agreements and repaid in full the debt associated with our first CBO in the amount of $331.2 million.

In April 2008, a $400 million term financing agreement was not extended. At such time, $99.6 million was drawn and the final maturity of such amount is April 2009.

In April 2008, a $400 million term financing agreement was not extended. At such time, $40.0 million was drawn and the final maturity of such amount is May 2010.

In July 2008, we repurchased $5.0 million face amount of a class of Portfolio VIII's CBO bond for $0.6 million. As a result, $5.0 million face amount of CBO debt was extinguished.

As of June 30, 2008, Newcastle had one rolling term financing (in the form of a repurchase agreement) with a maximum maturity of February 2010, with a maximum draw of $400 million of which $57.1 million was drawn at June 30, 2008.

[Table of Contents](#)

The following table summarizes our CBO financings as of June 30, 2008 (dollars in thousands). The amounts reflect data at the unconsolidated CBO level and thus are different from the GAAP balance sheet due to intercompany amounts eliminated in consolidation.

	Portfolio V		Portfolio VI		Portfolio VII		Portfolio VIII		Portfolio IX		Portfolio X		Portfolio XI		Total / Weighted Average
Balance Sheet:															
Asset Face Amount	$ 456,278		$ 505,386		$ 503,175		$ 534,534		$ 938,493		$ 832,476		$ 1,448,280		$5,218,622
Asset Amortized Cost Basis	$ 448,983		$ 494,470		$ 453,233		$ 462,685		$ 871,518		$ 791,682		$ 1,331,497		$4,854,068
Debt Carrying Value	411,786		451,912		443,660		459,473		806,687		636,893		1,286,138		4,496,549
Invested Equity	$ 37,197		$ 42,558		$ 9,573		$ 3,212		$ 64,831		$ 154,789		$ 45,359		$ 357,519
Collateral Composition (1):															
CMBS	57.7%	BBB-	63.0%	BBB-	64.7%	BBB-	63.1%	BBB-	20.5%	BB-	11.4%	BB-	50.3%	BBB	43.3%
REIT Debt	19.1%	BBB-	15.4%	BBB-	8.9%	BBB+	11.2%	BBB	4.8%	BB	0.0%	—	23.3%	BBB-	12.5%
ABS	15.9%	A-	21.2%	BBB+	19.0%	BB	20.6%	B+	8.5%	BB	0.0%	—	18.4%	BBB	14.0%
Bank Loans	2.1%	B+	0.0%	—	7.2%	B	5.0%	B+	22.7%	B-	22.1%	CCC+	4.9%	CCC+	10.4%
Mezzanine Loans / B-Notes	4.4%	BB-	0.0%	—	0.0%	—	0.0%	—	35.3%	B-	62.5%	B-	0.0%	—	16.7%
CDO	0.0%	—	0.0%	—	0.0%	—	0.0%	—	8.1%	BBB	1.7%	A-	2.7%	BBB	2.5%
Restricted Cash	0.8%	—	0.4%	—	0.2%	—	0.1%	—	0.1%	—	2.3%	—	0.4%	—	0.6%
Total	100.0%	BBB-	100.0%	BBB	100.0%	BB+	100.0%	BB+	100.0%	B+	100.0%	B-	100.0%	BBB	100.0%
CBO Overview:															
Effective Date	Sep-04		Feb-05		Aug-05		Jan-06		Mar-07		Jul-07		Dec-07		
Reinvestment Period Ends (2)	Mar-09		Sep-09		Apr-10		Dec-10		Nov-11		May-12		Jul-12		
Optional Call Date (3)	Jun-07		Dec-07		May-08		Jan-09		Dec-09		Jun-10		Aug-10		
Auction Call Date (4)	Mar-14		Sep-14		Apr-15		Dec-15		Nov-16		May-17		Jul-17		
Avg Debt Spread (bps) (5)	52		45		33		36		48		39		32		40
CBO Cashflow Triggers (6):															
Over Collateralization															
Effective Date	109.4%		110.0%		111.9%		113.4%		113.2%		116.1%		109.3%		111.8%
Current	109.1%		110.7%		111.6%		112.8%		112.0%		115.7%		110.8%		111.9%
Trigger	105.9%		107.5%		109.3%		110.9%		108.7%		108.0%		101.5%		106.5%
Interest Coverage															
Current	161.2%		161.6%		150.7%		148.4%		199.5%		187.2%		158.7%		169.2%
Trigger	106.0%		106.0%		106.0%		106.0%		106.0%		103.0%		107.0%		105.8%

(1) Collateral amounts represent amortized cost basis and include CDO bonds of $116.3 million and other bonds of $84.4 million issued by Newcastle. Also reflected are weighted average credit ratings.

(2) Our CBO financings typically have a 5 year reinvestment period. Generally, after such period ends, principal payments on the collateral are used to pay down the most senior debt outstanding. Prior to the end of the reinvestment period, principal payments on the collateral are reinvested. Given current market conditions where credit spreads are widening, these proceeds may potentially be reinvested at higher credit spreads.

(3) At the option call date, Newcastle, as the equity holder, has the right to pay off the CBO bonds at their related redemption price. The funds needed to pay the debt could be raised either through a sale or refinancing of the collateral.

(4) At the auction call date, there is a mandatory auction of the assets. If the prices bid are sufficient to pay off the outstanding CBO bonds, the assets will be sold and the CBO bonds will be redeemed.

(5) Debt spread represents the spread above the benchmark interest rate (LIBOR or U.S. Treasuries) that Newcastle pays on its debt.

(6) Each of our CBO financings contains tests which measure the amount of over collateralization and excess interest in the transaction. Failure to satisfy these tests would result in principal and/or interest cashflow that would otherwise be distributed to more junior classes of securities (including those held by Newcastle) to be redirected to pay down the most senior class of securities outstanding until the tests are satisfied. The data presented is as of the most recent remittance date on or before June 30, 2008 and may have changed subsequent to that date.

Table of Contents

Stockholders' Equity

Common Stock

The following table presents information on shares of our common stock issued during the six months ended June 30, 2008:

Shares Issued	Range of Issue Prices (1)	Net Proceeds (millions)	Option Granted to Manager
7,262	N/A (2)	$ 0.1	N/A

(1) Excludes prices of shares issued pursuant to the exercise of options and of shares issued to our independent directors.
(2) The only shares issued during this period were to our independent directors.

At June 30, 2008, we had 52,786,441 shares of common stock outstanding.

As of June 30, 2008, our outstanding options were summarized as follows:

Held by the Manager	1,549,340
Issued to the Manager and subsequently transferred to certain of the Manager's employees	935,269
Held by the independent directors	14,000
Total	2,498,609

As of June 30, 2008, approximately 5.0 million shares of our common stock were held by our manager, through affiliates, and its principals.

In March 2008, our board of directors approved expanding the previously approved share repurchase to allow a potential repurchase of up to $125 million of our common stock. As of August 8, 2008, no shares have been repurchased.

Accumulated Other Comprehensive Income (Loss)

During the six months ended June 30, 2008, our accumulated other comprehensive income (loss) changed due to the following factors (in thousands):

Accumulated other comprehensive income (loss), December, 31, 2007	$(502,516)
Net unrealized gain (loss) on securities	(189,979)
Reclassification of net realized (gain) loss on securities into earnings	(7,439)
Foreign currency translation	(515)
Net unrealized gain (loss) on derivatives designated as cash flow hedges	5,069
Reclassification of net realized (gain) loss on derivatives designated as cash flow hedges into earnings	(768)
Accumulated other comprehensive (loss), June 30, 2008	$(696,148)

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 six months ended June 30, 2008, sharply widening credit spreads have resulted in a net increase in unrealized losses on our real estate securities and derivatives. While such an environment resulted in a decrease in the fair value of our existing securities portfolio and, therefore, reduced our book equity and ability to realize gains on such existing securities, it did not directly affect our current cash flow or our ability to pay dividends.

See "- Market Considerations" above for a further discussion of recent trends and events affecting our unrealized gains and losses as well as our liquidity.

Common Dividends

Declared for the Period Ended	Paid	Amount Per Share
March 31, 2008	April 2008	$ 0.25
June 30, 2008	July 2008	$ 0.25

Table of Contents

Cash Flow

Net cash flow provided by (used in) operating activities increased to $75.8 million for the six months ended June 30, 2008 from ($973.6) million for the six months ended June 30, 2007. This change primarily resulted from the acquisition and settlement of our investments as described above, and the performance thereof. The six months ended June 30, 2007 included the purchase of loans held for sale of $1,089.2 million.

Investing activities provided (used) $1,383.6 million and ($372.6) million during the six months ended June 30, 2008 and 2007, respectively. Investing activities consisted primarily of investments made in certain real estate securities, loans and other real estate related assets, net of proceeds from the sale or settlement of investments.

Financing activities provided (used) ($1,333.4) million and $1,444.7 million during the six months ended June 30, 2008 and 2007, 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 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. These risks are further described in “Quantitative and Qualitative Disclosures About Market Risk.”

OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2008, we had two material off-balance sheet arrangements. We believe that these off-balance sheet structures presented the most efficient and least expensive form of financing for these assets at the time they were entered, and represented the most common market-accepted method for financing such assets.

- In April 2006, we securitized our Subprime Portfolio I. The loans were sold to a securitization trust, of which 80% were treated as a sale, which is an off-balance sheet financing as described in “- Liquidity and Capital Resources.”
- In July 2007, we securitized our Subprime Portfolio II. The loans were sold to a securitization trust, of which 90% were treated as a sale, which is an off-balance sheet financing as described in “- Liquidity and Capital Resources.”

We have no obligation to repurchase any loans from either of our subprime securitizations. Therefore, it is expected that our exposure to loss is limited to the carrying amount of our retained interests in the securitization entities, as described above. A subsidiary of ours gave limited representations and warranties with respect to the second securitization; however, it has no assets and does not have recourse to the general credit of Newcastle.

We also had the following arrangements which do not meet the definition of off-balance sheet arrangements, but do have some of the characteristics of off-balance sheet arrangements.

- We are party to total rate of return swaps which are treated as non-hedge derivatives. For further information on these investments, see “– Liquidity and Capital Resources.”
- We have made investments in three unconsolidated subsidiaries, one of which is dormant at June 30, 2008.

In each case, our exposure to loss is limited to the carrying (fair) value of our investment, except for the total rate of return swaps where our exposure to loss is limited to their fair value plus their notional amount.

CONTRACTUAL OBLIGATIONS

During the first six months of 2008, we had all of the material contractual obligations referred to in our annual report on Form 10-K for the year ended December 31, 2007, excluding the debt which was repaid and the related hedges which were terminated, as described in “– Liquidity and Capital Resources,” as well as the following:

Contract Category	Change
Repurchase agreements	In April 2008, two of the term financing facilities, in the form of repurchase agreements, were not extended. As a result, $99.6 million will mature in April 2009, and $40.0 million will mature in May 2010.

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.

Table of Contents

FUNDS FROM OPERATIONS

We believe FFO is one appropriate measure of the operating performance of real estate companies. 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 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.

As a result of the sale or expected sale of all of our operating real estate, and the resultant discontinuation of depreciation, our income (loss) applicable to common stockholders is now equal to our FFO. Funds from Operations (FFO) is calculated as follows (in thousands):

	For the Six Months Ended June 30, 2008	For the Three Months Ended June 30, 2008
Income (loss) applicable to common stockholders	$ (131,935)	$ (87,656)
Operating real estate depreciation	—	—
Funds from Operations (FFO)	$ (131,935)	$ (87,656)

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

	Book Equity at June 30, 2008	Average Invested Common Equity for the Six Months Ended June 30, 2008(2)	FFO for the Six Months Ended June 30, 2008	Return on Invested Common Equity (ROE) (3)
CBOs	$ 333,672	$ 448,768	$ (90,190)	(40.4)%
Other nonrecourse	39,977	43,142	3,010	17.7%
Recourse	133,889	136,066	60	0.7%
Unlevered	234,400	278,619	(22,061)	(16.4)%
Unallocated (1)	(96,321)	(151,373)	(22,754)	N/A
Total (2)	645,617	$ 755,222	$(131,935)	(34.9)%
Preferred stock	152,500			
Accumulated depreciation	(6,226)			
Accumulated other comprehensive income (loss)	(696,148)			
Net book equity	$ 95,743			

	Book Equity at June 30, 2008	Average Invested Common Equity for the Three Months Ended June 30, 2008(2)	FFO for the Three Months Ended June 30, 2008	Return on Invested Common Equity (ROE) (3)
CBOs	$ 333,672	$ 389,397	$ (58,223)	(59.8)%
Other nonrecourse	39,977	42,040	1,679	16.0%
Recourse	133,889	117,721	4,367	14.8%
Unlevered	234,400	296,551	(24,292)	(32.8)%
Unallocated (1)	(96,321)	(125,491)	(11,187)	N/A
Total (2)	645,617	$ 720,218	$ (87,656)	(48.7)%
Preferred stock	152,500			
Accumulated depreciation	(6,226)			
Accumulated other comprehensive income (loss)	(696,148)			
Net book equity	$ 95,743			

(1) Unallocated FFO represents ($3,376) and ($6,751) of preferred dividends, ($1,896) and ($3,791) of interest on our junior subordinated notes payable, and ($5,915) and ($12,212) of corporate general and administrative expenses, management fees and incentive compensation for the three and six months ended June 30, 2008, respectively.

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

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

As a result of the effect of the other-than-temporary impairment on our FFO, we expect that there will be no incentive compensation payable to the Manager for an indeterminable amount of time.

RELATED PARTY TRANSACTIONS

As of June 30, 2008, we held on our balance sheet total investments of $241.3 million amortized cost basis of real estate securities and related loans issued by affiliates of our manager and $56.5 million face amount of real estate loans issued by affiliates of our manager financed under total rate of return swaps and earned approximately $9.8 million of interest on such investments for the six months ended June 30, 2008.

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

Changes in interest rates, including changes in expected interest rates or "yield curves," affect our investments in two distinct ways, each of which is discussed below.

First, changes in interest rates affect our net interest income, which is the difference between the interest income earned on assets and the interest expense incurred in connection with our debt obligations and hedges.

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 assets 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 assets 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 (see below), or through a combination of these strategies, which also allows us to reduce the impact of changing interest rates on our earnings.

However, increases in interest rates can nonetheless reduce our net interest income to the extent that we are not completely match funded. Furthermore, a period of rising interest rates can negatively impact our return on certain floating rate investments. Although these investments may be financed with floating rate debt, the interest rate on the debt may reset prior to, and in some cases more frequently than, the interest rate on the assets, causing a decrease in return on equity during a period of rising interest rates.

As of June 30, 2008, a 100 basis point increase in short term interest rates would increase our earnings by approximately $3.6 million per annum.

Second, changes in the level of interest rates also affect the yields required by the marketplace on debt. Increasing interest rates would decrease the value of the fixed rate assets we hold at the time because higher required yields result in lower prices on existing fixed rate assets in order to adjust their yield upward to meet the market.

We generally have the intent and ability to hold our assets until maturity. Such assets are considered available for sale and may be sold prior to maturity on an opportunistic basis or for other reasons.

Changes in unrealized gains or losses resulting from changes in market interest rates do not directly affect our cash flows, or our ability to pay a dividend, as the related assets are expected to be held and their fair value is not relevant to their underlying cash flows. Our assets are largely financed to maturity through long term CBO financings that are not redeemable as a result of book value changes. As long as these fixed rate assets continue to perform as expected, our cash flows from these assets would not be affected by increasing interest rates. Changes in unrealized gains or losses would impact our ability to realize gains on existing investments if they were sold. Furthermore, with respect to changes in unrealized gains or losses on investments which are carried at fair value, changes in unrealized gains or losses would impact our net book value and, in the case of non-hedge derivatives, our net income.

Changes in the value of our assets could affect our ability to borrow and access capital. Also, if the value of our assets subject to repurchase agreements were to decline, it could cause us to fund margin and affect our ability to refinance such assets upon the maturity of the related repurchase agreements, adversely impacting our rate of return on such securities.

As of June 30, 2008, a 100 basis point change in short term interest rates would impact our net book value by approximately $52.2 million.

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 LIBOR) rise above (cap agreements) or fall below (floor agreements) the “strike” rate specified in the contract. 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 Exposure

Credit spreads measure the yield demanded on loans and securities by the market based on their credit relative to U.S. Treasuries, for fixed rate credit, or LIBOR, for floating rate credit. Our fixed rate loans and securities are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. Our floating rate loans and securities are valued based on a market credit spread over LIBOR. Excessive supply of such loans and securities combined with reduced demand will generally cause the market to require a higher yield on such loans and securities, resulting in the use of a higher (or “wider”) spread over the benchmark rate to value them.

Changes in credit spreads affect our investments in two distinct ways, each of which is discussed below.

First, widening credit spreads would result in higher yields being required by the marketplace on loans and securities. This widening would reduce the value of the loans and securities we hold at the time because higher required yields result in lower prices on existing securities in order to adjust their yield upward to meet the market. The effects of such a decrease in values on our financial position, results of operations and liquidity are discussed above under “- Interest Rate Exposure.”

As of June 30, 2008, a 25 basis point movement in credit spreads would impact our net book value by approximately $27.4 million, but would not directly affect our earnings or cash flow.

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. Currently, spreads for such liabilities have widened and demand for such liabilities has become extremely limited, therefore restricting our ability to execute future financings.

However, a second impact of widening of credit spreads is that it would also result in increased yields on new investments we purchase during or subsequent to the widening, thereby benefiting our ongoing investment activities, as we would earn a higher yield on the same investment amount in comparison to the investing environment prior to such widening. As noted in “- Market Considerations” above, we could only take advantage of these investment opportunities if we have sufficient liquidity and financing is available on favorable terms.

In an environment where spreads are tightening, if spreads tighten on the assets we purchase to a greater degree than they tighten the liabilities we issue, our net spread will be reduced.

Credit Risk

In addition to the above described market risks, Newcastle is subject to credit risk.

Credit risk refers to the ability of each individual borrower under our loans and securities to make required interest and principal payments on the scheduled due dates. 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 (which absorbs losses before the securities in which we invest) within a securitization transaction. The senior unsecured REIT debt securities we invest in reflect comparable credit risk. We also invest in loans and securities which represent “first loss” pieces; in other words, they do not benefit from credit support although we believe they predominantly benefit from underlying collateral value in excess of their carrying amounts.

We seek to minimize credit risk by actively monitoring our asset portfolio and the underlying credit quality of our holdings and, where appropriate, repositioning our investments to upgrade their credit quality. 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 described above in "- Market Considerations" and elsewhere in this quarterly report, adverse market and credit conditions have resulted in our recording of other-than-temporary impairment in certain securities and loans.

Margin

Certain of our investments are financed through repurchase agreements or total return swaps which are subject to margin calls based on the value of such investments. Margin calls resulting from decreases in value related to rising interest rates are substantially offset by our ability to make margin calls on our interest rate derivatives. We seek to maintain adequate cash reserves and other sources of available liquidity to meet any margin calls resulting from decreases in value related to a reasonably possible (in the opinion of management) widening of credit spreads.

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 or due to market conditions. 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Application of Critical Accounting Policies." 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 in our consolidated financial statements are indicative of the interest rate and credit spread environments as of June 30, 2008 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 are sensitive to changes in market interest rates, credit spreads and other market factors. The value of these investments can vary, and has varied, materially from period to period.

Trends

See "- Market Considerations" above for a further discussion of recent trends and events affecting our liquidity, unrealized gains and losses.

Interest Rate and Credit Spread Risk Sensitive Instruments

Our holdings of such financial instruments are detailed in Note 6 of our consolidated financial statements included herein. For information regarding the impact of prepayment, reinvestment, and expected loss factors on the timing of realization of our investments, please refer to the consolidated financial statements included in this Form 10-Q as well as our most recent annual consolidated financial statements included in our Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

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

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

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not party to any material legal proceedings.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the registrant's Form 10-K for the year ended December 31, 2007.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This report contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments, the stability of our earnings, and our financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "could," "project," "predict," "continue" or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual outcome 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:

- our ability to take advantage of opportunities in additional asset classes at attractive risk-adjusted prices;
- our ability to deploy capital accretively;
- the risks that default and recovery rates on our loan portfolios exceed our underwriting estimates;
- the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested;
- the relative spreads between the yield on the assets we invest in and the cost of financing;
- 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 investments, or in a manner that maintains our historic net spreads;
- changing risk assessments by lenders that potentially lead to increased margin calls or not extending our repurchase agreements in accordance with their current terms;
- 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 investments 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 below, particularly under the heading "Risk Factors," and in our other SEC reports.

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. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement.

Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management's views only as of the date of this report. 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Table of Contents

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

On May 22, 2008, the Company held its Annual Meeting of Shareholders at which the shareholders voted upon (i) the election of Wesley Edens and David McKown to the Board of Directors as Class III directors for three-year terms and (ii) the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the 2008 fiscal year.

The shareholders elected both directors and approved the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the 2008 fiscal year. The number of votes cast for or against and the number of abstentions with respect to each matter voted upon, as applicable is set forth below (broker non-votes do not apply to these proposals):

Proposal	For	Against	Abstain
Election of Directors			
Wesley Edens	39,619,833	N/A	3,530,072
David McKown	42,463,479	N/A	686,426
Ratification of the Appointment of Independent Registered Public Accounting Firm	42,732,638	312,175	105,092

Item 5. Other Information

Effective August 13, 2008, Ms. Hess will resign as the Chief Financial Officer of the Company in order to pursue a new professional opportunity. Also effective August 13, 2008, Brian Sigman, who currently serves as the Company's Vice President of Finance, will be appointed Chief Financial Officer of the Company. Mr. Sigman, 31, joined the Company in 2003 and has served as the Company's Vice President of Finance since 2006, during which time he has played an integral role in managing the Company's finance and accounting group. From 2003 until 2006, Mr. Sigman served as the Company's Assistant Controller.

The Company's officers are not employees of the Company and do not receive direct cash compensation for services rendered to the Company. Rather, they are employees of the Company's manager and are compensated by the manager for their services to the Company as well as other entities affiliated with the manager. Our manager has informed the Company that, because the services performed by the individuals who serve as officers of the Company are not performed exclusively for the Company, the manager cannot segregate and identify that portion of compensation awarded to, earned by or paid to our officers, including Ms. Hess and Mr. Sigman, that relates solely to their services to the Company. Outside of the fees and compensation paid to the manager by the Company, neither Ms. Hess nor Mr. Sigman had any direct or indirect material interests in any transaction with the Company or in any currently proposed transaction to which the Company is a party.

Table of Contents

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	Articles Supplementary Relating to the Series C Preferred Stock (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 3.3, filed on October 25, 2005).
3.4	Articles Supplementary Relating to the Series D Preferred Stock (incorporated by reference to the Registrant's Report on Form 8-A, Exhibit 3.1, filed on March 14, 2007).
3.5	Amended and Restated By-laws (incorporated by reference to the Registrant's Registration Statement on Form 8-K, Exhibit 3.1, filed on May 5, 2006).
4.1	Rights Agreement between the Registrant and American Stock Transfer and Trust Company, as Rights Agent, dated October 16, 2002 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2002, Exhibit 4.1).
10.1	Amended and Restated Management and Advisory Agreement by and among the Registrant and Fortress Investment Group LLC, dated June 23, 2003 (incorporated by reference to the Registrant's Registration Statement on Form S-11 (File No. 333-106135), Exhibit 10.1).
10.2	Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan Amended and Restated Effective as of February 11, 2004 (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005, Exhibit 10.2).
21.1	Subsidiaries of the Registrant (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007, Exhibit 21.1)
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.

Table of Contents

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)

/s/ Kenneth M. Riis

Name:	Kenneth M. Riis
Title:	Chief Executive Officer and President
Date:	August 11, 2008

/s/ Debra A. Hess

Name:	Debra A. Hess
Title:	Chief Financial Officer
Date:	August 11, 2008

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kenneth M. Riis, 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.

August 11, 2008	/s/ Kenneth M. Riis
(Date)	Kenneth M. Riis 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.

August 11, 2008	/s/ Debra A. Hess
(Date)	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 June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kenneth M. Riis, 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/ Kenneth M. Riis

Kenneth M. Riis
Chief Executive Officer
August 11, 2008

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 June 30, 2008 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
August 11, 2008

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

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

End of Filing