

February 27, 2008

**DRIVE SHACK INC.**

## **Newcastle Announces Fourth Quarter and Year End 2007 Results**

NEW YORK, Feb. 27 /PRNewswire-FirstCall/ --

### Highlights

- FFO loss of \$105.9 million, or \$2.01 per diluted share, for the quarter ended December 31, 2007. FFO excluding the effect of charges was \$37.1 million, or \$0.70 per diluted share for the quarter ended December 31, 2007.
- Adjusted book value per share was \$16.39 and GAAP book value per share was \$5.59 as of December 31, 2007.
- Since year end, the Company has reduced its recourse debt by \$888 million and increased cash available to invest from \$29 million to \$120 million.

### Financial Results

#### Fourth Quarter 2007

Newcastle Investment Corp. (NYSE: NCT) reported that for the quarter ended December 31, 2007, Funds from Operations ("FFO") loss was \$105.9 million, or \$2.01 per diluted share, compared to FFO of \$0.70 per diluted share for quarter ended December 31, 2006. Fourth quarter FFO includes charges of \$143.0 million. Excluding the effect of such charges, we generated FFO of \$37.1 million, or \$0.70 per diluted share, and an FFO return on average invested equity of 14.4%.

For the three months ended December 31, 2007, the loss attributable to common stockholders was \$106.2 million, or \$2.01 per diluted share, compared to income of \$0.70 per diluted share for the fourth quarter 2006. Excluding the effect of charges, income available for common stockholders was \$36.7 million, or \$0.70 per diluted share for the quarter ended December 31, 2007.

Of the \$143.0 million of charges recorded in the fourth quarter 2007, \$128.8 million represented other than temporary impairment under U.S. GAAP. These charges resulted in a reduction in FFO and income available to common stockholders of \$2.71 per diluted share.

#### Full Year 2007

FFO loss for the year ended December 31, 2007 was \$77.0 million, or \$1.50 per diluted share, compared to FFO of \$2.69 per diluted share for the year ended December 31, 2006. Full year FFO includes total charges of \$224.1 million. Excluding the effect of such charges, we generated FFO of \$147.1 million, or \$2.86 per diluted share, and an FFO return on average invested equity of 14.2%.

For 2007, the loss attributable to common stockholders was \$78.1 million, or \$1.52 per diluted share, compared to income of \$2.67 per diluted share for 2006. Excluding the effect of charges, income available for common stockholders was \$146.0 million, or \$2.84 per

diluted share, for the year ended December 31, 2007.

Of the \$224.1 million of charges recorded in the year ended December 31, 2007, \$202.6 million represented other than temporary impairment under U.S. GAAP. These charges resulted in a reduction in FFO and income available to common stockholders of \$4.36 per diluted share.

### Net Book Value

Our GAAP common equity book value decreased to \$5.59 per share, or \$295.1 million at December 31, 2007, down from \$12.66 per share at September 30, 2007. Under U.S. GAAP, we are required to mark our available for sale security investments and our derivatives to fair value, but not our loan investments or liabilities. If we marked all of our assets and liabilities to fair value, we estimate our net book value per share would have been \$16.39 at December 31, 2007. Our GAAP book value would equal our adjusted book value if we elected to mark all of our financial assets and liabilities to fair value under SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities."

For a reconciliation and discussion of GAAP income available to common stockholders to FFO and GAAP book equity to invested common equity as well as GAAP net book value to adjusted net book value, please refer to the tables following the presentation of GAAP results.

### Dividends

For the quarter ended December 31, 2007, Newcastle's Board of Directors declared a dividend of \$0.72 per common share. Common dividends declared in 2007 totaled \$2.85 per share. In 2007, we declared preferred dividends on our 9.75% Series B, 8.05% Series C and 8.38% Series D Cumulative Redeemable Preferred Stock in the amounts of \$2.438, \$2.013 and \$1.838 per share, respectively.

### First Quarter 2008 Activity

Given the uncertain market environment, since year end the Company has focused on strengthening its balance sheet by reducing its recourse debt exposure and increasing liquidity. As a result, the Company sold \$1.3 billion of assets, reduced its recourse debt by \$888 million, reduced its non-recourse debt by \$379 million and increased its cash available to invest from \$29 million to \$120 million. In connection with these sales, we realized a net loss of \$14.2 million.

Asset sales since December 31, 2007 through February 25, 2008 included:

- \$547 million of real estate securities and loans:
  - \$254 million of REIT debt with an average rating of BBB and an average life of 3.7 years
  - \$248 million of CMBS with an average rating of A- and an average life of 2.5 years
  - \$25 million of a non-rated commercial real estate whole loan with an average life of 4.0 years
  - \$20 million of other real estate assets (\$9 million of corporate bank loans rated B-, \$8 million B-Note rated AAA and \$3 million of non-rated mezzanine debt)
- \$770 million of FNMA and FHLMC securities with an implied AAA rating.

The following table compares the face amount of our liabilities as of December 31, 2007 adjusted for sales through February 25, 2008 (\$ in millions):

|                                                 | February 25,<br>2008 | December 31,<br>2007 |
|-------------------------------------------------|----------------------|----------------------|
| Recourse Financings                             |                      |                      |
| Real Estate Securities and Loans (1)            | \$471                | \$601                |
| FNMA/FHLMC Securities                           | 448                  | 1,206                |
| Total Recourse Financings                       | 919                  | 1,807                |
| Non-Recourse Financings                         |                      |                      |
| CBOs and Other                                  | 4,901                | 5,280                |
| Total Financings                                | \$5,820              | \$7,087              |
| Recourse Financings as % of<br>Total Financings | 16%                  | 25%                  |

(1) Recourse financings on our real estate securities and loans include off-balance sheet debt (in the form of total return swaps) of \$93 million at February 25, 2008 and \$172 million at December 31, 2007.

## Investment Portfolio

Newcastle's current \$6.9 billion investment portfolio consists primarily of commercial, residential and corporate debt. During the fourth quarter, we purchased \$145 million, sold \$40 million and had paydowns of \$346 million for a net decrease of \$241 million. Since 2007 year end, we sold an additional \$1.3 billion of assets.

All tables pertaining to our investment portfolio are as of December 31, 2007 adjusted for sales through February 25, 2008.

The following table describes our investment portfolio (\$ in millions):

|                                     | Dec 31, Assets<br>2007<br>Face<br>Amount<br>\$ | Sold<br>Through<br>Feb 25,<br>2008 | Adjusted<br>Face<br>Amount<br>\$ | Adjusted<br>Face<br>Amount<br>% | Number | Credit<br>Average<br>Life<br>(1) |
|-------------------------------------|------------------------------------------------|------------------------------------|----------------------------------|---------------------------------|--------|----------------------------------|
| Commercial Assets                   |                                                |                                    |                                  |                                 |        |                                  |
| CMBS                                | \$ 2,529                                       | \$248                              | \$2,281                          | 32.9%                           | 258    | BBB- 5.7                         |
| Mezzanine Loans                     | 823                                            | 3                                  | 820                              | 11.8%                           | 23     | 68% 1.9                          |
| B-Notes                             | 398                                            | 8                                  | 390                              | 5.6%                            | 13     | 63% 1.7                          |
| Whole Loans                         | 115                                            | 25                                 | 90                               | 1.3%                            | 4      | 77% 1.4                          |
| Investment in<br>Joint Ventures (2) | 21                                             | -                                  | 21                               | 0.3%                            | 2      | NR -                             |
|                                     | 3,886                                          | 284                                | 3,602                            | 51.9%                           |        | 4.3                              |
| Residential Assets (3)              |                                                |                                    |                                  |                                 |        |                                  |
| MH and Residential<br>Loans         | 645                                            | -                                  | 645                              | 9.3%                            | 16,012 | 696 5.5                          |
| Subprime Securities                 | 586                                            | -                                  | 586                              | 8.4%                            | 122    | BB+ 3.7                          |

|                      |          |         |         |        |    |         |     |
|----------------------|----------|---------|---------|--------|----|---------|-----|
| Residual and         |          |         |         |        |    |         |     |
| Retained Securities  | 145      | -       | 145     | 2.1%   | 8  | BB+/634 | 6.2 |
| Real Estate ABS      | 106      | -       | 106     | 1.5%   | 26 | BBB     | 5.1 |
|                      | 1,482    | -       | 1,482   | 21.3%  |    |         | 4.8 |
| Corporate Assets     |          |         |         |        |    |         |     |
| REIT Debt            | 921      | 254     | 667     | 9.6%   | 67 | BBB-    | 5.6 |
| Corporate Bank       |          |         |         |        |    |         |     |
| Loans                | 662      | 9       | 653     | 9.4%   | 14 | B       | 3.1 |
|                      | 1,583    | 263     | 1,320   | 19.0%  |    |         | 4.6 |
| Total Core Portfolio | 6,951    | 547     | 6,404   | 92.2%  |    |         | 4.4 |
| Other Assets         |          |         |         |        |    |         |     |
| FNMA/FHLMC           |          |         |         |        |    |         |     |
| Securities           | 1,229    | 770     | 459     | 6.6%   | 15 | AAA     | 3.3 |
| ICH Loans            | 85       | -       | 85      | 1.2%   | 46 | NR      | 0.3 |
|                      | 1,314    | 770     | 544     | 7.8%   |    |         | 3.1 |
| Total/Weighted       |          |         |         |        |    |         |     |
| Average              | \$ 8,265 | \$1,317 | \$6,948 | 100.0% |    |         | 4.2 |

- (1) Credit statistics represents weighted average rating for rated assets, loan-to-value for non-rated commercial assets, FICO score for non-rated residential assets and implied AAA for FNMA/FHLMC securities.
- (2) Excludes other operating real estate of \$40 million.
- (3) Excludes \$406 million of loans subject to call option.

The following table compares certain supplemental data relating to our investment portfolio (\$ in millions):

|                                 | Total Portfolio     |                     |                      | Core Portfolio      |                     |                      |
|---------------------------------|---------------------|---------------------|----------------------|---------------------|---------------------|----------------------|
|                                 | Feb.<br>25,<br>2008 | Dec.<br>31,<br>2007 | Sept.<br>30,<br>2007 | Feb.<br>25,<br>2008 | Dec.<br>31,<br>2007 | Sept.<br>30,<br>2007 |
| Face Amount                     | \$6,948             | \$8,265             | \$8,523              | \$6,404             | \$6,951             | \$7,149              |
| Weighted average asset yield    | 7.32%               | 7.08%               | 7.27%                | 7.45%               | 7.42%               | 7.64%                |
| Weighted average liability cost | 5.41%               | 5.39%               | 5.64%                | 5.42%               | 5.49%               | 5.77%                |
| Weighted average net spread     | 1.91%               | 1.69%               | 1.63%                | 2.03%               | 1.93%               | 1.87%                |

## Commercial Assets

We own \$3.6 billion of adjusted face amount of commercial assets, which includes CMBS, mezzanine loans, B-Notes, whole loans and investments in joint ventures.

- During the fourth quarter, we purchased \$75 million, sold \$40 million and had paydowns of \$206 million for a net decrease of \$171 million.
- Since year end, we sold a total of \$284 million of assets comprised of \$248 million of CMBS, \$25 million of whole loans, \$8 million of B-Notes

- and \$3 million of mezzanine debt for a net realized loss of \$5 million.
- We had three CMBS securities or \$13 million upgraded (from an average rating of A+ to AA-) with five securities or \$74 million downgraded (from an average rating of BB- to B-).

The following table summarizes our CMBS portfolio (\$ in thousands):

| Vintage                       | Weighted<br>Average<br>Rating | Number | Adjusted<br>Face<br>Amount \$ | Adjusted<br>Face<br>Amount % | Delinquency<br>60+/FC/REO | Weighted<br>Average<br>Credit<br>Enhancement | Weighted<br>Average<br>Life |
|-------------------------------|-------------------------------|--------|-------------------------------|------------------------------|---------------------------|----------------------------------------------|-----------------------------|
| Pre 2004                      | BBB+                          | 82     | \$442,932                     | 19.4%                        | 0.8%                      | 12.8%                                        | 4.6                         |
| 2004                          | BBB-                          | 59     | 436,119                       | 19.1%                        | 0.1%                      | 5.2%                                         | 6.0                         |
| 2005                          | BB+                           | 50     | 586,494                       | 25.7%                        | 0.2%                      | 4.2%                                         | 6.7                         |
| 2006                          | BBB-                          | 36     | 448,938                       | 19.7%                        | 0.0%                      | 5.4%                                         | 4.1                         |
| 2007                          | BBB                           | 31     | 366,673                       | 16.1%                        | 0.0%                      | 7.3%                                         | 6.8                         |
| Total/<br>Weighted<br>Average | BBB-                          | 258    | \$2,281,156                   | 100.0%                       | 0.2%                      | 6.8%                                         | 5.7                         |

In the fourth quarter, we recorded a \$13 million charge on two securities. The majority of the charge was related to a \$11 million impairment in a CDO security managed by a third party. Our GAAP basis in this asset subsequent to this impairment is \$640,000. We currently do not own any other CDO securities managed by third parties.

The following table summarizes the loan-to-value ratios on our mezzanine loans, B-Notes and whole loan portfolio (\$ in thousands):

|                                            | Mezzanine | B-Note    | Whole<br>Loan | Total       |
|--------------------------------------------|-----------|-----------|---------------|-------------|
| Adjusted Face Amount                       | \$819,603 | \$390,130 | \$89,935      | \$1,299,668 |
| Weighted Average First \$ Loan<br>To Value | 57.0%     | 46.8%     | 12.6%         | 50.9%       |
| Weighted Average Last \$ Loan To<br>Value  | 68.0%     | 63.4%     | 77.4%         | 67.3%       |
| Delinquency                                | 0.0%      | 0.0%      | 0.0%          | 0.0%        |

## Residential Assets

We own \$1.5 billion of adjusted face amount of residential assets, which includes manufactured housing (MH), residential loans and subprime securities.

- During the fourth quarter, we made no purchases or sales and had paydowns of \$69 million of which \$42 million was related to subprime securities.
- We had one real estate ABS or \$2 million upgraded (from a rating of A to A+) with 43 securities or \$251 million downgraded (from an average rating of BBB- to B-).
- Our two manufactured housing loan portfolios totaling \$542 million

continue to perform well as only 0.92% of the underlying loans are 60+ days delinquent versus 0.75% for the third quarter 2007.

The following tables summarize our subprime securities portfolio excluding our residuals and retained interests in our own securitizations (\$ in thousands):

| Vintage                   | Weighted<br>Average<br>Rating | Number | Security Characteristics      |                              |                            |                  |
|---------------------------|-------------------------------|--------|-------------------------------|------------------------------|----------------------------|------------------|
|                           |                               |        | Adjusted<br>Face<br>Amount \$ | Adjusted<br>GAAP<br>Basis \$ | Principal<br>Subordination | Excess<br>Spread |
| 2003                      | A                             | 16     | \$42,066                      | \$40,236                     | 23.0%                      | 1.7%             |
| 2004                      | A-                            | 30     | 176,018                       | 167,263                      | 16.5%                      | 2.0%             |
| 2005                      | BBB                           | 44     | 200,752                       | 186,605                      | 14.8%                      | 2.9%             |
| 2006                      | CCC                           | 29     | 159,497                       | 22,303                       | 4.0%                       | 2.6%             |
| 2007                      | BBB-                          | 3      | 7,750                         | 4,384                        | 10.3%                      | 2.4%             |
| Total/Weighted<br>Average | BB+                           | 122    | \$586,083                     | \$420,792                    | 12.9%                      | 2.4%             |

| Vintage                   | Deal<br>Age<br>(Months) | Collateral<br>Factor | Collateral Characteristics |                               |                    |
|---------------------------|-------------------------|----------------------|----------------------------|-------------------------------|--------------------|
|                           |                         |                      | Delinquency<br>90+/FC/REO  | Cumulative<br>Loss<br>To Date | 3 Month<br>CPR (1) |
| 2003                      | 52                      | 0.14                 | 10.0%                      | 2.1%                          | 18.9%              |
| 2004                      | 42                      | 0.18                 | 13.3%                      | 1.3%                          | 22.0%              |
| 2005                      | 29                      | 0.38                 | 18.8%                      | 1.3%                          | 27.8%              |
| 2006                      | 17                      | 0.72                 | 18.6%                      | 0.8%                          | 17.2%              |
| 2007                      | 9                       | 0.91                 | 9.4%                       | 0.0%                          | 9.4%               |
| Total/Weighted<br>Average | 31                      | 0.40                 | 16.3%                      | 1.2%                          | 22.3%              |

(1) CPR is constant prepayment rate.

In the fourth quarter, we recorded an \$84 million charge related to our \$586 million subprime securities portfolio. The majority of the charge was related to a \$59 million impairment of our 2006 vintage securities, reducing our GAAP basis in these securities to \$22 million. In addition, we recorded a \$25 million impairment on 13 other subprime securities with a face amount of \$67 million.

We own \$76 million of securities and \$69 million of residual interests in two subprime portfolio securitizations from 2006 ("Portfolio 1") and 2007 ("Portfolio 2"). The following table summarizes our subprime portfolio securitizations (\$ in thousands):

| Deal        | Security Characteristics      |                  |
|-------------|-------------------------------|------------------|
|             | Adjusted<br>Face<br>Amount \$ | GAAP<br>Basis \$ |
| Portfolio 1 | \$68,773                      | \$52,333         |
| Portfolio 2 | 75,855                        | 60,448           |

| Portfolio Characteristics |                                             |                                   |                       |                           | Actual                             | Projected                          |
|---------------------------|---------------------------------------------|-----------------------------------|-----------------------|---------------------------|------------------------------------|------------------------------------|
| Deal                      | Weighted<br>Average<br>Loan Age<br>(Months) | Securi-<br>tization<br>Balance \$ | Current<br>Balance \$ | Delinquency<br>90+/FC/REO | Cumula-<br>tive<br>Loss<br>To Date | Cumula-<br>tive<br>Loss<br>To Date |
| Portfolio 1               | 28                                          | \$1,502,181                       | \$898,456             | 10.0%                     | 0.2%                               | 0.5%                               |
| Portfolio 2               | 11                                          | 1,087,942                         | 1,019,905             | 2.3%                      | 0.0%                               | 0.0%                               |

In the fourth quarter, even though the portfolios have been out-performing our initial underwriting, we updated our future loss and prepayment assumptions based on current market conditions. Under the new assumptions, we recorded impairments of \$13 million on the residuals and \$13 million on the retained securities. The following summarizes the changes in our prepayment and loss assumptions on both portfolios:

| Portfolio Characteristics |             |             |
|---------------------------|-------------|-------------|
|                           | Portfolio 1 | Portfolio 2 |
| Cumulative Loss           |             |             |
| Original Underwriting     | 5.3%        | 8.0%        |
| Revised Underwriting      | 7.5%        | 13.7%       |
| Change                    | +2.2%       | +5.7%       |
| Lifetime Constant         |             |             |
| Voluntary Prepayment Rate |             |             |
| Original Underwriting     | 28.0%       | 30.1%       |
| Revised Underwriting      | 21.9%       | 19.7%       |
| Change                    | -6.1%       | -10.4%      |

In addition, prior to securitization of Portfolio 2, the seller repurchased \$185 million (or 14.6%) of the original loan pool due to early payment defaults. We believe these loans would otherwise have contributed to significantly higher delinquencies and ultimately greater losses in the deal.

## Corporate Assets

We own \$1.3 billion of adjusted face amount of corporate assets, including REIT debt and corporate bank loans.

- During the quarter, we purchased \$70 million and had paydowns of \$11 million for a net increase of \$59 million.
- Since year end, we sold a total of \$263 million of assets comprised of \$254 million of REIT debt and \$9 million of bank loans for a net realized loss of \$6 million.
- We had two REIT assets totaling \$11 million upgraded (from an average rating of BBB- to BBB), one bank loan of \$85 million upgraded (from a rating of B+ to BB) and two bank loans totaling \$70 million downgraded (from an average rating of BB- to B+).

The following table summarizes our REIT debt portfolio (\$ in thousands):

| Industry               | Weighted<br>Average<br>Rating | Number | Adjusted<br>Face<br>Amount \$ | Adjusted<br>Face<br>Amount % |
|------------------------|-------------------------------|--------|-------------------------------|------------------------------|
| Retail                 | BBB-                          | 17     | \$204,435                     | 30.7%                        |
| Office                 | BBB                           | 14     | 137,919                       | 20.7%                        |
| Diversified            | BBB                           | 14     | 141,463                       | 21.2%                        |
| Hotel                  | BBB-                          | 4      | 47,720                        | 7.2%                         |
| Multifamily            | BBB+                          | 8      | 44,508                        | 6.7%                         |
| Healthcare             | BBB-                          | 5      | 46,359                        | 7.0%                         |
| Industrial             | BBB                           | 3      | 20,865                        | 3.1%                         |
| Storage                | A-                            | 2      | 23,406                        | 3.5%                         |
| Total/Weighted Average | BBB-                          | 67     | \$666,675                     | 100.0%                       |

The following table summarizes our corporate bank loan portfolio (\$ in thousands):

#### Corporate Bank Loan

| Industry               | Weighted<br>Average<br>Rating | Number | Adjusted<br>Face<br>Amount \$ | Adjusted<br>Face<br>Amount % |
|------------------------|-------------------------------|--------|-------------------------------|------------------------------|
| Real Estate            | B-                            | 4      | \$186,952                     | 28.6%                        |
| Resorts                | BB-                           | 1      | 118,038                       | 18.1%                        |
| Media                  | B+                            | 1      | 112,000                       | 17.2%                        |
| Retail                 | B-                            | 1      | 100,000                       | 15.3%                        |
| Restaurant             | B-                            | 2      | 44,426                        | 6.8%                         |
| Transportation         | C                             | 2      | 37,175                        | 5.7%                         |
| Gaming                 | B+                            | 2      | 29,759                        | 4.6%                         |
| Theatres               | BB-                           | 1      | 24,591                        | 3.8%                         |
| Total/Weighted Average | B                             | 14     | \$652,940                     | 100.0%                       |

#### Conference Call

Newcastle's management will conduct a live conference call today, February 27, 2008, at 1:00 P.M. Eastern Time to review the financial results for the quarter ended December 31, 2007. All interested parties are welcome to participate on the live call. You can access the conference call by dialing (888) 243-2046 (from within the U.S.) or (706) 679-1533 (from outside of the U.S.) ten minutes prior to the scheduled start of the call; please reference "Newcastle Fourth Quarter Earnings Call."

A simultaneous webcast of the conference call will be available to the public on a listen-only basis at [www.newcastleinv.com](http://www.newcastleinv.com). Please allow extra time prior to the call to visit the site and download the necessary software required to listen to the internet broadcast. An online replay of the webcast will be available until March 31, 2008.

A telephonic replay of the conference call will also be available until 11:59 P.M. eastern time on Wednesday, March 12, 2008 by dialing (800) 642-1687 (from within the U.S.) or (706) 645-9291 (from outside of the U.S.); please reference access code "34057948."

## About Newcastle

Newcastle Investment Corp. owns and manages a \$6.9 billion highly diversified real estate debt portfolio with moderate credit risk that is primarily financed with match funded debt. Our business strategy is to "lock in" and optimize the difference between the yield on our assets and the cost of our liabilities. Newcastle is organized and conducts its operations to qualify as a real estate investment trust (REIT) for federal income tax purposes. Newcastle is managed by an affiliate of Fortress Investment Group LLC, a global alternative asset management firm with approximately \$40 billion in assets under management as of September 30, 2007. For more information regarding Newcastle Investment Corp. or to be added to our e-mail distribution list, please visit [www.newcastleinv.com](http://www.newcastleinv.com).

## Safe Harbor

Certain items in this press release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to our ability to acquire assets with attractive returns and the delinquent and loss rates on our subprime portfolios. These statements are based on management's current expectations and beliefs and are subject to a number of trends and uncertainties that could cause actual results to differ materially from those described in the forward- looking statements, many of which are beyond our control; Newcastle can give no assurance that its expectations will be attained. Factors that could cause actual results to differ materially from Newcastle's expectations include, but are not limited to, the risk that we can find additional suitably priced investments; the risk that investments made or committed to be made cannot be financed on the basis and for the term at which we expect; the relationship between yields on assets which are paid off and yields on assets in which such monies can be reinvested; and the relative spreads between the yield on the assets we invest in and the cost and availability of debt and equity financing. Accordingly, you should not place undue reliance on them. Such forward-looking statements speak only as of the date of this press release. Newcastle expressly disclaims any obligation to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

Newcastle Investment Corp.  
Consolidated Statements of Operations  
(dollars in thousands, except share data)  
(Unaudited)

|                                     | Year Ended<br>December 31, |           | Three Months Ended<br>December 31, |           |
|-------------------------------------|----------------------------|-----------|------------------------------------|-----------|
|                                     | 2007                       | 2006      | 2007                               | 2006      |
| Revenues                            |                            |           |                                    |           |
| Interest income                     | \$680,551                  | \$530,006 | \$156,691                          | \$151,562 |
| Rental and escalation<br>income     | 6,673                      | 4,861     | 2,775                              | 1,245     |
| Gain on sale of<br>investments, net | 14,056                     | 12,998    | 42                                 | 2,276     |
| Other income (loss)                 | (13,223)                   | 5,402     | (12,666)                           | 857       |
|                                     | 688,057                    | 553,267   | 146,842                            | 155,940   |
| Expenses                            |                            |           |                                    |           |
| Interest expense                    | 476,988                    | 374,269   | 108,880                            | 109,156   |

|                                                                                               |             |            |              |            |
|-----------------------------------------------------------------------------------------------|-------------|------------|--------------|------------|
| Loss on extinguishment of debt                                                                | 15,032      | 658        | -            | -          |
| Property operating expense                                                                    | 5,514       | 3,805      | 2,415        | 997        |
| Loan and security servicing expense                                                           | 9,719       | 6,944      | 1,947        | 1,984      |
| Provision for credit losses                                                                   | 10,394      | 9,438      | 2,449        | 3,570      |
| Provision for losses, loans held for sale                                                     | 7,325       | 4,127      | 1,571        | -          |
| General and administrative expense                                                            | 6,041       | 4,946      | 1,891        | 967        |
| Management fee to affiliate                                                                   | 17,645      | 14,018     | 4,597        | 3,598      |
| Incentive compensation to affiliate                                                           | 6,209       | 12,245     | -            | 3,465      |
| Depreciation and amortization                                                                 | 1,412       | 1,085      | 382          | 318        |
|                                                                                               | 556,279     | 431,535    | 124,132      | 124,055    |
| Income before other gains (losses)                                                            | 131,778     | 121,732    | 22,710       | 31,885     |
| Other Gains (Losses)                                                                          |             |            |              |            |
| Other than temporary impairment                                                               | (202,602)   | -          | (128,789)    | -          |
| Income (loss) before equity in earnings of unconsolidated subsidiaries                        | (70,824)    | 121,732    | (106,079)    | 31,885     |
| Equity in earnings of unconsolidated subsidiaries                                             | 5,390       | 5,968      | 3,236        | 2,052      |
| Income taxes on related taxable subsidiaries                                                  | -           | -          | -            | -          |
| Income (loss) from continuing operations                                                      | (65,434)    | 127,700    | (102,843)    | 33,937     |
| Income (loss) from discontinued operations                                                    | (23)        | 223        | (21)         | 10         |
| Net Income (Loss)                                                                             | (65,457)    | 127,923    | (102,864)    | 33,947     |
| Preferred dividends                                                                           | (12,640)    | (9,314)    | (3,375)      | (2,329)    |
| Income (Loss) Attributable To Common Stockholders                                             | \$ (78,097) | \$118,609  | \$ (106,239) | \$31,618   |
| Net Income (Loss) Per Share of Common Stock                                                   |             |            |              |            |
| Basic                                                                                         | \$ (1.52)   | \$2.68     | \$ (2.01)    | \$0.70     |
| Diluted                                                                                       | \$ (1.52)   | \$2.67     | \$ (2.01)    | \$0.70     |
| Income (loss) from continuing operations per share of common stock, after preferred dividends |             |            |              |            |
| Basic                                                                                         | \$ (1.52)   | \$2.67     | \$ (2.01)    | \$0.70     |
| Diluted                                                                                       | \$ (1.52)   | \$2.67     | \$ (2.01)    | \$0.70     |
| Income (loss) from discontinued operations per share of common stock                          |             |            |              |            |
| Basic                                                                                         | \$-         | \$0.01     | \$-          | \$-        |
| Diluted                                                                                       | \$-         | \$-        | \$-          | \$-        |
| Weighted Average Number of Shares of Common Stock Outstanding                                 |             |            |              |            |
| Basic                                                                                         | 51,369,486  | 44,268,575 | 52,779,179   | 45,128,969 |
| Diluted                                                                                       | 51,369,486  | 44,417,113 | 52,779,179   | 45,384,810 |
| Dividends Declared per Share of Common Stock                                                  | \$2.85      | \$2.62     | \$0.72       | \$0.69     |

Newcastle Investment Corp.  
Consolidated Balance Sheets  
(dollars in thousands, except share data)  
(Unaudited)

|                                                                                                                                                                                                                                                                                                                                                                                               | As of<br>December 31,<br>2007 | As of<br>December 31,<br>2006 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------|
| <b>Assets</b>                                                                                                                                                                                                                                                                                                                                                                                 |                               |                               |
| Real estate securities, available for sale                                                                                                                                                                                                                                                                                                                                                    | \$4,835,884                   | \$5,581,228                   |
| Real estate related loans, net                                                                                                                                                                                                                                                                                                                                                                | 1,856,978                     | 1,568,916                     |
| Residential mortgage loans, net                                                                                                                                                                                                                                                                                                                                                               | 634,605                       | 809,097                       |
| Subprime mortgage loans, held for sale                                                                                                                                                                                                                                                                                                                                                        | -                             | -                             |
| Subprime mortgage loans subject to call option                                                                                                                                                                                                                                                                                                                                                | 393,899                       | 288,202                       |
| Investments in unconsolidated subsidiaries                                                                                                                                                                                                                                                                                                                                                    | 24,477                        | 22,868                        |
| Operating real estate, net                                                                                                                                                                                                                                                                                                                                                                    | 34,399                        | 29,626                        |
| Cash and cash equivalents                                                                                                                                                                                                                                                                                                                                                                     | 55,916                        | 5,371                         |
| Restricted cash                                                                                                                                                                                                                                                                                                                                                                               | 133,126                       | 184,169                       |
| Derivative assets                                                                                                                                                                                                                                                                                                                                                                             | 4,114                         | 62,884                        |
| Receivables and other assets                                                                                                                                                                                                                                                                                                                                                                  | 64,372                        | 52,031                        |
|                                                                                                                                                                                                                                                                                                                                                                                               | \$8,037,770                   | \$8,604,392                   |
| <b>Liabilities and Stockholders' Equity</b>                                                                                                                                                                                                                                                                                                                                                   |                               |                               |
| <b>Liabilities</b>                                                                                                                                                                                                                                                                                                                                                                            |                               |                               |
| CBO bonds payable                                                                                                                                                                                                                                                                                                                                                                             | \$4,716,535                   | \$4,313,824                   |
| Other bonds payable                                                                                                                                                                                                                                                                                                                                                                           | 546,798                       | 675,844                       |
| Notes payable                                                                                                                                                                                                                                                                                                                                                                                 | -                             | 128,866                       |
| Repurchase agreements                                                                                                                                                                                                                                                                                                                                                                         | 1,634,362                     | 760,346                       |
| Repurchase agreements subject to ABCP facility                                                                                                                                                                                                                                                                                                                                                | -                             | 1,143,749                     |
| Financing of subprime mortgage loans subject to call option                                                                                                                                                                                                                                                                                                                                   | 393,899                       | 288,202                       |
| Credit facility                                                                                                                                                                                                                                                                                                                                                                               | -                             | 93,800                        |
| Junior subordinated notes payable (security for trust preferred)                                                                                                                                                                                                                                                                                                                              | 100,100                       | 100,100                       |
| Derivative liabilities                                                                                                                                                                                                                                                                                                                                                                        | 133,510                       | 17,715                        |
| Dividends payable                                                                                                                                                                                                                                                                                                                                                                             | 40,251                        | 33,095                        |
| Due to affiliates                                                                                                                                                                                                                                                                                                                                                                             | 7,741                         | 13,465                        |
| Accrued expenses and other liabilities                                                                                                                                                                                                                                                                                                                                                        | 16,949                        | 33,406                        |
|                                                                                                                                                                                                                                                                                                                                                                                               | 7,590,145                     | 7,602,412                     |
| <b>Stockholders' Equity</b>                                                                                                                                                                                                                                                                                                                                                                   |                               |                               |
| 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, and 2,000,000 shares of 8.375% Series D Cumulative Redeemable Preferred Stock liquidation preference \$25.00 per share, issued and outstanding (Series D issued in 2007) | 152,500                       | 102,500                       |
| Common stock, \$0.01 par value, 500,000,000 shares authorized, 52,779,179 and 45,713,817 shares issued and outstanding at December 31, 2007 and December 31, 2006, respectively                                                                                                                                                                                                               | 528                           | 457                           |
| Additional paid-in capital                                                                                                                                                                                                                                                                                                                                                                    | 1,033,326                     | 833,887                       |
| Dividends in excess of earnings                                                                                                                                                                                                                                                                                                                                                               | (236,213)                     | (10,848)                      |

|                                               |             |             |
|-----------------------------------------------|-------------|-------------|
| Accumulated other comprehensive income (loss) | (502,516)   | 75,984      |
|                                               | 447,625     | 1,001,980   |
|                                               | \$8,037,770 | \$8,604,392 |

Newcastle Investment Corp.  
Reconciliation of GAAP Net Income to FFO  
(dollars in thousands)  
(Unaudited)

|                                                       | Three Months Ended<br>December 31,<br>2007 | Year Ended<br>December 31,<br>2007 |
|-------------------------------------------------------|--------------------------------------------|------------------------------------|
| Net income (loss) attributable to common stockholders | \$ (106,239)                               | \$ (78,097)                        |
| Operating real estate depreciation                    | 309                                        | 1,121                              |
| Funds from operations ("FFO")                         | \$ (105,930)                               | \$ (76,976)                        |

We believe FFO is one appropriate measure of the operating performance of real estate companies because it provides investors with information regarding our ability to service debt and make capital expenditures. We also believe that FFO is an appropriate supplemental disclosure of operating performance for a REIT due to its widespread acceptance and use within the REIT and analyst communities. Furthermore, FFO is used to compute our incentive compensation to our manager. FFO, for our purposes, represents net income available for common stockholders (computed in accordance with GAAP), excluding extraordinary items, plus real estate depreciation, 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.

Newcastle Investment Corp.  
Reconciliation of GAAP Book Equity to Invested Common Equity  
(dollars in thousands)  
(Unaudited)

|                                                   | December 31, 2007 |
|---------------------------------------------------|-------------------|
| Book equity                                       | \$447,625         |
| Preferred stock                                   | (152,500)         |
| Accumulated depreciation on operating real estate | 6,000             |
| Accumulated other comprehensive (income) loss     | 502,516           |
| Invested common equity                            | \$803,641         |

Newcastle Investment Corp.  
Reconciliation of GAAP Book Value to Adjusted Book Value  
(dollars in thousands, except per share)  
(Unaudited)

|                              | Amount    | Per Share |
|------------------------------|-----------|-----------|
| GAAP Book Value              | \$295,125 | \$5.59    |
| Adjustments to Fair Value:   |           |           |
| Commercial Real Estate Loans | (88,405)  | (1.67)    |
| CDO Liabilities              | 641,382   | 12.15     |
| Other Assets/Liabilities     | 17,004    | 0.32      |
| Total Adjustments            | 569,981   | 10.80     |
| Adjusted Book Value          | \$865,106 | \$16.39   |

SOURCE Newcastle Investment Corp.