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Fortress Investment Group LLC
Form 10-Q
May 02, 2013

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 March 31, 2013

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: 001-33294

Fortress Investment Group LLC

(Exact name of registrant as specified in its charter)

Delaware

20-5837959

(State or other jurisdiction of incorporation

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

or organization)

1345 Avenue of the Americas, New York, NY

10105

(Address of principal executive offices)

(Zip Code)

(212) 798-6100

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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

Smaller reporting company

(Do not check if a 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.

Class A Shares: 236,681,342 outstanding as of April 26, 2013.

Class B Shares: 249,534,372 outstanding as of April 26, 2013.

FORTRESS INVESTMENT GROUP LLC
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Set forth below is information about certain terms used in this Quarterly Report on Form 10-Q:

"Management Fee Paying Assets Under Management," or "AUM," refers to the management fee paying assets we manage, including, as applicable, capital we have the right to call from our investors pursuant to their capital commitments to various funds. Our AUM equals the sum of:

- the capital commitments or invested capital (or NAV, if lower) of our private equity funds and credit PE funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with private equity funds raised after March 2006 includes the mark-to-market value of public securities held within the funds,
- (i) the contributed capital of our publicly traded alternative investment vehicles, which we refer to as our "Castles," the net asset value, or "NAV," of our hedge funds, including the Value Recovery Funds and certain advisory engagements which pay fees based on realizations (and on certain managed assets and, in some cases, a fixed fee); and
- (ii) the NAV or fair value of our managed accounts, to the extent management fees are charged.

For each of the above, the amounts exclude assets under management for which we charge either no or nominal fees, generally related to our principal investments in funds as well as investments in funds by our principals, directors and employees.

Our calculation of AUM may differ from the calculations of other asset managers and, as a result, this measure may not be comparable to similar measures presented by other asset managers. Our definition of AUM is not based on any definition of assets under management contained in our operating agreement or in any of our Fortress Fund management agreements. Finally, our calculation of AUM differs from the manner in which our affiliates registered with the United States Securities and Exchange Commission report "Regulatory Assets Under Management" on Form ADV and Form PF in various ways. Significantly, Regulatory Assets Under Management, unlike Management Fee Paying Assets Under Management, is not reduced by liabilities or indebtedness associated with assets under management and it includes assets under management and uncalled capital for which Fortress receives no compensation.

"Fortress," "we," "us," "our," the "company" and the "public company" refer, collectively, to Fortress Investment Group LLC its subsidiaries, including the Fortress Operating Group and all of its subsidiaries.

"Fortress Funds" and "our funds" refers to the private investment funds, alternative asset companies and related managed accounts that we manage. The Fortress Macro Fund is our flagship liquid hedge fund and the Drawbridge Special Opportunities Fund is our flagship credit hedge fund.

"Fortress Operating Group" or "FOG" refers to the limited partnerships and their subsidiaries through which we conduct our business and hold our principal investments. The public company controls the Fortress Operating Group through wholly owned subsidiaries that serve as the general partner of each FOG entity.

Economic interests in each FOG entity are represented by Class A Common Units and Class B Common Units. Class A Common Units are (indirectly) owned by the public company, and Class B Common Units are owned by the principals (defined below) and, from time to time, one senior employee who owned securities convertible into Class B Common Units.

The number of outstanding Class A Common Units equals the number of outstanding Class A shares of the public company. The number of outstanding Class B Common Units equals the number of outstanding Class B shares of the public company.

“Fortress Operating Group units” or “FOGUs” is the term we use to refer to the aggregate of one limited partner interest (either a Class A Common Unit or a Class B Common Unit, as applicable) in each FOG entity. One FOGU together with one Class B share is convertible into one Class A share. A surrendered Class B Common Unit automatically converts into a Class A Common Unit.

“principals” or “Principals” refers to Peter Briger, Wesley Edens, Randal Nardone and Michael Novogratz, collectively, as well as Robert Kauffman until his retirement in December 2012. The principals control the public company through their ownership of the public company's Class B shares (together with, from time to time, a senior employee who owned securities convertible into Class B shares). The Class B shares and the Class A shares are each entitled to one vote per share, and the number of Class B shares outstanding represents a majority of the aggregate number of Class B shares and Class A shares outstanding. The Class B shares do not represent an economic interest in the public company and therefore are not entitled to any dividends. The principals own their economic interest in the public company through their direct ownership of FOGUs.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Part II, Item 1A, "Risk Factors," Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," Part I, Item 3, "Quantitative and Qualitative Disclosures About Market Risk" and elsewhere in this Quarterly Report on Form 10-Q may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. Readers can identify these forward-looking statements by the use of forward-looking words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "seeks," "approximately," "predicts," "intends," "plans," "estimates," "anticipates" or the version of those words or other comparable words. Any forward-looking statements contained in this report are based upon the historical performance of us and our subsidiaries and on our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these statements. Accordingly, you should not place undue reliance on any forward-looking statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10 Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and: should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Quarterly Report on Form 10 Q and the Company's other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	\$245,957	\$104,242
Due from affiliates	144,122	280,557
Investments	1,314,271	1,249,761
Deferred tax asset	386,788	402,135
Other assets	119,651	124,798
	\$2,210,789	\$2,161,493
Liabilities and Equity		
Liabilities		
Accrued compensation and benefits	\$134,858	\$146,911
Due to affiliates	319,574	357,407
Deferred incentive income	251,827	231,846
Debt obligations payable	109,453	149,453
Other liabilities	100,023	59,226
	915,735	944,843
Commitments and Contingencies		
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 236,681,342 and 218,286,342 shares issued and outstanding at March 31, 2013 and December 31, 2012 respectively	—	—
Class B shares, no par value, 750,000,000 shares authorized, 249,534,372 and 249,534,372 shares issued and outstanding at March 31, 2013 and December 31, 2012 respectively	—	—
Paid-in capital	2,138,810	2,119,102
Retained earnings (accumulated deficit)	(1,472,249)	(1,486,578)
Treasury shares (2,082,684 Class A shares held by subsidiary at December 31, 2012)	—	(3,419)
Accumulated other comprehensive income (loss)	(1,993)	(2,634)
Total Fortress shareholders' equity	664,568	626,471
Principals' and others' interests in equity of consolidated subsidiaries	630,486	590,179
Total equity	1,295,054	1,216,650
	\$2,210,789	\$2,161,493

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(dollars in thousands)

	Three Months Ended March 31,	
	2013	2012
Revenues		
Management fees: affiliates	\$ 143,602	\$ 106,295
Management fees: non-affiliates	14,815	11,389
Incentive income: affiliates	31,357	8,802
Incentive income: non-affiliates	1,429	307
Expense reimbursements primarily from affiliates	50,568	43,602
Other revenues (affiliate portion disclosed in Note 6)	2,584	1,263
	244,355	171,658
Expenses		
Interest expense	2,295	4,367
Compensation and benefits	181,079	183,379
General, administrative and other	33,998	29,666
Depreciation and amortization	3,239	3,478
	220,611	220,890
Other Income (Loss)		
Gains (losses) (affiliate portion disclosed in Note 3)	41,275	24,622
Tax receivable agreement liability adjustment	(7,739)) (6,935)
Earnings (losses) from equity method investees	36,302	35,240
	69,838	52,927
Income (Loss) Before Income Taxes	93,582	3,695
Income tax benefit (expense)	(26,276)) (27,842)
Net Income (Loss)	\$ 67,306	\$ (24,147)
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	\$ 52,977	\$ 5,393
Net Income (Loss) Attributable to Class A Shareholders	\$ 14,329	\$ (29,540)
Dividends declared per Class A share	\$ 0.06	\$ 0.05
Earnings (Loss) Per Class A share		-0.15
Net income (loss) per Class A share, basic	\$ 0.06	\$ (0.15)
Net income (loss) per Class A share, diluted	\$ 0.05	\$ (0.16)
Weighted average number of Class A shares outstanding, basic	227,287,102	200,009,820
Weighted average number of Class A shares outstanding, diluted	496,294,600	515,803,383

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(dollars in thousands)

	Three Months Ended March 31,	
	2013	2012
Comprehensive income (loss) (net of tax)		
Net income (loss)	\$67,306	\$(24,147)
Foreign currency translation	(2,856)	(917)
Comprehensive income (loss) from equity method investees	4,225	(668)
Total comprehensive income (loss)	\$68,675	\$(25,732)
Comprehensive income (loss) attributable to principals' and others' interests	\$53,834	\$4,481
Comprehensive income (loss) attributable to Class A shareholders	\$14,841	\$(30,213)

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

FOR THE THREE MONTHS ENDED MARCH 31, 2013

(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders' Equity	Principals' and Others' Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity -									
December 31, 2012	218,286,342	249,534,372	\$2,119,102	\$(1,486,578)	\$(3,419)	\$(2,634)	\$626,471	\$590,179	\$1,216,650
Contributions from principals' and others' interests in equity	—	—	—	—	—	—	—	24,188	24,188
Distributions to principals' and others' interests in equity (net of tax)	—	—	(112)	—	—	—	(112)	(25,996)	(26,108)
Dividends declared	—	—	(13,364)	—	—	—	(13,364)	66	(13,298)
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(195)	—	—	—	(195)	(313)	(508)
Conversion of Class B shares to Class A shares	10,333,334	(10,333,334)	10,143	—	—	—	10,143	(10,143)	—
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	11,632	—	—	—	11,632	—	11,632
Director restricted share	47,931	—	104	—	—	—	104	116	220

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grant Capital increase related to equity-based compensation, net	5,931,051	10,333,334	6,890	—	—	—	6,890	7,718	14,608
Dilution impact of Class A share issuance	—	—	9,049	—	(15)	129	9,163	(9,163)	—
Reissuance of treasury stock	2,082,684	—	(4,439)	—	3,434	—	(1,005)	—	(1,005
Comprehensive income (loss) (net of tax)									
Net income (loss)	—	—	—	14,329	—	—	14,329	52,977	67,306
Foreign currency translation	—	—	—	—	—	(1,019)	(1,019)	(1,837)	(2,856
Comprehensive income (loss) from equity method investees	—	—	—	—	—	1,531	1,531	2,694	4,225
Total comprehensive income (loss)							14,841	53,834	68,675
Equity - March 31, 2013	236,681,342	249,534,372	\$2,138,810	\$(1,472,249)	\$—	\$(1,993)	\$664,568	\$630,486	\$1,295,054

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands)

	Three Months Ended March 31,	
	2013	2012
Cash Flows From Operating Activities		
Net income (loss)	\$67,306	\$(24,147)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	3,239	3,478
Other amortization and accretion (included in interest expense)	288	335
(Earnings) losses from equity method investees	(36,302)	(35,240)
Distributions of earnings from equity method investees	18,411	11,595
(Gains) losses	(41,275)	(24,622)
Deferred incentive income	(26,795)	(8,743)
Deferred tax (benefit) expense	36,207	34,654
Adjustment of estimated forfeited non-cash compensation	12	(1,514)
Options received from affiliates	(26,374)	—
Tax receivable agreement liability adjustment	7,739	6,935
Equity-based compensation	9,597	61,035
Options in affiliates granted to employees	6,356	—
Allowance for doubtful accounts	73	186
Cash flows due to changes in		
Due from affiliates	(15,226)	(23,628)
Other assets	11,192	(665)
Accrued compensation and benefits	5,463	(145,931)
Due to affiliates	(14,593)	2,518
Deferred incentive income	48,323	12,333
Other liabilities	32,007	28,178
Net cash provided by (used in) operating activities	85,648	(103,243)
Cash Flows From Investing Activities		
Contributions to equity method investees	(237)	(6,868)
Distributions of capital from equity method investees	167,083	109,039
Purchase of fixed assets	(2,334)	(3,568)
Net cash provided by (used in) investing activities	164,512	98,603
Cash Flows From Financing Activities		
Repayments of debt obligations	(40,000)	(8,750)
Payment of deferred financing costs	(2,054)	—
Dividends and dividend equivalents paid	(13,907)	(10,315)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	\$20	19
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(52,804)	(60,891)
Net cash provided by (used in) financing activities	(108,445)	(79,937)
Net Increase (Decrease) in Cash and Cash Equivalents	141,715	(84,577)
Cash and Cash Equivalents, Beginning of Period	104,242	333,166
Cash and Cash Equivalents, End of Period	\$245,957	\$248,589

Continued on next page.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands)

	Three Months Ended March 31,	
	2013	2012
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$1,658	\$3,903
Cash paid during the period for income taxes	\$1,309	\$2,000
Supplemental Schedule of Non-cash Investing and Financing Activities		
Employee compensation invested directly in subsidiaries	\$23,872	\$8,353
Investments of receivable amounts into Fortress Funds	\$162,647	\$71,921
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	\$3,611	\$775

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
MARCH 31, 2013
(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

Fortress Investment Group LLC (the “Registrant,” or, together with its subsidiaries, “Fortress”) is a leading, highly diversified global investment management firm whose predecessor was founded in 1998. Its primary business is to sponsor the formation of, and provide investment management services for, various investment funds and companies, including related managed accounts (collectively, the “Fortress Funds”). Fortress generally makes principal investments in these funds.

Fortress has three primary sources of income from the Fortress Funds: management fees, incentive income, and investment income on its principal investments in the funds. The Fortress Funds fall into the following business segments in which Fortress operates:

1) Private equity:

- a) General buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America, Western Europe and Asia; and
- b) Publicly traded permanent capital vehicles, which Fortress refers to as “Castles,” that invest in a wide variety of real estate related assets including securities, loans, real estate properties and mortgage servicing rights.

- 2) Liquid hedge funds that invest globally in fixed income, currency, equity and commodity markets, and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments; and a fund that seeks to generate returns by executing a positively convex investment strategy.

3) Credit funds:

- a) Credit hedge funds, which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance, on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and
- b) Credit private equity (“PE”) funds which are comprised of a family of “credit opportunities” funds focused on investing in distressed and undervalued assets, a family of “long dated value” funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of “real assets” funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based global opportunities fund, and a family of real estate opportunities funds, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector.

- 4) Logan Circle Partners, L.P. (“Logan Circle”), which represents Fortress's traditional asset management business providing institutional clients actively managed investment solutions across a broad spectrum of fixed income and growth equity strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt. In April 2013, Logan Circle launched a growth equities investment business focused on investing and managing concentrated portfolios of publicly traded U.S. equities.

5)Principal investments in the above described funds.

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FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 MARCH 31, 2013
 (dollars in tables in thousands, except share data)

FINANCIAL STATEMENT GUIDE

Selected Financial Statement Captions	Note Reference	Explanation
Balance Sheet		
Due from Affiliates	6	Generally, management fees, expense reimbursements and incentive income due from Fortress Funds.
Investments	3	Primarily the carrying value of Fortress's principal investments in the Fortress Funds.
Deferred Tax Asset	5	Relates to potential future tax benefits.
Due to Affiliates	6	Generally, amounts due to the Principals related to their interests in Fortress Operating Group and the tax receivable agreement.
Deferred Incentive Income	2	Incentive income already received from certain Fortress Funds based on past performance, which is subject to contingent repayment based on future performance.
Debt Obligations Payable	4	The balance outstanding on the credit agreement and promissory note.
Statement of Operations		
Management Fees: Affiliates	2	Fees earned for managing Fortress Funds, generally determined based on the size of such funds.
Management Fees: Non-Affiliates	2	Fees earned from managed accounts and our traditional fixed income asset management business, generally determined based on the amount managed.
Incentive Income: Affiliates	2	Income earned from Fortress Funds, based on the performance of such funds.
Incentive Income: Non- Affiliates	2	Income earned from managed accounts, based on the performance of such accounts.
Compensation and Benefits	7	Includes equity-based, profit-sharing and other compensation to employees.
Gains (Losses)	3	

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The result of asset dispositions or changes in the fair value of investments or other financial instruments which are marked to market (including the Castles and GAGFAH).

Tax Receivable Agreement Liability Adjustment	5	Represents a change in the amount due to the Principals under the tax receivable agreement.
Earnings (Losses) from Equity Method Investees	3	Fortress's share of the net earnings (losses) of the Fortress Funds resulting from its principal investments.
Income Tax Benefit (Expense)	5	The net tax result related to the current period. Certain of Fortress's revenues are not subject to taxes because they do not flow through taxable entities. Furthermore, Fortress has significant permanent differences between its GAAP and tax basis earnings.

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FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 MARCH 31, 2013
 (dollars in tables in thousands, except share data)

Selected Financial Statement Captions	Note Reference	Explanation
Principals' and Others' Interests in (Income) Loss of Consolidated Subsidiaries	6	Primarily the Principals' and employees' share of Fortress's earnings based on their ownership interests in subsidiaries, including Fortress Operating Group.
Earnings Per Share	8	GAAP earnings per Class A share based on Fortress's capital structure, which is comprised of outstanding and unvested equity interests, including interests which participate in Fortress's earnings, at both the Fortress and subsidiary levels.
Other		
Distributions	8	A summary of dividends and distributions, and the related outstanding shares and units, is provided.
Distributable Earnings	10	A presentation of our financial performance by segment (fund type) is provided, on the basis of the operating performance measure used by Fortress's management committee.

The FASB has recently issued or discussed a number of proposed standards on such topics as consolidation, the definition of an investment company, financial statement presentation, revenue recognition, leases, financial instruments, hedging, and contingencies. Some of the proposed changes are significant and could have a material impact on Fortress's financial reporting. Fortress has not yet fully evaluated the potential impact of these proposals, but will make such an evaluation as the standards are finalized.

The accompanying consolidated financial statements and related notes of Fortress 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 Fortress'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 Fortress's consolidated financial statements for the year ended December 31, 2012 and notes thereto included in Fortress's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2013. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's consolidated financial statements for the year ended December 31, 2012.

2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

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Fortress has two principal sources of income from its agreements with the Fortress Funds: contractual management fees, which are generally based on a percentage of fee paying assets under management, and related incentive income, which is generally based on a percentage of profits subject to the achievement of performance criteria. Substantially all of Fortress's net assets, after deducting the portion attributable to principals' and others' interests, are a result of principal investments in, or receivables from, these funds. The terms of agreements between Fortress and the Fortress Funds are generally determined in connection with third party fund investors.

The Fortress Funds are divided into segments and Fortress's agreements with each are detailed below.

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Management Fees, Incentive Income and Related Profit Sharing Expense

Fortress recognized management fees and incentive income as follows:

	Three Months Ended March 31,	
	2013	2012
Private Equity		
Private Equity Funds		
Management fees: affil.	\$32,784	\$29,587
Management fees: non-affil.	104	71
Incentive income: affil.	10,455	1,107
Castles		
Management fees: affil.	16,688	12,149
Management fees, options: affil.	26,374	—
Management fees: non-affil.	1,270	2,552
Incentive income: affil.	—	—
Liquid Hedge Funds		
Management fees: affil.	17,522	17,212
Management fees: non-affil.	5,501	2,955
Incentive income: affil.	1,787	62
Incentive income: non-affil.	1,053	48
Credit Funds		
Credit Hedge Funds		
Management fees: affil.	24,530	25,505
Management fees: non-affil.	31	125
Incentive income: affil.	3,151	257
Incentive income: non-affil.	—	—
Credit PE Funds		
Management fees: affil.	25,156	21,842
Management fees: non-affil.	35	36
Incentive income: affil.	15,964	7,376
Incentive income: non-affil.	376	259
Logan Circle		
Management fees: affil.	548	—
Management fees: non-affil.	7,874	5,650
Total		
Management fees: affil.	\$143,602	\$106,295

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Management fees: non-affil.	\$14,815	\$11,389
Incentive income: affil. (A)	\$31,357	\$8,802
Incentive income: non-affil.	\$1,429	\$307

(A) See “Deferred Incentive Income” below.

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Deferred Incentive Income

Incentive income from certain Fortress Funds, primarily private equity funds and credit PE funds, is received when such funds realize profits, based on the related agreements. However, this incentive income is subject to contingent repayment by Fortress to the funds until certain overall fund performance criteria are met. Accordingly, Fortress does not recognize this incentive income as revenue until the related contingencies are resolved. Until such time, this incentive income is recorded on the balance sheet as deferred incentive income and is included as “distributed-unrecognized” deferred incentive income in the table below. Incentive income from such funds, based on their net asset value, which has not yet been received is not recorded on the balance sheet and is included as “undistributed” deferred incentive income in the table below.

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the three months ended March 31, 2013 and 2012. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, \$59.4 million and \$35.9 million of additional incentive income from affiliates would have been recognized during the three months ended March 31, 2013 and 2012, respectively. Incentive income based on achieving annual performance criteria that has not yet been recognized, if any, is not recorded on the balance sheet and is included as “undistributed” deferred incentive income in the table below.

During the three months ended March 31, 2013 and 2012, Fortress recognized \$16.0 million and \$7.4 million, respectively, of incentive income distributions from its credit PE funds which represented “tax distributions.” These tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

Deferred incentive income from the Fortress Funds was comprised of the following, on an inception-to-date basis. This does not include any amounts related to third party funds, receipts from which are reflected as Other Liabilities until all contingencies are resolved.

	Distributed-Gross	Distributed-Recognized	Distributed-Unrecognized	Undistributed net of intrinsic clawback
	(A)	(B)	(C)	(D)
Deferred incentive income as of December 31, 2012	\$ 894,278	\$ (662,432)	\$ 231,846	\$ 527,432
Fortress Funds which matured (no longer subject to clawback)	(2,180)	2,180	N/A	N/A
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	150,972
Distribution of private equity incentive income	48,364	N/A	48,364	(48,364)
Recognition of previously deferred incentive income	N/A	(26,795)	(26,795)	N/A
Changes in foreign exchange rates	(1,588)	—	(1,588)	N/A

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Deferred incentive income as of March 31, 2013	\$ 938,874	\$ (687,047)	\$ 251,827	\$ 630,040
Deferred incentive income including Fortress Funds which matured	\$ 992,530	\$ (740,703)		

(A) All related contingencies have been resolved.

(B) Reflected on the balance sheet.

(C) At March 31, 2013, the net undistributed incentive income is comprised of \$716.7 million of gross undistributed incentive income, net of \$86.7 million of intrinsic clawback (see next page). The net undistributed incentive income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on March 31, 2013 at their net asset values.

(D) From inception to March 31, 2013, Fortress has paid \$403.5 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income, of which \$27.9 million has not been expensed because management has determined that it is not probable of being incurred as an expense and will be recovered from the related individuals. If the \$716.7 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional \$336.7 million of compensation expense.

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The following tables summarize information with respect to the Fortress Funds, other than the Castles, and their related incentive income thresholds as of March 31, 2013:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Investment	Inception to Date Distributions	Net Asset Value ("NAV")	NAV Surplus (Deficit)	Current Preferred Return Threshold (D)	Gain to Cross Incentive Income Threshold (E)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)	Gross Intrinsic Clawback (J)	
Private Equity Funds												
NIH (1998)	Indefinite	\$415,574	\$(808,433)	\$8,461	\$ N/A	\$—	\$ N/A	\$—	\$94,513	\$—	\$—	
Fund I (1999) (K)	Apr-10	1,015,943	(2,793,118)	55,485	1,832,660	—	N/A	10,463	334,604	—	—	
Fund II (2002)	Feb-13	1,974,298	(3,266,588)	154,136	1,446,426	—	N/A	—	287,985	33,720	3,352	
Fund III (2004)	Jan-15	2,762,992	(1,451,329)	2,297,125	985,462	1,547,026	1,563	—	66,903	66,903	66,903	
Fund III Coinvestment (2004)	Jan-15	273,649	(165,926)	129,859	22,136	190,057	167,921	—	—	—	—	
Fund IV (2006)	Jan-17	3,639,561	(534,178)	3,891,801	786,418	2,026,849	2,431	—	—	—	—	
Fund IV Coinvestment (2006)	Jan-17	762,696	(119,953)	626,263	(16,480)	435,296	451,776	—	—	—	—	
Fund V (2007)	Feb-18	4,103,714	(141,136)	3,934,856	(27,722)	1,701,518	1,729,240	—	—	—	—	
Fund V Coinvestment (2007)	Feb-18	990,477	(146)	636,162	(354,169)	452,253	806,422	—	—	—	—	
GAGACQ Fund (2004)	Closed Nov-09	545,663	(595,401)	N/A	N/A	N/A	N/A	N/A	51,476	N/A	N/A	
FRID (2005)	Apr-15	1,220,229	(505,614)	587,260	(127,355)	745,645	873,000	—	16,447	16,447	16,447	
FRIC (2006)	May-16	328,754	(17,460)	242,146	(69,148)	214,441	283,589	—	—	—	—	
FICO (2006)	Jan-17	724,525	(5)	(58,222)	(782,742)	437,872	1,220,614	—	—	—	—	
FHIF (2006)	Jan-17	1,543,463	(63,169)	2,240,908	760,614	846,177	85,563	—	—	—	—	
FECI (2007)	Feb-18	982,779	(161)	908,830	(73,788)	532,949	606,737	—	—	—	—	
									\$10,463	\$851,928	\$117,070	\$86,7
Private Equity Funds in Investment Period												
WWTAI (2011)	Jun-24	\$155,395	\$(10,057)	\$150,712	\$5,374	\$5,892	\$518	\$—	\$—	\$—	\$—	
MSR Opportunities Fund IA (2012)	Aug-22	103,847	—	103,784	(63)	3,100	3,163	—	—	—	—	
MSR Opportunities Fund IB (2012)	Aug-22	25,153	—	25,093	(60)	751	811	—	—	—	—	
									\$—	\$—	\$—	\$—

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Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Investment	Inception to Date Distributions	Net Asset Value ("NAV") (C)	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Incentive Sub to Class (I)
Credit PE Funds										
Long Dated Value Fund I (2005)	Apr-30	\$267,325	\$(65,049)	\$281,614	\$79,338	\$113,138	\$33,800	\$—	\$—	\$—
Long Dated Value Fund II (2005)	Nov-30	274,280	(112,807)	198,584	37,111	91,091	53,980	—	412	—
Long Dated Value Fund III (2007)	Feb-32	343,156	(237,150)	223,983	117,977	—	N/A	18,611	3,452	—
LDVF Patent Fund (2007)	Nov-27	43,083	(9,032)	53,753	19,702	—	N/A	1,307	461	—
Real Assets Fund (2007)	Jun-17	359,024	(274,197)	192,724	107,897	—	N/A	13,200	3,641	—
Credit										
Opportunities Fund (2008)	Oct-20	5,451,915	(6,130,672)	1,521,843	2,200,600	—	N/A	191,600	240,019	81,000
SIP Managed Account (2010)	Sep-20	11,000	(24,924)	8,911	22,835	—	N/A	1,782	2,785	—
Japan Opportunity Fund (2009)	Jun-19	1,102,754	(900,242)	606,802	404,290	—	N/A	44,507	40,579	10,500
								\$271,007	\$291,349	\$91,000
Credit PE Funds in Investment Period										
Credit										
Opportunities Fund II (2009)	Jul-22	\$2,136,394	\$(1,598,292)	\$1,286,181	\$748,079	\$—	\$ N/A	\$112,181	\$34,506	\$—
Credit										
Opportunities Fund III (2011)	Mar-24	1,099,673	(362,999)	925,416	188,742	—	N/A	28,793	8,108	8,100
FCO Managed										
Accounts (2008-2012)	Oct-21 to Mar-27	3,177,080	(2,210,573)	1,919,710	953,203	—	N/A	115,902	71,373	34,300
Japan Opportunity Fund II (Yen) (2011)	Dec-21	293,189	(57,332)	262,037	26,180	—	N/A	2,873	1,580	—
Japan Opportunity Fund II (Dollar) (2011)	Dec-21	247,629	(27,164)	239,185	18,720	—	N/A	—	2,547	—

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Net Lease Fund I (2010) Global Opportunities Fund	Feb-20	148,537	(49,861)	136,555	37,879	—	N/A	4,367	560	560
Life Settlements Fund (2010)	Dec-22	318,652	(94,254)	238,230	13,832	43,667	29,835	—	—	—
Life Settlements Fund MA (2010)	Dec-22	26,187	(7,696)	19,479	988	3,589	2,601	—	—	—
Real Estate Opportunities Fund (2011)	Sep-24	228,454	(71,653)	177,465	20,664	—	N/A	1,175	629	170
Real Estate Opportunities REOC Fund (2011)	Oct-23	23,020	(7,466)	19,220	3,666	—	N/A	729	—	—
								\$274,337	\$119,303	\$43

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	Incentive Income Eligible NAV (L)	Gain to Cross Incentive Income Threshold (M)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (N)	Undistributed Incentive Income (O)	Year to Date Incentive Income Crystallized (P)
Liquid Hedge Funds					
Macro Funds (Q) (T)					
Main fund investments	\$1,928,957	\$303	98.6	% 15,541	1,552
Sidepocket investments (R)	22,430	14,002	N/A	454	—
Sidepocket investments - redeemers (S)	223,422	133,596	N/A	4,385	—
Managed accounts	1,077,530	12	99.9	% 8,993	1,150
Asia Macro Funds (T)					
Main fund investments	675,295	—	100.0	% 4,377	72
Managed accounts	106,022	—	100.0	% 619	—
Fortress Convex Asia Funds (T)					
Main fund Investments	75,063	2,137	0.0	% —	—
Fortress Partners Funds (T)					
Main fund investments	69,348	29,856	0.1	% 1	—
Sidepocket investments (R)	138,465	22,259	N/A	1,855	—
Credit Hedge Funds					
Special Opportunities Funds (T)					
Main fund investments	\$3,081,739	\$—	100.0	% 28,330	—
Sidepocket investments (R)	95,225	1,318	N/A	4,287	—
Sidepocket investments - redeemers (S)	232,646	71,030	N/A	3,602	—
Main fund investments (liquidating) (U)	1,419,708	127,710	94.7	% 92,362	2,980
Managed accounts	10,311	41,125	0.0	% —	—
Worden Funds					
Main fund investments	240,102	44	93.7	% 1,677	—
Value Recovery Funds (V)					
Managed accounts	23,912	4,550	0.0	% —	—

(A) Vintage represents the year in which the fund was formed.

(B) Represents the contractual maturity date including the assumed exercise of all extension options, which in some cases may require the approval of the applicable fund advisory board. Private equity funds that have reached their

maturity date are included in the table to the extent they have generated incentive income.

(C) Includes an increase to the NAV surplus related to the U.S. income tax expense of certain investment entities, which is considered a distribution for the purposes of computing incentive income.

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- A NAV deficit represents the gain needed to cross the incentive income threshold (as described in (F) below), (D)excluding the impact of any relevant performance (i.e. preferred return) thresholds (as described in (E) below). As of period end, there is an aggregate NAV surplus within both the private equity funds and credit PE funds.
- (E) Represents the gain needed to achieve the current relevant performance thresholds, assuming the gain described in (D) above is already achieved.
- (F) Represents the immediate increase in NAV needed for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see (J) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (I) below).
- (G) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV.
- (H) Represents the amount of incentive income previously received from the fund since inception.
 Represents the amount of incentive income previously received from the fund which is still subject to contingencies and is therefore recorded on the consolidated balance sheet as Deferred Incentive Income. This amount will either be recorded as revenue when all related contingencies are resolved, or, if the fund does not meet certain performance thresholds, will be returned by Fortress to the fund (i.e., “clawed back”).
- (I) Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. “Gross” and “Net” refer to (J)amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. Fortress remains liable to the funds for these amounts even if it is unable to collect the amounts from employees/affiliates. Fortress withheld a portion of the amounts due to employees under these profit sharing arrangements as a reserve against future clawback; as of March 31, 2013, Fortress held \$47.1 million of such amounts on behalf of employees related to all of the private equity funds.
- (K) Fund I undistributed and distributed incentive income amounts are presented for the total fund, of which Fortress is entitled to approximately 50%. Distributed incentive income subject to clawback for Fund I is presented with respect to Fortress’s portion only.
- (L) Represents the portion of a fund’s NAV or trading level that is eligible to earn incentive income.
 Represents, for those fund investors whose NAV is below the performance threshold Fortress needs to obtain before it can earn incentive income from such investors (their “incentive income threshold” or “high water mark”), the amount by which their aggregate incentive income thresholds exceed their aggregate NAVs. The amount by (M)which the NAV of each investor within this category is below their respective incentive income threshold varies and, therefore, Fortress may begin earning incentive income from certain investors before this entire amount is earned back. Fortress earns incentive income whenever the assets of new investors, as well as of investors whose NAV exceeds their incentive income threshold, increase in value.
- (N) Represents the percentage which is computed by dividing (i) the aggregate NAV of all investors who are at or above their respective incentive income thresholds, by (ii) the total incentive income eligible NAV of the fund. The amount by which the NAV of each fund investor who is not in this category is below their respective incentive income threshold may vary, and may vary significantly. This percentage represents the performance of only the main fund investments and managed accounts relative to their respective incentive income thresholds. It does not incorporate the impact of unrealized losses on sidepocket investments that can reduce the amount of incentive income earned from certain funds. See footnote (R) below.
- (O)

Represents the amount of additional incentive income Fortress would earn from the fund if it were liquidated at the end of the period at its NAV. This amount is currently subject to performance contingencies generally until the end of the year or, in the case of sidepocket investments, until such investments are realized. For the Value Recovery Fund managed accounts, Fortress can earn incentive income if aggregate realizations exceed an agreed threshold. Main Fund Investments (Liquidating) pay incentive income only after all capital is returned.

(P) Represents the amount of incentive income Fortress has earned in the current period from the fund which is no longer subject to contingencies.

(Q) The Drawbridge Global Macro SPV (the "SPV"), which was established in February 2009 to liquidate illiquid investments and distribute the proceeds to then existing investors, is not subject to incentive income and is therefore not presented in the table. However, realized gains or losses within the SPV can decrease or increase, respectively, the gain needed to cross the incentive income threshold for investors with a corresponding investment in the main fund. The unrealized gains and losses within the SPV at March 31, 2013, as if they became realized, would not materially impact the amounts presented in the table.

(R) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. The performance of these investments may impact Fortress's ability to earn incentive income from main fund investments. For the credit hedge funds and Fortress Partners Funds, realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments. For the Macro Funds, only realized losses from individual sidepockets reduce the incentive income earned from main fund investments. Based on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at March 31, 2013, the undistributed incentive income from the Macro main fund would decrease by \$1.6 million.

(S) Represents investments held in sidepockets for investors with no corresponding investment in the related main fund investments. In the case of the Macro Funds, such investors may have investments in the SPV (see (Q) above).

(T) Includes onshore and offshore funds.

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(U) Relates to accounts where investors have provided return of capital notices and are subject to payout as underlying fund investments are realized.

(V) Excludes the Value Recovery Funds which had a NAV of \$443.6 million at March 31, 2013. Fortress began managing the third party originated Value Recovery Funds in June 2009 and generally does not expect to earn any significant incentive income from the fund investments.

During the three months ended March 31, 2013 Fortress formed a new fixed income fund which had a net asset value of \$235.0 million as of March 31, 2013.

In addition, Fortress raised equity within Newcastle as described in Note 3.

3. INVESTMENTS AND FAIR VALUE

Investments consist primarily of investments in equity method investees and options in these investees. The investees are primarily Fortress Funds.

Investments can be summarized as follows:

	March 31, 2013	December 31, 2012
Equity method investees	\$1,134,121	\$1,135,329
Equity method investees, held at fair value (A)	86,260	76,355
Total equity method investments	1,220,381	1,211,684
Options in equity method investees	93,890	38,077
Total investments	\$1,314,271	\$1,249,761

(A) Includes publicly traded private equity portfolio companies, primarily GAGFAH, as well as the Castles (NCT and ECT).

Gains (losses) can be summarized as follows:

	Three Months Ended March 31,	
	2013	2012
Net realized gains (losses)	\$ (596)) \$ 680
Net realized gains (losses) from affiliate investments	(182)) 9
Net unrealized gains (losses)	3,498	(1,049)
Net unrealized gains (losses) from affiliate investments	38,555	24,982
Total gains (losses)	\$41,275	\$24,622

These gains (losses) were generated as follows:

	Three Months Ended March 31,	
	2013	2012
Mark to fair value on publicly traded investments	\$38,555	\$24,983
Mark to fair value on derivatives	3,173	(1,117)

Other	(453) 756
Total gains (losses)	\$41,275	\$24,622

Investments in Equity Method Investees

Fortress holds investments in certain Fortress Funds which are recorded based on the equity method of accounting. Fortress's maximum exposure to loss with respect to these entities is generally equal to its investment plus its basis in any options received from such entities, plus any receivables from such entities as described in Note 6. In addition, unconsolidated affiliates also hold ownership interests in certain of these entities. Summary financial information related to these investments is as follows:

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	Fortress's Investment		Fortress's Equity in Net Income (Loss)	
	March 31, 2013	December 31, 2012	Three Months Ended March 31, 2013 2012	
Private equity funds, excluding NIH	\$737,328	\$720,817	\$22,885	\$19,819
NIH	1,263	1,177	86	99
Publicly traded portfolio companies (A)(B)	70,921	67,313	N/A	N/A
Newcastle (B)	11,584	9,002	N/A	N/A
Eurocastle (B)	3,755	40	N/A	N/A
Total private equity	824,851	798,349	22,971	19,918
Liquid hedge funds	171,487	180,664	5,347	5,249
Credit hedge funds	58,149	58,507	2,429	2,857
Credit PE funds	158,253	166,482	5,650	6,836
Other	7,641	7,682	(95) 380
	\$1,220,381	\$1,211,684	\$36,302	\$35,240

(A) Represents Fortress's direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH.

(B) Fortress elected to record these investments at fair value pursuant to the fair value option for financial instruments.

A summary of the changes in Fortress's investments in equity method investees is as follows:

	Three Months Ended March 31, 2013							Total
	Private Equity		Publicly Traded Portfolio Companies and Castles (A)	Liquid	Credit		Other	
	NIH	Other Funds		Hedge Funds	Hedge Funds	PE Funds		
Investment, beginning	\$1,177	\$ 720,817	\$76,355	\$180,664	\$58,507	\$166,482	\$7,682	\$1,211,684
Earnings from equity method investees	86	22,885	N/A	5,347	2,429	5,650	(95)	36,302
Other comprehensive income from equity method investees	—	—	N/A	—	—	—	—	—
Contributions to equity method investees (B)	—	(2,076)	154	40,937	121,711	5,813	188	166,727
Distributions of earnings from equity method investees	—	(4,453)	N/A	(2,086)	(2,459)	(9,409)	(4)	(18,411)
Distributions of capital from equity	—	(463)	N/A	(53,375)	(122,039)	(9,787)	(130)	(185,794)

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method investees (B)									
Total distributions from equity method investees	—	(4,916)	N/A	(55,461)	(124,498)	(19,196)	(134)	(204,205)	
Mark to fair value - during period (C)	N/A	—	10,999	N/A	N/A	N/A	N/A	10,999	
Translation adjustment	—	—	(1,902)	—	—	(495)	—	(2,397)	
Dispositions	—	—	—	—	—	(1)	—	(1)	
Reclassification to Due to Affiliates (D)	—	618	—	—	—	—	—	618	
Other	—	—	654	—	—	—	—	654	
Investment, ending	\$1,263	\$ 737,328	\$86,260	\$171,487	\$58,149	\$158,253	\$7,641	\$1,220,381	
Ending balance of undistributed earnings	\$30	\$ 53,674	\$ N/A	\$12,916	\$2,079	\$4,107	\$2,138	\$74,944	

(A) Fortress elected to record these investments at fair value pursuant to the fair value option for financial instruments.

(B) For Private Equity — Other Funds, the negative contribution amount is primarily a result of contributions returned to fund investors due to a subsequent close of additional investors in a certain fund.

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The amounts presented above can be reconciled to the amounts presented on the statement of cash flows as follows:

	Three Months Ended March 31, 2013	
	Contributions	Distributions of Capital
Per Consolidated Statements of Cash Flows	\$237	\$ 167,083
Investments of receivable amounts into Fortress Funds	162,647	—
Change in distributions payable out of Fortress Funds	—	15,018
Net funded*	3,689	3,689
Other	154	4
Per Above	\$ 166,727	\$ 185,794

*In some instances, a private equity style fund may need to simultaneously make both a capital call (for new investments or expenses) and a capital distribution (related to realizations from existing investments). This results in a net funding.

(C) Recorded to Gains (Losses).

(D) Represents a portion of the general partner liability discussed in Note 9.

The ownership percentages presented in the following tables are reflective of the ownership interests held as of the end of the respective periods. For tables which include more than one Fortress Fund, the ownership percentages are based on a weighted average by total equity of the funds as of period end. NIH, the Castles, GAGFAH and Other are not presented as they are insignificant to Fortress's investments.

	Private Equity Funds excluding NIH (B)	
	March 31, 2013	December 31, 2012
Assets	\$ 16,517,253	\$ 15,944,821
Debt	—	—
Other liabilities	(157,805)	(143,951)
Equity	\$ 16,359,448	\$ 15,800,870
Fortress's Investment	\$ 737,328	\$ 720,817
Ownership (A)	4.5 %	4.6 %
	Three Months Ended March 31,	
	2013	2012
Revenues and gains (losses) on investments	\$ 815,775	\$ 681,776
Expenses	(47,843)	(46,297)
Net Income (Loss)	\$ 767,932	\$ 635,479
Fortress's equity in net income (loss)	\$ 22,885	\$ 19,819

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	Liquid Hedge Funds (C)		Credit Hedge Funds		Credit PE Funds (B) (D)		
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	
Assets		\$9,293,405	\$9,080,019	\$9,431,681	\$9,062,657	\$9,536,328	
Debt		—	(3,079,318)	(3,329,686)	(230,226)	(75,413)	
Other liabilities		(4,682,311)	(328,026)	(447,127)	(248,804)	(314,329)	
Non-controlling interest		—	(6,550)	(4,289)	(9,610)	(14,228)	
Equity	\$4,987,719	\$4,611,094	\$5,666,125	\$5,650,579	\$8,574,017	\$9,132,358	
Fortress's Investment Ownership (A)	\$171,487 3.4	\$180,664 % 3.9	\$58,149 % 1.0	\$58,507 % 1.0	\$158,253 % 1.8	\$166,482 % 1.8	%
	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	
Revenues and gains (losses) on investments		\$193,810	\$291,942	\$326,292	\$482,052	\$388,762	
Expenses		(36,131)	(72,815)	(57,184)	(62,558)	(78,887)	
Net Income (Loss)	\$156,001	\$157,679	\$219,127	\$269,108	\$419,494	\$309,875	
Fortress's equity in net income (loss)	\$5,347	\$5,249	\$2,429	\$2,857	\$5,650	\$6,836	

(A) Excludes ownership interests held by other Fortress Funds, the Principals, employees and other affiliates.

For Private Equity Funds, includes two entities which are recorded on a one quarter lag (i.e. balances reflected for these entities are for the period ended December 31, 2012). For Credit PE Funds, includes one entity which is recorded on a one quarter lag (i.e., the balances reflected for this entity are for the periods ended December 31, 2012 and September 30, 2012 respectively) and several entities which are recorded on a one month lag. They are recorded on a lag because they are foreign entities, or they have substantial operations in foreign countries, and do not provide financial reports under U.S. GAAP within the reporting time frame necessary for U.S. public entities.

In interim periods, the liquid hedge funds prepare summary financial information on a one quarter lag. For the (C) three months ended December 31, 2012, the liquid hedge funds recorded \$195.1 million of revenues and gains (losses) on investments, \$32.7 million of expenses, and \$162.4 million of net income (loss).

(D) Includes certain entities in which Fortress has both a direct and an indirect investment.

Investments in Variable Interest Entities

Fortress is not considered the primary beneficiary of, and, therefore, does not consolidate, any of the variable interest entities in which it holds an interest, except as described below. No reconsideration events occurred during the three months ended March 31, 2013 which caused a change in Fortress's accounting.

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The following tables set forth certain information as of March 31, 2013 regarding variable interest entities in which Fortress holds a variable interest. The amounts presented below are included in, and not in addition to, the equity method investment tables above.

Entities formed during the three months ended March 31, 2013:

Business Segment	Fortress is not Primary Beneficiary		Fortress Investment (A)	Notes (B)
	Gross Assets	Financial Obligations		
Logan Circle	\$239,710	\$—	\$ 123	

(A) Represents Fortress's maximum exposure to loss with respect to these entities, which includes direct and indirect investments in these funds, plus any receivables due from these funds. In addition to the table above, Fortress is exposed to potential changes in cash flow and revenues attributable to the management fees Fortress earns from those entities.

(B) Fortress is not the primary beneficiary of this entity, because it does not absorb a majority of the entity's expected income or loss based on a quantitative analysis.

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All variable interest entities:

Business Segment	Fortress is not Primary Beneficiary						Notes
	March 31, 2013			December 31, 2012			
	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	
Private Equity Funds	\$8,769	\$—	\$ 1,263	\$9,087	\$—	\$ 1,176	(C) (D)
Castles	8,514,684	6,084,426	121,567	7,421,269	5,798,143	56,294	(C) (D)
Liquid Hedge Funds	3,949,021	1,172,578	5,315	4,905,876	2,271,914	27,817	(C) (D)
Credit Hedge Funds	1,743,337	340,825	7,358	1,771,900	365,135	46,193	(C) (D)
Credit PE Funds	1,167,622	429,538	4,537	1,536,067	418,208	4,483	(C) (D)
Logan Circle	239,710	—	123	—	—	—	(C) (D)

Represents financial obligations at the fund level, which are not recourse to Fortress. Financial obligations include (A) financial borrowings, derivative liabilities and short securities. In many cases, these funds have additional debt within unconsolidated subsidiaries.

Represents Fortress's maximum exposure to loss with respect to these entities, which includes direct and indirect investments in these funds, plus any receivables due from these funds. In addition to the table above, Fortress is (B) exposed to potential changes in cash flow and revenues attributable to the management fee and/or incentive income Fortress earns from those entities.

Fortress is not the primary beneficiary of the Castles, NIH and the Logan Circle Fund because it does not absorb a majority of their expected income or loss based on a quantitative analysis. Of the remaining entities represented herein, which primarily represent investing vehicles, intermediate entities and master (C) funds, Fortress is not the primary beneficiary because the related funds, intermediate entities and feeder funds (which are not consolidated) are more closely associated with these entities than Fortress based on both a quantitative and qualitative analysis. The investing vehicles, intermediate entities and master funds were formed for the sole purpose of acting as investment vehicles for the related funds.

Fortress's investment includes management fees receivable, incentive income receivable, expense reimbursements (D) and other receivables from these entities, as applicable.

FCF is an entity which provides operating services to all of Fortress's private equity funds and is reimbursed for related costs by the private equity funds based on a contractual formula. Therefore, FCF by design does not produce net income or have equity. FCF was deemed to be a VIE and Fortress, as a result of directing the operations of FCF through its management contracts with the private equity funds, and providing financial support to FCF, was deemed to be its primary beneficiary. Therefore, Fortress consolidates FCF. As of March 31, 2013, FCF's gross assets were approximately \$29.7 million, primarily comprised of affiliate receivables. Fortress's exposure to loss from FCF is limited to its unreserved outstanding advances, which were approximately \$14.2 million at March 31, 2013, plus any future advances. These advances are eliminated in consolidation. FCF's creditors do not have recourse to Fortress's other assets and FCF's assets are not available to other creditors of Fortress.

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Fair Value of Financial Instruments

The following table presents information regarding Fortress's financial instruments that are recorded at fair value. Investments denominated in foreign currencies have been translated at the period end exchange rate. Changes in fair value are recorded in Gains (Losses).

	Fair Value		Valuation Method
	March 31, 2013	December 31, 2012	
Assets (within Investments)			
Newcastle and Eurocastle common shares	\$11,663	\$9,042	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies, primarily GAGFAH	70,921	67,313	Level 1 - Quoted prices in active markets for identical assets
Eurocastle convertible debt (A)	3,676	—	Level 2 - Market approach using significant observable inputs
Total equity method investments carried at fair value	\$86,260	\$76,355	
Newcastle and Eurocastle options	\$93,890	\$38,077	Level 2 - Option valuation models using significant observable inputs
Assets (within Other Assets)			
Derivatives	\$4,302	\$1,101	Level 2 - See below
Liabilities (within Accrued Compensation and Benefits)			
Options in affiliates granted to employees	\$(16,457)) \$(10,120) Level 2 - Option valuation models using significant observable inputs

(A) As of March 31, 2013, the debt had a face amount of €1.2 million (\$1.5 million). The fair value was determined using the market value approach.

See Note 4 regarding the fair value of Fortress's outstanding debt.

In January 2013, Newcastle issued 57.5 million shares of its common stock in a public offering at a price to the public of \$9.35 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 5,750,000 shares of Newcastle's common stock at the public offering price, which were valued at approximately \$18.0 million. The options were fully vested upon issuance, become exercisable over thirty