

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Fortress Investment Group LLC
Form 10-Q
July 30, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2015

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 or organization)

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

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: 215,673,299 outstanding as of July 24, 2015.

Class B Shares: 226,331,513 outstanding as of July 24, 2015.

FORTRESS INVESTMENT GROUP LLC
FORM 10-Q
INDEX

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets</u> as of June 30, 2015 (unaudited) and December 31, 2014	1
<u>Consolidated Statements of Operations</u> (unaudited) for the three and six months ended June 30, 2015 and 2014	2
<u>Consolidated Statements of Comprehensive Income</u> (unaudited) for the three and six months ended June 30, 2015 and 2014	3
<u>Consolidated Statement of Changes in Equity</u> (unaudited) for the six months ended June 30, 2015	4
<u>Consolidated Statements of Cash Flows</u> (unaudited) for the six months ended June 30, 2015 and 2014	5
<u>Notes to Consolidated Financial Statements</u> (unaudited)	7
<u>Note 1 Organization and Basis of Presentation</u>	7
<u>Note 2 Management Agreements and Fortress Funds</u>	12
<u>Note 3 Investments and Fair Value</u>	21
<u>Note 4 Debt Obligations</u>	29
<u>Note 5 Income Taxes and Tax Related Payments</u>	30
<u>Note 6 Related Party Transactions and Interests in Consolidated Subsidiaries</u>	31
<u>Note 7 Equity-Based and Other Compensation</u>	34
<u>Note 8 Earnings Per Share and Distributions</u>	36
<u>Note 9 Commitments and Contingencies</u>	40
<u>Note 10 Segment Reporting</u>	41
<u>Note 11 Subsequent Events</u>	48
<u>Note 12 Consolidating Financial Information</u>	49
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	53
<u>Overview and Understanding the Asset Management Business</u>	53
<u>Market Considerations</u>	59
<u>Assets Under Management</u>	62
<u>Performance of Our Funds</u>	64
<u>Results of Operations</u>	68
<u>Liquidity and Capital Resources</u>	87
<u>Critical Accounting Policies</u>	94
<u>Contractual Obligations</u>	101
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	102
<u>Item 4. Controls and Procedures</u>	106
<u>PART II. OTHER INFORMATION</u>	

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>106</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>106</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>138</u>
<u>Item 3.</u>	<u>Defaults upon Senior Securities</u>	<u>138</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>138</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>138</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>139</u>
<u>SIGNATURES</u>		<u>142</u>

Table of Contents

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. In addition, AUM includes management fee paying assets managed by autonomous businesses in which we retain a minority interest under our affiliated manager platform. Our AUM equals the sum of:

- (i) the capital commitments or invested capital (or net asset value, "NAV," if lower) of our private equity funds, private permanent capital vehicle through May 2015 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,
- (ii) the contributed capital or book equity of our publicly traded permanent capital vehicles,
- (iii) the NAV of our hedge funds, including the Value Recovery Funds which pay fees based on realizations;
- (iv) the NAV or fair value of our managed accounts, to the extent management fees are charged; and
- (v) AUM related to affiliated managers.

For each of the above, the amounts exclude assets under management for which we charge either no or nominal fees, generally related to our investments in our funds as well as investments in our 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 (as defined below) and all of its subsidiaries.

“Fortress Funds” and “our funds” refers to the private investment funds, permanent capital vehicles 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 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, a former 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 former 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 primarily through their direct ownership of FOGUs.

Table of Contents

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 Securities and Exchange Commission's ("SEC") 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.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and cash equivalents	\$233,912	\$391,089
Due from affiliates	188,051	326,575
Investments	1,144,597	1,121,545
Investments in options	60,950	71,844
Deferred tax asset, net	415,915	417,623
Other assets	165,531	173,708
Total Assets	\$2,208,956	\$2,502,384
Liabilities and Equity		
Accrued compensation and benefits	\$181,967	\$374,709
Due to affiliates	372,660	375,424
Deferred incentive income	326,338	304,526
Debt obligations payable	75,000	75,000
Other liabilities	90,430	88,053
Total Liabilities	1,046,395	1,217,712
Commitments and Contingencies		
Redeemable Non-controlling Interests	19	1,717
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 215,673,299 and 208,535,157 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	—	—
Class B shares, no par value, 750,000,000 shares authorized, 226,331,513 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	—	—
Paid-in capital	1,922,869	1,996,137
Retained earnings (accumulated deficit)	(1,312,093)	(1,350,122)
Accumulated other comprehensive income (loss)	(2,409)	(2,416)
Total Fortress shareholders' equity	608,367	643,599
Principals' and others' interests in equity of consolidated subsidiaries	554,175	639,356
Total Equity	1,162,542	1,282,955
Total Liabilities, Redeemable Non-controlling Interests and Equity	\$2,208,956	\$2,502,384

See notes to consolidated financial statements.

1

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues				
Management fees: affiliates	\$150,936	\$136,045	\$278,643	\$265,755
Management fees: non-affiliates	14,966	17,716	30,257	35,338
Incentive income: affiliates	82,158	60,442	106,381	94,693
Incentive income: non-affiliates	296	44	296	687
Expense reimbursements: affiliates	53,991	51,662	108,556	102,848
Expense reimbursements: non-affiliates	3,568	2,614	6,816	5,062
Other revenues (affiliate portion disclosed in Note 6)	2,573	1,821	4,228	3,071
	308,488	270,344	535,177	507,454
Expenses				
Compensation and benefits	199,108	168,114	377,996	356,633
General, administrative and other	45,185	42,186	88,166	80,009
Depreciation and amortization	12,768	5,037	18,099	9,338
Interest expense	1,039	947	1,878	1,638
Transfer of interest in Graticule (see Note 1)	—	—	101,000	—
	258,100	216,284	587,139	447,618
Other Income (Loss)				
Gains (losses) (affiliate portion disclosed in Note 3)	(6,787	) 4,864	24,774	(6,191
Tax receivable agreement liability adjustment	(7,500	) —	(7,500) —
Earnings (losses) from equity method investees	(36,321	) 22,448	5,387	42,822
Gain on transfer of Graticule (see Note 1)	—	—	134,400	—
	(50,608	) 27,312	157,061	36,631
Income (Loss) Before Income Taxes	(220	) 81,372	105,099	96,467
Income tax benefit (expense)	5,199	(7,916	) (13,200	) (13,910
Net Income (Loss)	\$4,979	\$73,456	\$91,899	\$82,557
Allocation of Net Income (Loss):				
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	\$1,653	\$42,100	\$53,876	\$48,177
Redeemable Non-controlling Interests in Income (Loss)	10	157	(6	) 157
Net Income (Loss) Attributable to Class A Shareholders	3,316	31,199	38,029	34,223
	\$4,979	\$73,456	\$91,899	\$82,557
Dividends declared per Class A share	\$0.08	\$0.08	\$0.46	\$0.16
Earnings (Loss) Per Class A share				
Net income (loss) per Class A share, basic	\$0.01	\$0.15	\$0.16	\$0.16
Net income (loss) per Class A share, diluted	\$0.00	\$0.12	\$0.16	\$0.14

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Weighted average number of Class A shares outstanding, basic	216,183,181	207,783,751	215,985,577	212,328,315
Weighted average number of Class A shares outstanding, diluted	449,210,362	444,566,847	222,210,732	459,673,136

See notes to consolidated financial statements.

2

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Comprehensive income (loss) (net of tax)				
Net income (loss)	\$4,979	\$73,456	\$91,899	\$82,557
Foreign currency translation	526	(570	) (372	) (1,602
Total comprehensive income (loss)	\$5,505	\$72,886	\$91,527	\$80,955
Allocation of Comprehensive Income (Loss):				
Comprehensive income (loss) attributable to principals' and others' interests	\$1,949	\$41,739	\$53,568	\$47,157
Comprehensive income (loss) attributable to redeemable non-controlling interests	10	157	(6	) 157
Comprehensive income (loss) attributable to Class A shareholders	3,546	30,990	37,965	33,641
	\$5,505	\$72,886	\$91,527	\$80,955

See notes to consolidated financial statements.

3

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

FOR THE SIX MONTHS ENDED JUNE 30, 2015

(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders' Equity	Principals' and Others' Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity - December 31, 2014	208,535,157	226,331,513	\$1,996,137	\$(1,350,122)	\$(2,416)	\$643,599	\$639,356	\$1,282,955
Contributions from principals' and others' interests in equity	—	—	—	—	—	—	36,165	36,165
Distributions to principals' and others' interests in equity (net of tax)	—	—	—	—	—	—	(175,755)	(175,755)
Dividends declared	—	—	(96,501)	—	—	(96,501)	—	(96,501)
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(2,335)	—	—	(2,335)	(4,184)	(6,519)
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	4,859	—	—	4,859	15	4,874
Director restricted share grant	71,208	—	271	—	—	271	289	560
Capital increase related to equity-based compensation, net	7,066,934	—	12,145	—	—	12,145	13,085	25,230

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Dilution impact of equity transactions (Note 6)	—	—	8,293	—	71	8,364	(8,364)	—
Comprehensive income (loss) (net of tax)								
Net income (loss) (excludes loss allocated to redeemable non-controlling interests)	—	—	—	38,029	—	38,029	53,876	91,905
Foreign currency translation	—	—	—	—	(64)	(64)	(308)	(372)
Total comprehensive income (loss)						37,965	53,568	91,533
Equity - June 30, 2015	215,673,299	226,331,513	\$1,922,869	\$(1,312,093)	\$(2,409)	\$608,367	\$554,175	\$1,162,542

See notes to consolidated financial statements.

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands)

	Six Months Ended June 30,	
	2015	2014
Cash Flows From Operating Activities		
Net income (loss)	\$91,899	\$82,557
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	18,099	9,338
Other amortization (included in interest expense)	390	390
(Earnings) losses from equity method investees	(5,387)	(42,822)
Distributions of earnings from equity method investees	23,756	51,204
(Gains) losses	(24,774)	6,191
Deferred incentive income	(65,709)	(53,362)
Deferred tax (benefit) expense	4,448	12,756
Options received from affiliates	(25,158)	(1,604)
Tax receivable agreement liability adjustment	7,500	—
Equity-based compensation	25,388	18,334
Options in affiliates granted to employees	5,681	4,052
Other	356	(764)
Transfer of interest in Graticule (see Note 1)	101,000	—
Gain on transfer of Graticule (see Note 1)	(134,400)	—
Cash flows due to changes in		
Due from affiliates	18,392	3,146
Other assets	(5,927)	30,487
Accrued compensation and benefits	(157,551)	(187,033)
Due to affiliates	(17,007)	(30,248)
Deferred incentive income	74,610	59,128
Other liabilities	2,810	4,573
Purchase of investments by consolidated funds	(66,965)	(144,313)
Proceeds from sale of investments by consolidated funds	53,494	126,240
Receivables from brokers and counterparties	(211)	(41,302)
Due to brokers and counterparties	2,727	7,305
Net cash provided by (used in) operating activities	(72,539)	(85,747)
Cash Flows From Investing Activities		
Contributions to equity method investees	(18,862)	(6,012)
Distributions of capital from equity method investees	155,255	321,085
Purchase of securities	(883)	(7,217)
Proceeds from sale of securities	18,101	74,922
Proceeds from exercise of options	51,543	—
Purchase of fixed assets	(11,075)	(4,176)
Purchase of software and technology-related assets	—	(25,976)
Net cash provided by (used in) investing activities	194,079	352,626

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands)

	Six Months Ended June 30,	
	2015	2014
Cash Flows From Financing Activities		
Repayments of debt obligations	—	(50,000)
Borrowings under debt obligations	—	125,000
Proceeds from public offering (Note 8)	—	186,551
Repurchase of Class B shares (Note 8)	—	(186,551)
Payments to repurchase Class A shares (Note 8)	(9,676)	(363,410)
Dividends and dividend equivalents paid	(104,554)	(32,583)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	283	3,670
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(167,554)	(78,833)
Excess tax benefits from delivery of RSUs	4,476	2,931
Redeemable non-controlling interests - (distributions) contributions	(1,692)	16,253
Net cash provided by (used in) financing activities	(278,717)	(376,972)
Net Increase (Decrease) in Cash and Cash Equivalents	(157,177)	(110,093)
Cash and Cash Equivalents, Beginning of Period	391,089	364,583
Cash and Cash Equivalents, End of Period	\$233,912	\$254,490
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$1,019	\$788
Cash paid during the period for income taxes	\$7,702	\$3,447
Supplemental Schedule of Non-cash Investing and Financing Activities		
Employee compensation invested directly in subsidiaries	\$35,800	\$33,450
Investments of incentive receivable amounts into Fortress Funds	\$134,657	\$249,740
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	\$5,240	\$5,839
Retained equity interest related to Graticule transfer (Note 1)	\$33,400	\$—
Non-cash redeemable non-controlling interest - contributions	\$—	\$20,519

See notes to consolidated financial statements.

6

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2015
(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, permanent capital vehicles and managed accounts (collectively, the "Fortress Funds"). Fortress generally makes investments in these funds.

Fortress has three primary sources of income from the Fortress Funds: management fees, incentive income, and investment income on its investments in the funds. In addition, Fortress receives expense reimbursements pursuant to management agreements. 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 and Western Europe; and

Entities which Fortress collectively refers to as "permanent capital vehicles" which includes (i) Newcastle Investment Corp. ("Newcastle"), New Residential Investment Corp. ("New Residential"), Eurocastle Investment Limited ("Eurocastle"), New Media Investment Group Inc. ("New Media"), New Senior Investment Group Inc. ("New Senior") and Fortress Transportation and Infrastructure Investors LLC ("FTAI"), which are publicly traded companies that are externally managed by Fortress pursuant to management agreements (collectively referred to as the "publicly traded permanent capital vehicles") and

b) (ii) FHC Property Management LLC, (together with its subsidiaries, referred to as "Blue Harbor"), a senior living property management business. The publicly traded permanent capital vehicles invest in a wide variety of real estate related assets, including securities, loans, real estate properties and mortgage servicing related assets, media assets and transportation and infrastructure assets. All of the capital of Worldwide Transportation and Infrastructure Investors ("WWTAI"), a private fund managed by Fortress, was contributed to FTAI which completed its initial public offering ("IPO") in May 2015 (see Note 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; a fund that primarily focuses on an international "event driven" investment strategy, particularly in Europe, Asia-Pacific and Latin America; and a fund that seeks to generate returns by executing a positively convex investment strategy.

On January 5, 2015, Fortress Asia Macro Funds and related managed accounts became the first group of funds to join Fortress's affiliated manager platform ("Affiliated Managers") as they transitioned to an autonomous asset management business named Graticule Asset Management Asia, L.P. ("Graticule"). Fortress retained a perpetual minority interest in Graticule amounting to 30% of earnings during 2015 and declining to approximately 27% of earnings over time. Fortress also receives additional fees for providing infrastructure services (technology, back office, and related services) to Graticule. During the quarter ended June 30, 2015, Graticule notified Fortress of its intention to terminate the infrastructure services agreement effective at the end of May 2016. Fortress will continue to earn fees for providing services to Graticule through the effective date of the termination. Fortress recorded the results of this transaction at fair value. During the six months ended June 30, 2015, Fortress recorded a non-cash gain of

\$134.4 million, non-cash expense of \$101.0 million related to the fair value of the controlling interest in Graticule transferred to a former senior employee for no consideration, and \$33.4 million from its resulting retained interest as an equity method investment. Fortress utilized an income approach to value Graticule, its retained interest in Graticule and the controlling interest in Graticule which was transferred. This approach relies on a number of factors, including actual operating results, discount rates and economic projections.

In the second quarter of 2015, Fortress determined that certain software and technology-related assets which were used in its liquid hedge funds business had not met certain growth targets and performed an asset impairment test. As a result of this test, \$7.5 million of assets were written off and included in Depreciation and Amortization.

3) Credit funds:

- 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

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2015

(dollars in tables in thousands, except share data)

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 the following 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.

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 4) 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.

For a reconciliation between the financial statements and the segment-based financial data that management uses for making operating decisions and assessing performance, see Note 10.

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 and Investments in Options	3	Primarily the carrying value of Fortress’s investments in the Fortress Funds.
Deferred Tax Asset, net	5	Relates to potential future net 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.
Principals' and Others' Interests in Equity of Consolidated Subsidiaries	6	The GAAP basis of the Principals' and a former senior employee's ownership interests in Fortress Operating Group as well as employees' ownership interests in

certain subsidiaries.

Statement of Operations

Management Fees: Affiliates	2	Fees earned for managing Fortress Funds and other affiliates, generally determined based on the size of such funds.
Management Fees: Non-Affiliates	2	Fees earned from managed accounts and the 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	The result of asset dispositions or changes in the fair value of investments or other financial instruments which are marked to market (including the publicly traded permanent capital vehicles and publicly traded portfolio companies).

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

FINANCIAL STATEMENT GUIDE

Selected Financial Statement Captions	Note Reference	Explanation
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 investments in these funds.
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.
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 Fortress's financial performance by segment (fund type) is provided, on the basis of the operating performance measure used by Fortress's management committee.

Recent Accounting Pronouncements

In May 2014, the FASB issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. This standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The entity will recognize revenue to reflect the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. In July 2015, the FASB voted to approve a one year deferral of the effective date of the new revenue recognition standard. The new standard is

effective for Fortress beginning January 1, 2018. Early adoption is permitted but not before the original public entity effective date (that is, annual periods beginning after December 15, 2016). The standard permits the use of either the retrospective or cumulative effect transition method. Fortress is currently evaluating the impact on its consolidated financial statements upon the adoption of this new standard.

The FASB has recently issued or discussed a number of proposed standards on such topics as, leases, financial instruments and hedging. 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.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 eliminates the deferral of Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46 (R) previously provided to investment companies and certain other entities pursuant to ASC 810-10-65-2. ASU 2015-02 also amends the evaluation of whether (1) fees paid to a decision maker or service provider represent a variable interest, (2) a limited partnership or similar entity has the characteristics of a variable interest entity ("VIE") and (3) a reporting entity is the primary beneficiary of a VIE. ASU 2015-02 eliminates certain conditions for evaluating whether a fee paid to a decision maker or a service provider represents a variable interest. Fees received by a decision maker or service provider are no longer considered variable interests and are now excluded from the evaluation of whether the reporting entity is the primary beneficiary of a VIE if the fees are both customary and commensurate with the level of effort required for the services provided and the decision maker or service provider does not hold other interests in the entity being evaluated that would absorb more than an insignificant amount of the expected losses or returns of the entity. If the reporting entity determines that it does not have a variable interest in an entity, no further consolidation analysis is performed as the reporting entity would not be required to consolidate the entity.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2015
(dollars in tables in thousands, except share data)

The effective date of ASU 2015-02 is for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015 for public companies and early adoption is permitted. Fortress has elected to early adopt ASU 2015-02 on a retrospective basis as permitted, for all periods presented. The consolidated financial statements and related footnote disclosures have been adjusted for the impact of the adoption. The adoption did not result in a cumulative effect adjustment to Fortress's retained earnings (accumulated deficit). Fortress's accounting policy, updated for the adoption of ASU 2015-02, is described below.

Basis of Accounting and Consolidation - The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The accompanying consolidated financial statements include the accounts of Fortress and its consolidated subsidiaries, which are comprised of VIEs in which it is the primary beneficiary as described below and voting interest entities ("VOEs") in which it is determined to have a controlling financial interest under ASC 810, as amended by ASU 2015-02.

For legal entities evaluated for consolidation, Fortress must determine whether the interests that it holds and fees paid to it qualify as a variable interest in the entity. This includes an evaluation of fees paid to Fortress where Fortress acts as a decision maker or service provider to the entity being evaluated. Fees received by Fortress are not variable interests if (i) the fees are compensation for services provided and are commensurate with the level of effort required to provide those services, (ii) the service arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm's length and (iii) Fortress's other economic interests in the VIE held directly and indirectly through its related parties, as well as economic interests held by related parties under common control, where applicable, would not absorb more than an insignificant amount of the entity's losses or receive more than an insignificant amount of the entity's benefits.

For those entities in which it has a variable interest, Fortress performs an analysis to first determine whether the entity is a VIE. This determination includes considering whether the entity's equity investment at risk is sufficient, whether the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity's activities either involve or are conducted on behalf of that investor and its related parties and whether the entity's at-risk equity holders have the characteristics of a controlling financial interest. A VIE must be consolidated by its primary beneficiary. Performance of such analysis requires the exercise of judgment.

The primary beneficiary of a VIE is generally defined as the party who has a controlling financial interest in the VIE. Fortress is generally deemed to have a controlling financial interest in a VIE if it has (i) the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. For purposes of evaluating (ii) above, fees paid to Fortress are excluded if the fees are compensation for services provided commensurate with the level of effort required to be performed and the arrangement includes only customary terms, conditions or amounts present in arrangements for similar services negotiated at arm's length. Fortress also evaluates its economic interests in the VIE held directly by it and indirectly through its related parties, as well as economic interests held by related parties under common control, where applicable. The primary beneficiary evaluation is generally performed qualitatively on the basis of all facts and circumstances. However, quantitative information may also be considered in the analysis, as appropriate. These analyses require judgment. Changes in the economic interests (either by Fortress, related parties of Fortress or third parties) or amendments to the governing documents of the VIE could affect an entity's status as a VIE or the determination of the primary beneficiary. The primary beneficiary evaluation is updated continuously.

For VOEs, Fortress shall consolidate the entity if it has a controlling financial interest. Fortress has a controlling financial interest in a VOE if (i) for legal entities other than limited partnerships, Fortress owns a majority voting interest in the VOE or, for limited partnerships and similar entities, Fortress owns a majority of the entity's kick-out rights through voting limited partnership interests and (ii) non-controlling shareholders or partners do not hold substantive participating rights and no other conditions exist that would indicate that Fortress does not control the entity.

For entities over which Fortress exercises significant influence but which do not meet the requirements for consolidation, Fortress uses the equity method of accounting whereby it records its share of the underlying income of these entities. These entities include the Fortress Funds. The evaluation of whether Fortress exerts control or significant influence over the financial and operational policies of an entity requires judgment based on the facts and circumstances surrounding each individual entity.

Virtually all of the Fortress Funds are, for GAAP purposes, investment companies. Investment companies record realized and unrealized gains (losses) resulting from changes in the fair value of their investments as a component of current income. Additionally, investment companies generally do not consolidate their majority-owned and controlled investments (the "Portfolio Companies").

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2015
(dollars in tables in thousands, except share data)

Distributions by Fortress and its subsidiaries are recognized when declared.

Redeemable Non-controlling Interests represent ownership interests in consolidated subsidiaries which are redeemable and not owned by Fortress.

Principals' and others' interests in consolidated subsidiaries represent the ownership interests in certain consolidated subsidiaries held by entities or persons other than Fortress. This is primarily related to the Principals' interests in Fortress Operating Group (Note 6). Non-Fortress interests also include employee interests in majority owned and controlled fund advisor and general partner entities.

Deconsolidation of New Media

Prior to the adoption of ASU 2015-02, Fortress consolidated New Media, a VIE. The financial results of New Media were included in Fortress's consolidated financial statements in previous filings with the Securities and Exchange Commission, based on the then existing consolidation guidance. The adoption of ASU 2015-02 resulted in the deconsolidation of New Media as Fortress determined that under ASU 2015-02, it was not the primary beneficiary of New Media. The fee arrangement with New Media is both commensurate with the level of effort required for the services provided and include only customary terms and Fortress does not hold other interests in New Media that would absorb more than an insignificant amount of New Media's losses or benefits. Therefore, Fortress no longer considers this fee arrangement to be a variable interest. Under ASU 2015-02, Fortress and its related parties under common control as a group, where applicable, do not have the obligation to absorb losses or the right to receive benefits from New Media that could potentially be significant to New Media. Also see Note 3 for the related disclosures for certain unconsolidated variable interest entities.

The accompanying consolidated financial statements and related footnotes 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 GAAP 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, 2014 and footnotes thereto included in Fortress's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2015, as revised in Fortress's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 7, 2015. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's consolidated financial statements for the year ended December 31, 2014.

All significant intercompany accounts and transactions have been eliminated.

Certain prior period amounts have been reclassified to conform to the current period's presentation.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

Fortress has two principal sources of fee 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 returns, or profits, subject to the achievement of performance criteria. Substantially all of Fortress's net assets, after deducting the portion attributable to non-controlling interests, are a result of Fortress's 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.

Management Fees and Incentive Income

Fortress recognized management fees and incentive income as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Private Equity				
Private Equity Funds				
Management fees: affil.	\$29,222	\$35,330	\$58,362	\$70,643
Management fees: non-affil.	—	162	—	311
Incentive income: affil.	—	22,094	—	22,094
Permanent Capital Vehicles				
Management fees: affil.	22,276	16,318	41,278	31,496
Management fees, options: affil.	21,014	1,604	25,158	1,604
Management fees: non-affil.	482	583	932	1,691
Incentive income: affil.	23,156	19,246	25,744	23,255
Liquid Hedge Funds				
Management fees: affil.	16,638	29,998	35,133	57,065
Management fees: non-affil.	2,054	6,164	4,548	12,575
Incentive income: affil.	41	908	53	986
Incentive income: non-affil.	39	44	39	44
Credit Funds				
Credit Hedge Funds				
Management fees: affil.	29,834	28,455	59,488	55,289
Management fees: non-affil.	13	20	23	44
Incentive income: affil.	21,516	16,429	22,169	17,733
Incentive income: non-affil.	—	—	—	—
Credit PE Funds				
Management fees: affil.	31,068	23,651	57,387	48,259
Management fees: non-affil.	29	34	58	68
Incentive income: affil.	37,445	1,765	58,409	30,625

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Incentive income: non-affil.	257	—	257	643
Logan Circle				
Management fees: affil.	884	689	1,837	1,399
Management fees: non-affil.	12,388	10,753	24,696	20,649
Incentive income: affil.	—	—	6	—
Incentive income: non-affil.	—	—	—	—
Total				
Management fees: affil.	\$ 150,936	\$ 136,045	\$ 278,643	\$ 265,755
Management fees: non-affil.	\$ 14,966	\$ 17,716	\$ 30,257	\$ 35,338
Incentive income: affil. (A)	\$ 82,158	\$ 60,442	\$ 106,381	\$ 94,693
Incentive income: non-affil.	\$ 296	\$ 44	\$ 296	\$ 687

See “Deferred Incentive Income” below. The incentive income amounts presented in this table are based on the (A) estimated results of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

Deferred Incentive Income

Incentive income from certain Fortress Funds, primarily the private equity funds, private permanent capital vehicle through its IPO in May 2015 and credit PE funds, is received when such funds realize returns, or 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 six months ended June 30, 2015 and 2014. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, \$46.4 million and \$56.3 million of additional incentive income would have been recognized during the six months ended June 30, 2015 and 2014, 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 six months ended June 30, 2015 and 2014, Fortress recognized \$58.4 million and \$30.6 million, respectively, of incentive income distributions from its credit PE funds which were non-clawbackable or represented “tax distributions.” 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 (C) (D)
	(A)	(B)		
Deferred incentive income as of December 31, 2014	\$ 1,243,441	\$ (938,915)	\$ 304,526	\$868,549
Fortress Funds which matured (no longer subject to clawback)	—	—	N/A	N/A
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	173,199
Distribution of private equity funds and credit PE funds incentive income	81,671	N/A	81,671	(81,671)

Distribution of private permanent capital vehicle incentive income through IPO in May 2015	6,299	N/A	6,299	(6,299)
Recognition of previously deferred incentive income	N/A	(65,709	)	(65,709)
Changes in foreign exchange rates	(449	)	—	(449)
Deferred incentive income as of June 30, 2015	\$ 1,330,962	(E)	\$ (1,004,624	)	\$ 326,338
Deferred incentive income including Fortress Funds which matured	\$ 1,384,618		\$ (1,058,280	)	\$ 953,778
				(E)	

(A) All related contingencies have been resolved.

(B) Reflected on the consolidated balance sheet.

(C) At June 30, 2015, the net undistributed incentive income is comprised of \$1.0 billion of gross undistributed incentive income, net of \$66.9 million of intrinsic clawback. The net undistributed incentive income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on June 30, 2015 at their net asset values.

(D) From inception to June 30, 2015, Fortress has paid \$621.9 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income, of which \$21.5 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. As of June 30, 2015, Fortress has recovered \$6.4 million from individuals relating to their clawback obligations. If the \$1.0 billion of gross undistributed incentive income were realized, Fortress would recognize and pay an additional \$498.7 million of compensation expense.

(E) See detailed reconciliations of Distributed-Gross and Undistributed, net of intrinsic clawback below.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

The amounts set forth under Distributed-Gross can be reconciled to the incentive income threshold tables (on the following pages) as follows:

	June 30, 2015	
Distributed incentive income - Private Equity Funds	\$846,671	
Distributed incentive income - Private Equity Funds in Investment Period or Commitment Period	—	
Distributed incentive income - Credit PE Funds	801,657	
Distributed incentive income - Credit PE Funds in Investment Period or Commitment Period	4,776	
Distributed incentive income - Private Permanent Capital Vehicle through IPO in May 2015 (see footnote (P) of incentive income threshold tables)	7,043	
Less:		
Fortress Funds which are not subject to a clawback provision:		
— NIH	(94,513)
— GAGACQ Fund	(51,476)
Portion of Fund I distributed incentive income that Fortress is not entitled to (see footnote K of incentive income threshold tables)	(183,196)
Distributed-Gross	\$1,330,962	

The amounts set forth under Undistributed, net of intrinsic clawback can be reconciled to the incentive income threshold tables (on the following pages) as follows:

	June 30, 2015	
Undistributed incentive income - Private Equity Funds	\$26,310	
Undistributed incentive income - Private Equity Funds in Investment Period or Commitment Period	3,509	
Undistributed incentive income - Credit PE Funds	848,001	
Undistributed incentive income - Credit PE Funds in Investment Period or Commitment Period	26,482	
Undistributed incentive income - Permanent Capital Vehicles	1,191	
Undistributed incentive income - Hedge Funds (total)	115,083	
Undistributed incentive income - Logan Circle	105	
Less: Gross intrinsic clawback per incentive income threshold tables - Private Equity Funds	(66,903)
Undistributed, net of intrinsic clawback	\$953,778	

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2015

(dollars in tables in thousands, except share data)

The following tables summarize information with respect to the Fortress Funds and their related incentive income thresholds as of June 30, 2015:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Investments	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 (F)	Distributed Incentive Income (G)	Distributed Incentive Income Subject to Clawback (I)	Gross Intrinsic Clawback (J)
Private Equity Funds											
NIH (1998)	Closed Jun-15	\$415,574	\$(823,588)	\$—	\$ N/A	\$ N/A	\$ N/A	\$—	\$94,513	\$—	\$—
Fund I (1999) (K)	Closed May-13	1,015,943	(2,847,929)	—	N/A	N/A	N/A	—	344,939	—	—
Fund II (2002)	In Liquidation	1,974,298	(3,442,900)	3,534	1,472,136	—	N/A	696	288,840	—	—
Fund III (2004)	In Liquidation	2,762,992	(2,138,524)	930,951	306,483	2,158,484	111	—	66,903	66,903	66,903
Fund III Coinvestment (2004)	In Liquidation	273,649	(225,188)	68,246	19,785	252,321	136	—	—	—	—
Fund IV (2006)	Jan-17	3,639,561	(1,357,054)	2,225,663	(56,844)	2,929,821	235	—	—	—	—
Fund IV Coinvestment (2006)	Jan-17	762,696	(271,319)	412,859	(78,518)	625,006	681	—	—	—	—
Fund V (2007)	Feb-18	4,103,713	(1,435,456)	5,303,858	2,635,601	2,355,806	—	13,665	—	—	—
Fund V Coinvestment (2007)	Feb-18	990,480	(173,600)	526,359	(290,521)	709,281	728	—	—	—	—
GAGACQ Fund (2004) (GAGFAH)	Closed Nov-09	545,663	(595,401)	—	N/A	N/A	N/A	—	51,476	—	—
FRID (2005) (GAGFAH)	Closed Nov-14	1,220,229	(1,202,153)	—	N/A	N/A	N/A	—	—	—	—
FRIC (2006) (Brookdale)	Closed Dec-14	328,754	(291,330)	—	N/A	N/A	N/A	—	—	—	—
FICO (2006) (Intrawest)	Jan-17	724,525	—	(63,960)	(788,485)	657,245	750	—	—	—	—
FHIF (2006) (Holiday)	Jan-17	1,543,463	(685,652)	1,520,480	662,669	1,586,201	—	—	—	—	—
FECI (2007) (Florida East Coast Railway/Florida)	Feb-18	982,779	(624)	960,420	(21,735)	818,492	227	—	—	—	—

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

East Coast
Industries)

MSR Opportunities Fund I A (2012)	Aug-22	341,135	(141,754)	298,754	99,373	—N/A	9,566	—	—	—
MSR Opportunities Fund I B (2012)	Aug-22	82,760	(34,275)	72,327	23,842	—N/A	2,383	—	—	—
							\$26,310	\$846,671	\$66,903	\$66,903

Private Equity Funds in Investment or
Commitment Period

MSR Opportunities Fund II A (2013)	Jul-23	\$158,724	\$(15,482)	\$162,338	\$19,096	—\$ N/A	\$2,820	\$—	\$—	\$—
MSR Opportunities Fund II B (2013)	Jul-23	2,264	(212)	2,311	259	—N/A	39	—	—	—
MSR Opportunities MA I (2013)	Jul-23	36,425	(3,541)	37,287	4,403	—N/A	650	—	—	—
Italian NPL Opportunities Fund (2013)	Sep-24	32,312	(5,768)	24,044	(2,500)	1,76267	—	—	—	—
							\$3,509	\$—	\$—	\$—

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2015

(dollars in tables in thousands, except share data)

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Investment	Inception to Date Distributions	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)
Credit PE Funds										
Long Dated Value Fund I (2005)	Apr-30	\$267,325	\$(127,971)	\$290,441	\$151,087	\$153,774	\$4,579	\$48	\$—	\$—
Long Dated Value Fund II (2005)	Nov-30	274,280	(150,977)	204,428	81,125	123,552	42,427	—	412	—
Long Dated Value Fund III (2007)	Feb-32	343,156	(283,517)	190,703	131,064	—	N/A	17,839	6,473	—
LDVF Patent Fund (2007)	Nov-27	41,779	(34,903)	33,493	26,617	—	N/A	1,071	1,471	—
Real Assets Fund (2007)	Jun-17	359,024	(352,783)	105,051	98,810	—	N/A	9,043	6,285	—
Credit										
Opportunities Fund (2008)	Oct-20	5,646,864	(7,084,071)	1,274,505	2,711,712	—	N/A	169,710	362,870	145,297
Credit										
Opportunities Fund II (2009)	Jul-22	2,335,264	(2,487,310)	1,083,393	1,235,439	—	N/A	129,496	112,816	43,733
Credit										
Opportunities Fund III (2011)	Mar-24	3,088,327	(1,298,051)	2,479,191	688,915	—	N/A	108,185	26,852	499
FCO Managed Accounts (2008 - 2012)	Apr-22 to Mar-24	4,231,548	(3,172,000)	2,573,108	1,513,560	—	N/A	194,853	100,147	31,599
SIP Managed Account (2010)	Sep-20	11,000	(37,033)	11,509	37,542	—	N/A	2,877	5,207	—
Japan Opportunity Fund (2009)	Jun-19	890,161	(1,371,558)	578,353	1,059,750	—	N/A	101,805	125,374	22,782
Net Lease Fund I (2010)	Feb-20	152,851	(225,430)	1,686	74,265	—	N/A	216	9,528	5,928
Real Estate										
Opportunities Fund (2011)	Sep-24	539,470	(313,690)	384,195	158,415	—	N/A	11,073	2,750	1,734
Global										
Opportunities Fund (2010)	Sep-20	320,130	(155,479)	243,187	78,536	—	N/A	13,387	1,927	1,927
Japan Opportunity Fund II (Yen)	Dec-21	644,383	(249,226)	708,104	312,947	—	N/A	48,800	15,416	—

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

(2011) Japan Opportunity Fund II (Dollar)	Dec-21	639,643	(242,269)	703,484	306,110	—	N/A	37,606	21,482	—
(2011) Real Estate Opportunities REOC Fund	Oct-23	56,692	(37,548)	42,456	23,312	—	N/A	1,992	2,647	1,160
(2011)								\$848,001	\$801,657	\$254,659
Credit PE Funds in Investment or Commitment Period FCO Managed Accounts (2010-2015)	Jun-24 to Feb-28	\$685,003	\$(301,411)	\$537,557	\$153,965	\$1,906	\$3,471	\$25,316	\$4,776	\$4,776
Life Settlements Fund (2010)	Dec-22	406,548	(299,330)	78,102	(29,116)	81,242	110,358	—	—	—
Life Settlements Fund MA (2010)	Dec-22	33,321	(24,482)	6,195	(2,644)	6,666	9,310	—	—	—
Real Estate Opportunities Fund II (2014)	May-27	242,294	(42,808)	212,224	12,738	3,954	701	1,166	—	—
Japan Opportunity Fund III (Yen) (2014)	Dec-24	107,011	—	106,999	(12)	2,742	2,754	—	—	—
Japan Opportunity Fund III (Dollar) (2014)	Dec-24	83,061	—	83,687	626	2,091	1,465	—	—	—
Credit Opportunities Fund IV (2015)	Feb-27	142,897	—	144,304	1,407	3,696	2,289	—	—	—
								\$26,482	\$4,776	\$4,776

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

Fund	Equity Eligible for Incentive (L)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (O)	Life-to-Date Incentive Income Crystallized (P)
Publicly Traded Permanent Capital Vehicles				
Newcastle	\$751,469	\$ (F)	\$ N/A	\$ 41,283
Eurocastle	62,476	—	1,191	39,217
New Residential	2,749,370	—	N/A	85,593
New Media	645,007	—	N/A	5,296
New Senior	1,089,384	1,115	N/A	—
FTAI (P)	1,219,416	1,950	—	—

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

	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	\$712,455	\$91,022	0.0	% \$—	\$—
Single investor funds	903,052	68,109	0.0	% —	11
Sidepocket investments (R)	7,235	6,252	N/A	44	—
Sidepocket investments - redeemers (S)	112,038	66,462	N/A	1,406	1
Managed accounts	397,078	26,980	0.0	% —	39
Fortress Convex Asia Funds (T)					
Main fund investments	193,120	11,718	0.0	% —	—
Fortress Partners Funds (T)					
Main fund investments	8,485	1,104	0.0	% —	41
Sidepocket investments (R)	79,272	6,951	N/A	4,338	—
Fortress Centaurus Global Funds (T)					
Main fund investments	191,202	7,602	0.0	% —	—
Credit Hedge Funds					
Special Opportunities Funds (T)					
Main fund investments	\$4,767,347	\$—	100.0	% \$44,097	\$—
Sidepocket investments (R)	45,652	6	N/A	3,232	—
Sidepocket investments - redeemers (S)	162,885	49,132	N/A	5,156	—
Main fund investments (liquidating) (U)	477,952	—	100.0	% 55,612	22,169
Managed accounts	1,518	47,706	0.0	% —	—
Worden Funds					
Main fund investments	262,770	1,191	81.2	% 1,007	—
Fortress Japan Income Fund					
Main fund investments	66,548	N/A	100.0	% 134	—
Value Recovery Funds (V)					
Managed accounts	9,908	6,957	48.8	% 57	—

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Logan Circle

Main fund investments	\$70,598	\$1,182	0.0	% \$—	\$—
Managed accounts	218,111	19,677	26.3	% 105	—

18

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2015

(dollars in tables in thousands, except share data)

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

Represents the contractual maturity date including the assumed exercise of all extension options, which in some

(B) 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.

(D) A NAV deficit represents the gain needed to cross the incentive income threshold (as described in (F) below), excluding the impact of any relevant performance (i.e. preferred return) thresholds (as described in (E) below).

For fund investors whose NAV is below the incentive income threshold, represents the gain needed for these

(E) investors to achieve the current relevant performance thresholds, assuming the gain described in (D) above is already achieved.

For fund investors whose NAV is below the incentive income threshold, represents the immediate increase in NAV needed for these investors 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

(F) resolved (see (I) below). For the publicly traded permanent capital vehicles, represents the immediate increase of the entity's applicable supplemental measure of operating performance needed for Fortress to begin earning incentive income. As of June 30, 2015, as a result of Newcastle not meeting the incentive income threshold, Fortress does not expect to earn incentive income from Newcastle for an indeterminate period of time. In April 2015, Fortress entered into an amended management agreement with Eurocastle. The amendment reset the earnings threshold for Fortress to earn incentive income.

Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV. The incentive income amounts presented in this table are based on the estimated results

(G) of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles. As of June 30, 2015, a portion of Fund V, Long Dated Value Fund I and Real Estate Opportunities Fund II's capital is above their incentive income threshold.

(H) Represents the amount of net 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

(I) 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").

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 June 30, 2015, Fortress held \$22.8 million of such amounts on behalf of employees related to all of the private equity funds.

(K) The Fund I distributed incentive income amount is presented for the total fund, of which Fortress was entitled to approximately 50%.

(L) Represents the portion of a fund's or managed account's NAV or trading level that is eligible to earn incentive income. For the publicly traded permanent capital vehicles, represents the equity basis that is used to calculate

incentive income.

Represents, for those 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 which the NAV of each investor within this category is below their respective incentive income threshold varies and,

(M) 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. For Fortress Japan Income Fund, Fortress earns incentive income based on investment income, which does not include unrealized and realized gains and losses, earned in excess of a preferred return threshold.

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 (N) 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.

Represents the amount of additional incentive income Fortress would earn from the fund or managed account 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.

Main Fund Investments (Liquidating) pay incentive income only after all capital is returned. For the Fortress Japan Income Fund, represents the amount of incentive income Fortress would earn from the fund assuming the amount (O) of investment income earned in excess of the preferred return threshold was distributed as of the end of the period. For the Value Recovery Fund managed accounts, Fortress can earn incentive income if aggregate realizations exceed an agreed threshold. For FTAI, Fortress can earn incentive income if cumulative capital gains income, subject to certain adjustments, exceeds the incentive income threshold as of the end of each calendar year. The incentive income amounts presented in this table are based on the

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2015

(dollars in tables in thousands, except share data)

estimated results of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

Represents the amount of incentive income Fortress has earned which is not subject to clawback. For the publicly traded permanent capital vehicles, represents the life-to-date incentive income amount that Fortress has earned and which is not subject to clawback. All of the capital of WWTAI, a private fund managed by Fortress, was (P) contributed to FTAI which completed its IPO in May 2015 (see below). Fortress earned \$7.0 million in life-to-date incentive income which is not subject to clawback and was not included in the table above. Of the \$7.0 million in incentive income from WWTAI, Fortress received \$5.9 million in FTAI common shares based on the share price at IPO.

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 (Q) 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 June 30, 2015, as if they became realized, would not materially impact the amounts presented in the table.

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 (R) 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 June 30, 2015, the undistributed incentive income from the Macro main fund would not be impacted.

Represents investments held in sidepockets for investors with no corresponding investment in the related main (S) 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.

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

Excludes the Value Recovery Funds which had a NAV of \$146.0 million at June 30, 2015. Fortress began (V) 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.

Private Equity

WWTAI was a private fund formed in July 2011 and managed by Fortress. All of the capital of WWTAI was contributed to FTAI which completed its IPO in May 2015. Fortress received shares in FTAI in exchange for its equity interests in WWTAI. During the second quarter of 2015, Fortress recognized \$7.0 million in incentive income from WWTAI as these distributions were determined to no longer be subject to clawback. Of the \$7.0 million in incentive income from WWTAI, Fortress received \$5.9 million in FTAI common shares based on the share price at IPO. Fortress entered into a management agreement with FTAI and under the terms of the management agreement, Fortress will receive a management fee, incentive income and reimbursement for certain expenses incurred.

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

During the six months ended June 30, 2015, Fortress's senior living management subsidiary (Blue Harbor) entered into agreements to manage two senior living properties which are owned by New Senior. Fortress will receive management fees equal to 5.0% of revenues (as defined in the agreements) and reimbursement of certain expenses, including the compensation expense of all on-site employees.

Logan Circle

During the six months ended June 30, 2015, Logan Circle, Fortress's fixed income asset manager, formed two new entities with net asset values as follows as of June 30, 2015:

	Logan Circle Funds
Fortress	\$9,899
Third party investors	50,745
Total capital NAV	\$60,644

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

Credit PE

During the six months ended June 30, 2015, Fortress formed new credit PE entities which had capital commitments as follows as of June 30, 2015:

	Credit PE
Fortress	\$33,750
Fortress's affiliates	36,035
Third party investors	3,864,910
Total capital commitments	\$3,934,695

3. INVESTMENTS AND FAIR VALUE

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

Investments can be summarized as follows:

	June 30, 2015	December 31, 2014
Equity method and other investees	\$1,115,092	\$1,106,338
Equity method investees, held at fair value (A)	29,505	15,207
Total investments	\$1,144,597	\$1,121,545
Options in equity method investees	\$60,950	\$71,844

(A) Includes the publicly traded private equity portfolio companies and publicly traded permanent capital vehicles, including FTAI which completed its IPO in May 2015 (see Note 2).

Gains (losses) are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net realized gains (losses)	\$54	\$(1,574)	\$1,313	\$(2,409)
Net realized gains (losses) from affiliate investments (A)	33,867	44,922	32,701	44,348
Net unrealized gains (losses)	3,962	4,844	1,600	(1,959)
Net unrealized gains (losses) from affiliate investments (A)	(44,670)	(43,328)	(10,840)	(46,171)
Total gains (losses)	\$(6,787)	\$4,864	\$24,774	\$(6,191)

(A) Includes the impact of the exercise of options held in New Residential in June 2015 and the sale of GAGFAH shares in June 2014.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

These gains (losses) were generated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Mark to fair value on affiliate investments and options	\$ (10,886	) \$ 1,593	\$ 21,899	\$ (1,846
Mark to fair value on derivatives	3,903	(2,599	) 5,017	(3,948
Mark to fair value on equity securities	—	693	(509	) 770
Gains (losses) on digital currency (Bitcoin)	368	3,904	(1,175	) (2,272
Other	(172	) 1,273	(458	) 1,105
Total gains (losses)	\$ (6,787	) \$ 4,864	\$ 24,774	\$ (6,191

Investments

Fortress holds investments in certain Fortress Funds which are primarily 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:

	Fortress's Investment		Earnings (Losses) from Equity Method Investees			
	June 30, 2015	December 31, 2014	Three Months Ended June 30,		Six Months Ended June 30,	
			2015	2014	2015	2014
Private equity funds	\$ 657,569	\$ 677,366	\$ (33,674	) \$ 10,957	\$ (7,819	) \$ 17,349
Publicly traded portfolio companies (A)(B)	1,368	1,035	N/A	N/A	N/A	N/A
FTAI (B)	14,236	5,284	(129	) (92	) 89	(57
Newcastle (B)	764	776	N/A	N/A	N/A	N/A
New Residential (B)	7,903	6,622	N/A	N/A	N/A	N/A
Eurocastle (B)	2,244	2,162	N/A	N/A	N/A	N/A
New Media (B)	1,342	1,769	N/A	N/A	N/A	N/A
New Senior (B)	2,311	2,843	N/A	N/A	N/A	N/A
Total private equity	687,737	697,857	(33,803	) 10,865	(7,730	) 17,292
Liquid hedge funds (C)	193,783	167,630	(8,850	) 1,756	518	3,286
Credit hedge funds	41,898	57,224	990	2,440	2,958	4,809
Credit PE funds	195,801	183,127	5,000	7,387	10,065	17,394
Other	25,378	15,707	342	—	(424	) 41
	\$ 1,144,597	\$ 1,121,545	\$ (36,321	) \$ 22,448	\$ 5,387	\$ 42,822

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

(B)

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Fortress elected to record the common shares held in these companies at fair value pursuant to the fair value option for financial instruments, including FTAI which completed its IPO in May 2015 (see Note 2).

(C) Includes Fortress's investment in Affiliated Managers.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2015
(dollars in tables in thousands, except share data)

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

	Six Months Ended June 30, 2015							
	Private Equity							
	Funds	Publicly Traded Portfolio Companies (A)	Permanent Capital Vehicles (A)	Liquid Hedge Funds (B)	Credit Hedge Funds	Credit PE Funds	Other	Total
Investment, beginning	\$677,366	\$1,035	\$19,456	\$167,630	\$57,224	\$183,127	\$15,707	\$1,121,545
Earnings from equity method investees	(7,819)	N/A	89	518	2,958	10,065	(424)	5,387
Other comprehensive income from equity method investees	—	N/A	—	—	—	—	—	—
Contributions to equity method and other investees (C)	1,930	50	8,406	13,652	115,369	21,602	66	161,075
Distributions of earnings from equity method and other investees	(10,668)	N/A	(173)	(427)	(3,485)	(8,269)	(734)	(23,756)
Distributions of capital from equity method and other investees (C)	(2,016)	N/A	(216)	(20,990)	(130,168)	(10,278)	(3)	(163,671)
Total distributions from equity method and other investees	(12,684)	—	(389)	(21,417)	(133,653)	(18,547)	(737)	(187,427)
Mark to fair value - during period (D)	401	283	1,411	N/A	N/A	N/A	(189)	1,906
Net purchases of investments by consolidated funds	—	—	—	—	—	—	10,955	10,955
Translation adjustment	(28)	—	(173)	—	—	(398)	—	(599)
Dispositions	(2,683)	—	—	—	—	(48)	—	(2,731)
Reclassification to Due to Affiliates (E)	1,086	—	—	—	—	—	—	1,086
Retained interest in Graticule (Note 1)	—	—	—	33,400	—	—	—	33,400
Investment, ending	\$657,569	\$1,368	\$28,800	\$193,783	\$41,898	\$195,801	\$25,378	\$1,144,597
Ending balance of undistributed earnings	\$54,692	\$ N/A	\$ N/A	\$7,826	\$2,442	\$13,547	\$1,728	\$80,235

- Fortress elected to record the common shares held in the publicly traded private equity portfolio companies and (A) publicly traded permanent capital vehicles, including FTAI which completed its IPO in May 2015 (see Note 2), at fair value pursuant to the fair value option for financial instruments.
- (B) Includes Fortress's investment in Affiliated Managers.
- (C) The amounts presented above can be reconciled to the amounts presented on the statement of cash flows as follows:

	Six Months Ended June 30, 2015	
	Contributions	Distributions of Capital
Per Consolidated Statements of Cash Flows	\$18,862	\$(155,255)
Investments of incentive receivable amounts into Fortress Funds	134,657	—
Change in distributions payable out of Fortress Funds	—	—
Net funded*	7,331	(7,331)
Other	225	(1,085)
Per Above	\$161,075	\$(163,671)

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.

- (D) Recorded to Gains (Losses).
- (E) Represents a portion of the general partner liability discussed in Note 9.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

The following tables present summarized statements of operations for Fortress's significant equity method investees. The permanent capital vehicles, the publicly traded portfolio companies and Other are not presented as they are insignificant to Fortress's investments.

	Private Equity Funds (A)		Liquid Hedge Funds	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015 (B)	2014
Revenues and gains (losses) on investments	\$(284,694	) \$419,265	\$(132,365	) \$(153,439
Expenses	(84,796	) (101,809	) (95,131	) (97,666
Net Income (Loss)	\$ (369,490	) \$317,456	\$(227,496	) \$(251,105
Fortress's equity in net income (loss)	\$ (7,819	) \$17,349	\$518	\$3,286

	Credit Hedge Funds		Credit PE Funds (A)	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues and gains (losses) on investments	\$499,641	\$553,237	\$854,159	\$1,293,764
Expenses	(212,050	) (150,968	) (141,262	) (132,624
Net Income (Loss)	\$287,591	\$402,269	\$712,897	\$1,161,140
Fortress's equity in net income (loss)	\$2,958	\$4,809	\$10,065	\$17,394

(A) For Private Equity Funds, includes four entities which are recorded on a one quarter lag (i.e. current year balances reflected for these entities are for the period ended March 31, 2015). For Credit PE Funds, includes one entity which is recorded on a one quarter lag 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 GAAP within the reporting time frame necessary for U.S. public entities.

(B) Includes the operating results of Affiliated Managers.

Investments in Variable Interest Entities and other Unconsolidated Entities

All of Fortress's interests in unconsolidated entities relate to (i) entities in which Fortress has an investment, which are included on the consolidated balance sheet and described in Note 3, and/or (ii) entities from which Fortress earns fees, which are included in revenues and described in Note 2. These entities are primarily Fortress Funds which are VOEs and provide their limited partners or members unrelated to Fortress with the substantive ability to liquidate the Fortress Fund or otherwise remove Fortress as the general partner and/or manager.

No reconsideration events occurred during the six months ended June 30, 2015 or 2014, respectively, which caused a change in Fortress's accounting, except as described below.

The following tables set forth certain information as of June 30, 2015 regarding variable interest entities in which Fortress held a variable interest. Entities initially classified as variable interest entities during the six months ended June 30, 2015:

Fortress is not Primary Beneficiary

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Business	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Notes
Permanent Capital Vehicles	1	\$2,009,945	\$584,302	\$ 19,121	(C)
Liquid Hedge Funds	2	192,912	—	39,044	(D)
Credit PE Funds	2	22,577	—	85	(D)

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

All variable interest entities:

Business	Fortress is not Primary Beneficiary				December 31, 2014				Notes
	June 30, 2015				Number of VIEs				
	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	
Private Equity Funds	1	\$ 126,427	\$ —	\$ 53	2	\$ 85,553	\$ —	\$ 56	(D)
Permanent Capital Vehicles	6	23,439,898	14,859,143	129,847	5	14,539,141	10,336,207	154,346	(C)
Liquid Hedge Funds	4	2,224,814	283,069	42,347	2	3,070,203	432,580	7,094	(D)
Credit Hedge Funds	8	2,145,724	373,920	2,915	8	1,976,328	152,806	25,474	(D) (E)
Credit PE Funds	32	860,222	214,870	7,893	30	735,855	143,743	5,897	(D) (E)
Business	Fortress is Primary Beneficiary				December 31, 2014				Notes
	June 30, 2015				Number of VIEs				
	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	
Private Equity Funds	9	\$ 65,588	\$ —	\$ 20,957	9	\$ 90,723	\$ —	\$ 20,368	(F) (G)
Liquid Hedge Funds	1	8,154	—	3,429	3	8,714	—	4,125	(F)
Credit PE Funds	2	446	—	20	2	434	—	22	(F)
Logan Circle	1	4,951	—	4,807	1	6,566	—	4,783	(F)

Represents financial obligations of the VIEs which are not recourse to Fortress and assets of the VIEs which Fortress does not have the right to make use of to satisfy its obligations. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these VIEs have additional debt within (A)unconsolidated subsidiaries. The debt obligations of the VIEs are not cross collateralized with the debt obligations of Fortress. Fortress has no obligation to satisfy the liabilities of the VIEs. The VIE's debt obligations have no impact on Fortress's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.

Represents Fortress's maximum exposure to loss with respect to these entities, which includes investments in these entities, plus any receivables due from these entities. In addition to the table above, Fortress is exposed to potential (B)changes in cash flow and revenues attributable to the management fees and/or incentive income Fortress earns from those entities. For VIEs where Fortress is deemed to be the primary beneficiary, these investments and receivables are eliminated in consolidation but still represent Fortress's economic exposure to the VIEs.

(C)

Includes permanent capital vehicles that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because the group of at-risk equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance. Fortress is not the primary beneficiary of these entities. Fortress and its related parties under common control as a group, where applicable, do not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to these entities.

(D) Includes entities, primarily investing vehicles set up on behalf of the Fortress Funds to make investments, that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because either (i) the group of at-risk equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance and/or (ii) the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity's activities either involve or are conducted on behalf of that investor and its related parties. Fortress is not the primary beneficiary of these entities. Fortress and its related parties under common control as a group, where applicable, do not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to these entities. Due to a reconsideration event in January 2015, Fortress no longer has the power to direct the activities that most significantly impact the economic performance of certain VIEs in the liquid hedge fund business. Therefore, Fortress is no longer deemed to be the primary beneficiary of these VIEs as of the reconsideration date.

(E) Includes entities that are VIEs because the entity's equity investment at-risk is determined to be insufficient. Fortress is not the primary beneficiary of these entities because Fortress does not have the power to direct the activities that most significantly impact the economic performance of these entities. These entities represent an insignificant portion of the amounts presented in the table.

(F) Includes entities that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because the group of at-risk equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance. Fortress is the investment manager of these entities. Fortress is determined to be the primary beneficiary of these entities since it has both power over the activities that most significantly affect the success of the entity or impact the entity's economic performance and has the right to receive benefits or the obligation to absorb losses from the VIE that potentially could be significant to the entity. Due to a reconsideration in January 2015,

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

Fortress no longer has the power to direct the activities that most significantly impact the economic performance of certain VIEs in the liquid hedge fund business. Therefore, Fortress is no longer deemed to be the primary beneficiary of these VIEs as of the reconsideration date.

Includes an entity that is a VIE because the entity's equity investment at risk is determined to be insufficient.
 (G) Fortress, as a result of directing the operations of the entity through its management contracts with certain funds, and providing financial support to the entity, was deemed to be its primary beneficiary.

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
	June 30, 2015	December 31, 2014	
Assets (within Investments)			
Common shares of publicly traded permanent capital vehicles (A)	\$28,137	\$14,172	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies	1,368	1,035	Level 1 - Quoted prices in active markets for identical assets
Total equity method investments carried at fair value	\$29,505	\$15,207	
Options in equity method investees	\$60,950	\$71,844	Level 2 - Option valuation models using significant observable inputs
Assets (within Other Assets)			
Derivatives	\$28,951	\$27,105	Level 2 - See below
Equity Securities (B)	\$—	\$17,627	Level 1 - Quoted prices in active markets for identical assets
Liabilities (within Accrued Compensation and Benefits)			
Options in affiliates granted to employees	\$(8,965)	\$(8,356)	Level 2 - Option valuation models using significant observable inputs
Liabilities (within Other Liabilities)			
Derivatives	\$(2,045)	\$(932)	Level 2 - See below

(A) FTAI completed its IPO in May 2015 and Fortress elected to record its interest at fair value pursuant to the fair value option for financial instruments.

(B) Equity securities were held at fair value and classified as trading. All equity securities were sold in 2015.

See Note 4 regarding the fair value of outstanding debt.

In January 2015, New Media issued 7.0 million shares of its common stock in a public offering at a price to the public of \$21.70 per share. In connection with this offering, New Media compensated Fortress for its successful efforts in raising capital for New Media by granting options to Fortress to purchase 0.7 million shares of New Media's common

stock at the public offering price, which were valued at \$4.1 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

In April 2015, New Residential issued 57.5 million shares of its common stock. For the purpose of compensating Fortress for its successful efforts in raising capital, New Residential granted options to Fortress to purchase 5.8 million shares of New Residential's common stock at a price of \$15.25, which had a fair value of \$9.0 million as of the grant date. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

In April 2015, Eurocastle issued 39.8 million shares of its common stock in a public offering at a price to the public of €7.85 per share. In connection with this offering, Eurocastle compensated Fortress for its successful efforts in raising capital for Eurocastle by granting options to Fortress to purchase 4.0 million shares of Eurocastle's common stock at the public offering price, which were valued at \$5.1 million as of the grant date. The options were fully vested upon issuance and have a ten-year term.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

In June 2015, New Residential issued 27.9 million shares of its common stock in a public offering at a price to the public of \$15.88 per share. In connection with this offering, New Residential compensated Fortress for its successful efforts in raising capital for New Residential by granting options to Fortress to purchase 2.8 million shares of New Residential's common stock at the public offering price, which were valued at \$3.7 million as of the grant date. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

In June 2015, Fortress exercised 6.2 million of its options held in New Residential, received \$51.5 million of net proceeds in connection with the exercise and realized a gain of \$30.6 million.

In June 2015, New Senior issued 20.1 million shares of its common stock in a public offering at a price to the public of \$13.75 per share. In connection with this offering, New Senior compensated Fortress for its successful efforts in raising capital for New Senior by granting options to Fortress to purchase 2.0 million shares of New Senior's common stock at the public offering price, which were valued at \$3.0 million as of the grant date. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

Derivatives

Fortress is exposed to certain risks relating to its ongoing business operations. The primary risk managed by Fortress using derivative instruments is foreign currency risk. Fortress enters into foreign exchange forward contracts and options to economically hedge the risk of fluctuations in foreign exchange rates with respect to certain foreign currency denominated assets and expected revenues. Gains and losses on these contracts are reported currently in Gains (Losses).

Fortress's derivative instruments are carried at fair value and are generally valued using models with observable market inputs that can be verified and which do not involve significant judgment. The significant observable inputs used in determining the fair value of the Level 2 derivative contracts are contractual cash flows and market based parameters such as foreign exchange rates.

Fortress's derivatives (not designated as hedges) are recorded as follows:

	Balance Sheet Classification (A)	June 30, 2015 (or six months ended)			Maturity Date
		Fair Value	Notional Amount	Gains/(Losses) (B)	
Foreign exchange option contracts	Other Assets	\$28,597	¥45,560,526	\$4,857	Dec-15 - Mar-18
Foreign exchange option contracts	Other Liabilities	\$(1,710)	¥5,412,312	\$(216)	Dec-15 - Jun-16
Foreign exchange forward contracts	Other Assets	\$354	¥1,028,587	\$278	Jun-16 - Dec-17
Foreign exchange forward contracts	Other Liabilities	\$(335)	¥3,008,426	\$(335)	Dec-15 - Jun-16

(A) Fortress has a master netting agreement with its counterparty.

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Reflects unrealized gains (losses) related to contracts existing at period end. Total net foreign exchange gains (B)(losses) from derivatives were \$5.0 million and \$(3.9) million during the six months ended June 30, 2015 and 2014, respectively.

Fortress's average notional amount outstanding for the six months ended June 30, 2015 was \$437.5 million.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

The following tables summarizes the fair value of Fortress's derivative contracts on a gross basis and any amount of offset as permitted by netting agreements as of June 30, 2015.

	Gross Amounts of Recognized Assets as of June 30, 2015	Gross Amounts Offset in the Consolidated Balance Sheet as of June 30, 2015	Net Amounts of Assets Presented in the Consolidated Balance Sheet as of June 30, 2015
Offsetting of Derivative Assets			
Foreign exchange option contracts	\$30,715	\$(2,118)	) \$28,597
Foreign exchange forward contracts	354	—	) 354
	\$31,069	\$(2,118)	) \$28,951

	Gross Amounts of Recognized Liabilities as of June 30, 2015	Gross Amounts Offset in the Consolidated Balance Sheet as of June 30, 2015	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet as of June 30, 2015
Offsetting of Derivative Liabilities			
Foreign exchange option contracts	\$(1,188)	) \$(522)	) \$(1,710)
Foreign exchange forward contracts	(335)	) —	) (335)
	\$(1,523)	) \$(522)	) \$(2,045)

The counterparty on the outstanding derivatives is Citibank N.A.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

4. DEBT OBLIGATIONS

	Face Amount and Carrying Value		Contractual Interest Rate	Final Stated Maturity	June 30, 2015 Amount Available for Draws
	June 30, 2015	December 31, 2014			
Debt Obligation					
Revolving credit agreement (A)(B)	\$75,000	\$75,000	LIBOR + 2.50% (C)	Feb 2016	\$72,332
Total	\$75,000	\$75,000			

Collateralized by substantially all of Fortress Operating Group's assets as well as Fortress Operating Group's rights (A) to fees from the Fortress Funds and its equity interests therein, other than fees from Fortress's senior living property manager.

(B) The \$150.0 million revolving debt facility includes a \$15.0 million letter of credit subfacility of which \$2.7 million was utilized.

(C) Subject to unused commitment fees of 0.4% per annum.

Management believes the fair value of its outstanding debt was \$75.1 million as of June 30, 2015 (classified as a level 3 valuation, which is based on internal models using discounted future contractual cash flows and market interest rates).

Fortress was in compliance with all of its debt covenants as of June 30, 2015. The following table sets forth the financial covenant requirements as of June 30, 2015.

	June 30, 2015 (dollars in millions)		
	Requirement	Actual	Notes
AUM, as defined	≥ \$25,000	\$45,690	(A)
Consolidated Leverage Ratio	≤ 2.00	0.20	(B)
Consolidated Interest Coverage Ratio	≥ 4.00	102.97	(B)

(A) Impacted by capital raised in funds, redemptions from funds, and valuations of fund investments. The AUM presented here is based on the definition of Management Fee Earning Assets contained in the Credit Agreement. The Consolidated Leverage Ratio is equal to Adjusted Net Funded Indebtedness, as defined, divided by the trailing four quarters' Consolidated EBITDA, as defined. The Consolidated Interest Coverage Ratio is equal to the quotient of (A) the trailing four quarters' Consolidated EBITDA, as defined, divided by (B) the trailing four quarters' interest charges as defined in the Credit Agreement. Consolidated EBITDA, as defined, is impacted by the same factors as distributable earnings, except Consolidated EBITDA is not impacted by changes in clawback reserves or gains and losses, including impairment, on investments.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

5. INCOME TAXES AND TAX RELATED PAYMENTS

Fortress was established as a publicly traded partnership and also established a wholly owned corporate subsidiary. Accordingly, a substantial portion of Fortress's income is earned by the corporate subsidiary and subject to U.S. federal and state income taxation, taxed at prevailing rates. The remainder of Fortress's income is allocated directly to its shareholders and is not subject to a corporate level of taxation.

The provision for income taxes consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Current				
Federal income tax expense (benefit)	\$2,394	\$(4,384)	\$(727)	\$(4,452)
Foreign income tax expense (benefit)	5,543	1,470	6,670	4,608
State and local income tax expense (benefit)	930	560	2,809	998
	8,867	(2,354)	8,752	1,154
Deferred				
Federal income tax expense (benefit)	(2,153)	9,096	10,834	10,613
Foreign income tax expense (benefit)	(77)	(107)	3,465	676
State and local income tax expense (benefit)	(11,836)	1,281	(9,851)	1,467
(A)	(14,066)	10,270	4,448	12,756
Total expense (benefit)	\$(5,199)	\$7,916	\$13,200	\$13,910

(A) During the three months ended June 30, 2015, New York City enacted corporate taxation legislative changes, which increased the value of certain future tax benefits.

The tax effects of temporary differences have resulted in deferred income tax assets and liabilities as follows:

	June 30, 2015	December 31, 2014
Total deferred tax assets	\$444,543	\$439,159
Less:		
Valuation allowance	(20,776)	(13,072)
Deferred tax liabilities (A)	(7,852)	(8,464)
Deferred tax assets, net	\$415,915	\$417,623

The deferred tax liabilities primarily relate to timing differences in the recognition of income from options (A) received from certain permanent capital vehicles. Deferred tax assets are shown net of deferred tax liabilities since they are both primarily of similar tax character and tax jurisdiction.

The following table summarizes the change in the deferred tax asset valuation allowance:

Valuation Allowance at December 31, 2014	\$13,072
Changes due to FIG Corp. ownership change	306
Net increases (A)	7,398
Valuation Allowance at June 30, 2015	\$20,776

(A) Primarily related to the change in the portion of the deferred tax asset that would be realized in connection with future capital gains.

For the six months ended June 30, 2015, a net deferred income tax provision of \$0.2 million was credited to other comprehensive income, primarily related to foreign currency translation. For the six months ended June 30, 2015, a current income tax benefit of \$1.5 million was credited to paid-in capital, related to dividend equivalent payments on RSUs (Note 8), as applicable, which are currently deductible for income tax purposes.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

For the six months ended June 30, 2015 and 2014, Fortress recorded \$4.5 million and \$2.9 million, respectively, to paid-in capital for excess tax benefits from RSUs delivered during these periods and as a financing activity on the consolidated statements of cash flows.

Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the six months ended June 30, 2015, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be \$12.2 million. In addition, during the three months ended June 30, 2015, a change in tax rate primarily related to enacted legislative changes to New York City corporate taxation, gave rise to a \$7.5 million increase in the expected tax receivable agreement liability.

6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

	Private Equity Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Other	Total
June 30, 2015								
Management fees and incentive income (A)	\$38,499	\$29,601	\$5,349	\$2,766	\$24,429	\$507	\$—	\$101,151
Expense reimbursements (A)	24,257	7,796	7,200	12,267	10,541	109	—	62,170
Dividends and distributions	—	347	—	—	—	—	—	347
Other	—	2,353	—	—	—	—	22,030	24,383
Total	\$62,756	\$40,097	\$12,549	\$15,033	\$34,970	\$616	\$22,030	\$188,051

	Private Equity Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Other	Total
December 31, 2014								
Management fees and incentive income (A)	\$35,970	\$65,043	\$15,634	\$96,996	\$18,393	\$1,089	\$—	\$233,125
Expense reimbursements (A)	35,995	6,473	12,940	9,264	10,077	164	—	74,913
Dividends and distributions	—	295	—	—	—	—	—	295

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Other	—	1,346	—	—	—	—	16,896	18,242
Total	\$71,965	\$73,157	\$28,574	\$106,260	\$28,470	\$1,253	\$16,896	\$326,575

Net of allowances for uncollectible management fees and expense reimbursements of \$12.2 million and \$6.7 (A) million as of June 30, 2015, respectively, and of \$12.2 million and \$6.6 million as of December 31, 2014, respectively. Allowances are recorded as General and Administrative expenses.

As of June 30, 2015, amounts due from Fortress Funds recorded in Due from Affiliates included \$36.1 million of past due management fees and \$11.3 million of private equity general and administrative expenses advanced on behalf of a certain Fortress Fund. Although such fund is currently experiencing a liquidity issue, the past due amounts represent less than 5% of such fund's NAV and Fortress believes these fees and reimbursable expenses will ultimately be collectible.

As of June 30, 2015, past due amounts recorded in Due from Affiliates also includes \$12.2 million in management fees and \$6.7 million in private equity general and administrative expenses due from another Fortress Fund which Fortress has fully reserved.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

Due to affiliates was comprised of the following:

	June 30, 2015	December 31, 2014
Principals - tax receivable agreement - Note 5	\$296,916	\$289,324
Principals - Principal Performance Payments - Note 7	22,114	30,659
Distributions payable on Fortress Operating Group units	5,240	—
Other	3,274	11,411
General partner liability - Note 9	45,116	44,030
Total	\$372,660	\$375,424

Other Related Party Transactions

For the six months ended June 30, 2015 and 2014, Other Revenues included \$1.2 million and \$1.4 million, respectively, of revenues from affiliates, primarily interest and dividends.

During 2015, Fortress advanced \$6.5 million to three of its senior employees who are not officers. These advances bear interest ranging from LIBOR+4% to LIBOR+5%. All principal and interest is due and payable no later than February 2019. In addition, one senior employee repaid advances aggregating \$0.1 million.

Redeemable Non-Controlling Interests

The following table represents the activity in Redeemable Non-controlling Interests as presented in the consolidated balance sheets:

	Six Months Ended June 30, 2015	
Beginning balance	\$1,717	
Capital distributions	(1,692))
Redeemable Non-controlling Interests in income (loss) of Consolidated Subsidiaries	(6))
	\$19	

Principals' and Others' Interests in Consolidated Subsidiaries

These amounts relate to equity interests in Fortress's consolidated, but not wholly owned subsidiaries, which are held by the Principals, employees, and others.

This balance sheet caption was comprised of the following:

	June 30, 2015	December 31, 2014
Fortress Operating Group units held by the Principals and a former senior employee	\$494,551	\$556,720
Employee interests in majority owned and controlled fund advisor and general partner entities	57,373	80,333
Other	2,251	2,303

Total	\$554,175	\$639,356
-------	-----------	-----------

32

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

The Fortress Operating Group portion of these interests is computed as follows:

	June 30, 2015		December 31, 2014	
Fortress Operating Group equity (Note 12)	\$1,025,423		\$1,152,297	
Less: Others' interests in equity of consolidated subsidiaries (Note 12)	(59,624	)	(82,636)
Total Fortress shareholders' equity in Fortress Operating Group	\$965,799		\$1,069,661	
Fortress Operating Group units outstanding (A)	226,331,513		226,331,513	
Class A shares outstanding	215,673,299		208,535,157	
Total	442,004,812		434,866,670	
Fortress Operating Group units as a percent of total (B)	51.2	%	52.0	%
Equity of Fortress Operating Group units held by the Principals and a former senior employee	\$494,551		\$556,720	

(A) Held by the Principals and a former senior employee; exclusive of Class A shares.

(B) As a result, the Registrant owned 48.8% and 48.0% of Fortress Operating Group as of June 30, 2015 and December 31, 2014, respectively.

This statement of operations caption was comprised of shares of consolidated net income (loss) related to the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Fortress Operating Group units held by the Principals and a former senior employee	\$1,355	\$40,577	\$52,960	\$45,635
Employee interests in majority owned and controlled fund advisor and general partner entities	199	1,505	1,039	2,516
Other	99	18	(123	) 26
Total	\$1,653	\$42,100	\$53,876	\$48,177

The Fortress Operating Group portion of these interests is computed as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Fortress Operating Group net income (loss) (Note 12)	\$2,935	\$79,257	\$102,694	\$90,083
Adjust:				
Others' interests in net (income) loss of consolidated subsidiaries (Note 12)	(298	) (1,523	) (916	) (2,542
Redeemable Non-controlling interests in (income)	(10	) (157	) 6	(157

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

loss of consolidated subsidiaries

Total Fortress shareholders' net income (loss) in Fortress Operating Group	\$2,627	\$77,577	\$101,784	\$87,384	
Fortress Operating Group as a percent of total (A)	51.6	% 52.3	% 52.0	% 52.2	%
Fortress Operating Group net income (loss) attributable to the Principals and a former senior employee	\$1,355	\$40,577	\$52,960	\$45,635	

(A) Represents the weighted average percentage of total Fortress shareholders' net income (loss) in Fortress Operating Group attributable to the Principals and a former senior employee.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

The purpose of this schedule is to disclose the effects of changes in Fortress's ownership interest in Fortress Operating Group on Fortress's equity:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net Income (loss) attributable to Class A shareholders	\$3,316	\$31,199	\$38,029	\$34,223
Transfers (to) from the Principals' and Others' Interests:				
Increase in Fortress's shareholders' equity for the delivery of Class A shares primarily in connection with vested RSUs	8,338	4,359	8,364	4,776
Increase in Fortress's shareholders' equity for the public offering of Class A shares and repurchase of Class B shares and FOGUs	—	—	—	53,510
Decrease in Fortress's shareholders' equity for the repurchase and cancellation of Class A shares and FOGUs	—	—	—	(101,156)
Change from net income (loss) attributable to Fortress and transfers (to) from Principals' and Others' Interests	\$11,654	\$35,558	\$46,393	\$(8,647)

7. EQUITY-BASED AND OTHER COMPENSATION

Fortress's total compensation and benefits expense, including Principal Performance Payments, is comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Equity-based compensation, per below	\$11,044	\$9,661	\$25,388	\$18,334
Profit-sharing expense, per below	67,348	41,426	106,261	105,747
Discretionary bonuses	58,236	55,283	120,817	112,721
Other payroll, taxes and benefits	62,480	61,744	125,530	119,831
	\$199,108	\$168,114	\$377,996	\$356,633

Equity-Based Compensation

The following tables set forth information regarding equity-based compensation activities.

RSUs		Non-Employees	
Employees		Number	Value (A)
Number	Value (A)	Number	Value (A)

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Outstanding at December 31, 2014	20,153,746	\$5.52	396,874	\$6.51
Issued	11,925,660	\$6.89	111,540	\$7.61
Transfers	—	\$—	—	\$—
Converted to Class A shares	(6,880,798)	\$4.74	(186,136)	\$6.78
Forfeited	(441,455)	\$6.24	—	\$—
Outstanding at June 30, 2015 (B)	24,757,153	\$6.38	322,278	\$6.74

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Expense incurred (B)				
Employee RSUs	\$7,818	\$5,477	\$18,822	\$11,364
Non-Employee RSUs	82	4	1,064	10
Principal Performance Payments (C)	3,144	4,180	5,502	6,960
Total equity-based compensation expense	\$11,044	\$9,661	\$25,388	\$18,334

(A) Represents the weighted average grant date estimated fair value per share or unit.

(B) In future periods, Fortress will further recognize compensation expense on its non-vested equity based awards outstanding as of June 30, 2015 of \$108.1 million, with a weighted average recognition period of 4.1 years.

Accrued based on year-to-date performance; the actual number of RSUs granted are determined at year end. Based on year-to-date performance, a total of approximately 1.1 million RSUs would be awarded as Principal Performance Payments.

Fortress's management reviewed the estimated forfeiture factor as of June 30, 2015 and, based on the actual forfeiture rate incurred and the remaining vesting period of certain grants, determined that the forfeiture assumptions for certain grants required adjustment. The result of these changes in estimates did not materially impact equity-based compensation expense.

During January and February 2015, Fortress granted 11.4 million RSUs to its employees valued at an aggregate of \$77.6 million on the respective grant dates, of which 6.5 million are dividend paying. These RSUs vest over a period of three to six years.

In February 2015, Fortress awarded 0.5 million dividend paying RSUs as Principal Performance Payments based on 2014 results valued at an aggregate of \$4.0 million on the grant date. These RSUs vest over three years.

The expense for Principal Performance Payments was comprised of the following:

	Six Months Ended June 30, 2015		
	Equity-Based Compensation	Profit Sharing Expense	Total
Private equity business	\$401	\$10,495	\$10,896
Liquid hedge fund business	997	—	997
Credit business	4,104	9,759	13,863
Total	\$5,502	\$20,254	\$25,756

In April 2010, in connection with the acquisition of Logan Circle, Fortress created the Logan Circle Comp Plan, as amended. The Logan Circle Comp Plan provides for annual bonuses which may be paid partially in RSUs, as well as for potential Class A share awards to certain employees related to the years 2016 and 2017. These awards are annual performance-based awards and depend on the future performance of Logan Circle in the specific years to which they relate. Furthermore, the amounts of RSUs or shares to be awarded are not fixed until the respective year is completed. As such, these awards are expensed over the related service period. If Logan Circle meets the future performance targets under this plan, the amounts to be awarded could be significant. Through June 30, 2015, no compensation

expense was recognized under this plan as the satisfaction of the performance condition and amount of the award were not considered to be probable.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

Profit Sharing Expense

Recognized profit sharing compensation expense (benefit) is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Private equity funds	\$—	\$303	\$—	\$303
Permanent capital vehicles	2,462	4,170	8,961	9,085
Liquid hedge funds	(2,705	) 5,944	1,348	8,407
Credit hedge funds	18,524	19,698	30,133	35,332
Credit PE funds	31,617	5,152	45,565	39,563
Principal Performance Payments (A)	17,450	6,159	20,254	13,057
Total	\$67,348	\$41,426	\$106,261	\$105,747

(A) Relates to all applicable segments. Accrued based on year-to-date performance; the actual payments due to each Principal are determined at year end.

8. EARNINGS PER SHARE AND DISTRIBUTIONS

Fortress's potentially dilutive equity instruments fall primarily into two general categories: (i) instruments that Fortress has issued as part of its compensation plan, and (ii) ownership interests in Fortress's subsidiary, Fortress Operating Group, that are owned by the Principals (and a former senior employee) and are convertible into Class A shares. Based on the rules for calculating earnings per share, there are two general ways to measure dilution for a given instrument: (a) calculate the net number of shares that would be issued assuming any related proceeds are used to buy back outstanding shares (the treasury stock method), or (b) assume the gross number of shares are issued and calculate any related effects on net income available for shareholders (the if-converted and two-class methods). Fortress has applied these methods as prescribed by GAAP to each of its outstanding equity instruments as shown below.

Substantially all of Fortress's business is conducted at the Fortress Operating Group ("FOG") level and FOG's net income (loss) is allocated pro rata between the Fortress Operating Group units held by the Registrant, on the one hand, and the Principals and a former senior employee, on the other hand. The FOG income allocated to the Principals and a former senior employee is not subject to corporate income tax. A substantial portion of the Registrant's income is allocated to FIG Corp. and is subject to U.S federal and state income taxation (taxed at prevailing rates), while the remainder of the Registrant's portion of FOG income is allocated directly to its shareholders and is not subject to a corporate level of taxation.

The primary difference between basic and diluted earnings per share ("EPS"), if any, is income tax related. If the Principals and a former senior employee converted all of their Fortress Operating Group units into Class A shares, their portion of FOG's income would become subject to corporate level taxation. Certain permanent differences in the Registrant's tax calculation are not based on FIG Corp.'s ownership percentage of FOG. Thus, the effective tax rate changes when more income or loss is allocated to FIG Corp. This change in the effective tax rate results in incremental per share income or loss in the diluted EPS calculation, depending on whether the Registrant has income tax expense or benefit for the period. The comparison of the Registrant's effective tax rate and the if-converted tax rate

determines the dilutive or anti-dilutive impact of the Fortress Operating Group units held by the Principals and a former senior employee.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

The computations of basic and diluted net income (loss) per Class A share are set forth below:

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	211,685,639	211,685,639	209,710,467	209,710,467
Fully vested restricted Class A share units with dividend equivalent rights	3,717,045	3,717,045	5,464,698	5,464,698
Fully vested restricted Class A shares	780,497	780,497	810,412	810,412
Fortress Operating Group units exchangeable into Class A shares (1)	—	226,331,513	—	—
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)	—	—	—	—
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	6,695,668	—	6,225,155
Total weighted average shares outstanding	216,183,181	449,210,362	215,985,577	222,210,732
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	\$3,316	\$3,316	\$38,029	\$38,029
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(452	) (452	) (2,577	) (2,577
Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates, attributable to Fortress Operating Group units (1)	—	(3,237) —	—
Net income (loss) available to Class A shareholders	\$2,864	\$(373	) \$35,452	\$35,452
Weighted average shares outstanding	216,183,181	449,210,362	215,985,577	222,210,732
Basic and diluted net income (loss) per Class A share	\$0.01	\$0.00	\$0.16	\$0.16

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	205,351,556	205,351,556	208,688,070	208,688,070
Fully vested restricted Class A share units with dividend equivalent rights	1,431,885	1,431,885	2,653,378	2,653,378
Fully vested restricted Class A shares	1,000,310	1,000,310	986,867	986,867
Fortress Operating Group units exchangeable into Class A shares (1)	—	226,331,513	—	236,074,150
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)	—	1,415,845	—	1,433,170
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	9,035,738	—	9,837,501
Total weighted average shares outstanding	207,783,751	444,566,847	212,328,315	459,673,136
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	\$31,199	\$31,199	\$34,223	\$34,223
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(712	) (712	) (489	) (489
Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates, attributable to Fortress Operating Group units (1)	—	24,909	—	31,447
Net income (loss) available to Class A shareholders	\$30,487	\$55,396	\$33,734	\$65,181
Weighted average shares outstanding	207,783,751	444,566,847	212,328,315	459,673,136
Basic and diluted net income (loss) per Class A share	\$0.15	\$0.12	\$0.16	\$0.14

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

The Fortress Operating Group units not held by Fortress (that is, those held by the Principals and a former senior employee) are exchangeable into Class A shares on a one-to-one basis. These units are not included in the computation of basic earnings per share. These units enter into the computation of diluted net income (loss) per

(1) Class A share when the effect is dilutive using the if-converted method, which includes the income tax effects of nondiscretionary adjustments to the net income (loss) attributable to Class A shareholders from assumed conversion of these units. To the extent charges, particularly tax related charges, are incurred by the Registrant (i.e. not at the Fortress Operating Group level), the effect may be anti-dilutive.

Restricted Class A shares granted to directors and certain restricted Class A share units granted to employees are eligible to receive dividend or dividend equivalent payments when dividends are declared and paid on Fortress's

(2) Class A shares and therefore participate fully in the results of Fortress's operations from the date they are granted. They are considered in the computation of both basic and diluted earnings per Class A share using the two-class method for participating securities, except during periods of net losses.

Certain restricted Class A share units granted to employees are not entitled to dividend or dividend equivalent payments until they are vested and are therefore non-participating securities. These units are not included in the computation of basic earnings per share. They are included in the computation of diluted earnings per share when

(3) the effect is dilutive using the treasury stock method. The effect of the units on the calculation is generally anti-dilutive during periods of net losses. The weighted average restricted Class A share units which are not entitled to receive dividend or dividend equivalent payments outstanding were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Share Units	13,416,141	13,418,337	12,564,428	12,932,088

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

The Class B shares have no net income (loss) per share as they do not participate in Fortress's earnings (losses) or distributions. The Class B shares have no dividend or liquidation rights. Each Class B share, along with one Fortress Operating Group unit, can be exchanged for one Class A share, subject to certain limitations. The Class B shares have voting rights on a pari passu basis with the Class A shares.

Fortress's dividend paying shares and units were as follows:

	Weighted Average Three Months Ended June 30,		Weighted Average Six Months Ended June 30,	
	2015	2014	2015	2014
Class A shares	211,685,639	205,351,556	209,710,467	208,688,070
Restricted Class A shares (directors)	780,497	1,000,310	810,412	986,867
Restricted Class A share units (employees) (A)	3,717,045	1,431,885	5,464,698	2,653,378
Restricted Class A share units (employees) (B)	11,159,183	7,513,984	9,761,060	6,763,630
Fortress Operating Group units (Principals and a former senior employee)	226,331,513	226,331,513	226,331,513	236,074,150
Total	453,673,877	441,629,248	452,078,150	455,166,095
		As of June 30, 2015	As of December 31, 2014	
Class A shares		214,984,712	207,490,023	
Restricted Class A shares (directors)		688,587	1,045,134	
Restricted Class A share units (employees) (A)		554,209	194,287	
Restricted Class A share units (employees) (B)		11,159,183	7,002,003	
Fortress Operating Group units (Principals and a former senior employee)		226,331,513	226,331,513	
Total		453,718,204	442,062,960	

(A) Represents fully vested restricted Class A share units which are entitled to dividend equivalent payments.

(B) Represents unvested restricted Class A share units which are entitled to dividend equivalent payments.

On February 13, 2014, Fortress entered into a purchase agreement with Nomura Investment Managers U.S.A. ("Nomura") to acquire 60,568,275 Class A shares for \$363.4 million. All of the purchased Class A shares (and underlying Fortress Operating Group units) were canceled and ceased to be outstanding. As part of the purchase agreement, Fortress agreed for each year, until the third anniversary of the date of the agreement, to engage Nomura and its affiliates to provide certain financial advisory and financing services and/or pay Nomura certain annual sums in lieu thereof equal to the difference, if any, between (i) \$12.0 million minus (ii) all fees earned or received by Nomura for the services provided to Fortress and its affiliates during each year.

In connection with the agreement to engage Nomura and its affiliates as described above, Fortress recorded an estimated liability as of the date of the agreement (included in Other liabilities on the consolidated balance sheets) of approximately \$30.0 million, which has been recorded as a reduction to equity as part of the repurchase of Class A shares. During 2015, Fortress paid \$9.7 million to Nomura related to the estimated liability pursuant to the terms of the purchase agreement described above.

In March 2014, Fortress issued and sold 23,202,859 Class A shares for \$186.6 million. Fortress used all of the proceeds from the sale of the Class A shares to purchase from the Principals an equivalent number of outstanding Fortress Operating Group units and an equal number of Class B shares.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

Dividends and distributions during the six months ended June 30, 2015 are summarized as follows:

	Declared in Prior Year, Paid in Current Year	Declared in Current Year		Total
		Declared and Paid	Declared but not yet Paid	
Dividends on Class A Shares	\$—	\$96,501	\$—	\$96,501
Dividend equivalents on restricted Class A share units (A)	—	8,053	—	8,053
Distributions to Fortress Operating Group unit holders (Principals and a former senior employee) (B)	—	110,426	5,240	115,666
Total distributions	\$—	\$214,980	\$5,240	\$220,220

A portion of these dividend equivalents, if any, related to RSUs expected to be forfeited, is included as (A) compensation expense in the consolidated statement of operations and is therefore considered an operating cash flow.

(B) Fortress Operating Group made tax-related distributions to the FOG unit holders (the Principals and a former senior employee).

On May 7, 2015, Fortress declared a base quarterly cash dividend of \$0.08 per Class A share for the first quarter of 2015. The dividend was payable on May 21, 2015 to holders of record of Class A shares on May 18, 2015. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was \$18.2 million.

On July 30, 2015, Fortress declared a base quarterly cash dividend of \$0.08 per Class A share for the second quarter of 2015. The dividend is payable on August 14, 2015 to holders of record of Class A shares on August 11, 2015. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, is \$18.2 million.

9. COMMITMENTS AND CONTINGENCIES

Other than as described below, Fortress's commitments and contingencies remain materially unchanged from December 31, 2014.

General Partner Liability — Certain of Fortress's consolidated subsidiaries act as the general partner of various Fortress Funds and accordingly have potentially unlimited liability for the obligations of the funds under applicable partnership law principles. In the event that any such fund was to fall into a negative net equity position (Note 2), the full amount of the negative net equity would be recorded on the balance sheet of the general partner entity. Such amount would be recorded on the Fortress balance sheet in consolidation until it is legally resolved. While these entities are limited liability companies and generally have no material assets other than their general partner interests, these entities and Fortress may be subject to litigation in connection with such amounts if fund creditors choose to sue Fortress to seek

repayment. See “Litigation” below.

In March 2011, a private equity fund fell into a negative equity position, after considering all of Fortress’s interests in such fund and its reserves related thereto. As described above, the amount of the negative equity was recorded, through earnings (losses) from equity method investees, by the general partner entity and is therefore included in the consolidated financial statements of Fortress. When the fund matures and is liquidated, Fortress will record a gain in the event and to the extent it does not fund this negative equity. The amount of negative equity recorded at June 30, 2015 was \$45.1 million.

Litigation — Fortress is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions that existed as of June 30, 2015, individually and in the aggregate, will not materially affect Fortress’s results of operations, liquidity or financial position.

In some cases, Fortress is named as a defendant in legal actions pertaining to one of the Fortress Funds and/or their portfolio companies. In such cases, Fortress is generally indemnified by the fund against potential losses arising from Fortress’s role as investment manager.

Private Equity Fund and Credit PE Fund Capital Commitments — Fortress has remaining capital commitments, which aggregated \$166.3 million as of June 30, 2015, primarily to certain of the Fortress Funds. These commitments can be drawn by the funds on demand.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

Minimum Future Rentals — Fortress is a lessee under operating leases for office space located in a number of locations worldwide.

Minimum future rental payments (excluding expense escalations) under these leases as of June 30, 2015 are as follows:

July 1, 2015 to December 31, 2015	\$13,055
2016	24,231
2017	12,839
2018	20,139
2019	19,620
2020	19,620
Thereafter	260,092
Total	\$369,596

Rent expense, including operating expense escalations, during the six months ended June 30, 2015 and 2014 was \$14.9 million and \$11.3 million, respectively, and was included in general, administrative and other expense on the consolidated statements of operations.

During 2015, Fortress entered into new lease agreements related to its primary office space in New York and which extends through October 2032.

10. SEGMENT REPORTING

Fortress conducts its management and investment business through the following primary segments: (i) private equity funds, (ii) permanent capital vehicles, (iii) liquid hedge funds, (iv) credit hedge funds, (v) credit PE funds and (vi) Logan Circle.

The amounts not allocated to a segment consist primarily of interest expense, foreign currency translation and interest income. Assets not allocated to a segment consist primarily of cash and net deferred tax assets.

Management assesses Fortress's segments on a Fortress Operating Group and pre-tax basis and therefore adds back the interests in consolidated subsidiaries related to Fortress Operating Group units (primarily held by the Principals) and income tax expense.

Management assesses the net performance of each segment based on its "distributable earnings" ("DE") and utilizes "fund management distributable earnings" or "fund management DE" as a supplemental measure of segment performance. Neither distributable earnings or fund management DE is a measure of cash generated by operations which is available for distribution. Rather, they are supplemental measures of operating performance used by management in analyzing its segments and overall results. Neither distributable earnings or fund management DE should be considered as an alternative to cash flow, in accordance with GAAP, as a measure of Fortress's liquidity, and they are not necessarily indicative of cash available to fund cash needs (including dividends and distributions).

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2015
(dollars in tables in thousands, except share data)

“Distributable earnings” for the existing Fortress businesses is equal to net income (loss) attributable to Fortress’s Class A shareholders adjusted as follows:

Incentive Income

- (i) for Fortress Funds which are private equity funds, the private permanent capital vehicle through IPO in May 2015 and credit PE funds, adding (a) incentive income paid (or declared as a distribution) to Fortress, less an applicable reserve for potential future clawbacks if the likelihood of a clawback is deemed greater than remote by Fortress’s chief operating decision maker (net of the reversal of any prior such reserves that are no longer deemed necessary), minus (b) incentive income recorded in accordance with GAAP,
 - b. for other Fortress Funds, at interim periods, adding (a) incentive income on an accrual basis as if the incentive income from these funds were earned on a quarterly basis, minus (b) incentive income recorded in accordance with GAAP,
 - c. adding the receipt of cash or proceeds from the sale of shares received (a) as incentive income from the publicly traded permanent capital vehicles and (b) pursuant to the exercise of options in the publicly traded permanent capital vehicles, if any, in excess of their strike price,

Other Income

- (ii) with respect to income from certain investments in the Fortress Funds and certain other interests or assets that cannot be readily transferred or redeemed:
 - a. for equity method investments in the private equity funds, private permanent capital vehicle through IPO in May 2015 and credit PE funds as well as indirect equity method investments in hedge fund special investment accounts (which generally have investment profiles similar to private equity funds), treating these investments as cost basis investments by adding (a) realizations of income, primarily dividends, from these funds, minus (b) impairment with respect to these funds, if necessary, minus (c) equity method earnings (or losses) recorded in accordance with GAAP,
 - b. subtracting gains (or adding losses) on options held in the publicly traded permanent capital vehicles,
 - c. subtracting unrealized gains (or adding unrealized losses) on derivatives, direct investments in publicly traded portfolio companies and in the publicly traded permanent capital vehicles,
- (iii) subtracting management fee income recorded in accordance with GAAP in connection with the receipt of these options from the publicly traded permanent capital vehicles, if any,
- (iv) subtracting the gain on transfer of Graticule,

Expenses

- (v) adding or subtracting, as necessary, the employee profit sharing portion of incentive income described in (i) above to match the timing of the expense with the revenue,
- (vi) adding back equity-based compensation expense (including options in the publicly traded permanent capital vehicles assigned to employees, RSUs, and restricted shares),
- (vii) adding back the amortization of intangible assets and any impairment of goodwill or intangible assets recorded under GAAP,
- (viii) adding back the expense related to transfer of interest in Graticule,
- (ix) adding the income (or subtracting the loss) allocable to the interests in consolidated subsidiaries attributable to Fortress Operating Group units,
- (x) adding back income tax benefit or expense and any income or expense recorded in connection with the tax receivable agreement (Note 5).

Fund management DE is equal to distributable earnings excluding investment-related results (specifically, investment income (loss) and interest expense) and is used by management to measure performance of the operating (management) business on a stand-alone basis. Fortress defines its segment operating margin to be equal to fund management DE divided by segment revenues.

42

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

Total segment assets are equal to total GAAP assets adjusted for:

- any difference between the GAAP carrying amount of equity method investments and their carrying amount for (i) segment reporting purposes, which is generally fair value for publicly traded investments and net asset value for nonpublic investments,
- (ii) employees' and others' portions of investments, which are reported gross for GAAP purposes (as assets offset by Principals' and others' interests in equity of consolidated subsidiaries) but net for segment reporting purposes,
- (iii) the difference, if any, between the GAAP carrying amount of intangible assets and goodwill and their carrying amount for segment reporting purposes resulting from the distributable earnings adjustments listed above, and
- (iv) at interim periods, the accrued incentive income recorded for distributable earnings purposes in relation to the incentive income reconciling item in (i)(b) above.

Distributable Earnings Impairment

Clawback Reserve on Incentive Income for DE Purposes

Fortress had recognized incentive income for DE purposes from certain private equity funds and credit PE funds, which are subject to contingent clawback, as of June 30, 2015:

Fund (A)	Net Intrinsic Clawback (B)	Periods in Intrinsic Clawback	Prior Year End Inception-to-Date Net DE Reserve	Current Year-to-Date Gross DE Reserve (Reversal)	Current Year-to-Date Net DE Reserve (Reversal)	Inception-to-Date Net DE Reserve	Notes
Fund III	\$45,108	30 Quarters	\$45,108	\$—	\$—	\$45,108	(C)
Total	\$45,108		\$45,108	\$—	\$—	\$45,108	

Fortress has recognized incentive income for DE purposes from the following funds, which do not have intrinsic clawback and for which Fortress's CODM has determined no clawback reserve is necessary: Credit Opportunities (A) Fund, Credit Opportunities Fund II, Credit Opportunities Fund III, certain FCO Managed Accounts, Real Estate Opportunities Fund, Real Estate Opportunities REOC Fund, Net Lease Fund I, Japan Opportunity Fund and Global Opportunities Fund.

(B) See Note 2.

(C) The potential clawback on this fund has been fully reserved in prior periods.

Impairment Determination and Embedded Gain/Loss

During the six months ended June 30, 2015, Fortress recorded \$3.4 million of impairment on its direct and indirect investments in its funds for segment reporting purposes. Additionally, during the three months ended June 30, 2015, Fortress recognized an impairment charge of \$2.8 million related to its holdings of digital currency (Bitcoin). As of June 30, 2015, Fortress had \$6.3 million of unrealized losses on certain investments that have not been recorded as impairment. As of June 30, 2015, Fortress's share of the net asset value of its direct and indirect investments exceeded its segment cost basis by \$538.0 million, representing a net unrealized gain.

Embedded Incentive Income

As of June 30, 2015, Fortress had \$1.0 billion of gross undistributed incentive income (Note 2), or \$953.8 million net of intrinsic clawback. Of the \$1.0 billion, \$46.4 million has been recognized in distributable earnings. This amount represents accrued hedge fund, permanent capital vehicles and Logan Circle incentive income recorded during the six months ended June 30, 2015.

In addition, if Fortress had (i) exercised all of its in-the-money publicly traded permanent capital vehicle options (Note 3) and sold all of the resulting shares and (ii) sold all of its publicly traded permanent capital vehicle shares which it received as incentive income, it would have recorded \$43.8 million of gross additional distributable earnings, or \$35.1 million net of employee interests, based on their respective June 30, 2015 closing price.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

Segment Results of Operations

Summary financial data on Fortress's segments is presented on the following pages, together with a reconciliation to revenues, assets and net income (loss) for Fortress as a whole. Fortress's investments in, and earnings (losses) from, its equity method investees by segment are presented in Note 3.

June 30, 2015 and the Six Months Then Ended

	Private Equity							Total
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Unallocated	
Segment revenues								
Management fees	\$58,376	\$41,710	\$39,681	\$59,511	\$57,445	\$26,533	\$—	\$283,256
Incentive income	—	76,993	55	72,874	83,623	111	—	233,656
Segment revenues - total	\$58,376	\$118,703	\$39,736	\$132,385	\$141,068	\$26,644	\$—	\$516,912
Fund management distributable earnings (loss) before earnings from Affiliated Managers and Principal Performance Payments (B)								
Fund management distributable earnings (loss) before Principal Performance Payments (B)	\$29,082	\$75,865	\$(8,564)	\$65,224	\$36,599	\$(1,156)	\$—	\$197,050
Fund management distributable earnings (loss) before Principal Performance Payments (B)	\$29,082	\$75,865	\$(887)	\$65,224	\$36,599	\$(1,156)	\$—	\$204,727
Fund management distributable earnings (loss)	\$29,082	\$65,370	\$(887)	\$56,882	\$34,758	\$(1,156)	\$—	\$184,049
Pre-tax distributable earnings (loss)	\$29,160	\$66,081	\$3,328	\$57,914	\$38,615	\$(1,590)	\$(1,843)	\$191,665
Total segment assets	\$734,168	\$135,762	\$198,615	\$101,818	\$293,994	\$52,555	\$745,994 (A)	\$2,262,906

(A) Unallocated assets includes cash of \$230.9 million and net deferred tax assets of \$415.9 million.

Three Months Ended June 30, 2015

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

	Private Equity							
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Unallocated	Total
Segment revenues								
Management fees	\$29,236	\$22,508	\$18,693	\$29,847	\$31,097	\$13,271	\$—	\$144,652
Incentive income	—	73,973	(836)	49,709	59,475	(23)	—	182,298
Segment revenues - total	\$29,236	\$96,481	\$17,857	\$79,556	\$90,572	\$13,248	\$—	\$326,950
Fund management distributable earnings (loss) before earnings from Affiliated Managers and Principal Performance Payments (B)	\$14,107	\$72,096	\$(6,062)	\$42,119	\$30,233	\$(293)	\$—	\$152,200
Fund management distributable earnings (loss) before Principal Performance Payments (B)	\$14,107	\$72,096	\$(7,666)	\$42,119	\$30,233	\$(293)	\$—	\$150,596
Fund management distributable earnings (loss)	\$14,107	\$61,601	\$(7,386)	\$36,138	\$28,979	\$(293)	\$—	\$133,146
Pre-tax distributable earnings (loss)	\$14,162	\$61,973	\$(6,262)	\$36,183	\$31,586	\$(471)	\$(702)	\$136,469

(B) See Note 7. Fund management distributable earnings (loss) is only reduced for the profit sharing component of the Principal Performance Payments.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2015
 (dollars in tables in thousands, except share data)

Six Months Ended June 30, 2014

	Private Equity				PE Funds	Logan Circle	Unallocated Total	
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds				
Segment revenues								
Management fees	\$70,913	\$32,500	\$69,640	\$55,333	\$48,327	\$22,048	\$ —	\$298,761
Incentive income	2,854	24,740	1,288	74,130	78,772	—	—	181,784
Segment revenues - total	\$73,767	\$57,240	\$70,928	\$129,463	\$127,099	\$22,048	\$ —	\$480,545
Fund management distributable earnings (loss) before Principal Performance Payments (B)								
Fund management distributable earnings (loss)	\$50,609	\$20,524	\$15,507	\$60,294	\$32,737	\$(3,532)	\$ —	\$176,139
Pre-tax distributable earnings (loss)	\$145,150	\$18,768	\$17,196	\$54,726	\$35,906	\$(2,672)	\$(778)	\$268,296

Three Months Ended June 30, 2014

	Private Equity				PE Funds	Logan Circle	Unallocated Total	
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds				
Segment revenues								
Management fees	\$35,491	\$16,464	\$36,162	\$28,475	\$			