Fortress Investment Group LLC
Form 10-Q
July 28, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
or
o 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 ý No o
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). ý Yes No o
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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
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: 216,532,484 outstanding as of July 22, 2016.
Class B Shares: 169,514,478 outstanding as of July 22, 2016.

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PART II. OTHER INFORMATION

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

‘‘Management Fee Paying Assets Under Management,” or “AUM,” refers to the management fee paying assets we manage or co-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. 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 (as defined) of our publicly traded permanent capital vehicles,
(iii) the NAV of our hedge funds;
(iv) the NAV or fair value of our managed accounts, to the extent management fees are charged; and
(v) AUM related to affiliated managers and co-managed funds.

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 or co-manage. 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 and Randal Nardone, collectively, as well as Michael Novogratz until his retirement in January 2016. The principals significantly influence the public company through their ownership of the public company’s Class B shares. The Class B shares and the Class A shares are each entitled to one vote per share. 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.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Part II, Item 1A, “Risk Factors,” Part I, Item 2, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” Part I, Item 3, “Quantitative and Qualitative Disclosures About Market Risk” and elsewhere in this Quarterly Report on Form 10-Q may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. Readers can identify these forward-looking statements by the use of forward-looking words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or th 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, liquidity and planned transactions. 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	$278,937	$339,842
Due from affiliates	178,837	273,811
Investments	936,530	1,055,789
Investments in options	40,432	30,427
Deferred tax asset, net	434,150	427,102
Other assets	114,291	148,310
Total Assets	$1,983,177	$2,275,281
Liabilities and Equity		
Accrued compensation and benefits	$184,642	$318,750
Due to affiliates	346,250	365,218
Deferred incentive income	366,983	332,329
Debt obligations payable	260,677	230,677
Other liabilities	98,269	86,503
Total Liabilities	1,256,821	1,333,477
Commitments and Contingencies		
Redeemable Non-controlling Interests	—	—
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 216,532,484 and 216,790,409 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	—	—
Class B shares, no par value, 750,000,000 shares authorized, 169,514,478 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	—	—
Paid-in capital	1,932,021	1,988,707
Retained earnings (accumulated deficit)	(1,451,241)	(1,415,113)
Accumulated other comprehensive income (loss)	(4,404)	(2,909)
Total Fortress shareholders' equity	476,376	570,685
Principals' and others' interests in equity of consolidated subsidiaries	249,980	371,119
Total Equity	726,356	941,804
Total Liabilities, Redeemable Non-controlling Interests and Equity	$1,983,177	$2,275,281

See notes to condensed consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Management fees: affiliates	$126,388	$150,936	$253,778	$278,643
Management fees: non-affiliates	14,192	14,966	27,611	30,257
Incentive income: affiliates	22,160	82,158	53,938	106,381
Incentive income: non-affiliates	9,411	296	9,862	296
Expense reimbursements: affiliates	56,148	53,991	111,439	108,556
Expense reimbursements: non-affiliates	1,649	3,568	2,806	6,816
Other revenues (affiliate portion disclosed in Note 6)	2,758	2,573	4,889	4,228
Total Revenues	232,706	308,488	464,323	535,177
Expenses				
Compensation and benefits	191,279	199,108	355,484	377,996
General, administrative and other	38,770	45,185	71,896	88,166
Depreciation and amortization	5,821	12,768	12,087	18,099
Interest expense	2,982	1,039	6,019	1,878
Transfer of interest in Graticule (see Note 1)	—	—	—	101,000
Total Expenses	238,852	258,100	445,486	587,139
Other Income (Loss)				
Gains (losses) (affiliate portion disclosed in Note 3)	(7,266)	(6,787)	(23,939)	24,774
Tax receivable agreement liability adjustment	—	(7,500)	(2,699)	(7,500)
Earnings (losses) from equity method investees	(9,107)	(36,321)	(29,887)	5,387
Gain on transfer of Graticule (see Note 1)	—	—	—	134,400
Total Other Income (Loss)	(16,373)	(50,608)	(56,525)	157,061
Income (Loss) Before Income Taxes	(22,519)	(220)	(37,688)	105,099
Income tax benefit (expense)	(4,072)	5,199	(4,855)	(13,200)
Net Income (Loss)	$(26,591)	$4,979	$(42,543)	$91,899
Allocation of Net Income (Loss):				
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	$(12,146)	$1,653	$(19,572)	$53,876
Redeemable Non-controlling Interests in Income (Loss) of Consolidated Subsidiaries	—	10	—	(6)
Net Income (Loss) Attributable to Class A Shareholders	(14,445)	3,316	(22,971)	38,029
	$(26,591)	$4,979	$(42,543)	$91,899
Dividends declared per Class A share	$0.20	$0.08	$0.28	$0.46
Earnings (Loss) Per Class A share				
Net income (loss) per Class A share, basic	$(0.07)	$0.01	$(0.11)	$0.16
Net income (loss) per Class A share, diluted	$(0.07)	$0.00	$(0.11)	$0.16
Weighted average number of Class A shares outstanding, basic	216,733,660	216,183,181	218,790,533	215,985,577
Weighted average number of Class A shares outstanding, diluted	216,733,660	449,210,362	218,790,533	222,210,732

See notes to condensed consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Comprehensive income (loss) (net of tax)				
Net income (loss)	$(26,591)	$4,979	$(42,543)	$91,899
Foreign currency translation income (loss)	(3,209)	526	(3,312)	(372)
Comprehensive income (loss) from equity method investees	(37)	—	(167)	—
Total comprehensive income (loss)	$(29,837)	$5,505	$(46,022)	$91,527
Allocation of Comprehensive Income (Loss):				
Comprehensive income (loss) attributable to principals' and others' interests	$(13,983)	$1,949	$(21,553)	$53,568
Comprehensive income (loss) attributable to redeemable non-controlling interests	—	10	—	(6)
Comprehensive income (loss) attributable to Class A shareholders	(15,854)	3,546	(24,469)	37,965
	$(29,837)	$5,505	$(46,022)	$91,527

See notes to condensed consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2016
(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, 2015	216,790,409	169,514,478	$1,988,707	$(1,415,113)	$(2,909)	$570,685	$371,119	$941,804
Contributions from principals' and others' interests in equity	—	—	—	—	—	—	39,486	39,486
Distributions to principals' and others' interests in equity (net of tax)	—	—	—	—	—	—	(132,061)	(132,061)
Dividends declared	—	—	(60,594)	—	—	(60,594)	—	(60,594)
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(806)	—	—	(806)	(1,026)	(1,832)
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	(480)	—	—	(480)	(26)	(506)
Director restricted share grant	157,519	—	426	—	—	426	335	761
Capital increase related to equity-based compensation (net of tax)	4,383,419	—	4,920	—	—	4,920	3,864	8,784

Repurchase of Class A shares (Note 8)	(4,798,863)	—	—	(13,157)	—	(13,157)	(10,307)	(23,464)
Dilution impact of equity transactions (Note 6)	—	—	(152)	—	3	(149)	149	—
Comprehensive income (loss) (net of tax)								
Net income (loss)	—	—	—	(22,971)	—	(22,971)	(19,572)	(42,543)
Foreign currency translation income (loss)	—	—	—	—	(1,426)	(1,426)	(1,886)	(3,312)
Comprehensive income (loss) from equity method investees	—	—	—	—	(72)	(72)	(95)	(167)
Total comprehensive income (loss)						(24,469)	(21,553)	(46,022)
Equity - June 30, 2016	216,532,484	169,514,478	$1,932,021	$(1,451,241)	$(4,404)	$476,376	$249,980	$726,356

See notes to condensed consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash Flows From Operating Activities		
Net income (loss)	$(42,543)	$91,899
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	12,087	18,099
Other amortization (included in interest expense)	445	390
(Earnings) losses from equity method investees	29,887	(5,387)
Distributions of earnings from equity method and other investees	15,316	23,756
(Gains) losses	23,939	(24,774)
Deferred incentive income	(44,619)	(65,709)
Deferred tax (benefit) expense	(2,194)	4,448
Options received from affiliates	—	(25,158)
Tax receivable agreement liability adjustment	2,699	7,500
Equity-based compensation	14,927	25,388
Options in affiliates granted to employees	3,409	5,681
Other	612	356
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	47,239	18,392
Other assets	(6,288)	(5,927)
Accrued compensation and benefits	(98,142)	(157,551)
Due to affiliates	(20,943)	(17,007)
Deferred incentive income	63,595	74,610
Other liabilities	12,687	2,810
Purchase of investments by consolidated funds	(39,976)	(66,965)
Proceeds from sale of investments by consolidated funds	44,907	53,494
Receivables from brokers and counterparties	(1,816)	(211)
Due to brokers and counterparties	2,921	2,727
Net cash provided by (used in) operating activities	18,149	(72,539)
Cash Flows From Investing Activities		
Contributions to equity method investees	(7,090)	(18,862)
Distributions of capital from equity method and other investees	135,641	155,255
Purchase of securities	—	(883)
Proceeds from sale of direct investments	933	—
Proceeds from sale of securities	—	18,101
Proceeds from exercise of options	—	51,543
Purchase of fixed assets	(10,608)	(11,075)
Net cash provided by (used in) investing activities	118,876	194,079

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FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash Flows From Financing Activities		
Repayments of debt obligations	(145,000)	—
Borrowings under debt obligations	175,000	—
Payment of deferred financing costs	(3,451)	—
Repurchase of Class A shares (Note 8)	(34,047)	(9,676)
Payments to settle RSU statutory withholding tax (Note 8)	(6,594)	—
Excess tax benefits from delivery of RSUs	—	4,476
Dividends and dividend equivalents paid	(62,920)	(104,554)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	71	283
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(120,989)	(167,554)
Redeemable non-controlling interests - distributions	—	(1,692)
Net cash provided by (used in) financing activities	(197,930)	(278,717)
Net Increase (Decrease) in Cash and Cash Equivalents	(60,905)	(157,177)
Cash and Cash Equivalents, Beginning of Period	339,842	391,089
Cash and Cash Equivalents, End of Period	$278,937	$233,912
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$5,185	$1,019
Cash paid during the period for income taxes	$9,637	$7,702
Supplemental Schedule of Non-cash Investing and Financing Activities		
Employee compensation invested directly in subsidiaries	$39,385	$35,800
Investments of incentive receivable amounts into Fortress Funds	$58,766	$134,657
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	$3,070	$5,240
Retained equity interest related to Graticule transfer (Note 1)	$—	$33,400

See notes to condensed consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2016
(dollars in tables in thousands, except share and per 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. Its primary business is to sponsor the formation of, and provide investment management services for, various investment funds, permanent capital vehicles and related managed accounts (collectively, the “Fortress Funds”). Fortress generally makes investments in these funds.

Fortress's primary sources of income from the Fortress Funds are management fees, incentive income, and investment income on its investments in the funds. In addition, Fortress receives certain expense reimbursements pursuant to its 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

b) 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 (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, senior living properties and transportation and infrastructure assets.

2) Credit funds:

a) Credit hedge funds, which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance, on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager or co-manager as part of an advisory business; and

b) Credit private equity (“PE”) funds which are comprised of a family of “credit opportunities” funds focused on investing in distressed and undervalued assets, a family of "long dated value" funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of “real assets” funds focused on investing in tangible and intangible assets in 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.

3) Liquid hedge funds include, an endowment style fund which invests in Fortress Funds, funds managed by external managers in which Fortress has an equity interest ("Affiliated Managers"), and direct investments and a fund that primarily focuses on an international "event driven" investment strategy, particularly in Europe, Asia-Pacific and Latin America.

In June 2016, Fortress transferred its rights as general partner and investment manager of the Fortress Convex Asia Funds to a third party.

In July 2016, Fortress announced that it will close the Fortress Centaurus Global Funds and expects to return most capital to investors by the end of 2016.

In January 2015, Fortress Asia Macro Funds and related managed accounts transitioned to an autonomous asset management business named Graticule Asset Management Asia, ("Graticule"). Fortress retained a perpetual minority interest in Graticule amounting to 30% of earnings during 2015 and 2016 and declining to approximately 27% of earnings thereafter. 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

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FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2016
(dollars in tables in thousands, except share and per share data)

operating results, discount rates and economic projections. Fortress also received fees for providing infrastructure services (technology, back office, and related services) to Graticule through the termination of the infrastructure services agreement in May 2016.

4) Logan Circle Partners, L.P. (“Logan Circle”), which represents Fortress's traditional asset management business providing institutional clients actively managed investment solutions across a broad spectrum of fixed income 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.

All significant intercompany accounts and transactions have been eliminated.

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

The accompanying condensed 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, 2015 and footnotes thereto included in Fortress’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2016. Capitalized terms used herein, and not otherwise defined, are defined in Fortress’s consolidated financial statements for the year ended December 31, 2015.

Recent Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). ASU 2016-09 is intended to simplify several areas of accounting for share-based compensation arrangements. The standard will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allows employers to repurchase more of an employee’s shares for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The new standard is effective for Fortress beginning January 1, 2017. Fortress does not expect to early adopt the new standard. Fortress is currently evaluating the potential impact of adoption of the new standard.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”) which supersedes Topic 840, Leases. The new standard will require lessees to recognize operating leases on their balance sheet as a right-of-use asset with an offsetting lease liability based on the present value of future lease payments. Currently, only finance leases are recognized on the balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit thresholds. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard under ASU 2014-09. The new standard is effective for Fortress beginning January 1, 2019; however, early adoption is permitted. ASU 2016-02 requires a modified retrospective approach which includes a number of optional practical expedients an entity may elect to apply. Fortress is currently evaluating the potential impact of adoption of the new standard.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) ("ASU 2016-01"). ASU 2016-01 will require measuring equity investments (excluding those accounted for under the equity method, those that result in consolidation and certain other investments) at fair value and recognize the changes in fair value in net income. The new standard is effective for Fortress beginning January 1, 2018. Early adoption is permitted only for certain of the amendments. The standard requires a cumulative effect adjustment to the balance sheet as of the beginning of the period of adoption, with the exception of the amendments related to equity securities without readily determinable fair values (including disclosure requirements) which

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should be applied prospectively. The adoption of ASU 2016-01 is not expected to have a material impact on Fortress's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”) which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a reduction from the carrying amount of that debt liability. ASU 2015-03 was effective for Fortress beginning January 1, 2016, and was to be applied retrospectively. This standard was subsequently updated by ASU No. 2015-15, Interest -Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (“ASU 2015-15”). ASU 2015-15 codifies an SEC staff announcement that it will not object to the presentation of debt issuance costs as an asset for revolving line of credit arrangements. This standard was effective upon announcement on June 18, 2015. Fortress elected to present debt issuance costs related to its revolving credit facility as an asset, consistent with historical presentation. As such, the adoption of ASU 2015-03 and ASU 2015-15 did not have a material impact on Fortress's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") which is a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 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 deferred 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). ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The adoption of ASU 2014-09 is not expected to have a material impact on Fortress's consolidated balance sheets and consolidated statements of operations.

The FASB has recently issued or discussed a number of proposed standards. 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.

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 ("AUM"), 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. In addition, Fortress receives certain expense reimbursements pursuant to its management agreements.

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Management Fees and Incentive Income

Fortress recognized management fees and incentive income as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Private Equity				
Private Equity Funds				
Management fees: affil.	$25,732	$29,222	$51,490	$58,362
Permanent Capital Vehicles				
Management fees: affil.	26,946	22,276	54,126	41,278
Management fees, options: affil.	—	21,014	—	25,158
Management fees: non-affil.	432	482	804	932
Incentive income: affil.	12,342	23,156	13,461	25,744
Credit Funds				
Credit Hedge Funds				
Management fees: affil.	36,823	29,834	73,248	59,488
Management fees: non-affil.	8	13	16	23
Incentive income: affil.	3,802	21,516	4,726	22,169
Credit PE Funds				
Management fees: affil.	30,807	31,068	61,624	57,387
Management fees: non-affil.	11	29	36	58
Incentive income: affil.	5,898	37,445	34,757	58,409
Incentive income: non-affil.	9,411	257	9,862	257
Liquid Hedge Funds				
Management fees: affil.	5,464	16,638	12,100	35,133
Management fees: non-affil.	—	2,054	—	4,548
Incentive income: affil.	118	41	994	53
Incentive income: non-affil.	—	39	—	39
Logan Circle				
Management fees: affil.	616	884	1,190	1,837
Management fees: non-affil.	13,741	12,388	26,755	24,696
Incentive income: affil.	—	—	—	6
Total				
Management fees: affil. (including options)	$126,388	$150,936	$253,778	$278,643
Management fees: non-affil.	$14,192	$14,966	$27,611	$30,257
Incentive income: affil. (A)	$22,160	$82,158	$53,938	$106,381
Incentive income: non-affil.	$9,411	$296	$9,862	$296

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

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Deferred Incentive Income

Incentive income from certain Fortress Funds, primarily the private equity funds 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, 2016 and 2015. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, $33.7 million and $46.4 million of additional incentive income would have been recognized during the six months ended June 30, 2016 and 2015, 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, 2016 and 2015, Fortress recognized $44.6 million and $58.4 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.

Distributed incentive income amounts in the table below do not include incentive income which is not subject to clawback when received from the Fortress Funds. This also does not include any amounts related to third party funds, receipts from which are reflected as Other Liabilities until all contingencies are resolved.

Deferred incentive income from the Fortress Funds was comprised of the following on an inception-to-date basis.

	Distributed-Gross	Distributed-Recognized (A)	Distributed-Unrecognized (B)	Undistributed, net of intrinsic clawback (if any) (C) (D)
Deferred incentive income as of December 31, 2015	$ 1,490,276	$ (1,157,947)	$ 332,329	$ 898,358
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	373,829
Distribution of private equity funds and credit PE funds incentive income	139,183	N/A	139,183	(139,183)
Repayment of prior incentive income distributions (E)	(66,903)	N/A	(66,903)	66,903

Recognition of previously deferred incentive income	N/A		(44,619	)	(44,619	)	N/A	
Changes in foreign exchange rates	6,993		—		6,993		N/A	
Deferred incentive income as of June 30, 2016	$ 1,569,549	(F)	$ (1,202,566	)	$ 366,983		$ 1,199,907	(F)
Deferred incentive income including Fortress Funds which are not subject to clawback	$ 1,717,718		$ (1,350,735	)				

(A) All related contingencies have been resolved.

(B) Reflected on Fortress's condensed consolidated balance sheets as of June 30, 2016 and December 31, 2015.

(C) At June 30, 2016, no intrinsic clawback exists for any of the Fortress Funds. 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, 2016 at their net asset values.

(D) From inception to June 30, 2016, Fortress has paid $747.1 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income. If the $1.2 billion of gross undistributed incentive income were realized, Fortress would recognize and pay an additional $483.9 million of compensation.

(E) In February 2016, Fortress paid $66.9 million to Fund III representing prior incentive income distributions received ($45.1 million net of employee amounts). As of June 30, 2016, no intrinsic clawback obligation exists for any of the Fortress Funds.

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

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

	June 30, 2016
Distributed incentive income - Private Equity Funds	$780,459
Distributed incentive income - Private Equity Funds in Investment Period or Commitment Period	—
Distributed incentive income - Credit PE Funds	1,100,848
Distributed incentive income - Credit PE Funds in Investment Period or Commitment Period	10,384
Distributed incentive income - Permanent Capital Vehicle (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	(183,196)

that Fortress is not entitled to (see footnote K of incentive income threshold tables)	
Distributed-Gross	$1,569,549

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, 2016
Undistributed incentive income - Private Equity Funds	$15,886
Undistributed incentive income - Private Equity Funds in Investment Period or Commitment Period	192,957
Undistributed incentive income - Credit PE Funds	841,593
Undistributed incentive income - Credit PE Funds in Investment Period or Commitment Period	50,534
Undistributed incentive income - Permanent Capital Vehicles	2,458
Undistributed incentive income - Hedge Funds (total)	96,415
Undistributed incentive income - Logan Circle	64
Less:	—

	Gross intrinsic clawback per incentive income threshold tables - Private Equity Funds
Undistributed, net of intrinsic clawback	$1,199,907

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The following tables summarize information with respect to the Fortress Funds and their related incentive income thresholds as of June 30, 2016:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	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)	Gross Intrinsic Clawback (J)	Net 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)	Closed Dec-15	1,974,298	(3,446,405)	—	N/A	N/A	N/A	—	289,531	—	—	—
Fund III (2004)	In Liquidation	2,762,992	(2,172,525)	640,352	49,885	2,436,382	2,386,497	—	—	—	—	—
Fund III Coinvestment (2004)	In Liquidation	273,649	(231,692)	54,855	12,898	282,718	269,820	—	—	—	—	—
Fund IV (2006)	Jan-17	3,639,561	(1,458,139)	1,785,222	(396,200)	3,338,343	3,734,143	—	—	—	—	—
Fund IV Coinvestment (2006)	Jan-17	762,696	(302,612)	334,813	(125,271)	713,238	838,509	—	—	—	—	—
Fund V (2007)	Feb-18	4,103,713	(1,852,135)	3,716,470	1,464,892	3,086,373	1,621,481	—	—	—	—	—
Fund V Coinvestment (2007)	Feb-18	990,480	(259,958)	397,071	(333,451)	829,795	1,163,246	—	—	—	—	—
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	—	(66,410)	(790,935)	768,027	1,558,962	—	—	—	—	—
FHIF (2006) (Holiday)	Jan-17	1,543,463	(954,223)	1,017,088	427,848	1,404,530	976,682	—	—	—	—	—
FECI (2007) (Florida East Coast/Flagler)	Feb-18	982,779	(734)	937,242	(44,803)	962,866	1,007,669	—	—	—	—	—

MSR Opportunities Fund I A (2012)	Aug-22	341,135	(200,492)	268,181,158	—	N/A	12,337	—	———
MSR Opportunities Fund I B (2012)	Aug-22	82,760	(48,502)	65,010,761	—	N/A	3,075	—	———
MSR Opportunities Fund II A (2013)	Jul-23	160,653	(47,327)	131,183,204	2,420	30	349	—	———
MSR Opportunities Fund II B (2013)	Jul-23	2,291	(658)	1,872,138	250	12	—	—	———
MSR Opportunities MA I (2013)	Jul-23	36,868	(10,896)	30,242,856	—	N/A	125	—	———
							$15,886	$780,459	$— $— $—
Private Equity Funds in Investment or Commitment Period									
Italian NPL Opportunities Fund (2013)	Sep-24	318,249	(17,557)	333,302,406	—	N/A	4,752	—	———
Fortress Equity Partners (2014)	Mar-24	164,338	—	1,109,465,012	—	N/A	188,205	—	———
							$192,957	$—	$— $— $—

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Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions (C)	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)	Distri Incenti Incom Subjec to Clawb (I)
Credit PE Funds										
Long Dated Value Fund I (2005)	Apr-30	$267,325	$(246,731)	$193,201	$172,607	$49,984	$3,405	$833	$—	$—
Long Dated Value Fund II (2005)	Nov-30	274,280	(176,136)	187,785	89,641	135,944	46,303	—	412	—
Long Dated Value Fund III (2007)	Feb-32	343,156	(307,160)	148,379	112,383	—	N/A	7,998	7,571	—
LDVF Patent Fund (2007)	Nov-27	45,328	(34,806)	28,487	17,965	—	N/A	383	1,471	—
Real Assets Fund (2007)	Jun-17	359,502	(427,398)	28,673	96,569	—	N/A	4,691	9,858	2,627
Credit Opportunities Fund (2008)	Oct-20	5,680,587	(7,471,662)	956,596	2,747,671	—	N/A	102,406	436,852	138,07
Credit Opportunities Fund II (2009)	Jul-22	2,376,497	(2,806,134)	850,053	1,279,690	—	N/A	99,238	151,706	66,214
Credit Opportunities Fund III (2011)	Mar-24	3,382,576	(2,136,089)	2,081,223	834,736	—	N/A	122,951	39,908	562
FCO Managed Accounts (2008 - 2012)	Apr-22 to Dec-24	4,591,233	(4,024,022)	2,245,670	1,678,459	—	N/A	167,989	141,285	49,666
SIP Managed Account (2010)	Sep-20	11,000	(88,537)	64,183	141,720	—	N/A	16,046	15,507	—
Japan Opportunity Fund (Yen only)(2009)	Jun-19	1,062,546	(2,045,265)	629,801	1,612,520	—	N/A	122,852	192,784	70,914
Net Lease Fund I (2010)	Closed Dec-15	152,851	(227,108)	—	N/A	N/A	N/A	—	9,743	—
Real Estate Opportunities Fund (2011)	Sep-24	551,921	(516,518)	269,287	233,884	—	N/A	12,405	8,078	7,404
Global Opportunities Fund (2010)	Sep-20	387,174	(260,601)	225,137	98,564	—	N/A	16,638	2,586	2,586
	Dec-21	830,561	(671,578)	872,436	713,453	—	N/A	93,253	44,064	19,013

Japan Opportunity Fund II (Yen) (2011)										
Japan Opportunity Fund II (Dollar) (2011)	Dec-21	680,571	(555,260)	676,424	551,113	—	N/A	71,052	35,437	5,180
Real Estate Opportunities REOC Fund (2011)	Oct-23	57,892	(56,125)	34,151	32,384	—	N/A	2,858	3,586	2,092
CFT Co-invest Fund (CAD) (2015)	Oct-27	14,198	—	14,433	235	591	356	—	—	—
CFT Co-invest Fund (USD) (2015)	Oct-27	96,798	—	97,958	1,160	3,870	2,710	—	—	—
								$841,593	$1,100,848	$364,3
Credit PE Funds in Investment Period or Commitment Period										
FCO Managed Accounts (2010-2015)	Jun-24 to Feb-28	$1,044,121	$(397,732)	$834,337	$187,948	$26,858	$12,815	$21,612	$10,384	$2,654
Life Settlements Fund (2010)	Dec-22	425,910	(299,330)	91,437	(35,143)	96,716	131,859	—	—	—
Life Settlements Fund MA (2010)	Dec-22	34,995	(24,482)	7,333	(3,180)	7,943	11,123	—	—	—
Real Estate Opportunities Fund II (2014)	May-27	525,080	(61,961)	544,256	81,137	—	N/A	15,426	—	—
Japan Opportunity Fund III (Yen) (2014)	Dec-24	168,706	—	211,818	43,112	—	N/A	8,603	—	—
Japan Opportunity Fund III (Dollar) (2014)	Dec-24	108,247	—	133,775	25,528	—	N/A	4,893	—	—
Credit Opportunities Fund IV (2015)	Feb-27	621,250	(32,522)	621,919	33,191	39,546	6,355	—	—	—
Global Opportunities Fund II (2015)	Jul-26	23,247	(968)	19,841	(2,438)	688	3,126	—	—	—
								$50,534	$10,384	$2,654

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	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	$751,794	$ (F)	$ N/A	$ 41,283
Eurocastle	346,185	—	2,458	42,026
New Residential	2,714,911	—	N/A	95,879
New Media	645,157	—	N/A	33,912
New Senior	1,023,678	—	N/A	167
FTAI	1,119,662	5,858	—	—

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	Incentive Income Eligible NAV (L)	Gain to Cross Incentive Income Threshold (M)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (N)	Undistributed Incentive Income (O)	Year to Date Incentive Income Crystallized (P)
Credit Hedge Funds					
Special Opportunities Funds (S)					
Main fund investments	$4,682,850	$ —	100.0 %	$ 30,990	$ 87
Sidepocket investments (Q)	33,636	8	N/A	2,016	—
Sidepocket investments - redeemers (R)	134,274	48,489	N/A	4,275	—
Main fund investments (liquidating) (T)	810,558	590	92.8 %	56,027	4,029
Worden Fund					
Main fund investments	120,829	—	100.0 %	138	—
Main fund investments (liquidating) (T)	46,378	1,127	0.0 %	—	—
Fortress Japan Income Fund (Yen only)					
Main fund investments	122,897	N/A	100.0 %	69	384
Third Party Originated Funds (U)					
Main fund investments	70,551	476	0.0 %	—	—
Managed accounts	5,156	7,248	23.6 %	33	—
Liquid Hedge Funds					
Drawbridge Global Macro Funds (S)					
Sidepocket investments (Q)	$112,633	$ 56,474	N/A	$ 867	$ 10
Fortress Partners Funds (S)					
Sidepocket investments (Q)	50,662	1,006	N/A	2,000	—
Fortress Centaurus Global Funds (S)					
Main fund investments	181,593	9,574	0.0 %	—	1
Logan Circle					
Main fund investments	$90,259	$ —	100.0 %	$ 64	$ —
Managed accounts	160,807	5,603	0.0 %	—	—

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

(B) Represents the contractual maturity date including the assumed exercise of all extension options, which in some cases may require the approval of the applicable fund advisory board. Private equity funds that have reached their maturity date are included in the table to the extent they have generated incentive income.

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

(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).

(E) For fund investors whose NAV is below the incentive income threshold, represents the gain needed for these investors to achieve the current relevant performance thresholds, assuming the gain described in (D) above is already achieved.

(F) 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 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, 2016, 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.

(G) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV. The undistributed incentive income amounts presented in this table are based on the estimated results of the investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles. As of June 30, 2016, a certain FCO Managed Account in its investment period, and a portion of MSR Opportunities Fund II A and Long Dated Value Fund I's capital are above their incentive income threshold.

(H) Represents the amount of net incentive income previously received from the fund since inception.

(I) Represents the amount of incentive income previously received from the fund which is still subject to contingencies and is therefore recorded on the consolidated balance sheet as Deferred Incentive Income. This amount will either be recorded as revenue when all related contingencies are resolved, or, if the fund does not meet certain performance thresholds, will be returned by Fortress to the fund (i.e., “clawed back”).

(J) 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 amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. As of June 30, 2016, Fortress has no intrinsic clawback obligation for any of its private equity funds and credit PE 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.

(M) Such amount represents, for those investors whose NAV is below the performance threshold the amount by which their aggregate incentive income thresholds exceed their aggregate NAVs. "Incentive income threshold" or "high water mark" means the immediate increase in NAV needed for Fortress to begin earning incentive income. The amount by which the NAV of each investor within this category is below their respective incentive income threshold varies and, therefore, Fortress may begin earning incentive income from certain investors before this entire amount is earned back. Fortress earns incentive income whenever the assets of new investors, as well as of investors whose NAV exceeds their incentive income threshold, increase in value. 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.

(N) Represents the percentage which is computed by dividing (i) the aggregate NAV of all investors who are at or above their respective incentive income thresholds, by (ii) the total incentive income eligible NAV of the fund. The amount by which the NAV of each fund investor who is not in this category is below their respective incentive income threshold may vary, and may vary significantly. This percentage represents the performance of only the main fund investments and managed accounts relative to their respective incentive income thresholds. It does not incorporate the impact of unrealized losses on sidepocket investments that can reduce the amount of incentive income earned from certain funds. See footnote (Q) below.

(O) For hedge funds, 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 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 Eurocastle and FTAI, the amount disclosed, if any, represents the amount of additional incentive income Fortress would recognize if the measurement period had occurred at the end of the reporting period. The undistributed incentive income amounts presented in this table are based on the estimated results of the investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

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(P) For hedge funds, 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, formerly a private fund managed by Fortress, was contributed to FTAI which completed its IPO in May 2015. 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. A portion of the incentive income crystallized amounts are based on the estimated results of the investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

(Q) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. For the credit hedge funds, the performance of these investments may impact Fortress's ability to earn incentive income from main fund investments. Realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments.

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

(S) Includes onshore and offshore funds.

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

(U) The Third Party Originated Funds include the Value Recovery Funds and JP Funds (as defined below). Main fund investments exclude certain funds which had total NAV of $589.7 million as of June 30, 2016. Fortress began managing the third party originated Value Recovery Funds and JP Funds in June 2009 and March 2016, respectively, and generally does not expect to earn any significant incentive income from these funds.

Permanent Capital Vehicles

During the six months ended June 30, 2016, Fortress's senior living management subsidiary (Blue Harbor) entered into an agreement to manage a senior living property which is owned by a third party. Under this agreement, Fortress generally will receive management fees equal to 5.0% of revenues (as defined in the agreement) and reimbursement of certain expenses, including the compensation expense of all on-site employees. Fortress may also earn an incentive fee upon sale of the property to a third party.

Credit Hedge Funds

In March 2016, Fortress was appointed investment manager of certain third party originated funds (the "JP Funds") which are primarily focused on investing in secondary limited partnership interests. The JP Funds had $0.7 billion in AUM as of the date of Fortress's appointment. Fortress earns management fees from the JP Funds ranging from 1.0% to 2.0% of AUM (as defined in the respective agreement), potential incentive income and reimbursement of eligible expenses.

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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, 2016	December 31, 2015
Equity method and other investees	$916,551	$1,034,189
Equity method investees, held at fair value (A)	19,979	21,600
Total investments	$936,530	$1,055,789
Options in equity method investees	$40,432	$30,427

(A) Includes the publicly traded private equity portfolio companies and publicly traded permanent capital vehicles.

Gains (losses) are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net realized gains (losses)	$(2,084)	$54	$(1,193)	$1,313
Net realized gains (losses) from affiliate investments (A)	57	33,867	(16,878)	32,701
Net unrealized gains (losses)	(12,788)	3,962	(34,836)	1,600
Net unrealized gains (losses) from affiliate investments (A)	7,549	(44,670)	28,968	(10,840)
Total gains (losses)	$(7,266)	$(6,787)	$(23,939)	$24,774

(A) Includes the impact of the expiration of out of the money options in certain publicly traded permanent capital vehicles in 2016 and the exercise of options held in New Residential in June 2015.

These gains (losses) were generated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Mark to fair value on affiliate investments and options	$14,994	$(10,886)	$11,644	$21,899
Mark to fair value on derivatives	(21,643)	3,903	(34,876)	5,017
Mark to fair value on equity securities	—	—	—	(509)
Gains (losses) on digital currency (Bitcoin)	—	368	—	(1,175)
Other	(617)	(172)	(707)	(458)
Total gains (losses)	$(7,266)	$(6,787)	$(23,939)	$24,774

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.

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

	Six Months Ended June 30, 2016							
	Private Equity							
	Funds	Publicly Traded Portfolio Companies (A)	Permanent Capital Vehicles (A)	Credit Hedge Funds	Credit PE Funds	Liquid Hedge Funds (B)	Other	Total
Investments as of December 31, 2015	$608,728	$ 1,082	$20,518	$44,804	$187,664	$170,169	$22,824	$1,055,789
Earnings (losses) from equity method and other investees	(35,767)	N/A	N/A	1,848	12,464	(8,402)	(30)	(29,887)
Other comprehensive income from equity method investees	(1)	N/A	N/A	—	—	(215)	—	(216)
Contributions to equity method and other investees (C)	368	92	—	57,027	9,360	1,820	67	68,734
Distributions of earnings from equity method and other investees	(260)	N/A	N/A	(1,593)	(13,051)	(412)	—	(15,316)
Distributions of capital from equity method and other investees (C)	(22,319)	N/A	N/A	(57,747)	(17,087)	(43,824)	(31)	(141,008)
Total distributions from equity method and other investees	(22,579)	N/A	N/A	(59,340)	(30,138)	(44,236)	(31)	(156,324)
Mark to fair value - during period (D)	1,284	54	(872)	N/A	N/A	N/A	230	696
Net purchases (sales) of investments by consolidated funds	—	—	—	—	—	—	(6,036)	(6,036)
Translation adjustment	743	—	38	—	2,835	—	—	3,616
Dispositions	—	(933)	—	—	—	—	—	(933)
Reclassification to Due to Affiliates (E)	1,091	—	—	—	—	—	—	1,091
Investments as of June 30, 2016	$553,867	$ 295	$19,684	$44,339	$182,185	$119,136	$17,024	$936,530
	$603	N/A	N/A	$3,703	$9,762	$1,011	$2	$15,081

Undistributed earnings -
June 30, 2016

(A) Fortress elected to record the common shares held in the publicly traded private equity portfolio companies and publicly traded permanent capital vehicles, 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 condensed consolidated statements of cash flows as follows:

	Six Months Ended June 30, 2016	
	Contributions	Distributions of Capital
Per Condensed Consolidated Statements of Cash Flows	$7,090	$ (135,641)
Incentive income invested into the Fortress Funds	58,766	—
Change in distributions receivable from the Fortress Funds	—	(66)
Net funded*	2,580	(2,580)
Other	298	(2,721)
Per Above	$68,734	$ (141,008)

* 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 (Note 9).

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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)		Credit Hedge Funds	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues and gains (losses) on investments	$(117,146)	$(284,694)	$395,868	$499,641
Expenses	(78,873)	(84,796)	(212,989)	(212,050)
Net Income (Loss)	$(196,019)	$(369,490)	$182,879	$287,591
Fortress's earnings (losses) from equity method investees	$(35,767)	$(7,819)	$1,848	$2,958

	Credit PE Funds (A)(C)		Liquid Hedge Funds (B)	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues and gains (losses) on investments	$862,648	$854,159	$50,279	$(132,365)
Expenses	(157,787)	(141,262)	(81,224)	(95,131)
Net Income (Loss)	$704,861	$712,897	$(30,945)	$(227,496)
Fortress's earnings (losses) from equity method investees	$12,464	$10,065	$(8,402)	$518

(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 six months ended March 31, 2016). 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, as permitted, 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.

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

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 condensed consolidated balance sheet, 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 voting interest entities ("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 or co-manager.

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The following tables set forth certain information regarding all variable interest entities ("VIEs") in which Fortress held a variable interest as of June 30, 2016 and December 31, 2015.

	Fortress is not Primary Beneficiary								
	June 30, 2016				December 31, 2015				
Business	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Notes
Private Equity Funds	1	$1,110,259	$ —	$ 5,059	1	$ 136,129	$ —	$ 1,959	(D)
Permanent Capital Vehicles	6	26,227,806	16,973,485	92,917	6	23,618,598	15,581,168	114,228	(C)
Credit Hedge Funds	7	1,796,834	433,160	2,821	8	1,912,019	426,988	5,405	(D) (E)
Credit PE Funds	30	1,049,122	281,500	12,129	35	990,008	232,082	9,659	(D) (E)
Liquid Hedge Funds	4	264,018	1,200	27,453	4	364,535	1,270	39,192	(D) (E)

	Fortress is Primary Beneficiary								
	June 30, 2016				December 31, 2015				
Business	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Notes
Private Equity Funds	2	$41,416	$ —	$ 20,389	9	$71,277	$ —	$ 18,666	(F) (G)
Credit PE Funds	2	400	—	20	2	400	—	20	(F)
Liquid Hedge Funds	1	6,048	—	2,809	1	6,126	—	2,821	(F)
Logan Circle	—	—	—	—	1	4,468	—	4,317	(F)

(A) 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 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.

(B) 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 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. During the six months ended June 30, 2016, a credit hedge fund entity and five credit PE fund entities were liquidated.

(E) Includes entities that are a VIE 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.

(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 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 the investment manager of these entities.

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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. During the six months ended June 30, 2016, a reconsideration event occurred at seven private equity fund entities and a Logan Circle entity whereby these entities no longer qualified as a VIE. As such, the entities were deemed to be a VOE and Fortress continued to consolidate them since the entities no longer had third party capital. Subsequently, these private equity fund entities and the Logan Circle entity were liquidated. During the six months ended June 30, 2016, a credit PE fund entity was liquidated.

(G) Includes an entity that is a VIE because the entity's equity investment at risk is determined to be insufficient. 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		
	June 30, 2016	December 31, 2015	Valuation Method
Assets (within Investments)			
Common shares of publicly traded permanent capital vehicles	$19,684	$20,518	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies	295	1,082	Level 1 - Quoted prices in active markets for identical assets
Total equity method investments carried at fair value	$19,979	$21,600	
Options in equity method investees	$40,432	$30,427	Level 2 - Option valuation models using significant observable inputs
Assets (within Other assets and Due from affiliates)			
Derivatives	$3,576	$22,146	Level 2 - See below
Liabilities (within Accrued compensation and benefits)			
Options in affiliates granted to employees	$(6,419)	$(3,010)	Level 2 - Option valuation models using significant observable inputs
Liabilities (within Other liabilities and Due to affiliates)			
Derivatives	$(16,422)	$(2,201)	Level 2 - See below

See Note 4 regarding the fair value of outstanding debt.

Derivatives

Fortress uses derivative instruments to manage its 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.

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The following tables summarize 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, 2016.

	Gross Amounts of Recognized Assets as of	Gross Amounts Offset in the Condensed Consolidated Balance Sheet as of	Net Amounts of Assets Presented in the Condensed Consolidated Balance Sheet as of	Cash Collateral Received as of	Net Amount as of
Offsetting of Derivative Assets	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016
Foreign exchange option contracts	$ 2,690	$ (1,280)	$ 1,410	$ —	$ 1,410
Foreign exchange forward contracts	2,166	—	2,166	—	2,166
	$ 4,856	$ (1,280)	$ 3,576	$ —	$ 3,576

	Gross Amounts of Recognized Liabilities as of	Gross Amounts Offset in the Condensed Consolidated Balance Sheet as of	Net Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheet as of	Cash Collateral Pledged as of	Net Amount as of
Offsetting of Derivative Liabilities	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2016
Foreign exchange option contracts	$ (12,140)	$ 1,799	$ (10,341)	$ —	$ (10,341)
Foreign exchange forward contracts	(6,081)	—	(6,081)	—	(6,081)
	$ (18,221)	$ 1,799	$ (16,422)	$ —	$ (16,422)

The counterparties on the outstanding derivatives are Citibank, N.A., Bank of America, N.A. and certain credit PE funds.

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

	Balance Sheet	June 30, 2016 (or six months ended)			Maturity
	Classification	Fair Value	Notional Amount	Gains/(Losses) (B)	Date
Foreign exchange option contracts (JPY) (A)	Other assets	$1,410	$145,013	$ (8,398)	Dec 16-Mar 17
Foreign exchange option contracts (JPY) (A)	Other liabilities	$(10,341)	$246,005	$ (13,922)	Sep 16-Feb 19
Foreign exchange forward contracts (JPY) (A)	Other assets	$570	$64,327	$ 570	Jun 17

Foreign exchange forward contracts (JPY) (A)	Other liabilities	$(4,119)	$79,802	$ (4,166)	Dec 16-Jun 19
Foreign exchange forward contracts (JPY)	Due to affiliates	$(366)	$79,287	$ (366)	Jun 17
Foreign exchange forward contracts (CAD) (A)	Other liabilities	$(1,596)	$107,352	$ (1,596)	Dec 16
Foreign exchange forward contracts (CAD)	Due from affiliates	$1,596	$107,352	$ 1,596	Dec 16

(A) Fortress has master netting agreements with its counterparties.

(B) Reflects unrealized gains (losses) for the six months ended June 30, 2016 related to contracts outstanding at period end.

Fortress's average notional amount outstanding for the six months ended June 30, 2016 was $835.7 million.

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4. DEBT OBLIGATIONS

In January 2016, Fortress entered into a new $275.0 million senior unsecured revolving credit facility (the "2016 Credit Agreement") with a $15.0 million letter of credit subfacility and repaid its then existing credit agreement. The 2016 Credit Agreement is not collateralized by any assets of Fortress. The 2016 Credit Agreement generally bears interest at an annual rate equal to LIBOR plus an applicable rate that fluctuates depending upon the credit rating of the borrower's senior unsecured long-term debt and a commitment fee on undrawn amounts that fluctuates depending upon such credit rating, as well as other customary fees. The 2016 Credit Agreement matures in January 2021.

	Face Amount and Carrying Value		Contractual	Final	June 30, 2016
	June 30,	December 31,	Interest	Stated	Amount
Debt Obligation	2016	2015	Rate	Maturity	Available for Draws
Revolving credit agreement (A)(B)	$105,000	$75,000	LIBOR + 1.75% (C)	Jan 2021	$167,332
Promissory note (D)	155,677	155,677	5.00%	Nov 2017	N/A
Total	$260,677	$230,677			

(A) The 2016 Credit Agreement is not collateralized by any assets of Fortress.
(B) The $275.0 million revolving debt facility includes a $15.0 million letter of credit subfacility of which $2.7 million was utilized as of June 30, 2016.
(C) Subject to unused commitment fees of 0.25% per annum.
(D) Issued to a former Principal in exchange for his Fortress Operating Group units and Class B shares in Fortress.

Management believes the fair value of its outstanding debt was $262.3 million as of June 30, 2016 (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, 2016. The following table sets forth the financial covenant requirements as of June 30, 2016.

	June 30, 2016 (dollars in millions)		
	Requirement	Actual	Notes
AUM, as defined	≥ $30,000	$44,466	(A)
Consolidated Leverage Ratio	≤ 2.50	0.80	(B)
Consolidated Interest Coverage Ratio	≥ 4.00	28.02	(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 2016 Credit Agreement.
(B)

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 2016 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 (except when paid) or gains and losses, including impairment, on investments.

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5. INCOME TAXES AND TAX RELATED PAYMENTS

Fortress is a publicly traded partnership and has a wholly owned corporate subsidiary. Accordingly, a substantial portion of Fortress's income related to Class A shares 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,	
	2016	2015	2016	2015
Current				
Federal income tax expense (benefit)	$11,389	$2,394	$(978)	$(727)
Foreign income tax expense (benefit)	5,260	5,543	8,085	6,670
State and local income tax expense (benefit)	1,273	930	(58)	2,809
	17,922	8,867	7,049	8,752
Deferred				
Federal income tax expense (benefit)	(12,215)	(2,153)	(3,535)	10,834
Foreign income tax expense (benefit)	42	(77)	1,926	3,465
State and local income tax expense (benefit)	(1,677)	(11,836)	(585)	(9,851)
	(13,850)	(14,066)	(2,194)	4,448
Total expense (benefit)	$4,072	$(5,199)	$4,855	$13,200

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

	June 30, 2016	December 31, 2015
Gross deferred tax assets	$483,302	$469,759
Less:		
Valuation allowance	(44,023)	(39,616)
Deferred tax liabilities (A)	(5,129)	(3,041)
Deferred tax assets, net	$434,150	$427,102

(A) The deferred tax liabilities primarily relate to timing differences in the recognition of income from options received from certain publicly traded 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, 2015	$39,616
Changes due to FIG Corp. ownership change	422
Net increases (A)	3,985
Valuation allowance at June 30, 2016	$44,023

(A) Primarily related to the change in the portion of the deferred tax asset that would be realized only in connection with future capital gains and therefore required a full valuation allowance.

For the six months ended June 30, 2016, a net deferred income tax provision of $1.0 million was recorded as a credit to other comprehensive income, primarily related to foreign currency translation. For the six months ended June 30, 2016, a current income tax benefit of $0.5 million was recorded as a credit to paid-in capital, related to dividend equivalent payments on RSUs (Note 8), as applicable, which are currently deductible for income tax purposes.

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For the six months ended June 30, 2016, changes in FIG Corp.'s ownership and other items resulted in an increase to deferred tax assets of $2.3 million with an offsetting increase to the valuation allowance of $0.4 million. The net increase in deferred tax assets was recorded as a credit to paid-in capital.

Based on the value of RSUs which vested and were delivered during the six months ended June 30, 2016, Fortress has a tax shortfall of $2.4 million which was recorded as a debit to income taxes payable and a credit to paid-in capital. For the six months ended June 30, 2015, Fortress recorded $4.5 million as additional paid-in capital for excess tax benefits from RSUs delivered during the period and as a financing activity on the condensed consolidated statement 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, 2016, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be $13.4 million. In addition, during the six months ended June 30, 2016, the realization of certain tax benefits gave rise to a $2.7 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		Credit		Liquid			
		Permanent	Hedge	PE	Hedge	Logan		
	Funds	Capital Vehicles	Funds	Funds	Funds	Circle	Other (B)	Total
June 30, 2016								
Management fees and incentive income (A)	$44,639	$ 21,840	$4,306	$19,627	$2,868	$ 699	$—	$93,979
Expense reimbursements (A)	27,195	7,944	12,555	15,162	1,461	112	—	64,429
Dividends and distributions	—	565	—	—	—	—	—	565
Other	—	2,452	—	—	—	—	17,412	19,864
Total	$71,834	$ 32,801	$16,861	$34,789	$4,329	$ 811	$17,412	$178,837

	Private Equity		Credit		Liquid			
		Permanent	Hedge	PE	Hedge	Logan		
	Funds	Capital Vehicles	Funds	Funds	Funds	Circle	Other (B)	Total
December 31, 2015								
Management fees and incentive income (A)	$41,706	$ 49,578	$55,864	$20,540	$5,880	$ 452	$—	$174,020

Expense reimbursements (A)	35,982	11,052	13,250	16,006	1,867	129	—	78,286
Dividends and distributions	—	270	—	—	—	—	—	270
Other	—	2,383	—	—	—	—	18,852	21,235
Total	$77,688	$ 63,283	$69,114	$36,546	$7,747	$ 581	$18,852	$273,811

(A) Net of allowances for uncollectible management fees and expense reimbursements of $12.2 million and $6.9 million as of June 30, 2016, respectively, and of $12.2 million and $6.8 million as of December 31, 2015, respectively. Allowances are recorded as General and Administrative expenses.

(B) Other includes amounts primarily due from the principals and advances to senior employees (who are not officers).

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As of June 30, 2016, amounts due from Fortress Funds recorded in Due from Affiliates included $41.1 million of past due management fees and $11.0 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 6% of such fund's NAV and Fortress believes these fees and reimbursable expenses will ultimately be collected.

As of June 30, 2016, past due amounts recorded in Due from Affiliates also includes $12.2 million in management fees and $6.9 million in private equity general and administrative expenses due from another Fortress Fund, which Fortress has fully reserved.

Due to affiliates was comprised of the following:

	June 30, 2016	December 31, 2015
Principals - tax receivable agreement - Note 5	$267,479	$264,625
Principals - Principal Performance Payments - Note 7	13,978	42,234
Distributions payable on Fortress Operating Group units - Note 8	2,993	7,739
Other	14,449	4,360
General partner liability - Note 9	47,351	46,260
Total	$346,250	$365,218

Other Related Party Transactions

For the six months ended June 30, 2016 and 2015, Other Revenues included $2.9 million and $1.2 million, respectively, of revenues from affiliates, primarily interest and dividends.

During 2016, Fortress advanced $2.0 million to a senior employee who is not an officer. This advance bears interest at LIBOR+4%. All principal and interest is due and payable no later than February 2020. In addition, during the six months ended June 30, 2016, four senior employees repaid advances aggregating $0.9 million.

In February 2016, Fortress entered into a sale agreement with Graticule for the sale of certain software and technology-related assets for $1.7 million in cash with $1.1 million received by Fortress at closing and an additional $0.6 million to be received in February 2017. Fortress may also receive an additional cash payment of $0.5 million (for a total of $1.1 million of potential additional consideration) in February 2017, subject to certain conditions. This resulted in a $1.7 million gain included in gains (losses) on the condensed consolidated statements of operations for the six months ended June 30, 2016.

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, 2016	December 31, 2015
Fortress Operating Group units held by the Principals and a former senior employee	$228,621	$307,539
Employee interests in majority owned and controlled fund advisor and general partner entities	19,619	61,833
Other	1,740	1,747
Total	$249,980	$371,119

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

	June 30, 2016	December 31, 2015
Fortress Operating Group equity	$542,016	$764,429
Less: Others' interests in equity of consolidated subsidiaries	(21,359)	(63,580)
Total Fortress shareholders' equity in Fortress Operating Group	$520,657	$700,849
Fortress Operating Group units outstanding (A)	169,514,478	169,514,478
Class A shares outstanding	216,532,484	216,790,409
Total	386,046,962	386,304,887
Fortress Operating Group units as a percent of total (B)	43.9 %	43.9 %
Equity of Fortress Operating Group units held by the Principals and a former senior employee	$228,621	$307,539

(A) Held by the Principals and a former senior employee; exclusive of Class A shares.
(B) As a result, the Registrant owned 56.1% of Fortress Operating Group as of June 30, 2016 and December 31, 2015, 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,	
	2016	2015	2016	2015
Fortress Operating Group units held by the Principals and a former senior employee	$(12,341)	$1,355	$(20,371)	$52,960
Employee interests in majority owned and controlled fund advisor and general partner entities	220	199	807	1,039
Other	(25)	99	(8)	(123)
Total	$(12,146)	$1,653	$(19,572)	$53,876

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Fortress Operating Group net income (loss)	$(27,902)	$2,935	$(45,713)	$102,694
Adjust:				
Others' interests in net (income) loss of consolidated subsidiaries	(195)	(298)	(799)	(916)
Redeemable Non-controlling interests in (income) loss of consolidated subsidiaries	—	(10)	—	6
	$(28,097)	$2,627	$(46,512)	$101,784

Total Fortress shareholders' net income (loss) in Fortress Operating Group				
Fortress Operating Group as a percent of total (A)	43.9 %	51.6 %	43.8 %	52.0 %
Fortress Operating Group net income (loss) attributable to the Principals and a former senior employee	$(12,341)	$1,355	$(20,371)	$52,960

(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.

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The following discloses 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,	
	2016	2015	2016	2015
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	$92	$8,338	$3,559	$8,364
Decrease in Fortress's shareholders' equity for the repurchase and cancellation of Class A shares and FOGUs	—	—	(3,708)	—
Dilution impact of equity transactions	92	8,338	(149)	8,364
Net income (loss) attributable to Class A shareholders	(14,445)	3,316	(22,971)	38,029
Change from net income (loss) attributable to Fortress and transfers (to) from Principals' and Others' Interests	$(14,353)	$11,654	$(23,120)	$46,393

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,	
	2016	2015	2016	2015
Equity-based compensation, per below	$6,905	$11,044	$14,927	$25,388
Profit-sharing expense, per below	63,185	67,348	92,087	106,261
Discretionary bonuses	58,537	58,236	119,932	120,817
Other payroll, taxes and benefits	62,652	62,480	128,538	125,530
	$191,279	$199,108	$355,484	$377,996

Equity-Based Compensation

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

	RSUs			
	Employees		Non-Employees	
	Number	Value (A)	Number	Value (A)
Outstanding at December 31, 2015	20,927,169	$6.66	322,278	$6.74
Issued	2,670,695	$3.56	—	—
Transfers	—	—	—	—
Converted	(5,894,609)	$6.13	(131,884)	$7.38
Forfeited	(200,455)	$6.24	—	—

Outstanding at June 30, 2016 (B)	17,502,800	$6.37	190,394	$6.30

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Expense incurred (B)				
Employee RSUs	$6,135	$7,818	$13,038	$18,822
Non-employee RSUs	(7)	82	66	1,064
Principal Performance Payments (C)	741	3,144	1,752	5,502
Restricted shares (D)	36	—	71	—
Total equity-based compensation expense	$6,905	$11,044	$14,927	$25,388

(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, 2016 of $72.3 million, with a weighted average recognition period of 3.7 years.
(C) Accrued based on year-to-date performance; the actual number of RSUs granted is determined at year end. Based on year-to-date performance, no RSUs would be awarded as Principal Performance Payments related to 2016.
(D) Represents expense associated with restricted shares granted to a director during 2015. These restricted shares will vest over a period of two years.

Fortress's management reviewed the estimated forfeiture factor as of June 30, 2016 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 the six months ended June 30, 2016, Fortress granted 2.2 million non-dividend paying RSUs to its employees valued at an aggregate of $7.5 million on the respective grant dates. These RSUs vest over a period of three years.

In February 2016, Fortress awarded 0.5 million dividend paying RSUs as Principal Performance Payments based on 2015 results valued at an aggregate of $2.0 million on the grant date. These RSUs vest over a period of three years.

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

	Six Months Ended June 30, 2016		
	Equity-Based Compensation	Profit Sharing Expense	Total
Private equity businesses	$599	$3,956	$4,555
Credit businesses	1,153	10,022	11,175
Total	$1,752	$13,978	$15,730

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 would be 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, 2016, no compensation expense was recognized under this plan as the satisfaction of the performance condition and granting of the award were not considered to be probable.

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Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Private equity funds	$—	$—	$—	$—
Permanent capital vehicles (A)	5,921	2,462	7,490	8,961
Credit hedge funds	11,154	18,524	14,170	30,133
Credit PE funds	35,283	31,617	55,896	45,565
Liquid hedge funds	33	(2,705)	553	1,348
Principal Performance Payments (B)	10,794	17,450	13,978	20,254
Total	$63,185	$67,348	$92,087	$106,261

(A) Includes rights in options held in the publicly traded permanent capital vehicles (tandem options) that are granted to certain Fortress employees. The fair value and changes thereto are recorded as profit sharing compensation expense.

(B) 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.

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

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	215,631,309	215,631,309	217,016,378	217,016,378
Fully vested restricted Class A share units with dividend equivalent rights	291,469	291,469	984,000	984,000
Restricted Class A shares	810,882	810,882	790,155	790,155
Fortress Operating Group units exchangeable into Class A shares (1)	—	—	—	—
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)	—	—	—	—
Total weighted average shares outstanding	216,733,660	216,733,660	218,790,533	218,790,533
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	$(14,445)	$(14,445)	$(22,971)	$(22,971)
Dividend equivalents declared on non-vested restricted Class A shares and restricted Class A share units (2)	(905)	(905)	(1,272)	(1,272)
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)	—	—	—	—
Net income (loss) available to Class A shareholders	$(15,350)	$(15,350)	$(24,243)	$(24,243)
Weighted average shares outstanding	216,733,660	216,733,660	218,790,533	218,790,533
Basic and diluted net income (loss) per Class A share	$(0.07)	$(0.07)	$(0.11)	$(0.11)

	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
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 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