

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

Fortress Investment Group LLC
Form 10-Q
November 03, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from _____ to _____

Commission File Number: 001-33294

Fortress Investment Group LLC

(Exact name of registrant as specified in its charter)

Delaware

20-5837959

(State or other jurisdiction of incorporation

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

or organization)

1345 Avenue of the Americas, New York, NY 10105

(Address of principal executive offices) (Zip Code)

(212) 798-6100

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Class A Shares: 216,839,627 outstanding as of October 28, 2016.

Class B Shares: 169,207,335 outstanding as of October 28, 2016.

FORTRESS INVESTMENT GROUP LLC
FORM 10-Q
INDEX

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets</u> as of September 30, 2016 (unaudited) and December 31, 2015	<u>1</u>
<u>Condensed Consolidated Statements of Operations</u> (unaudited) for the three and nine months ended September 30, 2016 and 2015	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u> (unaudited) for the three and nine months ended September 30, 2016 and 2015	<u>3</u>
<u>Condensed Consolidated Statement of Changes in Equity</u> (unaudited) for the nine months ended September 30, 2016	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u> (unaudited) for the nine months ended September 30, 2016 and 2015	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u> (unaudited)	<u>7</u>
<u>Note 1 Organization and Basis of Presentation</u>	<u>7</u>
<u>Note 2 Management Agreements and Fortress Funds</u>	<u>9</u>
<u>Note 3 Investments and Fair Value</u>	<u>19</u>
<u>Note 4 Debt Obligations</u>	<u>25</u>
<u>Note 5 Income Taxes and Tax Related Payments</u>	<u>26</u>
<u>Note 6 Related Party Transactions and Interests in Consolidated Subsidiaries</u>	<u>27</u>
<u>Note 7 Equity-Based and Other Compensation</u>	<u>30</u>
<u>Note 8 Earnings Per Share and Distributions</u>	<u>32</u>
<u>Note 9 Commitments and Contingencies</u>	<u>36</u>
<u>Note 10 Segment Reporting</u>	<u>37</u>
<u>Note 11 Subsequent Events</u>	<u>42</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>43</u>
<u>Overview and Understanding the Asset Management Business</u>	<u>43</u>
<u>Market Considerations</u>	<u>50</u>
<u>Assets Under Management</u>	<u>53</u>
<u>Performance of Our Funds</u>	<u>55</u>
<u>Results of Operations</u>	<u>59</u>
<u>Liquidity and Capital Resources</u>	<u>80</u>
<u>Critical Accounting Policies</u>	<u>87</u>
<u>Contractual Obligations</u>	<u>94</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>95</u>
<u>Item 4. Controls and Procedures</u>	<u>99</u>

PART II. OTHER
INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>99</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>99</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>131</u>
<u>Item 3.</u>	<u>Defaults upon Senior Securities</u>	<u>131</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>131</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>131</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>132</u>
<u>SIGNATURES</u>		<u>135</u>

Table of Contents

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

"Management Fee Paying Assets Under Management," or "AUM," refers to the management fee paying assets we manage 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 certain 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 manager funds 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 and 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). Class B units have, from time to time, also been held by a former senior employee, who exchanged his remaining Class B units, together with his remaining Class B shares of the public company, for Class A shares of the public company in September 2016.

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.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	\$350,712	\$ 339,842
Due from affiliates	189,461	273,811
Investments	918,526	1,055,789
Investments in options	42,554	30,427
Deferred tax asset, net	422,237	427,102
Other assets	134,425	148,310
Total Assets	\$2,057,915	\$ 2,275,281
Liabilities and Equity		
Accrued compensation and benefits	\$260,212	\$ 318,750
Due to affiliates	360,301	365,218
Deferred incentive income	388,874	332,329
Debt obligations payable	182,838	230,677
Other liabilities	107,603	86,503
Total Liabilities	1,299,828	1,333,477
Commitments and Contingencies		
Redeemable Non-controlling Interests	—	—
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 216,839,627 and 216,790,409 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	—	—
Class B shares, no par value, 750,000,000 shares authorized, 169,207,335 and 169,514,478 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	—	—
Paid-in capital	1,915,578	1,988,707
Retained earnings (accumulated deficit)	(1,420,079)	(1,415,113)
Accumulated other comprehensive income (loss)	(4,652)	(2,909)
Total Fortress shareholders' equity	490,847	570,685
Principals' and others' interests in equity of consolidated subsidiaries	267,240	371,119
Total Equity	758,087	941,804
Total Liabilities, Redeemable Non-controlling Interests and Equity	\$2,057,915	\$ 2,275,281

See notes to condensed consolidated financial statements.

1

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Management fees: affiliates	\$ 123,491	\$ 134,414	\$ 377,269	\$ 413,057
Management fees: non-affiliates	14,455	15,400	42,066	45,657
Incentive income: affiliates	17,396	48,773	71,334	155,154
Incentive income: non-affiliates	31,000	439	40,862	735
Expense reimbursements: affiliates	54,602	59,988	166,041	168,544
Expense reimbursements: non-affiliates	1,258	2,757	4,064	9,573
Other revenues (affiliate portion disclosed in Note 6)	18,943	2,248	23,832	6,476
Total Revenues	261,145	264,019	725,468	799,196
Expenses				
Compensation and benefits	184,159	169,027	539,643	547,023
General, administrative and other	33,046	37,887	104,942	126,053
Depreciation and amortization	5,275	16,102	17,362	34,201
Interest expense	2,643	918	8,662	2,796
Transfer of interest in Graticule (see Note 1)	—	—	—	101,000
Total Expenses	225,123	223,934	670,609	811,073
Other Income (Loss)				
Gains (losses) (affiliate portion disclosed in Note 3)	1,862	(39,888)	(22,077)	(15,114)
Tax receivable agreement liability adjustment	—	(390)	(2,699)	(7,890)
Earnings (losses) from equity method investees	27,467	(22,195)	(2,420)	(16,808)
Gain on transfer of Graticule (see Note 1)	—	—	—	134,400
Total Other Income (Loss)	29,329	(62,473)	(27,196)	94,588
Income (Loss) Before Income Taxes	65,351	(22,388)	27,663	82,711
Income tax benefit (expense)	(7,008)	(3,584)	(11,863)	(16,784)
Net Income (Loss)	\$ 58,343	\$ (25,972)	\$ 15,800	\$ 65,927
Allocation of Net Income (Loss):				
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	\$ 27,181	\$ (11,727)	\$ 7,609	\$ 42,149
Redeemable Non-controlling Interests in Income (Loss) of Consolidated Subsidiaries	—	—	—	(6)
Net Income (Loss) Attributable to Class A Shareholders	31,162	(14,245)	8,191	23,784
	\$ 58,343	\$ (25,972)	\$ 15,800	\$ 65,927
Dividends declared per Class A share	\$ 0.09	\$ 0.08	\$ 0.37	\$ 0.54
Earnings (Loss) Per Class A share				
Net income (loss) per Class A share, basic	\$ 0.14	\$ (0.07)	\$ 0.03	\$ 0.10
Net income (loss) per Class A share, diluted	\$ 0.07	\$ (0.07)	\$ 0.02	\$ 0.09
Weighted average number of Class A shares outstanding, basic	216,913,032	216,439,077	218,160,132	216,138,405
Weighted average number of Class A shares outstanding, diluted	390,293,842	216,439,077	390,240,732	222,213,743

See notes to condensed consolidated financial statements.

2

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(dollars in thousands)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Comprehensive income (loss) (net of tax)				
Net income (loss)	\$58,343	\$(25,972)	\$15,800	\$65,927
Foreign currency translation income (loss)	(518)	621	(3,830)	249
Comprehensive income (loss) from equity method investees	(11)	—	(178)	—
Total comprehensive income (loss)	\$57,814	\$(25,351)	\$11,792	\$66,176
Allocation of Comprehensive Income (Loss):				
Comprehensive income (loss) attributable to principals' and others' interests	\$26,888	\$(11,473)	\$5,335	\$42,095
Comprehensive income (loss) attributable to redeemable non-controlling interests	—	—	—	(6)
Comprehensive income (loss) attributable to Class A shareholders	30,926	(13,878)	6,457	24,087
	\$57,814	\$(25,351)	\$11,792	\$66,176

See notes to condensed consolidated financial statements.

3

Table of Contents

FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE NINE MONTHS ENDED SEPTEMBER 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	—	—	—	—	—	—	46,635	46,635
Distributions to principals' and others' interests in equity (net of tax)	—	—	—	—	—	—	(151,011)	(151,011)
Dividends declared	—	—	(80,082)	—	—	(80,082)	—	(80,082)
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(1,069)	—	—	(1,069)	(1,355)	(2,424)
Conversion of Class B shares to Class A shares	307,143	(307,143)	446	—	(12)	434	(434)	—
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	(1,371)	—	—	(1,371)	(26)	(1,397)
Director restricted share grant	157,519	—	426	—	—	426	335	761
	4,383,419	—	8,673	—	—	8,673	6,800	15,473

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

Capital increase related to equity-based compensation (net of tax)									
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)	—	—	—	8,191	—	8,191	7,609	15,800	
Foreign currency translation income (loss)	—	—	—	—	(1,654)	(1,654)	(2,176)	(3,830)	
Comprehensive income (loss) from equity method investees	—	—	—	—	(80)	(80)	(98)	(178)	
Total comprehensive income (loss)						6,457	5,335	11,792	
Equity - September 30, 2016	216,839,627	169,207,335	\$ 1,915,578	\$(1,420,079)	\$(4,652)	\$490,847	\$267,240	\$758,087	

See notes to condensed consolidated financial statements.

Table of Contents

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

	Nine Months Ended September 30,	
	2016	2015
Cash Flows From Operating Activities		
Net income (loss)	\$15,800	\$65,927
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	17,362	34,201
Other amortization (included in interest expense)	616	585
(Earnings) losses from equity method investees	2,420	16,808
Distributions of earnings from equity method and other investees	19,669	32,345
(Gains) losses	22,077	15,114
Deferred incentive income	(82,287)	(115,892)
Deferred tax (benefit) expense	9,003	(5,786)
Options received from affiliates	(2,262)	(25,158)
Tax receivable agreement liability adjustment	2,699	7,890
Equity-based compensation	21,618	32,562
Options in affiliates granted to employees	4,024	1,912
Other	297	1,096
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	34,897	8,185
Other assets	(17,187)	(10,113)
Accrued compensation and benefits	(12,327)	(59,386)
Due to affiliates	(9,556)	(7,050)
Deferred incentive income	118,755	146,001
Other liabilities	20,333	37,525
Purchase of investments by consolidated funds	(52,711)	(134,474)
Proceeds from sale of investments by consolidated funds	57,123	85,313
Receivables from brokers and counterparties	(1,148)	(1,694)
Due to brokers and counterparties	2,494	3,421
Net cash provided by (used in) operating activities	171,709	95,932
Cash Flows From Investing Activities		
Contributions to equity method investees	(14,909)	(26,435)
Distributions of capital from equity method and other investees	193,720	181,874
Funding of loan receivable	(25,000)	—
Proceeds from loan receivable	10,869	—
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	(13,841)	(19,848)
Net cash provided by (used in) investing activities	151,772	204,352

Continued on next page.

Table of Contents

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

	Nine Months Ended September 30,	
	2016	2015
Cash Flows From Financing Activities		
Repayments of debt obligations	(222,838)	—
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	(83,134)	(122,663)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	71	1,285
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(137,618)	(225,994)
Redeemable non-controlling interests - distributions	—	(1,692)
Net cash provided by (used in) financing activities	(312,611)	(354,264)
Net Increase (Decrease) in Cash and Cash Equivalents	10,870	(53,980)
Cash and Cash Equivalents, Beginning of Period	339,842	391,089
Cash and Cash Equivalents, End of Period	\$350,712	\$337,109
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$7,781	\$1,552
Cash paid during the period for income taxes	\$10,188	\$10,376
Supplemental Schedule of Non-cash Investing and Financing Activities		
Employee compensation invested directly in subsidiaries	\$46,290	\$69,244
Investments of incentive receivable amounts into Fortress Funds	\$64,222	\$137,561
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	\$4,083	\$5,774
Retained equity interest related to Graticule transfer (Note 1)	\$—	\$33,400

See notes to condensed consolidated financial statements.

6

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 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

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

b) 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:

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.

Liquid hedge funds include (i) an endowment style fund, which invests in Fortress Funds, funds managed by 3) external managers and direct investments, and (ii) funds managed by an external manager which Fortress has a minority interest and accounts for using the equity method ("Affiliated Manager").

During the third quarter of 2016, Fortress closed the Fortress Centaurus Global Funds.

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

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 nine months ended September 30, 2015, Fortress recorded a non-cash gain of \$134.4 million, non-cash expense of \$101.0 million related to the fair value of the controlling interest in Graticule transferred to a former senior employee for no consideration, and \$33.4 million from its resulting retained interest as an equity method investment. Fortress utilized an income approach to value Graticule, its retained interest in Graticule and the controlling interest in Graticule which was transferred. This approach relies on a number of factors, including actual operating results, discount rates and economic projections. Fortress also received fees for providing

7

Table of Contents

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

infrastructure services (technology, back office, and related services) to Graticule through the termination of the infrastructure services agreement in May 2016.

Logan Circle Partners, L.P. ("Logan Circle"), which represents Fortress's traditional asset management business providing institutional clients actively managed investment solutions across a broad spectrum of fixed income 4) strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt.

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

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

Table of Contents

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

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.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2016

(dollars in tables in thousands, except share and per share data)

Management Fees and Incentive Income

Fortress recognized management fees and incentive income as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Private Equity				
Private Equity Funds				
Management fees: affil.	\$21,191	\$28,515	\$72,681	\$86,877
Permanent Capital Vehicles				
Management fees: affil.	27,305	26,932	81,431	68,210
Management fees, options: affil.	2,262	—	2,262	25,158
Management fees: non-affil.	401	436	1,205	1,368
Incentive income: affil.	4,419	(2,625)	17,880	23,119
Credit Funds				
Credit Hedge Funds				
Management fees: affil.	37,691	35,395	110,939	94,883
Management fees: non-affil.	54	15	70	38
Incentive income: affil.	6,307	1,512	11,033	23,681
Credit PE Funds				
Management fees: affil.	33,182	28,956	94,806	86,343
Management fees: non-affil.	—	30	36	88
Incentive income: affil.	6,668	49,744	41,425	108,153
Incentive income: non-affil.	31,000	439	40,862	696
Liquid Hedge Funds				
Management fees: affil.	1,183	14,004	13,283	49,137
Management fees: non-affil.	—	1,700	—	6,248
Incentive income: affil.	2	142	996	195
Incentive income: non-affil.	—	—	—	39
Logan Circle				
Management fees: affil.	677	612	1,867	2,449
Management fees: non-affil.	14,000	13,219	40,755	37,915
Incentive income: affil.	—	—	—	6
Total				
Management fees: affil. (including options)	\$123,491	\$134,414	\$377,269	\$413,057
Management fees: non-affil.	\$14,455	\$15,400	\$42,066	\$45,657
Incentive income: affil. (A)	\$17,396	\$48,773	\$71,334	\$155,154

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

Incentive income: non-affil.	\$31,000	\$439	\$40,862	\$735
------------------------------	----------	-------	----------	-------

(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.

10

Table of Contents

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

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 nine months ended September 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, \$69.4 million and \$46.7 million of additional incentive income would have been recognized during the nine months ended September 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 nine months ended September 30, 2016 and 2015, Fortress recognized \$82.3 million and \$108.8 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	484,585
Distribution of private equity funds and credit PE funds incentive income	197,274	N/A	197,274	(197,274)
Repayment of prior incentive income distributions (E)	(66,903)	N/A	(66,903)	66,903

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

Recognition of previously deferred incentive income	N/A	(82,287)	(82,287)	N/A
Changes in foreign exchange rates	8,461	—		8,461		N/A
Deferred incentive income as of September 30, 2016	\$ 1,629,108	(F)\$ (1,240,234)	\$ 388,874		\$ 1,252,572 (F)
Deferred incentive income including Fortress Funds which are not subject to clawback	\$ 1,777,277	\$ (1,388,403)			

(A) All related contingencies have been resolved.

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

At September 30, 2016, no intrinsic clawback exists for any of the Fortress Funds. The net undistributed incentive

(C) income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on September 30, 2016 at their net asset values.

From inception to September 30, 2016, Fortress has paid \$776.4 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income. If the \$1.3 billion

(D) of gross undistributed incentive income were realized, Fortress would recognize and pay an additional \$493.9 million of compensation.

In February 2016, Fortress paid \$66.9 million to Fund III representing prior incentive income distributions

(E) received (\$45.1 million net of employee amounts). As of September 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.

Table of Contents

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

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

	September 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	1,160,205
Distributed incentive income - Credit PE Funds in Investment Period or Commitment Period	10,586
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 \$1,629,108

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:

	September 30, 2016
Undistributed incentive income - Private Equity Funds	\$16,251
Undistributed incentive income - Private Equity Funds in Investment Period or Commitment Period	193,876
Undistributed incentive income - Credit PE Funds	849,407
Undistributed incentive income - Credit PE Funds in Investment Period or Commitment Period	60,336
Undistributed incentive income - Permanent Capital Vehicles	4,330
Undistributed incentive income - Hedge Funds (total)	127,990
Undistributed incentive income - Logan Circle	382
Less:	—

Gross
intrinsic
clawback
per
incentive
income
threshold
tables -
Private
Equity
Funds
Undistributed,
net of intrinsic \$1,252,572
clawback

Table of Contents

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

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

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions	NetNAV Assu	NAV Value (N/A) (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)
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)	760,904	1,4437	2,509,733	2,339,296	—	—	—
Fund III Coinvestment (2004)	In Liquidation	273,649	(231,692)	55,938	981	290,629	276,648	—	—	—
Fund IV (2006)	Jan-17	3,639,561	(1,537,042)	1,872,305	1,861	3,446,902	3,677,263	—	—	—
Fund IV Coinvestment (2006)	Jan-17	762,696	(323,598)	326,908	1,190	736,253	848,443	—	—	—
Fund V (2007)	Feb-18	4,103,713	(1,848,412)	4,213,785	454	3,191,603	1,233,149	—	—	—
Fund V Coinvestment (2007)	Feb-18	990,480	(259,786)	389,340	933	860,605	1,201,538	—	—	—
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	—	(66,998)	1,523	819,274	1,610,797	—	—	—
FHIF (2006) (Holiday)	Jan-17	1,543,463	(954,223)	1,001,411	1,176	1,443,756	1,032,580	—	—	—
FECI (2007) (Florida East Coast/Flagler)	Feb-18	982,779	(522)	926,856	1,441	1,001,318	1,056,759	—	—	—

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

MSR Opportunities Fund I A (2012)	Aug-22	341,135	(214,101)	260,233	259	—	N/A	12,828	—	—
MSR Opportunities Fund I B (2012)	Aug-22	82,760	(51,798)	62,950	988	—	N/A	3,197	—	—
MSR Opportunities Fund II A (2013)	Jul-23	160,653	(54,008)	126,202	176	9,603	154	154	—	—
MSR Opportunities Fund II B (2013)	Jul-23	2,291	(753)	1,804	66	286	23	—	—	—
MSR Opportunities MA I (2013)	Jul-23	36,868	(12,430)	29,437	46	—	N/A	72	—	—
								\$16,251	\$780,459	\$ \$ \$
Private Equity Funds in Investment or Commitment Period										
Italian NPL										
Opportunities Fund (2013)	Sep-24	322,176	(17,774)	346,421	008	—	N/A	6,214	—	—
Fortress Equity Partners (2014)	Mar-24	165,588	—	1,104,879	791	—	N/A	187,662	—	—
								\$193,876	\$—	\$ \$ \$

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

(dollars in tables in thousands, except share and per share data)

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)
Credit PE Funds										
Long Dated Value Fund I (2005)	Apr-30	\$267,325	\$(269,739)	\$176,000	\$178,414	\$50,768	\$2,688	\$2,777	\$—	\$—
Long Dated Value Fund II (2005)	Nov-30	274,280	(219,861)	146,085	91,666	138,941	47,275	—	412	—
Long Dated Value Fund III (2007)	Feb-32	343,156	(307,613)	143,578	108,035	—	N/A	3,604	7,904	—
LDVF Patent Fund (2007)	Nov-27	45,852	(33,968)	26,201	14,317	—	N/A	23	1,471	—
Real Assets Fund (2007)	Jun-17	359,024	(435,302)	17,153	93,431	—	N/A	2,850	11,565	4,181
Credit										
Opportunities Fund (2008)	Oct-20	5,680,587	(7,475,023)	977,713	2,772,149	—	N/A	107,180	436,852	138,077
Credit										
Opportunities Fund II (2009)	Jul-22	2,376,497	(2,808,665)	874,112	1,306,280	—	N/A	104,391	151,706	64,941
Credit										
Opportunities Fund III (2011)	Mar-24	3,408,679	(2,287,779)	2,006,377	885,477	—	N/A	133,522	39,908	2,510
FCO Managed Accounts (2008 - 2012)	Apr-22 to Dec-24	4,598,123	(4,057,891)	2,280,689	1,740,457	—	N/A	176,716	143,051	50,108
SIP Managed Account (2010)	Sep-20	11,000	(243,537)	8,916	241,453	—	N/A	2,229	46,507	—
Japan Opportunity Fund (Yen only)(2009)	Jun-19	1,081,942	(2,145,680)	541,988	1,605,726	—	N/A	105,951	205,898	81,877
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	552,544	(567,821)	224,264	239,541	—	N/A	10,268	10,705	10,031
Global										
Opportunities Fund (2010)	Sep-20	394,241	(265,530)	235,274	106,563	—	N/A	18,161	2,634	2,634
	Dec-21	846,479	(750,532)	881,368	785,421	—	N/A	102,533	48,107	20,801

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

Japan Opportunity
Fund II (Yen)
(2011)

Japan Opportunity
Fund II (Dollar)
(2011)

Real Estate
Opportunities
REOC Fund
(2011)

CFT Co-invest
Fund (CAD)
(2015)

CFT Co-invest
Fund (USD)
(2015)

Credit PE Funds in Investment Period or
Commitment Period

FCO Managed
Accounts
(2010-2015)

Life Settlements
Fund (2010)

Life Settlements
Fund MA (2010)

Real Estate
Opportunities Fund
II (2014)

Japan Opportunity
Fund III (Yen)
(2014)

Japan Opportunity
Fund III (Dollar)
(2014)

Credit
Opportunities Fund
IV (2015)

Global
Opportunities Fund
II (2015)

Dec-21	681,551	(602,385)	676,595	597,429	—	N/A	76,145	39,306	7,989
Oct-23	57,991	(62,857)	28,519	33,385	—	N/A	3,057	4,436	2,942
Oct-27	13,978	—	14,211	233	864	631	—	—	—
Oct-27	96,798	—	98,023	1,225	5,864	4,639	—	—	—
							\$849,407	\$1,160,205	\$386,000
Jun-24 to Feb-28	\$1,173,964	\$(406,040)	\$964,920	\$196,996	\$38,253	\$24,720	\$22,750	\$10,384	\$2,640,000
Dec-22	425,910	(299,330)	101,502	(25,078)	100,931	126,009	—	—	—
Dec-22	34,995	(24,482)	8,145	(2,368)	8,291	10,659	—	—	—
May-27	584,983	(104,830)	579,384	99,231	—	N/A	18,993	143	143
Dec-24	287,322	(6,588)	338,606	57,872	—	N/A	11,521	28	—
Dec-24	206,499	(886)	242,638	37,025	—	N/A	7,072	31	—
Feb-27	764,147	(31,799)	767,778	35,430	54,856	19,426	—	—	—
Jul-26	31,464	(1,429)	24,366	(5,669)	1,150	6,819	—	—	—
							\$60,336	\$10,586	\$2,789,000

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

(dollars in tables in thousands, except share and per share data)

	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	\$ 751,896	\$ (F)	\$ N/A	\$ 41,283
Eurocastle	354,601	—	4,330	42,026
New Residential	2,978,282	—	N/A	98,323
New Media	645,157	—	N/A	35,419
New Senior	1,023,817	96	N/A	635
FTAI	1,086,518	10,360	—	—

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

(dollars in tables in thousands, except share and per share data)

	Incentive Income Eligible NAV (L)	Gain to Cross Incentive Income Threshold (M)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (N)	Undistributed Incentive Income (O)	Year to Date Incentive Income Crystallized (P)
Credit Hedge Funds					
Special Opportunities Funds (S)					
Main fund investments	\$4,846,389	\$ —	100.0 %	\$ 63,148	\$ 87
Sidepocket investments (Q)	33,241	28	N/A	1,945	—
Sidepocket investments - redeemers (R)	132,162	48,569	N/A	4,109	—
Main fund investments (liquidating) (T)	736,485	—	100.0 %	54,886	10,369
Worden Fund					
Main fund investments	124,604	—	100.0 %	862	—
Main fund investments (liquidating) (T)	44,587	—	100.0 %	156	—
Fortress Japan Income Fund (Yen only)					
Main fund investments	127,938	N/A	100.0 %	160	351
Third Party Originated Funds (U)					
Main fund investments	75,110	381	56.0 %	468	—
Managed accounts	2,046	6,851	49.5 %	66	—
Liquid Hedge Funds					
Drawbridge Global Macro Funds (S)					
Sidepocket investments (Q)	\$ 111,915	\$ 55,300	N/A	\$ 825	\$ 12
Fortress Partners Funds (S)					
Sidepocket investments (Q)	47,089	3,703	N/A	1,365	—
Logan Circle					
Main fund investments	\$94,176	\$ —	100.0 %	\$ 382	\$ —

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

(dollars in tables in thousands, except share and per share data)

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

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

(B) cases may require the approval of the applicable fund advisory board. Private equity funds that have reached their maturity date are included in the table to the extent they have generated incentive income.

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

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

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

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

For fund investors whose NAV is below the incentive income threshold, represents the immediate increase in NAV needed for these investors for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see

(F) (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 September 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.

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

(G) 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 September 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.

Represents the amount of incentive income previously received from the fund which is still subject to contingencies

(I) and is therefore recorded on the condensed consolidated balance sheet as Deferred Incentive Income. This amount will either be recorded as revenue when all related contingencies are resolved, or, if the fund does not meet certain performance thresholds, will be returned by Fortress to the fund (i.e., "clawed back").

Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a

(J) 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 September 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%.

Represents the portion of a fund's or managed account's NAV or trading level that is eligible to earn incentive

(L) 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.

Represents the percentage which is computed by dividing (i) the aggregate NAV of all investors who are at or above their respective incentive income thresholds, by (ii) the total incentive income eligible NAV of the fund.

The amount by which the NAV of each fund investor who is not in this category is below their respective

(N) incentive income threshold may vary, and may vary significantly. This percentage represents the performance of only the main fund investments and managed accounts relative to their respective incentive income thresholds. It does not incorporate the impact of unrealized losses on sidepocket investments that can reduce the amount of incentive income earned from certain funds. See footnote (Q) below.

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

(O) 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.

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

(dollars in tables in thousands, except share and per share data)

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 (P) 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.

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 (Q) 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.

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 \$644.1 million as of September 30, 2016. Fortress (U) 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 nine months ended September 30, 2016, Fortress's senior living management subsidiary (Blue Harbor) entered into agreements to manage two senior living properties which are each owned by a third party. Under these agreements, Fortress generally will receive management fees based on a percentage of revenues (as defined in the agreement) and reimbursement of certain expenses, including the compensation expense of all on-site employees. For one of the agreements, 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.

Table of Contents

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

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:

	September 30, 2016	December 31, 2015
Equity method and other investees	\$ 896,007	\$ 1,034,189
Equity method investees, held at fair value (A)	22,519	21,600
Total investments	\$ 918,526	\$ 1,055,789
Options in equity method investees	\$ 42,554	\$ 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net realized gains (losses)	\$(1,362)	\$ 366	\$(2,555)	\$ 1,679
Net realized gains (losses) from affiliate investments (A)	788	156	(16,090)	32,857
Net unrealized gains (losses)	(3,187)	(6,493)	(38,023)	(4,893)
Net unrealized gains (losses) from affiliate investments (A)	5,623	(33,917)	34,591	(44,757)
Total gains (losses)	\$ 1,862	\$(39,888)	\$(22,077)	\$(15,114)

(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 August 2016 and June 2015.

These gains (losses) were generated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Mark to fair value on affiliate investments and options	\$ 6,005	\$(33,795)	\$ 17,649	\$(11,897)
Mark to fair value on derivatives	(3,642)	(2,497)	(38,518)	2,520
Mark to fair value on equity securities	—	—	—	(509)
Gains (losses) on digital currency (Bitcoin)	—	(495)	—	(1,670)
Other	(501)	(3,101)	(1,208)	(3,558)
Total gains (losses)	\$ 1,862	\$(39,888)	\$(22,077)	\$(15,114)

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.

Table of Contents

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

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

	Nine Months Ended September 30, 2016							
	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	(13,652)	N/A	N/A	3,583	16,039	(8,295)	(95)	(2,420)
Other comprehensive income from equity method investees	(1)	N/A	N/A	—	—	(228)	—	(229)
Contributions to equity method and other investees (C)	368	92	—	62,480	18,662	1,822	88	83,512
Distributions of earnings from equity method and other investees	(310)	N/A	N/A	(1,594)	(17,353)	(412)	—	(19,669)
Distributions of capital from equity method and other investees (C)	(25,576)	N/A	N/A	(57,747)	(23,647)	(92,239)	(1,639)	(200,848)
Total distributions from equity method and other investees	(25,886)	N/A	N/A	(59,341)	(41,000)	(92,651)	(1,639)	(220,517)
Mark to fair value - during period (D)	1,603	46	1,657	N/A	N/A	N/A	299	3,605
Net purchases (sales) of investments by consolidated funds	—	N/A	N/A	—	—	—	(5,758)	(5,758)
Translation adjustment	568	—	57	—	3,192	—	—	3,817
Dispositions	—	(933)	—	—	—	—	—	(933)
Reclassification to Due to Affiliates (E)	1,660	N/A	N/A	—	—	—	—	1,660
Investments as of September 30, 2016	\$573,388	\$ 287	\$ 22,232	\$51,526	\$184,557	\$70,817	\$15,719	\$918,526
	\$19,784	N/A	N/A	\$5,448	\$10,037	\$3,520	\$3	\$38,792

Undistributed earnings -
September 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 the Affiliated Manager.

(C) The amounts presented above can be reconciled to the amounts presented on the condensed consolidated statement of cash flows as follows:

	Nine Months Ended September 30, 2016	
	Contributions	Distributions of Capital
Per Condensed Consolidated Statement of Cash Flows	\$ 14,909	\$ (193,720)
Incentive income invested into the Fortress Funds	64,222	—
Change in distributions receivable from the Fortress Funds	—	(68)
Net funded*	4,083	(4,083)
Other	298	(2,977)
Per Above	\$ 83,512	\$ (200,848)

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).

Table of Contents

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

The following tables present summarized statements of operations for Fortress's significant equity method investees. The publicly traded 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	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues and gains (losses) on investments	\$711,526	\$(773,727)	\$717,982	\$598,528
Expenses	(120,186)	(124,947)	(314,145)	(305,714)
Net Income (Loss)	\$591,340	\$(898,674)	\$403,837	\$292,814
Fortress's earnings (losses) from equity method investees	\$(13,652)	\$(24,620)	\$3,583	\$3,446

	Credit PE Funds (A)(C)		Liquid Hedge Funds (B)	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues and gains (losses) on investments	\$1,234,229	\$988,406	\$81,321	\$(216,942)
Expenses	(216,592)	(225,532)	(114,871)	(171,070)
Net Income (Loss)	\$1,017,637	\$762,874	\$(33,550)	\$(388,012)
Fortress's earnings (losses) from equity method investees	\$16,039	\$9,742	\$(8,295)	\$(4,929)

(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 nine months ended June 30, 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 the Affiliated Manager.

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

Other Assets

In August 2016, Fortress provided a \$25.0 million senior secured loan to an alternative investment manager. The loan bears interest at an annual rate equal to LIBOR plus 6.0% (LIBOR plus 8.0% in the event of default) and interest is payable monthly in arrears. The loan matures in August 2021 but is also subject to mandatory partial prepayments based on certain financial conditions being met by the borrower. The loan is collateralized by certain assets of the borrower and is guaranteed by the principal owner of the investment manager. During the three months ended September 30, 2016, Fortress received principal payments of \$10.9 million. As of September 30, 2016, the carrying value of the loan was \$14.2 million including accrued interest and is included in other assets on the condensed

consolidated balance sheet. Fortress recognized \$0.2 million of interest income related to the loan for the three months and nine months ended September 30, 2016. Subsequent to September 30, 2016, Fortress received additional principal payments of \$4.3 million.

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.

Table of Contents

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

The following tables set forth certain information as of September 30, 2016 regarding entities initially classified as variable interest entities ("VIEs") during the nine months ended September 30, 2016 in which Fortress held variable interests:

Business	Fortress is not Primary Beneficiary			Fortress Investment (B)	Notes
	Number of VIEs	Gross Assets (A)	Financial Obligations (A)		
Credit Hedge Funds	1	72,126	48,513	14,213	(D)
Credit PE Funds	5	85,086	—	906	(D)

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

Business	Fortress is not Primary Beneficiary			December 31, 2015			Notes				
	September 30, 2016	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Number of VIEs		Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	
Private Equity Funds	1	\$1,111,703	\$	—	\$ 7,739	1	\$ 136,129	\$	—	\$ 1,959	(D)
Permanent Capital Vehicles	6	26,688,418	17,331,130	9,356		6	23,618,598	15,581,168	114,228		(C)
Credit Hedge Funds	4	1,891,573	474,861	17,459		8	1,912,019	426,988	5,405		(D) (E)
Credit PE Funds	35	1,093,041	285,562	13,316		35	990,008	232,082	9,659		(D) (E)
Liquid Hedge Funds	3	245,836	—	24,753		4	364,535	1,270	39,192		(D) (E)

Business	Fortress is Primary Beneficiary			December 31, 2015			Notes				
	September 30, 2016	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Number of VIEs		Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	
Private Equity Funds	2	\$46,048	\$	—	\$ 20,512	9	\$71,277	\$	—	\$ 18,666	(F) (G)
Credit PE Funds	1	400	—	20		2	400	—	20		(F)
Liquid Hedge Funds	1	4,418	—	2,051		1	6,126	—	2,821		(F)
Logan Circle	—	—	—	—		1	4,468	—	4,317		(F)

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

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

Table of Contents

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

potentially be significant to these entities. During the nine months ended September 30, 2016, five credit hedge fund entities, five credit PE fund entities and a liquid hedge fund entity were liquidated.

Includes entities that are a VIE because the entity's equity investment at-risk is determined to be insufficient.
 (E) 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.

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.

(F) 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 nine months ended September 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 nine months ended September 30, 2016, a credit PE fund entity was liquidated.

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		Valuation Method
	September 30, 2016	December 31, 2015	
Assets (within Investments)			
Common shares of publicly traded permanent capital vehicles	\$22,232	\$20,518	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies	287	1,082	Level 1 - Quoted prices in active markets for identical assets
Total equity method investments carried at fair value	\$22,519	\$21,600	
Options in equity method investees	\$42,554	\$30,427	Level 2 - Option valuation models using significant observable inputs
Assets (within Other assets and Due from affiliates)			
Derivatives	\$1,745	\$22,146	Level 2 - See below

Liabilities (within Accrued compensation and benefits)

Options in affiliates granted to employees	\$(3,053) \$(3,010)	Level 2 - Option valuation models using significant observable inputs
--	-----------------------	---

Liabilities (within Other liabilities and Due to affiliates)

Derivatives	\$(18,065) \$(2,201)	Level 2 - See below
-------------	-----------------------	---------------------

See Note 4 regarding the fair value of outstanding debt.

In August 2016, New Residential issued 20.0 million shares of its common stock in an offering at a price to the public of \$14.20 per share. In connection with this offering, New Residential compensated Fortress for its successful efforts in raising capital for New Residential by granting options to Fortress to purchase 2.0 million shares of New Residential's common stock at \$14.20, which were valued at \$2.3 million as of the grant date. The options were fully vested upon issuance, become exercisable over

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2016

(dollars in tables in thousands, except share and per share data)

thirty months and have a ten-year term. In addition, in August 2016 certain Fortress employees exercised 1.1 million of their tandem options, and Fortress simultaneously exercised 1.1 million of its options, held in New Residential.

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.

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 September 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
	September 30, 2016	September 30, 2016	September 30, 2016	September 30, 2016	September 30, 2016
Offsetting of Derivative Assets					
Foreign exchange option contracts	\$ 1,666	\$ (889)	\$ 777	\$	—\$ 777
Foreign exchange forward contracts	968	—	968	—	968
	\$ 2,634	\$ (889)	\$ 1,745	\$	—\$ 1,745

	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
	September 30, 2016	September 30, 2016	September 30, 2016	September 30, 2016	September 30, 2016
Offsetting of Derivative Liabilities					
Foreign exchange option contracts	\$ (13,116)	\$ 1,162	\$ (11,954)	\$	—\$ (11,954)
Foreign exchange forward contracts	(6,111)	—	(6,111)	—	(6,111)

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

\$ (19,227) \$ 1,162 \$ (18,065) \$ —\$ (18,065)

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

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

	Balance Sheet Classification	September 30, 2016 (or nine months ended)			Maturity Date
		Fair Value	Notional Amount	Gains/(Losses) (B)	
Foreign exchange option contracts (JPY) (A)	Other assets	\$777	\$148,079	\$ (9,187)	Dec 16-Mar 17
Foreign exchange option contracts (JPY) (A)	Other liabilities	\$(11,954)	\$217,379	\$ (13,678)	Dec 16-Feb 19
Foreign exchange forward contracts (JPY) (A)	Other assets	\$9	\$901	\$ 9	Dec 16
Foreign exchange forward contracts (JPY) (A)	Other liabilities	\$(6,075)	\$164,783	\$ (6,122)	Dec 16-Jun 19
Foreign exchange forward contracts (JPY)	Due from affiliates	\$923	\$79,287	\$ 923	Jun 17
Foreign exchange forward contracts (CAD) (A)	Other assets	\$36	\$107,352	\$ 36	Dec 16
Foreign exchange forward contracts (CAD)	Due to affiliates	\$(36)	\$107,352	\$ (36)	Dec 16

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

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

Fortress's average gross notional amount outstanding for the nine months ended September 30, 2016 was \$838.4 million, of which \$475.3 million relates to foreign exchange (JPY) derivative contracts used to economically hedge future estimated incentive income.

Table of Contents

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

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.

Debt Obligation	Face Amount and Carrying Value		Contractual Interest Rate	Final Stated Maturity	September 30, 2016 Amount Available for Draws
	September 30, 2016	December 31, 2015			
Revolving credit agreement (A)(B)	\$ 105,000	\$ 75,000	LIBOR + 1.75% (C)	Jan 2021	\$ 167,332
Promissory note (D)	77,838	155,677	5.00%	Nov 2017	N/A
Total	\$ 182,838	\$ 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 September 30, 2016.

(C) Subject to unused commitment fees of 0.25% per annum.

Issued to a former Principal in exchange for his Fortress Operating Group units and Class B shares in Fortress.

(D) During the third quarter of 2016, Fortress prepaid \$77.8 million of principal which was originally due in November 2016.

Management believes the fair value of its outstanding debt was \$184.0 million as of September 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 September 30, 2016. The following table sets forth the financial covenant requirements as of September 30, 2016.

	September 30, 2016 (dollars in millions)		
	Requirement	Actual	Notes
AUM, as defined	\$ 30,000	\$ 44,771	(A)
Consolidated Leverage Ratio	≤ 5.0	0.55	(B)
Consolidated Interest Coverage Ratio	≥ 4.00	29.36	(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.

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.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2016

(dollars in tables in thousands, except share and per share data)

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 September 30, 2016		Nine Months Ended September 30, 2015	
Current				
Federal income tax expense (benefit)	\$(8,865)	\$12,720	\$(9,843)	\$11,993
Foreign income tax expense (benefit)	2,683	1,089	10,768	7,759
State and local income tax expense (benefit)	1,993	9	1,935	2,818
	(4,189)	13,818	2,860	22,570
Deferred				
Federal income tax expense (benefit)	10,187	(9,222)	6,652	1,612
Foreign income tax expense (benefit)	(90)	52	1,836	3,517
State and local income tax expense (benefit)	1,100	(1,064)	515	(10,915)
	11,197	(10,234)	9,003	(5,786)
Total expense (benefit)	\$7,008	\$3,584	\$11,863	\$16,784

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

	September 30, 2016	December 31, 2015
Gross deferred tax assets	\$468,879	\$469,759
Less:		
Valuation allowance	(40,674)	(39,616)
Deferred tax liabilities (A)	(5,968)	(3,041)
Deferred tax assets, net	\$422,237	\$427,102

The deferred tax liabilities primarily relate to timing differences in the recognition of income from options (A) 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	217
Net increases (A)	841
Valuation allowance at September 30, 2016	\$40,674

(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 nine months ended September 30, 2016, a net deferred income tax provision of \$1.2 million was recorded as a credit to other comprehensive income, primarily related to foreign currency translation. For the nine months ended September 30, 2016, a current income tax benefit of \$0.7 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.

Table of Contents

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

For the nine months ended September 30, 2016, changes in FIG Corp.'s ownership and other items resulted in an increase to deferred tax assets of \$1.4 million with an offsetting increase to the valuation allowance of \$0.2 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 nine months ended September 30, 2016, Fortress has a tax shortfall of \$2.5 million which was recorded as a credit to income taxes payable and a debit to paid-in capital. For the nine months ended September 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 nine months ended September 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 \$18.5 million. In addition, during the nine months ended September 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							Total
	Funds	Permanent Capital Vehicles	Credit Hedge Funds	PE Funds	Liquid Hedge Funds	Logan Circle	Other (B)	
September 30, 2016								
Management fees and incentive income (A)	\$46,448	\$ 22,748	\$ 7,684	\$ 20,157	\$ 2	\$ 464	\$—	\$ 97,503
Expense reimbursements (A)	34,164	8,530	11,411	15,442	1,152	113	—	70,812
Dividends and distributions	—	804	—	—	—	—	—	804
Other	—	2,488	—	—	—	—	17,854	20,342
Total	\$ 80,612	\$ 34,570	\$ 19,095	\$ 35,599	\$ 1,154	\$ 577	\$ 17,854	\$ 189,461

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

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

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

Net of allowances for uncollectible management fees and expense reimbursements of \$12.2 million and \$6.6 (A) million as of September 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).

Table of Contents

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

As of September 30, 2016, amounts due from Fortress Funds recorded in Due from Affiliates included \$43.5 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 September 30, 2016, past due amounts recorded in Due from Affiliates also includes \$12.2 million in management fees and \$6.6 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:

	September 30, 2016	December 31, 2015
Principals - tax receivable agreement - Note 5	\$ 267,617	\$ 264,625
Principals - Principal Performance Payments - Note 7	23,956	42,234
Distributions payable on Fortress Operating Group units - Note 8	3,980	7,739
Other	16,828	4,360
General partner liability - Note 9	47,920	46,260
Total	\$ 360,301	\$ 365,218

Other Related Party Transactions

For the nine months ended September 30, 2016 and 2015, Other Revenues included \$4.1 million and \$2.8 million, respectively, of revenues from affiliates, primarily interest and dividends.

During 2016, Fortress advanced \$2.3 million to senior employees who are not an officer of Fortress. The advances bear interest at rates up to LIBOR+4%. All principal and interest is due and payable no later than February 2020. In addition, during the nine months ended September 30, 2016, four senior employees repaid advances aggregating \$2.2 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 statement of operations for the nine months ended September 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:

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

	September 30, 2016	December 31, 2015
Fortress Operating Group units held by the Principals and a former senior employee (see Note 8)	\$241,354	\$307,539
Employee interests in majority owned and controlled fund advisor and general partner entities	24,607	61,833
Other	1,279	1,747
Total	\$267,240	\$371,119

Table of Contents

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

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

	September 30, 2016	December 31, 2015
Fortress Operating Group equity	\$576,534	\$764,429
Less: Others' interests in equity of consolidated subsidiaries	(25,886)	(63,580)
Total Fortress shareholders' equity in Fortress Operating Group	\$550,648	\$700,849
Fortress Operating Group units outstanding (A)	169,207,335	169,514,478
Class A shares outstanding	216,839,627	216,790,409
Total	386,046,962	386,304,887
Fortress Operating Group units as a percent of total (B)	43.8 %	43.9 %
Equity of Fortress Operating Group units held by the Principals and a former senior employee (see Note 8)	\$241,354	\$307,539

(A) Held by the Principals and a former senior employee (see Note 8); exclusive of Class A shares.

(B) As a result, the Registrant owned 56.2% and 56.1% of Fortress Operating Group as of September 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 September 30, 2016		Nine Months Ended September 30, 2015	
Fortress Operating Group units held by the Principals and a former senior employee	\$27,099	\$(11,642)	\$6,728	\$41,318
Employee interests in majority owned and controlled fund advisor and general partner entities	100	(69)	907	970
Other	(18)	(16)	(26)	(139)
Total	\$27,181	\$(11,727)	\$7,609	\$42,149

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Fortress Operating Group net income (loss)	\$61,825	\$(22,824)	\$16,112	\$79,870
Adjust:				
Others' interests in net (income) loss of consolidated subsidiaries	(82)	85	(881)	(831)
Redeemable Non-controlling interests in (income) loss of consolidated subsidiaries	—	—	—	6

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

Total Fortress shareholders' net income (loss) in Fortress Operating Group	\$61,743	\$(22,739)	\$15,231	\$79,045
Fortress Operating Group as a percent of total (A)	43.9	% 51.2	% 44.2	% 52.3
Fortress Operating Group net income (loss) attributable to the Principals and a former senior employee	\$27,099	\$(11,642)	\$6,728	\$41,318

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

Table of Contents

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

The following discloses the effects of changes in Fortress's ownership interest in Fortress Operating Group on Fortress's equity:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 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	\$—	\$53	\$3,559	\$8,417
Decrease in Fortress's shareholders' equity for the repurchase and cancellation of Class A shares and FOGUs	—	—	(3,708)	—
Dilution impact of equity transactions	—	53	(149)	8,417
Increase in Fortress's shareholders' equity for the conversion of Fortress Operating Group units by a former senior employee (see Note 8)	434	—	434	—
Total transfers (to) from the Principals' and Others' Interests	434	53	285	8,417
Net income (loss) attributable to Class A shareholders	31,162	(14,245)	8,191	23,784
Change from transfers (to) from the Principals' and Others' Interests and from net income (loss) attributable to Fortress	\$31,596	\$(14,192)	\$8,476	\$32,201

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 September 30, 2016		Nine Months Ended September 30, 2015	
Equity-based compensation, per below	\$6,689	\$7,174	\$21,618	\$32,562
Profit-sharing expense, per below	56,670	39,557	148,757	145,816
Discretionary bonuses	59,212	54,475	179,144	175,292
Other payroll, taxes and benefits	61,588	67,821	190,124	193,353
	\$184,159	\$169,027	\$539,643	\$547,023

Equity-Based Compensation

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

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

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

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	(259,252)	\$5.92	(141,423)	4.56
Outstanding at September 30, 2016 (B)	17,444,003	\$6.37	48,971	\$7.61

30

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2016

(dollars in tables in thousands, except share and per share data)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Expense incurred (B)				
Employee RSUs	\$6,139	\$5,831	\$19,177	\$24,653
Non-employee RSUs	(227)	24	(160)	1,088
Principal Performance Payments (C)	741	1,294	2,494	6,796
Restricted shares (D)	36	25	107	25
Total equity-based compensation expense	\$6,689	\$7,174	\$21,618	\$32,562

(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 September 30, 2016 of \$64.5 million, with a weighted average recognition period of 3.6 years.

(C) Represents expense associated with RSUs awarded for Principal Performance Payments in relation to 2013, 2014 and 2015. These RSUs vest ratably over a period of three years. Based on 2016 performance to date, no equity awards would be granted for 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 September 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 nine months ended September 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:

	Nine Months Ended September 30, 2016		
	Equity-Based Compensation Expense	Profit Sharing	Total
Private equity businesses	\$763	\$5,869	\$6,632
Credit businesses	1,731	18,087	19,818
Total	\$2,494	\$23,956	\$26,450

Subsequent to September 30, 2016, each of the Principals executed new employment agreements with Fortress. These agreements create new five-year employment terms running from January 1, 2017 through December 31, 2021, and are on the same economic and other terms as the current employment agreements. The term of the Principals' current employment agreements expires on December 31, 2016. The Fortress Board of Directors also approved certain amendments to the Principal Compensation Plan that (i) removes the vesting requirement for future issuances of equity under the plan, which means that any future equity based payments to Principals will be made in the form of Class A shares rather than RSUs and (ii) provides that all awards relating to 2017 and after will be based on 20% of fund management distributable earnings regardless of whether a Principal sponsors a fund or is the named Chief Investment Officer of the fund.

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 September 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.

Table of Contents

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

Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Private equity funds	\$—	\$—	\$—	\$—
Permanent capital vehicles (A)	2,550	(4,080)	10,040	4,881
Credit hedge funds	15,964	1,251	30,133	31,384
Credit PE funds	28,047	34,424	83,943	79,989
Liquid hedge funds	131	325	685	1,673
Principal Performance Payments (B)	9,978	7,637	23,956	27,889
Total	\$56,670	\$39,557	\$148,757	\$145,816

Includes rights in options held in the publicly traded permanent capital vehicles (tandem options) that are granted (A) 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 through September 2016) and are convertible into Class A shares. Based on the rules for calculating earnings per share, there are two general ways to measure dilution for a given instrument: (a) calculate the net number of shares that would be issued assuming any related proceeds are used to buy back outstanding shares (the treasury stock method), or (b) assume the gross number of shares are issued and calculate any related effects on net income available for shareholders (the if-converted and two-class methods). Fortress has applied these methods as prescribed by GAAP to each of its outstanding equity instruments as shown below.

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

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

Table of Contents

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

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	215,722,403	215,722,403	216,581,904	216,581,904
Fully vested restricted Class A share units with dividend equivalent rights	303,762	303,762	755,599	755,599
Restricted Class A shares	886,867	886,867	822,628	822,628
Fortress Operating Group units exchangeable into Class A shares (1)	—	169,437,692	—	169,488,696
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	3,943,120	—	2,591,904
Total weighted average shares outstanding	216,913,032	390,293,844	218,160,130	390,240,731
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	\$31,162	\$ 31,162	\$8,191	\$ 8,191
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(808)	(808)	(1,679)	(1,679)
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)	—	(2,430)	—	2,256
Net income (loss) available to Class A shareholders	\$30,354	\$ 27,924	\$6,512	\$ 8,768
Weighted average shares outstanding	216,913,032	390,293,844	218,160,130	390,240,731
Basic and diluted net income (loss) per Class A share	\$0.14	\$ 0.07	\$0.03	\$ 0.02

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	214,984,712	214,984,712	211,487,868	211,487,868
Fully vested restricted Class A share units with dividend equivalent rights	737,423	737,423	3,871,624	3,871,624
Restricted Class A shares	716,942	716,942	778,913	778,913
Fortress Operating Group units exchangeable into Class A shares (1)	—	—	—	—
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	—	—	6,075,338
Total weighted average shares outstanding	216,439,077	216,439,077	216,138,405	222,213,743
Basic and diluted net income (loss) per Class A share				
Net income attributable to Class A shareholders	\$(14,245)	\$(14,245)	\$23,784	\$ 23,784
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(417)	(417)	(2,994)	(2,994)
Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates,	—	—	—	—

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

attributable to Fortress Operating Group units (1)				
Net income (loss) available to Class A shareholders	\$(14,662)	\$(14,662)	\$20,790	\$ 20,790
Weighted average shares outstanding	216,439,072	216,439,077	216,138,405	22,213,743
Basic and diluted net income per Class A share	\$(0.07)	\$(0.07)	\$0.10	\$ 0.09

The Fortress Operating Group units not held by Fortress (that is, those held by the Principals and a former senior employee) are exchangeable into Class A shares on a one-to-one basis. These units are not included in the computation of basic earnings per share. These units enter into the computation of diluted net income (loss) per (1) Class A share when the effect is dilutive using the if-converted method, which includes the income tax effects of nondiscretionary adjustments to the net income (loss) attributable to Class A shareholders from assumed conversion of these units. To the extent charges, particularly tax related charges, are incurred by the Registrant (i.e. not at the Fortress Operating Group level), the effect may be anti-dilutive.

Restricted Class A shares granted to directors and certain restricted Class A share units granted to employees are (2) eligible to receive dividend or dividend equivalent payments when dividends are declared and paid on Fortress's Class A shares and therefore participate

Table of Contents

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

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

Certain restricted Class A share units granted to employees are not entitled to dividend or dividend equivalent payments until they are vested and are therefore non-participating securities. These units are not included in the computation of basic earnings per share. They are included in the computation of diluted earnings per share when (3) the effect is dilutive using the treasury stock method. The effect of the units on the calculation is generally anti-dilutive during periods of net losses. The weighted average restricted Class A share units which are not entitled to receive dividend or dividend equivalent payments outstanding were:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Share Units	9,197,150	12,477,524	9,099,458	12,535,142

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

In September 2016, a former senior employee exchanged all of his remaining 307,143 Fortress Operating Group units and Class B shares for an equal number of Class A shares.

In March 2016, Fortress completed a modified "Dutch auction" self-tender offer and purchased 4,798,863 of its Class A shares at a purchase price of \$4.75 per share, or an aggregate purchase price of \$22.8 million. Additionally, Fortress incurred \$0.7 million in expenses in connection with the transaction. All of these Class A shares were canceled and cease to be outstanding.

During the nine months ended September 30, 2016, in connection with the delivery of vested RSUs, Fortress paid \$6.6 million of statutory withholding tax on behalf of employees and, therefore, issued only 2.2 million Class A shares in satisfaction of 3.8 million RSUs originally granted. This payment is treated as a financing activity on the condensed consolidated statement of cash flows since it had the same effect as if Class A shares were repurchased.

In November 2015, Fortress purchased from a former principal 56.8 million Fortress Operating Group units and corresponding Class B shares at \$4.50 per share, or an aggregate purchase price of \$255.7 million. All of the Fortress Operating Group units and corresponding Class B shares were canceled and ceased to be outstanding.

In February 2014, Fortress entered into a purchase agreement with Nomura Investment Managers U.S.A. ("Nomura") to acquire 60,568,275 Class A shares for \$363.4 million. During the nine months ended September 30, 2016 and 2015, Fortress paid \$10.6 million and \$9.7 million, respectively, to Nomura related to the purchase agreement.

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

Weighted Average Weighted Average

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Class A shares	215,722,403	214,984,712	216,581,904	211,487,868
Restricted Class A shares (directors)	886,867	716,942	822,628	778,913
Restricted Class A share units (employees) (A)	303,762	737,423	755,599	3,871,624
Restricted Class A share units (employees) (B)	8,063,715	10,825,209	7,982,073	10,119,674
Fortress Operating Group units (Principals and a former senior employee)	169,437,692	226,331,513	169,488,696	226,331,513
Total	394,414,439	453,595,799	395,630,900	452,589,592

Table of Contents

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

	As of September 30, 2016	As of December 31, 2015
Class A shares	215,952,760	216,061,061
Restricted Class A shares (directors)	886,867	729,348
Restricted Class A share units (employees) (A)	359,605	1,360,960
Restricted Class A share units (employees) (B)	8,063,715	9,174,707
Fortress Operating Group units (Principals and a former senior employee)	169,207,335	169,514,478
Total	394,470,282	396,840,554

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

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

Dividends and distributions during the nine months ended September 30, 2016 are summarized as follows:

	Declared in Current Year			
	Declared in Prior Year, Paid in Current Year	Declared and Paid	Declared but not yet Paid	Total
Dividends on Class A shares	\$ —	\$ 80,082	\$ —	\$ 80,082
Dividend equivalents on restricted Class A share units (A)	66	2,986	103	3,089
Distributions to Fortress Operating Group unit holders (Principals and a former senior employee) (B)	7,739	61,818	3,980	65,798
Total distributions	\$ 7,805	\$ 144,886	\$ 4,083	\$ 148,969

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

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

On November 2, 2016, Fortress declared a base quarterly dividend of \$0.09 per Class A share for the third quarter of 2016. The dividend is payable on November 18, 2016 to holders of record of Class A shares on November 14, 2016.

On July 27, 2016, Fortress declared a base quarterly cash dividend of \$0.09 per Class A share for the second quarter of 2016. The dividend was paid on August 16, 2016 to holders of record of Class A shares on August 10, 2016. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was \$20.2 million.

On May 4, 2016, Fortress declared a cash dividend of \$0.20 per Class A share, comprised of a base quarterly cash dividend of \$0.09 per Class A share for the first quarter of 2016 and a special cash dividend of \$0.11 per Class A

share. The dividend was paid on May 20, 2016 to holders of record of Class A shares on May 17, 2016. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was \$44.9 million.

On February 24, 2016, Fortress declared a base quarterly cash dividend of \$0.08 per Class A share for the fourth quarter of 2015. The dividend was paid on March 21, 2016 to holders of record of Class A shares on March 16, 2016. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was \$18.0 million.

Table of Contents

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

9. COMMITMENTS AND CONTINGENCIES

Other than as described below, Fortress's commitments and contingencies remain materially unchanged from December 31, 2015.

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

In March 2011, a private equity fund fell into a negative equity position, after considering all of Fortress's interests in such fund and its reserves related thereto. As described above, the amount of the negative equity was recorded, through earnings (losses) from equity method investees, by the general partner entity and is therefore included in the condensed consolidated financial statements of Fortress. When the fund matures and is liquidated, Fortress will record a gain in the event and to the extent it does not fund this negative equity. The amount of negative equity recorded at September 30, 2016 was \$47.9 million.

Litigation — Fortress is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions that existed as of September 30, 2016, individually and in the aggregate, will not materially affect Fortress's results of operations, liquidity or financial position.

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

Private Equity Fund and Credit PE Fund Capital Commitments — Fortress has remaining capital commitments, which aggregated \$147.5 million as of September 30, 2016, primarily to certain of the Fortress Funds. These commitments can be drawn by the funds on demand.

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

Minimum future rental payments (excluding expense escalations) under these leases as of September 30, 2016 are as follows:

October 1, 2016 to December 31, 2016	\$6,299
2017	18,241
2018	25,827
2019	25,083

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

2020	24,773
2021	23,689
Thereafter	245,524
Total	\$369,436

Rent expense, including operating expense escalations, during the nine months ended September 30, 2016 and 2015 was \$20.5 million and \$22.3 million, respectively, and was included in general, administrative and other expense on the condensed consolidated statements of operations.

36

Table of Contents

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

10. SEGMENT REPORTING

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

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

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

Management assesses the net performance of each segment based on its "distributable earnings" ("DE") and utilizes "fund management distributable earnings" or "fund management DE" as a supplemental measure of segment performance. Neither distributable earnings nor fund management DE is a measure of cash generated by operations which is available for distribution. Rather, they are supplemental measures of operating performance used by management in analyzing its segments and overall results. Neither distributable earnings nor fund management DE should be considered as an alternative to cash flow, in accordance with GAAP, as a measure of Fortress's liquidity, and they are not necessarily indicative of cash available to fund cash needs (including dividends and distributions).

DE is defined by Fortress's chief operating decision maker ("CODM"), which is its management committee. The CODM receives performance reports on Fortress's segments on a DE basis pursuant to their requirements for managing Fortress's business.

"Distributable earnings" attributable to the Fortress businesses is equal to net income (loss) attributable to Fortress's Class A shareholders adjusted as follows:

Incentive Income

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

Other Income

- (ii)

with respect to income from certain investments in the Fortress Funds and certain other interests or assets that cannot be readily transferred or redeemed:

- for equity method investments in the private equity funds, private permanent capital vehicle through IPO in May 2015 and credit PE funds as well as indirect equity method investments in hedge fund special investment accounts
- a. (which generally have investment profiles similar to private equity funds), treating these investments as cost basis investments by adding (a) realizations of income, including dividends, from these funds, less (b) impairment with respect to these funds, if necessary, less (c) equity method earnings (or losses) recorded in accordance with GAAP,
 - b. subtracting gains (or adding losses) on options held in the publicly traded permanent capital vehicles,
 - c. subtracting unrealized gains (or adding unrealized losses) on derivatives, direct investments in publicly traded portfolio companies and in the publicly traded permanent capital vehicles,

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

(dollars in tables in thousands, except share and per share data)

- (iii) subtracting management fee income recorded in accordance with GAAP in connection with the receipt of options from the publicly traded permanent capital vehicles, if any,
- (iv) for 2015, subtracting the gain on transfer of Graticule, Expenses
- (v) adding or subtracting the employee profit sharing portion of (i) unrealized gains (losses) related to foreign exchange derivative contracts used to economically hedge future estimated incentive