

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

Fortress Investment Group LLC
Form 10-Q
October 30, 2014
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, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 001-33294

Fortress Investment Group LLC

(Exact name of registrant as specified in its charter)

Delaware

20-5837959

(State or other jurisdiction of incorporation or organization)

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

1345 Avenue of the Americas, New York, NY

10105

(Address of principal executive offices)

(Zip Code)

(212) 798-6100

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Class A Shares: 208,535,157 outstanding as of October 24, 2014.

Class B Shares: 226,331,513 outstanding as of October 24, 2014.

FORTRESS INVESTMENT GROUP LLC
FORM 10-Q
INDEX

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets</u> as of September 30, 2014 (unaudited) and December 31, 2013	1
<u>Consolidated Statements of Operations</u> (unaudited) for the three and nine months ended September 30, 2014 and 2013	3
<u>Consolidated Statements of Comprehensive Income</u> (unaudited) for the three and nine months ended September 30, 2014 and 2013	5
<u>Consolidated Statement of Changes in Equity</u> (unaudited) for the nine months ended September 30, 2014	6
<u>Consolidated Statements of Cash Flows</u> (unaudited) for the nine months ended September 30, 2014 and 2013	7
<u>Notes to Consolidated Financial Statements</u> (unaudited)	10
<u>Note 1 Organization and Basis of Presentation</u>	10
<u>Note 2 Summary of Significant Accounting Policies</u>	16
<u>Note 3 Management Agreements and Fortress Funds</u>	24
<u>Note 4 Investments and Fair Value</u>	34
<u>Note 5 Debt Obligations</u>	44
<u>Note 6 Income Taxes and Tax Related Payments</u>	48
<u>Note 7 Related Party Transactions and Interests in Consolidated Subsidiaries</u>	51
<u>Note 8 Equity-Based and Other Compensation</u>	54
<u>Note 9 Earnings Per Share and Distributions</u>	56
<u>Note 10 Commitments and Contingencies</u>	60
<u>Note 11 Segment Reporting</u>	62
<u>Note 12 Subsequent Events</u>	69
<u>Note 13 Consolidating Financial Information</u>	70
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	77
<u>Overview and Understanding the Asset Management Business</u>	77
<u>Market Considerations</u>	84
<u>Assets Under Management</u>	87
<u>Performance of Our Funds</u>	89
<u>Results of Operations</u>	93
<u>Liquidity and Capital Resources</u>	114
<u>Critical Accounting Policies</u>	122
<u>Contractual Obligations</u>	130
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	131
<u>Item 4. Controls and Procedures</u>	135

PART II. OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>136</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>136</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>168</u>
<u>Item 3.</u>	<u>Defaults upon Senior Securities</u>	<u>168</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>168</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>168</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>169</u>
<u>SIGNATURES</u>		<u>172</u>

Table of Contents

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

“Management Fee Paying Assets Under Management,” or “AUM,” refers to the management fee paying assets we manage, including, as applicable, capital we have the right to call from our investors pursuant to their capital commitments to various funds. 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 and credit PE funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with private equity funds raised after March 2006 includes the mark-to-market value of public securities held within the funds,
- (ii) the contributed capital of our publicly traded permanent capital vehicles,
- (iii) the NAV of our hedge funds, including the Value Recovery Funds and certain advisory engagements which pay fees based on realizations (and on certain managed assets and, in some cases, a fixed fee); and
- (iv) the NAV or fair value of our managed accounts, to the extent management fees are charged.

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

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

“Fortress,” “we,” “us,” “our,” the “company” and the “public company” refer, collectively, to Fortress Investment Group LLC its subsidiaries, including the Fortress Operating Group (as defined below) and all of its subsidiaries.

“Fortress Funds” and “our funds” refers to the private investment funds, permanent capital vehicles and related managed accounts that we manage. The Fortress Macro Fund is our flagship liquid hedge fund and the Drawbridge Special Opportunities Fund is our flagship credit hedge fund.

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

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

The number of outstanding Class A common units equals the number of outstanding Class A shares of the public company. The number of outstanding Class B common units equals the number of outstanding Class B shares of the public company.

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

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

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

SPECIAL NOTE REGARDING EXHIBITS

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

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

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

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

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

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

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Investment Manager		
Cash and cash equivalents	\$332,158	\$364,583
Due from affiliates	165,074	407,124
Investments	1,099,955	1,253,266
Investments in options	70,251	104,338
Deferred tax asset, net	385,301	354,526
Other assets	174,623	190,595
Investment Company - consolidated VIEs		
Cash and cash equivalents	16,604	—
Receivables from brokers and counterparties	40,825	—
Investments, at fair value	133,857	—
Other assets	920	—
	2,419,568	2,674,432
Non-Investment Manager - consolidated VIE		
Cash and cash equivalents	135,063	—
Fixed assets, net	290,481	—
Goodwill	125,407	—
Intangible assets, net	155,133	—
Other assets, net	116,893	—
	822,977	—
Total Assets	\$3,242,545	\$2,674,432
Liabilities and Equity		
Investment Manager		
Accrued compensation and benefits	\$269,060	\$417,309
Due to affiliates	356,189	344,832
Deferred incentive income	283,684	247,556
Debt obligations payable	75,000	—
Other liabilities	116,113	49,830
Investment Company - consolidated VIEs		
Due to brokers and counterparties	12,577	—
Securities sold not yet purchased, at fair value	37,258	—
Other liabilities	1,477	—
	1,151,358	1,059,527
Non-Investment Manager - consolidated VIE		

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

Deferred revenue	36,125	—
Debt obligations payable	232,275	—
Accrued expenses and other liabilities	72,179	—
	340,579	—
Total Liabilities	1,491,937	1,059,527

Continued on next page.

1

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	September 30, 2014 (Unaudited)	December 31, 2013
Commitments and Contingencies		
Redeemable Non-controlling Interests, Investment Company - consolidated VIE	34,887	—
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 208,004,183 and 240,741,920 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	—	—
Class B shares, no par value, 750,000,000 shares authorized, 226,331,513 and 249,534,372 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	—	—
Paid-in capital	2,004,828	2,112,720
Retained earnings (accumulated deficit)	(1,412,494	) (1,286,131
Accumulated other comprehensive income (loss)	(1,870	) (1,522
Total Fortress shareholders' equity	590,464	825,067
Principals' and others' interests in equity of consolidated subsidiaries	587,315	789,838
Non-controlling interests in equity of Investment Company - consolidated VIEs	58,426	—
Non-controlling interests in equity of Non-Investment Manager - consolidated VIE	479,516	—
Total Equity	1,715,721	1,614,905
Total Liabilities, Redeemable Non-controlling Interests and Equity	\$3,242,545	\$2,674,432

See notes to consolidated financial statements.

2

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(dollars in thousands, except per share data)

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2014	2013	2014	2013
Revenues				
Investment Manager				
Management fees: affiliates	\$133,674	\$121,593	\$397,200	\$388,957
Management fees: non-affiliates	16,774	15,361	52,112	45,531
Incentive income: affiliates	30,941	40,934	125,634	103,176
Incentive income: non-affiliates	343	1,907	1,030	4,770
Expense reimbursements: affiliates	50,600	49,301	153,448	149,308
Expense reimbursements: non-affiliates	4,869	1,904	9,931	4,752
Other revenues (affiliate portion disclosed in Note 7)	1,302	1,019	4,325	2,954
Investment Company - consolidated VIEs				
Interest and dividend income	196	—	244	—
	238,699	232,019	743,924	699,448
Non-Investment Manager - consolidated VIE				
Advertising	96,761	—	236,434	—
Circulation	49,803	—	118,049	—
Commercial printing and other	18,497	—	42,832	—
	165,061	—	397,315	—
Total Revenues	403,760	232,019	1,141,239	699,448
Expenses				
Investment Manager				
Compensation and benefits	187,249	146,457	543,882	539,591
General, administrative and other	40,855	33,315	120,646	99,970
Depreciation and amortization	4,997	3,501	14,335	10,094
Interest expense	916	778	2,554	4,856
Investment Company - consolidated VIEs				
Other	466	—	685	—
	234,483	184,051	682,102	654,511
Non-Investment Manager - consolidated VIE				
Operating costs	93,716	—	225,249	—
General, administrative and other	54,375	—	130,900	—
Depreciation and amortization	10,854	—	26,201	—
Interest expense	4,519	—	10,813	—
Loss on extinguishment of debt	—	—	9,047	—
	163,464	—	402,210	—
Total Expenses	397,947	184,051	1,084,312	654,511

Continued on next page.

3

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(dollars in thousands, except per share data)

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2014	2013	2014	2013
Other Income (Loss)				
Investment Manager				
Gains (losses) (affiliate portion disclosed in Note 4)	(19,359	) 7,503	(26,235	) 45,578
Tax receivable agreement liability adjustment	(4,036	) —	(4,036	) (7,739
Earnings (losses) from equity method investees	38,928	60,508	81,750	125,515
Investment Company - consolidated VIEs				
Gains (losses)	(4,991	) —	(4,427) —
Total Other Income (Loss)	10,542	68,011	47,052	163,354
Income (Loss) Before Income Taxes	16,355	115,979	103,979	208,291
Income tax benefit (expense) - Investment Manager	(3,024	) (14,794	) (16,934	) (42,236
Income tax benefit (expense) - Non-Investment Manager - consolidated VIE	(3,116	) —	(1,704) —
Total Income Tax Benefit (Expense)	(6,140	) (14,794	) (18,638	) (42,236
Net Income (Loss)	\$10,215	\$101,185	\$85,341	\$166,055
Allocation of Net Income (Loss):				
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	10,842	58,804	58,946	111,421
Redeemable Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIE	(2,042	) —	(1,885) —
Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIEs	(9	) —	(9) —
Non-controlling Interests in Income (Loss) of Non-Investment Manager - consolidated VIE	(3,014	) —	(10,305) —
Net Income (Loss) Attributable to Class A Shareholders	4,438	42,381	38,594	54,634
Dividends declared per Class A share	\$0.26	\$0.06	\$0.42	\$0.18
Earnings (Loss) Per Class A share				
Net income (loss) per Class A share, basic	\$0.02	\$0.17	\$0.18	\$0.23
Net income (loss) per Class A share, diluted	\$0.02	\$0.12	\$0.17	\$0.21
Weighted average number of Class A shares outstanding, basic	208,014,692	239,404,587	210,874,640	234,750,585
Weighted average number of Class A shares outstanding, diluted	220,792,711	502,091,166	457,019,507	499,562,470

See notes to consolidated financial statements.

4

Table of Contents

FORTRESS INVESTMENT GROUP LLC

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Comprehensive income (loss) (net of tax)				
Net income (loss)	\$ 10,215	\$ 101,185	\$ 85,341	\$ 166,055
Investment Manager				
Foreign currency translation	351	(46)	(1,251)	(1,862)
Comprehensive income (loss) from equity method investees	—	(1)	—	4,135
Total comprehensive income (loss)	\$ 10,566	\$ 101,138	\$ 84,090	\$ 168,328
Allocation of Comprehensive Income (Loss):				
Comprehensive income (loss) attributable to principals' and others' interests	10,997	58,772	58,081	112,842
Comprehensive income (loss) attributable to redeemable non-controlling interests of Investment Company - consolidated VIE	(2,042)	—	(1,885)	—
Comprehensive income (loss) attributable to non-controlling interests in Investment Company - consolidated VIEs	(9)	—	(9)	—
Comprehensive income (loss) attributable to non-controlling interests of Non- Investment Manager - consolidated VIE	(3,014)	—	(10,305)	—
Comprehensive income (loss) attributable to Class A shareholders	4,634	42,366	38,208	55,486
	\$ 10,566	\$ 101,138	\$ 84,090	\$ 168,328

See notes to consolidated financial statements.

5

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014

(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	Non-controlling Interests in Equity of Investment Company and Non-Investment Manager	Total Equity
Equity -									
December 31, 2013	240,741,920	249,534,372	\$2,112,720	\$(1,286,131)	\$(1,522)	\$825,067	\$789,838	\$—	\$1,614,000
Contributions from principals' and others' interests in equity	—	—	—	—	—	—	60,026	—	60,026
Contributions for non-controlling interests in equity of Investment Company	—	—	—	—	—	—	—	58,435	58,435
Distributions to principals' and others' interests in equity (net of tax)	—	—	—	—	—	—	(153,212)	—	(153,212)
Consolidation of New Media	—	—	—	—	—	—	—	383,040	383,040
Issuance of New Media common stock (net of offering costs)	—	—	—	—	—	—	—	114,850	114,850
Dividends declared	—	—	(85,181)	—	—	(85,181)	—	(8,069)	(93,250)
Dividend equivalents accrued in connection with	—	—	(1,013)	—	—	(1,013)	(1,794)	—	(2,807)

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

equity-based compensation (net of tax)									
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	3,033	—	—	3,033	91	—	3,124
Director restricted share grant	89,390	—	312	—	—	312	348	—	660
Capital increase related to equity-based compensation, net	4,538,289	—	17,592	—	—	17,592	19,793	—	37,385
Dilution impact of equity transactions (Note 7)	—	—	(42,635)	—	38	(42,597)	42,597	—	—
Public offering of Class A shares	23,202,859	—	186,551	—	—	186,551	—	—	186,551
Repurchase of Class A shares (Note 9)	(60,568,275)	—	—	(164,957)	—	(164,957)	(228,453)	—	(393,410)
Repurchase of Class B shares (Note 9)	—	(23,202,859)	(186,551)	—	—	(186,551)	—	—	(186,551)
Comprehensive income (loss) (net of tax)									
Net income (loss) (excludes \$(1.9) million loss allocated to redeemable non-controlling interests)	—	—	—	38,594	—	38,594	58,946	(10,314)	87,226
Foreign currency translation	—	—	—	—	(386)	(386)	(865)	—	(1,251)
Comprehensive income (loss) from equity method investees	—	—	—	—	—	—	—	—	—
Total comprehensive						38,208	58,081	(10,314)	85,975

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

income (loss)

Equity -

September 30,	208,004,183	226,331,513	\$2,004,828	\$(1,412,494)	\$(1,870)	\$590,464	\$587,315	\$537,942	\$1,715,
2014									

See notes to consolidated financial statements.

6

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands)

	Nine Months Ended September	
	30,	
	2014	2013
Cash Flows From Operating Activities		
Net income (loss)	\$85,341	\$166,055
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Investment Manager		
Depreciation and amortization	14,335	10,094
Other amortization and accretion (included in interest expense)	585	704
(Earnings) losses from equity method investees	(81,750	) (125,515
Distributions of earnings from equity method investees	78,337	53,576
(Gains) losses	26,235	(45,578
Deferred incentive income	(66,778	) (50,262
Deferred tax (benefit) expense	8,426	53,048
Options received from affiliates	(3,346	) (36,470
Tax receivable agreement liability adjustment	4,036	7,739
Equity-based compensation	29,584	28,648
Options in affiliates granted to employees	759	7,757
Other	(653	) 633
Investment Company - consolidated VIEs		
(Gains) losses	4,427	—
Non-Investment Manager - consolidated VIE		
Depreciation and amortization	26,201	—
Loss on extinguishment of debt	5,949	—
Amortization of deferred financing costs (included in interest expense)	708	—
Deferred tax (benefit) expense	1,704	—
Other	462	—
Cash flows due to changes in		
Investment Manager		
Due from affiliates	(11,197	) (88,276
Other assets	32,307	1,950
Accrued compensation and benefits	(81,405	) 204,718
Due to affiliates	(21,685	) 5,737
Deferred incentive income	99,553	105,753
Other liabilities	36,437	32,197
Investment Company - consolidated VIEs		
Purchases of investments and payments to cover securities sold not yet purchased	(458,794) —
Proceeds from sale of investments and securities sold not yet purchased	386,242	—
Receivables from brokers and counterparties	(40,825) —
Other assets	(9,362) —
Due to brokers and counterparties	12,577	—
Other liabilities	2,467	—
Non-Investment Manager - consolidated VIE		
Other assets	239	—

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

Deferred revenue	(439) —
Accrued expenses and other liabilities	(1,016) —
Net cash provided by (used in) operating activities	79,661	332,508

Continued on next page.

7

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands)

	Nine Months Ended September	
	30,	2013
	2014	2013
Cash Flows From Investing Activities		
Investment Manager		
Contributions to equity method investees	(21,487	) (25,885)
Distributions of capital from equity method investees	368,373	257,829
Purchase of securities	(14,936	) (19,460)
Proceeds from sale of equity securities	83,039	9,951
Purchase of fixed assets	(7,631	) (7,777)
Purchase of software and technology-related assets	(25,976) —
Non-Investment Manager - consolidated VIE		
Existing cash on consolidation date	23,845	—
Purchase of fixed assets	(2,550) —
Acquisitions, net of cash acquired	(71,822) —
Other	714	—
Net cash provided by (used in) investing activities	331,569	214,658
Cash Flows From Financing Activities		
Investment Manager		
Repayments of debt obligations	(50,000	) (149,453)
Borrowings under debt obligations	125,000	—
Payment of deferred financing costs	—	(2,367)
Proceeds from public offering (Note 9)	186,551	—
Repurchase of Class B shares (Note 9)	(186,551) —
Repurchase of Class A shares (Note 9)	(363,410) —
Dividends and dividend equivalents paid	(88,617	) (43,168)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	600	391
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(152,686	) (145,697)
Excess tax benefits from delivery of RSUs	3,030	—
Investment Company - consolidated VIEs		
Redeemable non-controlling interests - contributions	16,253	—
Non-redeemable non-controlling interests in Investment Company - contributions	58,435	—
Non-Investment Manager - consolidated VIE		
Repayments of debt obligations	(185,989) —
Borrowings under debt obligations	239,840	—
Payment of debt issuance costs	(2,505) —
Proceeds from public offering (net of offering costs)	116,130	—
Dividends and dividend equivalents paid	(8,069) —
Net cash provided by (used in) financing activities	(291,988	) (340,294)
Net Increase (Decrease) in Cash and Cash Equivalents	119,242	206,872

Continued on next page.

8

Table of Contents

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands)

	Nine Months Ended September	
	30,	
	2014	2013
Cash and Cash Equivalents, Beginning of Period	364,583	104,242
Cash and Cash Equivalents, End of Period	\$483,825	\$311,114
Cash and Cash Equivalents - Investment Manager, End of Period	\$332,158	\$311,114
Cash and Cash Equivalents - Investment Company - consolidated VIEs, End of Period	\$16,604	\$—
Cash and Cash Equivalents - Non-Investment Manager - consolidated VIE, End of Period	\$135,063	\$—
Supplemental Disclosure of Cash Flow Information		
Investment Manager		
Cash paid during the period for interest	\$1,292	\$3,586
Cash paid during the period for income taxes	\$4,207	\$2,990
Investment Company - consolidated VIEs		
Cash paid during the period for interest	\$208	\$—
Non-Investment Manager - consolidated VIE:		
Cash paid during the period for interest	\$8,763	\$—
Supplemental Schedule of Non-cash Investing and Financing Activities		
Investment Manager		
Employee compensation invested directly in subsidiaries	\$59,285	\$52,105
Investments of incentive receivable amounts into Fortress Funds	\$256,993	\$206,455
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	\$—	\$3,255
Investment Company - consolidated VIEs		
Non-cash redeemable non-controlling interests - contributions	\$20,519	\$—

See notes to consolidated financial statements.

9

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

Investment Manager

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

Fortress has three primary sources of income from the Fortress Funds: management fees, incentive income, and investment income on its investments in the funds. In the third quarter of 2014, Fortress reorganized its segments (see Note 11). The Fortress Funds fall into the following business segments in which Fortress operates:

1) Private equity:

- a) General buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America and Western Europe; and
- b) Entities which Fortress collectively refers to as "permanent capital vehicles" which includes (i) publicly traded companies that are externally managed by Fortress pursuant to management agreements (the "publicly traded permanent capital vehicles") and (ii) a private fund (the "private permanent capital vehicle"). 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 and media assets and the private permanent capital vehicle invests in transportation and infrastructure assets. Fortress expects the private fund will become a publicly traded company externally managed by Fortress.

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

In January 2014, Fortress announced that it is launching an affiliated manager platform. The first fund to join the new platform will be the Fortress Asia Macro Funds. Pending certain regulatory approvals, over the course of 2014, the Fortress Asia Macro Funds and related managed accounts will be transitioned to Graticule Asset Management Asia, L.P. ("Graticule Asset Management"), a new asset management business in which Fortress will have a non-controlling equity interest. Fortress will retain a perpetual minority interest in Graticule Asset Management amounting up to approximately 42.5% of earnings during 2014 and declining to approximately 27% of earnings over time. Fortress expects to receive additional fees for providing infrastructure services (technology, back office, and other services) to Graticule Asset Management. Upon completing the transition, Fortress will record this interest at its fair value, and expects to record a resulting gain and related compensation expense.

In January 2014, Fortress acquired software and technology-related assets which were accounted for as a business combination. These assets facilitate trading within Fortress's liquid hedge funds segment. The purchase price was

\$26.0 million and has all been allocated to the acquired software and technology related assets which have an expected useful life of five years.

3) Credit funds:

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

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

based global opportunities fund, and a family of real estate opportunities funds, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector.

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

Investment Company - Consolidated VIEs

In 2014, Fortress formed a new liquid hedge fund and new private equity fund. Fortress determined that these funds qualify as variable interest entities and that it was the primary beneficiary and therefore consolidates these funds. For the new liquid hedge fund, the fund's unrelated limited partners or members have the substantive ability to liquidate the fund or otherwise remove Fortress as general partner or managing member without cause based on a simple unaffiliated majority vote. The new liquid hedge fund also allows investors to redeem their interests on a periodic basis at their net asset value. Fortress expects to deconsolidate the liquid hedge fund when sufficient third party capital is raised.

During the second quarter of 2014, certain credit hedge funds formed new investment vehicles. Fortress is the sub-advisor to the new entities but does not have a direct interest in the entities. Fortress determined that these investment vehicles qualify as variable interest entities and that it was the primary beneficiary and therefore consolidates the entities. The investment vehicles entered into a warehouse financing agreement with a third party lender which has agreed to lend the investment vehicles up to €300.0 million. As of September 30, 2014, the investment vehicles did not hold any assets or have any debt outstanding. Any debt obligations of the investment vehicles would not be cross collateralized with the debt obligations of the Investment Manager. Fortress has no obligation to satisfy the liabilities of the investment vehicles. Similarly, Fortress does not have the right to make use of the assets of the investment vehicles to satisfy its obligations. Any debt obligations of the investment vehicles would not have an impact on the Investment Manager's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.

Under U.S. generally accepted accounting principles ("GAAP"), the funds and investment vehicles referred to above are investment companies and, as required, Fortress has retained the specialized accounting of these entities. Consequently, Fortress's financial statements include the assets, liabilities, related operations and cash flows of these consolidated entities (collectively, the "Investment Company"). The ownership interests in the Investment Company which are not owned by Fortress and which are redeemable by an investor are reflected as Redeemable Non-controlling Interests in the accompanying consolidated financial statements.

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

	Nine Months Ended September 30, 2014
Beginning balance	\$—
Capital contributions	36,772

Redeemable Non-controlling Interests in income (loss) of Investment Company	(1,885)
	\$34,887	

The assets, liabilities, related operations and cash flows of Fortress's asset management business and the Investment Company (as described above) are disclosed under the Investment Manager caption in the consolidated financial statements and accompanying footnotes; the consolidated Investment Company's related amounts are included under the Investment Company caption. Fortress also consolidates New Media (as described below) whose assets, liabilities, related operations and cash flows are disclosed under the Non-Investment Manager caption in the consolidated financial statements and accompanying footnotes. The management fees and incentive income earned by Fortress from New Media and the Investment Company (if any) are eliminated in consolidation; however, Fortress's allocated share of the net income from New Media and the Investment Company are increased by the amount of these eliminated fees. Accordingly, the consolidation of New Media and the Investment Company have no material effect on Fortress's earnings from New Media and the Investment Company. 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 11.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

Fortress has no obligation to satisfy the liabilities of New Media or the Investment Company. Similarly, Fortress does not have the right to make use of New Media or the Investment Company's assets to satisfy its obligations.

Non-Investment Manager

Consolidation of New Media

On February 14, 2014, Newcastle Investment Corp. ("Newcastle") (NYSE: NCT) completed the distribution of all of the common shares it held of New Media Investment Group Inc. ("New Media" or the "Media Business") (NYSE: NEWM), publishers of locally based print and online media in the United States, to its stockholders. Fortress entered into a management agreement with New Media and under the terms of the management agreement, Fortress manages the operations of New Media and in return receives a management fee of 1.5% per annum of New Media's Total Equity (as defined in the management agreement) and incentive income. In addition to these fees, in order to compensate Fortress for its successful efforts in raising capital for New Media, Fortress receives options to purchase shares of New Media's common stock in connection with each common stock offering. Fortress determined that New Media qualifies as a variable interest entity and, upon completion of Newcastle's distribution of New Media's common shares, that it was the primary beneficiary and therefore consolidates New Media. The operations of New Media consist of the consolidated operations of GateHouse Media, LLC ("GateHouse") and Local Media Group Holdings LLC ("Local Media"). Although New Media's operating results impact net income, they do not have a material impact on the net income (loss) attributable to Fortress's Class A shareholders, Class A basic and diluted earnings per share, or total Fortress's shareholders' equity, as substantially all of the operating results of New Media are attributable to non-controlling interests. As of September 30, 2014, Fortress owned approximately 0.20% of New Media's outstanding common stock.

The fiscal year of New Media ends on the Sunday closest to December 31. Fiscal year 2014 includes 52 weeks. New Media's third fiscal quarter ended on September 28, 2014, as such, all references to September 30, 2014 reflect New Media's interim consolidated financial statements as of September 28, 2014, for the three months ended September 28, 2014 or for the period from February 14, 2014 to September 28, 2014, as applicable.

New Media is one of the largest publishers of locally based print and online media in the United States as measured by the number of daily publications. New Media operates in 372 markets across 27 states. New Media's portfolio of products includes 450 community publications, 372 websites, 365 mobile sites, and six yellow page directories. New Media reaches over 14 million people per week and serves over 130,000 business customers.

For accounting purposes, the consolidation of New Media was treated as a business combination. The New Media assets and liabilities were recorded at their estimated fair values as of the date of consolidation. Any excess estimated New Media fair value was allocated to goodwill.

Significant assumptions used in estimating fair values included the following:

Intangible assets - The estimated fair values of the acquired subscriber relationships, advertiser relationships and customer relationships were determined based on an excess earnings approach, a form of the income approach, which values assets based upon associated estimated discounted cash flows.

Masthead, which is a publication's designed title or nameplate as it appears on its front page, fair values were determined based on a relief from royalty method, an income approach.

Fixed assets - The estimated fair values for fixed assets were determined under three approaches: the cost approach (used for equipment where an active secondary market is not available and building improvements), the direct sales comparison (market) approach (used for land and equipment where an active market is available), and the income approach (used for intangibles). These approaches are based on the cost to reproduce assets, market exchanges for comparable assets and the capitalization of income.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

The following table summarizes the allocation of the estimated New Media fair value to identifiable assets and liabilities as of the date of consolidation:

	As of February 14, 2014	
Cash and cash equivalents	\$23,845	
Fixed assets	266,385	
Goodwill	118,847	
Intangibles assets	144,664	
Other assets	108,072	
Total assets	661,813	
Less:		
Debt obligations payable	(177,955)
Accrued expenses and other liabilities	(99,858)
Net assets	\$384,000	
Non-controlling interests in equity of New Media	\$383,040	

During the period from February 14, 2014 to September 30, 2014, New Media completed four acquisitions of regional media assets (which include publications and newspapers) for a total purchase price of \$72.2 million. The related assets and liabilities were recorded at their estimated fair values as of the date of each acquisition.

If New Media and its related acquisitions had been consolidated as of January 1, 2013, total revenue would have increased by approximately \$14.8 million and \$186.1 million for the three months ended September 30, 2014 and 2013, respectively, and \$140.1 million and \$553.2 million for the nine months ended September 30, 2014 and 2013, respectively. In addition, net income would have increased by \$0.2 million for the three months ended September 30, 2014 and decreased by \$137.8 million for the three months ended September 30, 2013, and decreased by \$24.5 million and \$210.3 million for the nine months ended September 30, 2014 and 2013, respectively.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

FINANCIAL STATEMENT GUIDE

Selected Financial Statement Captions	Note Reference	Explanation
Balance Sheet		
Due from Affiliates	7	Generally, management fees, expense reimbursements and incentive income due from Fortress Funds.
Investments and Investments in Options	4	Primarily the carrying value of Fortress's investments in the Fortress Funds. Also includes investments, at fair value of the Investment Company which Fortress consolidates.
Deferred Tax Asset, net	6	Relates to potential future net tax benefits.
Due to Affiliates	7	Generally, amounts due to the Principals related to their interests in Fortress Operating Group and the tax receivable agreement.
Deferred Incentive Income	3	Incentive income already received from certain Fortress Funds based on past performance, which is subject to contingent repayment based on future performance.
Debt Obligations Payable	5	The balance outstanding on the Investment Manager's and New Media's credit agreements. The debt obligations of New Media and the Investment Company are not cross collateralized with the debt obligations of Fortress. Fortress has no obligation to satisfy the liabilities of New Media or the Investment Company. Similarly, Fortress does not have the right to make use of New Media or the Investment Company's assets to satisfy its obligations. New Media and the Investment Company'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.
Principals' and Others' Interests in Equity of Consolidated Subsidiaries	7	The GAAP basis of the Principals' and one senior employee's ownership interests in Fortress Operating Group as well as employees' ownership interest in certain subsidiaries.

Statement of Operations

Management Fees: Affiliates	3	Fees earned for managing Fortress Funds, generally determined based on the size of such funds.
Management Fees: Non-Affiliates	3	Fees earned from managed accounts and our traditional fixed income asset management business, generally determined based on the amount managed.
Incentive Income: Affiliates	3	Income earned from Fortress Funds, based on the performance of such funds.
Incentive Income: Non- Affiliates	3	Income earned from managed accounts, based on the performance of such accounts.
Compensation and Benefits	8	Includes equity-based, profit-sharing and other compensation to employees.
Gains (Losses)	4	The result of asset dispositions or changes in the fair value of investments or other financial instruments which are marked to market (including the publicly traded permanent capital vehicles and publicly traded portfolio companies).
Tax Receivable Agreement Liability Adjustment	6	Represents a change in the amount due to the Principals under the tax receivable agreement.
Earnings (Losses) from Equity Method Investees	4	Fortress's share of the net earnings (losses) of the Fortress Funds resulting from its investments in these funds.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

FINANCIAL STATEMENT GUIDE

Selected Financial Statement Captions	Note Reference	Explanation
Income Tax Benefit (Expense)	6	The net tax result related to the current period. Certain of Fortress's revenues are not subject to taxes because they do not flow through taxable entities. Furthermore, Fortress has significant permanent differences between its GAAP and tax basis earnings.
		Income tax benefit (expense) for the Investment Manager and Media Business are calculated separately and the taxable income (loss) of the Media Business does not impact the amount of income tax benefit (expense) for the Investment Manager (and vice versa).
Principals' and Others' Interests in (Income) Loss of Consolidated Subsidiaries	7	Primarily the Principals' and employees' share of Fortress's earnings based on their ownership interests in subsidiaries, including Fortress Operating Group.
Earnings Per Share	9	GAAP earnings per Class A share based on Fortress's capital structure, which is comprised of outstanding and unvested equity interests, including interests which participate in Fortress's earnings, at both the Fortress and subsidiary levels.
Other		
Distributions	9	A summary of dividends and distributions, and the related outstanding shares and units, is provided.
Distributable Earnings	11	A presentation of our financial performance by segment (fund type) is provided, on the basis of the operating performance measure used by Fortress's management committee.

In May 2014, the FASB issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. This standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The entity will recognize revenue to reflect the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The new standard is effective for Fortress beginning January 1, 2017 and early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. Fortress is currently evaluating the impact on its consolidated financial statements upon the adoption of this new standard.

In August 2014, the FASB issued an accounting standard update on measuring the financial assets and financial liabilities of a consolidated collateralized financing entity ("CFE"). The standard provides an entity with an election to measure the financial assets and financial liabilities of a consolidated CFE to be measured on the basis of either the fair value of the CFE's financial assets or financial liabilities, whichever is more observable. The effective date of the consensus will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 for public companies and early adoption will be permitted. Fortress is currently evaluating the impact on its consolidated financial statements.

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

The accompanying consolidated financial statements and related notes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under 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, 2013 and notes thereto included in Fortress's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2014. Certain disclosures have been expanded to include information related to the consolidation of New Media (as described above) in accordance with GAAP. Capitalized

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

terms used herein, and not otherwise defined, are defined in Fortress's consolidated financial statements for the year ended December 31, 2013.

All significant intercompany accounts and transactions have been eliminated.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Basis of Accounting and Consolidation - The accompanying consolidated financial statements have been prepared in accordance with GAAP. The accompanying financial statements include the accounts of Fortress and its consolidated subsidiaries, which are comprised of (i) entities in which it has an investment of 50% or more and has control over significant operating, financial and investing decisions of the entity, (ii) variable interest entities ("VIEs") in which it is the primary beneficiary as described below and (iii) non-VIE partnerships in which it is the general partner where the limited partners do not have rights that would overcome the presumption of control by the general partner.

For those entities in which it has a variable interest, Fortress first determines whether the entity is a VIE. This determination is made by considering whether the entity's equity investment at risk is sufficient and whether the entity's at-risk equity holders have the characteristics of a controlling financial interest. A VIE must be consolidated by its primary beneficiary.

The primary beneficiary of a VIE is generally defined as the party who, considering the involvement of related parties and de facto agents, has (i) the power to direct the activities of the VIE that most significantly affect its economic performance, and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. This evaluation is updated continuously.

For investment companies and similar entities, the primary beneficiary of a VIE is the party who, considering the involvement of related parties and de facto agents, absorbs a majority of the VIE's expected losses or receives a majority of the expected residual returns, as a result of holding a variable interest. This evaluation is also updated continuously.

As the general partner or managing member of entities that are limited partnerships or limited liability companies and not VIEs, Fortress is presumed to control the partnership or limited liability company. This presumption is overcome when the unrelated limited partners or members have the substantive ability to liquidate the entity or otherwise remove Fortress as the general partner or managing member without cause based on a simple unaffiliated majority vote, or have other substantive participating rights.

Redeemable Non-controlling Interests represent the ownership interests in the Investment Company which are redeemable by an investor and not owned by Fortress.

Non-controlling interests in equity of Investment Company represents the ownership interests in the Investment Company which are not redeemable and are held by entities or persons other than Fortress.

Principals' and others' interests in consolidated subsidiaries represent the ownership interests in certain consolidated subsidiaries held by entities or persons other than Fortress. This is primarily related to the Principals' interests in Fortress Operating Group (Note 1). Non-Fortress interests also include employee interests in majority owned and controlled fund advisor and general partner entities.

Non-controlling interests in equity of Non-Investment Manager represent the interests in New Media that are not owned by Fortress.

For entities over which Fortress exercises significant influence but which do not meet the requirements for consolidation, Fortress uses the equity method of accounting whereby it records its share of the underlying income of these entities. These entities include the Fortress Funds. Virtually all of the Fortress Funds are, for GAAP purposes, investment companies. As required, Fortress has retained the specialized accounting of these funds. The Fortress Funds record realized and unrealized gains (losses) resulting from

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

changes in the fair value of their investments as a component of current income. Additionally, these funds generally do not consolidate their majority-owned and controlled investments (the "Portfolio Companies").

Distributions by Fortress and its subsidiaries are recognized when declared.

Risks and Uncertainties - In the normal course of business, Fortress encounters primarily two significant types of economic risk: credit and market. Credit risk is the risk of default on Fortress's or the Fortress Funds' investments in debt securities, loans, leases, derivatives and other financial instruments that results from a borrower's, lessee's or counterparty's inability or unwillingness to make required or expected payments. Market risk reflects changes in the value of investments due to changes in interest rates, credit spreads or other market factors. Credit risk is enhanced in situations where Fortress or a Fortress Fund is investing in distressed assets, as well as unsecured or subordinate loans or securities, which is a material part of its business.

Fortress makes investments outside of the United States. Fortress's non-U.S. investments are subject to the same risks associated with its U.S. investments as well as additional risks, such as fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, heightened risk of political and economic instability, difficulties in managing non-U.S. investments, potentially adverse tax consequences and the burden of complying with a wide variety of foreign laws.

Fortress is exposed to economic risk concentrations insofar as it is dependent on the ability of the Fortress Funds to compensate it for the services which Fortress provides to these funds. Further, the incentive income component of this compensation is based on the ability of the Fortress Funds to generate adequate returns on their investments. In addition, substantially all of Fortress's net assets, after deducting the portion attributable to non-controlling interests, are comprised of Fortress's investments in, or receivables from, these funds.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Revenue Recognition

Investment Manager

Management Fees and Expense Reimbursements - Management fees are recognized in the periods during which the related services are performed and the amounts have been contractually earned. Fortress is entitled to certain expense reimbursements pursuant to its management agreements. Fortress selects the vendors, incurs the expenses, and is the primary obligor under the related arrangements. Fortress is considered the principal under these arrangements and is required to record the expense and related reimbursement revenue on a gross basis. Expense reimbursements are recognized in the periods during which the related expenses are incurred and the reimbursements are contractually earned.

Stock Options Received - Fully vested stock options are issued to Fortress by certain of the publicly traded permanent capital vehicles as compensation for services performed in raising capital for these entities. These options are

recognized by Fortress as management fees at their estimated fair value at the time of issuance. Fair value was estimated using an option valuation model. Since the publicly traded permanent capital vehicles' option plans have characteristics significantly different from those of traded options, and since the assumptions used in such models, particularly the volatility assumption, are subject to significant judgment and variability, the actual value of the options could vary materially from this estimate. Fortress has elected to account for these options at fair value with changes in fair value recognized in current income as Gains (Losses).

Incentive Income - Incentive income is calculated as a percentage of the profits earned by the Fortress Funds subject, in certain cases, to the achievement of performance criteria. Incentive income from certain funds is subject to contingent repayment based on the applicable Fortress Fund achieving earnings in excess of a specified minimum return. Incentive income that is not subject to contingent repayment is recognized as contractually earned. Incentive income subject to contingent repayment may be paid to Fortress as particular investments made by the funds are realized. However, if upon liquidation of each fund the aggregate amount paid to Fortress as incentive income exceeds the amount actually due to Fortress based upon the aggregate performance of each fund, the excess is required to be repaid by Fortress (i.e. "clawed back") to that fund. Fortress has elected to adopt the preferred method of recording incentive income subject to contingencies, whereby it does not recognize incentive income subject to contingent repayment until the termination of the related fund, or when and to the extent distributions from the fund exceed the point at which

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

a clawback of a portion or all of the historic incentive income distributions could no longer occur due to the related contingencies being resolved. Recognition of incentive income allocated or paid to Fortress prior to that date is deferred and recorded as deferred incentive income liability.

Other Revenues and Other Income - Fortress recognizes security transactions on the trade date. Gains and losses are recorded based on the specific identification method and generally include gains (losses) on investments in securities, derivatives, foreign exchange transactions, and contingent consideration accrued in business combinations. Dividend income is recognized on the ex-dividend date, or in the absence of a formal declaration, on the date it is received. Interest income is recognized as earned on an accrual basis.

Non-Investment Manager

Media Revenues - Advertising income from the publication of newspapers is recognized when advertisements are published in newspapers or placed on digital platforms or, with respect to certain digital advertising, each time a user either clicks on or views certain ads, net of commissions and provisions for estimated sales incentives including rebates, rate adjustments, and discounts.

Circulation revenue includes single-copy and subscription revenues. Circulation income is based on the number of copies of the printed newspaper (through home-delivery subscriptions and single-copy sales) and digital subscriptions sold and the rates charged to the respective customers. Single-copy income is recognized based on date of publication, net of provisions for related returns. Proceeds from subscription income are deferred at the time of sale and are recognized in earnings on a pro rata basis over the terms of the subscriptions.

Other revenue is recognized when the related service or product has been delivered.

Billings to clients and payments received in advance of the performance of services or delivery of products are recorded as deferred revenue in the consolidated balance sheets until the services are performed or the product is delivered.

Balance Sheet Measurement

Investment Manager

Cash and Cash Equivalents - Fortress considers all highly liquid short term investments with maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts on deposit with major financial institutions exceed insured limits.

Cash and Cash Equivalents, Investment Company - Cash held at the Investment Company that is not available to fund the general liquidity needs of Fortress as Investment Manager.

Due from/to Affiliates - For purposes of classifying amounts, Fortress considers its principals, employees, all of the Fortress Funds, and the Portfolio Companies to be affiliates. This definition is broader than the strict GAAP definition of affiliates. Amounts due from and due to affiliates are recorded at their contractual amount, subject to an allowance for uncollectible amounts if collection is not deemed probable.

Other Assets and Other Liabilities:

Other assets are presented net of allowances for uncollectible amounts of \$2.3 million as of September 30, 2014 and \$3.3 million as of December 31, 2013, respectively, and changes thereto were recorded as General and Administrative expense. Other assets and liabilities are comprised of the following:

Fixed Assets, Depreciation and Amortization - Fixed assets consist primarily of leasehold improvements, furniture, fixtures and equipment, and computer hardware and software, and are recorded at cost less accumulated depreciation. Depreciation and amortization are calculated using the straight-line method over the assets' estimated useful lives, which are the life of the related lease for leasehold improvements, and three to seven years for other fixed assets.

Deferred Charges - Deferred charges consist primarily of costs incurred in obtaining financing, which are amortized over the term of the financing generally using the effective interest method.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

Equity Securities - Equity securities consist primarily of investments in unaffiliated publicly traded companies, which are valued based on quoted market prices.

Digital Currency (Bitcoin) - Represents Fortress's holdings of digital currency which is recorded at the lower of cost or fair value. If fair value is below cost, Fortress records an unrealized loss measured as the excess of cost over fair value of the digital currency. Subsequently, to the extent that fair value increases, Fortress records an unrealized gain -but shall not report digital currency above cost. Fortress determines fair value based on estimated exit value using significant observable inputs as of the balance sheet date. During the three months ended September 30, 2014, Fortress recognized an impairment charge of \$11.5 million. From purchase date through June 30, 2014, Fortress recorded a cumulative unrealized loss of \$6.0 million and a \$5.5 million loss in the third quarter of 2014.

Prepaid Compensation - Prepaid compensation consists of profit sharing compensation payments previously made to -employees which are not considered probable of being incurred as expenses and would become receivable back from employees at the termination of the related funds.

Goodwill and Intangibles - Goodwill and intangibles represent amounts recorded in connection with business -combinations. Goodwill is not amortized but is tested for impairment at least annually. Other intangible assets are amortized over their estimated useful lives.

Deferred Rent - Rent expense is recognized on a straight-line basis based on the total minimum rent required -throughout the lease period. Deferred rent represents the difference between the rent expense recognized and cash paid to date.

Derivatives and Hedging Activities - All derivatives are recognized as either assets or liabilities in the balance sheet and measured at fair value. Any unrealized gains or losses on derivatives not designated as hedges are recorded in -Gains (Losses). Net payments under these derivatives are similarly recorded, but as realized. Fortress did not have any derivatives designated as hedges for the nine months ended September 30, 2014 and 2013.

Derivatives, Investment Company - Derivatives held by the Investment Company are entered into as part of its trading and investment strategy. These derivatives are measured at fair value and any changes in fair value are recorded in Investment Company Gains (Losses). Derivative assets held by the Investment Company are included in Investments, at fair value and derivative liabilities are included in Other Liabilities. Derivatives can be exchange-traded or over the counter ("OTC") contracts. Derivatives include options, swap contracts, forward foreign currency contracts and futures contracts.

Receivables from/Due to Brokers and Counterparties, Investment Company - Securities transactions of the Investment Company are primarily maintained, cleared and held by registered U.S. broker-dealers pursuant to prime broker account agreements. As of September 30, 2014, the receivables from/due to brokers balances in the consolidated balance sheets include cash at and due to brokers and the net receivable/payable for investment transactions pending settlement. The cash at brokers includes proceeds received from securities sold, not yet purchased which is subject to certain restrictions until the securities are purchased. Substantially all investments owned are held as collateral by the brokers against various margin obligations and as collateral for securities sold, not yet purchased. The cash at brokers earns interest at the prevailing market rates.

Securities Sold Not Yet Purchased, At Fair Value, Investment Company - These are securities that the Investment Company sold but did not own prior to the sale. In order to facilitate short sales, the Investment Company borrows securities from another party and delivers them to the buyer. The Investment Company is required to "cover" short sales by purchasing securities in the market at the prevailing market prices and delivering them to the counterparties from which it borrowed. The Investment Company is exposed to losses to the extent that the security price increases during the time from when the Investment Company borrows the securities to when it purchases them in the market to cover the short sales. Changes in the value of these securities are reflected as gains (losses) in the accompanying consolidated statements of operations.

Comprehensive Income (Loss) - Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. For Fortress's purposes, comprehensive income represents net income, as presented in the accompanying consolidated statements of operations, adjusted for unrealized gains or losses on securities available for sale and on derivatives designated as cash flow hedges, as well as net foreign currency translation adjustments, including Fortress's relative share of these items from its equity method investees.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

Foreign Currency - Assets and liabilities relating to foreign investments are translated using the exchange rates prevailing at the end of each reporting period. Results of foreign operations are translated at the weighted average exchange rate for each reporting period. Translation adjustments are included in current income to the extent that unrealized gains and losses on the related investment are included in income, otherwise they are included as a component of accumulated other comprehensive income until realized. Foreign currency gains or losses resulting from transactions outside of the functional currency of a consolidated entity are recorded in income as incurred and were not material during the nine months ended September 30, 2014 and 2013.

Profit Sharing Arrangements - Pursuant to employment arrangements, certain of Fortress's employees are granted profit sharing interests and are thereby entitled to a portion of the incentive income or other amounts realized from certain Fortress Funds, which is payable upon a realization event within the respective funds. Accordingly, incentive income resulting from a realization event within a fund gives rise to the incurrence of a profit sharing obligation. Amounts payable under these profit sharing plans are recorded as compensation expense when they become probable and reasonably estimable.

For profit sharing plans related to hedge funds, where incentive income is received on an annual basis, the related compensation expense is accrued during the period for which the related payment is made.

For profit sharing plans related to private equity funds, the private permanent capital vehicle and credit PE funds, where incentive income is received as investments are realized but is subject to clawback (see "Incentive Income" above), although Fortress defers the recognition of incentive income until all contingencies are resolved, accruing expense for employee profit sharing is based upon when it becomes probable and reasonably estimable that incentive income has been earned and therefore a profit sharing liability has been incurred. Based upon this policy, the recording of an accrual for profit sharing expense to employees generally precedes the recognition of the related incentive income revenue.

Fortress's determination of the point at which it becomes probable and reasonably estimable that incentive income will be earned and therefore a corresponding profit sharing expense should be recorded is based upon a number of factors, the most significant of which is the level of realized gains generated by the underlying funds which may ultimately give rise to incentive income payments. Accordingly, profit sharing expense is generally recorded upon realization events within the underlying funds. A realization event has occurred when an investment within a fund generates proceeds in excess of its related invested capital, such as when an investment is sold at a gain. In some cases, this accrual is subject to reversal based on a determination that the expense is no longer probable of being incurred (in other words, that a clawback is probable).

Fortress may withhold a portion of the profit sharing payments relating to private equity fund, private permanent capital vehicle or credit PE fund incentive income as a reserve against contingent repayment (clawback) obligations to the funds. Employees may opt to have these withheld amounts invested in either a money market account or in one of a limited group of Fortress Funds.

Equity-Based Compensation - Fortress currently has several categories of equity-based compensation, which are accounted for as described in Note 8. Generally, the grant date fair value of equity-based compensation granted to employees or directors is expensed ratably over the required service period (or immediately if there is no required service period). Equity-based compensation granted to non-employees, primarily to employees of certain Portfolio

Companies, is expensed ratably over the required service period based on its fair value at each reporting date.

Income Taxes - FIG Corp., a subsidiary of the Registrant, is a corporation for tax purposes. As a result, a substantial portion of Fortress's income earned by FIG Corp. is 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. Certain subsidiaries of Fortress are subject to the New York City unincorporated business tax ("UBT") on their U.S. earnings based on a statutory rate of 4%. Certain subsidiaries of Fortress are subject to income tax of the foreign countries in which they conduct business. Interest and penalties, if any, are treated as additional taxes.

Fortress accounts for these taxes using the liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These temporary differences are expected to result in taxable or deductible amounts in future years and the deferred tax effects are measured using enacted tax rates and laws that will be in effect when such differences are expected to reverse. A valuation allowance is established when management believes it is more likely than not that a deferred tax asset will not be realized.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Fortress is party to a tax receivable agreement whereby the Principals will receive payments from Fortress related to tax savings realized by Fortress in connection with certain transactions entered into by the Principals.

Non-Investment Manager

Purchase Accounting - In determining the allocation of the purchase price between net tangible and intangible assets and liabilities, management made estimates of the fair value of the tangible and intangible assets and liabilities using information obtained as a result of pre-acquisition due diligence and independent valuations and appraisals. Management allocates the purchase price to net tangible and identified intangible assets and liabilities based on their fair values. The determination of fair value involves the use of significant judgment and estimation. Acquisition costs in excess of the fair value of tangible and identifiable intangible net assets is recorded as goodwill.

Fixed Assets - Fixed assets are recorded at cost. Routine maintenance and repairs are expensed as incurred. Depreciation is calculated under the straight-line method over the estimated useful lives, principally 21 to 40 years for buildings, 3 to 10 years for buildings improvements, 1 to 20 years for machinery and equipment, and 1 to 7 years for furniture, fixtures and computer software. Leasehold improvements are amortized under the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Fixed assets for New Media consisted of the following:

	September 30, 2014
Land	\$25,940
Buildings and improvements	127,497
Machinery and equipment	143,431
Furniture, fixtures, and computer software	14,187
Construction in progress and other non-depreciating assets	1,350
	\$312,405
Less: accumulated depreciation	(21,924)
Total	\$290,481

Depreciation expense related to fixed assets of New Media for the three months ended September 30, 2014 and for the period from February 14, 2014 to September 30, 2014, was \$9.2 million and \$22.0 million, respectively.

Goodwill and Intangibles - Intangible assets related to the Media Business consist of advertiser, customer and subscriber relationships, mastheads and trade names. These intangible assets are recorded at fair value at the date of acquisition. New Media estimates the fair value of the advertiser, customer and subscriber relationships and the trade names using the multi-period excess earnings method under the income approach. This valuation method is based on first forecasting revenue for the existing customer base and then applying expected attrition rates. Mastheads are not amortized because it has been determined that the useful lives of such mastheads are indefinite.

Amortization of intangible assets is included within depreciation and amortization on the consolidated statements of operations and is calculated using the straight-line method based on the following estimated useful lives:

Advertiser relationships	14 - 16 years
Customer relationships	14 - 16 years

Subscriber relationships
Trade names

13 - 16 years
10 years

21

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Goodwill and intangible assets related to New Media consisted of the following:

	September 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Advertiser relationships	\$62,325	\$(2,437	) \$59,888
Customer relationships	7,763	(245	) 7,518
Subscriber relationships	38,016	(1,470	) 36,546
Trade name	262	(17	) 245
Total	\$108,366	\$(4,169	) \$104,197
Nonamortized intangible assets:			
Mastheads			50,936
Total intangible assets, net			\$155,133
Goodwill			\$125,407

As of September 30, 2014, the weighted average amortization periods for amortizable intangible assets are 15.8 years for advertiser relationships, 15.9 years for customer relationships, 15.9 years for subscriber relationships and 10.0 years for trade names. The weighted average amortization period in total for all amortizable intangible assets is 15.8 years.

Amortization expense related to amortizable intangible assets of New Media for the three months ended September 30, 2014 and for the period from February 14, 2014 to September 30, 2014 was \$1.7 million and \$4.2 million, respectively. Estimated future amortization expense as of September 30, 2014, is as follows:

October 1, 2014 to December 31, 2014	\$1,755
2015	7,022
2016	7,022
2017	7,022
2018	7,022
Thereafter	74,354
Total	\$104,197

Goodwill and intangible assets with indefinite lives are tested for impairment annually or when events indicate that an impairment could exist which may include an economic downturn in a market, a change in the assessment of future operations or a decline in New Media's stock price. An annual impairment assessment is performed on each of New Media's reporting units. The fair value of the applicable reporting unit is compared to its carrying value. Calculating the fair value of a reporting unit requires significant estimates and assumptions. Fair value is estimated by applying third-party market value indicators to projected cash flows and/or projected earnings before interest, taxes, depreciation, and amortization. In applying this methodology, the company relies on a number of factors, including current operating results and cash flows, expected future operating results and cash flows, future business plans, and market data. If the carrying value of the reporting unit exceeds the estimate of fair value, the amount of impairment is calculated as the excess of the carrying value of goodwill over its implied fair value. In June 2014, New Media

performed an impairment assessment of its goodwill and intangible assets for each of its reporting units. Based on its assessment, no impairment was identified.

The recoverability of its long-lived assets, including fixed assets and definite lived intangible assets, is estimated whenever events or changes in business circumstances indicate the carrying amount of the assets, or related group of assets, may not be fully

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

recoverable. Impairment indicators include significant under performance relative to historical or projected future operating losses, significant changes in the manner of use of the acquired assets or the strategy for New Media's overall business, and significant negative industry or economic trends. The assessment of recoverability is based on management's estimates by comparing the sum of the estimated undiscounted cash flows generated by the underlying asset, or other appropriate grouping of assets, to its carrying value to determine whether an impairment existed at its lowest level of identifiable cash flows. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment is recognized to the extent the carrying value of such asset exceeds its fair value.

The newspaper industry and New Media have experienced declining same store revenue and profitability over the past several years. Should general economic, market or business conditions decline, and have a negative impact on estimates of future cash flow and market transaction multiples, this may require impairment charges to be recorded in the future.

Cash Equivalents - Cash equivalents represent highly liquid certificates of deposit which have original maturities of three months or less.

Deferred Revenue - Billings to clients and payments received in advance of the performance of services or delivery of products are recorded as deferred revenue until services are performed or the product is delivered.

Other Assets and Other Liabilities - Other assets are presented net of allowances for uncollectible amounts of \$4.7 million as of September 30, 2014, which were recorded as general, administrative and other. Other assets and liabilities of the Non-Investment Manager are comprised of the following:

	Other Assets September 30, 2014		Other Liabilities September 30, 2014
Accounts receivable, net	\$73,303	Accounts payable	\$8,638
Inventory	11,106	Accrued expenses	46,287
Prepaid expenses	7,298	Pension and postretirement benefit obligations	9,094
Miscellaneous assets	25,186	Miscellaneous liabilities	8,160
	\$116,893		\$72,179

Accounts Receivable - Accounts receivable are stated at amounts due from customers, net of an allowance for uncollectible accounts. Allowance for uncollectible accounts is based upon several factors including the length of time the receivables are past due, historical payment trends and current economic factors. New Media generally does not require collateral.

Inventory - Inventory consists principally of newsprint, which is valued at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method. In 2014, New Media expects to purchase approximately 95% of newsprint from one vendor.

-Pension and Other Postretirement Benefit Obligations - Pension plan obligations and expense is based on a number of actuarial assumptions. Two critical assumptions are the expected long-term rate of return on plan assets and the discount rate applied to pension plan obligations. For other postretirement benefit plans, which provide for certain

health care and life insurance benefits for qualifying retired employees and which are not funded, critical assumptions in determining other postretirement benefit obligations and expense are the discount rate and the assumed health care cost-trend rates.

New Media maintains a legacy pension plan and legacy postretirement medical and life insurance plans which cover qualifying employees of its subsidiaries. The pension plan and postretirement medical and life insurance plans are closed to new participants and the pension plan was frozen to all future benefit accruals. Also, medical and life insurance benefits for a select group of active employees are frozen and the plan limits future benefits.

The accrued benefit actuarial method is used and best estimate assumptions are used to determine pension costs, liabilities and other pension information for defined benefit plans.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

The following provides information on the components of net periodic benefit cost (income) for the pension plans and postretirement medical and life insurance plans for the three months ended September 30, 2014 and for the period from February 14, 2014 to September 30, 2014:

	Three Months Ended September 30, 2014		Period from February 14, 2014 to September 30, 2014	
	Pension	Postretirement	Pension	Postretirement
Service cost	\$75	\$9	\$225	\$25
Interest cost	295	63	885	190
Expected return on plan assets	(406	) —	(1,218) —
Net periodic benefit cost (income)	\$(36	) \$72	\$(108	) \$215

The following assumptions were used to calculate the net periodic benefit cost (income) for New Media's defined benefit pension and postretirement plans:

	Pension	Postretirement	
Weighted average discount rate	5.0	% 4.5	%
Expected return on assets	8.0	% N/A	
Current year trend	N/A	7.8	%
Ultimate year trend	N/A	4.8	%
Year of ultimate trend	N/A	2025	

Since the pension plan was frozen to all future benefit accruals and the medical and life insurance benefit plans limit future benefits, management assumed no rate of increase in future compensation levels.

3. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

Investment Manager

Fortress has two principal sources of income from its agreements with the Fortress Funds: contractual management fees, which are generally based on a percentage of fee paying assets under management, and related incentive income, which is generally based on a percentage of 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.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Management Fees, Incentive Income and Related Profit Sharing Expense

Fortress recognized management fees and incentive income as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Private Equity				
Private Equity Funds				
Management fees: affil.	\$33,585	\$33,686	\$104,228	\$99,221
Management fees: non-affil.	53	123	364	345
Incentive income: affil.	—	6,433	22,094	21,742
Permanent Capital Vehicles				
Management fees: affil.	16,021	13,884	45,288	43,600
Management fees, options: affil.	1,742	—	3,346	36,470
Management fees: non-affil.	667	643	2,358	2,959
Incentive income: affil.	8,887	4,178	32,142	5,378
Liquid Hedge Funds				
Management fees: affil.	29,263	24,313	86,328	61,373
Management fees: non-affil.	4,470	6,324	17,045	18,008
Incentive income: affil.	700	10,886	1,686	17,350
Incentive income: non-affil.	—	1,138	44	3,625
Credit Funds				
Credit Hedge Funds				
Management fees: affil.	28,755	25,455	84,044	75,284
Management fees: non-affil.	41	26	85	151
Incentive income: affil.	8,282	10,756	26,015	31,330
Credit PE Funds				
Management fees: affil.	23,540	23,633	71,799	71,115
Management fees: non-affil.	31	35	99	104
Incentive income: affil.	13,072	8,681	43,697	27,376
Incentive income: non-affil.	343	769	986	1,145
Logan Circle				
Management fees: affil.	768	622	2,167	1,894
Management fees: non-affil.	11,512	8,210	32,161	23,964
Total				
Management fees: affil.	\$133,674	\$121,593	\$397,200	\$388,957
Management fees: non-affil.	\$16,774	\$15,361	\$52,112	\$45,531
Incentive income: affil. (A)	\$30,941	\$40,934	\$125,634	\$103,176
Incentive income: non-affil.	\$343	\$1,907	\$1,030	\$4,770

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

25

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Deferred Incentive Income

Incentive income from certain Fortress Funds, primarily the private equity funds, private permanent capital vehicle 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, 2014 and 2013. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, \$77.1 million and \$185.9 million of additional incentive income would have been recognized during the nine months ended September 30, 2014 and 2013, 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, 2014 and 2013, Fortress recognized \$43.7 million and \$27.4 million, respectively, of incentive income distributions from its credit PE funds which represented “tax distributions.” These tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

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

	Distributed-Gross	Distributed-Recognized (A)	Distributed-Unrecognized (B)	Undistributed, net of intrinsic clawback (C) (D)
Deferred incentive income as of December 31, 2013	\$ 1,015,084	\$ (767,528)	\$ 247,556	\$ 696,333
Fortress Funds which matured (no longer subject to clawback)	—	—	N/A	N/A
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	365,164
Distribution of private equity funds and credit PE	102,541	N/A	102,541	(102,541)
funds incentive income	217	N/A	217	(217)

Distribution of private permanent capital vehicle incentive income						
Recognition of previously deferred incentive income	N/A	(66,778	)	(66,778	)	N/A
Changes in foreign exchange rates	148	—		148		N/A
Deferred incentive income as of September 30, 2014	\$ 1,117,990 (E)	\$ (834,306	)	\$ 283,684		\$958,739 (E)
Deferred incentive income including Fortress Funds which matured	\$ 1,171,646	\$ (887,962)			

(A) All related contingencies have been resolved.

(B) Reflected on the consolidated balance sheet.

(C) At September 30, 2014, the net undistributed incentive income is comprised of \$1,025.6 million of gross undistributed incentive income, net of \$66.9 million of intrinsic clawback. The net undistributed incentive income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on September 30, 2014 at their net asset values.

From inception to September 30, 2014, Fortress has paid \$507.3 million of compensation expense under its employee profit sharing arrangements (Note 8) in connection with distributed incentive income, of which \$21.5 million has not been expensed because management has determined that it is not probable of being incurred as an expense and will be recovered from the related individuals. As of September 30, 2014, Fortress has recovered \$6.4 million from individuals relating to their clawback obligations. If the \$1,025.6 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional \$484.0 million of compensation expense.

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

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

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

	September 30, 2014	
Distributed incentive income - Private Equity Funds	\$846,671	
Distributed incentive income - Private Equity Funds in Investment or Commitment Period	—	
Distributed incentive income - Credit PE Funds	479,987	
Distributed incentive income - Credit PE Funds in Investment or Commitment Period	119,773	
Distributed incentive income - Private Permanent Capital Vehicle in Investment or Commitment Period	744	
Less:		
Fortress Funds which are not subject to a clawback provision:		
— NIH	(94,513)
— GAGACQ Fund	(51,476)
Portion of Fund I distributed incentive income that Fortress is not entitled to (see footnote K of incentive income threshold tables)	(183,196)
Distributed-Gross	\$1,117,990	

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, 2014	
Undistributed incentive income - Private Equity Funds	\$13,922	
Undistributed incentive income - Private Equity Funds in Investment or Commitment Period	1,828	
Undistributed incentive income - Credit PE Funds	561,176	
Undistributed incentive income - Credit PE Funds in Investment or Commitment Period	283,159	
Undistributed incentive income - Private Permanent Capital Vehicle in Investment or Commitment Period	4,755	
Undistributed incentive income - Hedge Funds (total)	160,624	
Undistributed incentive income - Logan Circle	178	
Less: Gross intrinsic clawback per incentive income threshold tables - Private Equity Funds	(66,903)
Undistributed, net of intrinsic clawback	\$958,739	

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

The following tables summarize information with respect to the Fortress Funds and their related incentive income thresholds as of September 30, 2014:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Investment	Inception to Date Distributions	Net Asset Value ("NAV")	NAV Surplus (Deficit)	Current Preferred Return Threshold (D)	Gain to Cross Incentive Income Threshold (E)	Undistributed Incentive Income (F)	Distributed Incentive Income (G) (H)	Distributed Incentive Income Subject to Clawback (I)	Distributed Incentive Income Subject to Clawback (J)
Private Equity Funds											
NIH (1998)	In Liquidation	\$415,574	\$(823,588)	\$—	\$ N/A	\$—	\$ N/A	\$—	\$94,513	\$—	\$—
Fund I (1999) (K)	Closed May-13	1,015,943	(2,847,929)	—	N/A	—	N/A	—	344,939	—	—
Fund II (2002)	In Liquidation	1,974,298	(3,442,900)	2,734	1,471,336	—	N/A	540	288,840	—	—
Fund III (2004)	Jan-15	2,762,992	(2,138,525)	1,572,491	948,024	1,958,669	2,010,645	—	66,903	66,903	66,903
Fund III Coinvestment (2004)	Jan-15	273,649	(225,188)	74,901	26,440	232,209	205,769	—	—	—	—
Fund IV (2006)	Jan-17	3,639,561	(1,310,031)	2,957,210	627,680	2,632,585	2,004,905	—	—	—	—
Fund IV Coinvestment (2006)	Jan-17	762,696	(257,537)	449,513	(55,646)	562,167	617,813	—	—	—	—
Fund V (2007) (K)	Feb-18	4,103,713	(785,298)	4,943,372	1,624,952	2,363,287	2,412,289	1,776	—	—	—
Fund V Coinvestment (2007) (K)	Feb-18	990,480	(90,665)	588,129	(311,686)	622,196	933,882	—	—	—	—
GAGACQ Fund (2004) (GAGFAH)	Closed Nov-09	545,663	(595,401)	N/A	N/A	N/A	N/A	N/A	51,476	N/A	N/A
FRID (2005) (GAGFAH)	In Liquidation	1,220,229	(1,199,599)	2,775	(17,855)	941,358	959,213	—	—	—	—
FRIC (2006) (Brookdale)	In Liquidation	328,754	(289,768)	1,602	(37,384)	271,601	308,985	—	—	—	—
FICO (2006) (Intrawest)	Jan-17	724,525	(5)	(62,120)	(786,640)	579,458	1,366,098	—	—	—	—
FHIF (2006) (Holiday)	Jan-17	1,543,463	(532,805)	1,936,940	926,282	1,124,702	1,298,420	—	—	—	—
FECI (2007) (Florida East Coast Railway/Florida East Coast)	Feb-18	982,779	(311)	1,028,944	46,476	718,131	671,655	—	—	—	—

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

Industries)

MSR Opportunities Fund I A (2012)	Aug-22	328,882	(92,979)	332,176	96,273	32,336	N/A	9,293	—	—	—
MSR Opportunities Fund I B (2012)	Aug-22	79,748	(22,521)	80,368	23,141	7,831	N/A	2,313	—	—	—
								\$13,922	\$846,671	\$66,903	\$
Private Equity Funds in Investment or Commitment Period											
MSR Opportunities Fund II A (2013)	Jul-23	\$50,605	\$(4,623)	\$55,932	\$9,950	\$3,037	\$ N/A	\$1,470	\$—	\$—	\$
MSR Opportunities Fund II B (2013)	Jul-23	722	(66)	792	136	43	N/A	20	—	—	—
MSR Opportunities II MA I (2013)	Jul-23	11,609	(1,061)	12,833	2,285	697	N/A	338	—	—	—
Italian NPL Opportunities (2013)	Sep-24	15,631	—	13,354	(2,277)	334	2,611	—	—	—	—
								\$1,828	\$—	\$—	\$

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2014

(dollars in tables in thousands, except share data)

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions	Net Asset Value ("NAV") (C)	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income to Class (I)
Credit PE Funds										
Long Dated Value Fund I (2005)	Apr-30	\$267,325	\$(89,874)	\$300,739	\$123,288	\$141,875	\$18,587	\$—	\$—	\$—
Long Dated Value Fund II (2005)	Nov-30	274,280	(147,790)	201,357	74,867	111,423	36,556	—	412	—
Long Dated Value Fund III (2007)	Feb-32	343,156	(272,641)	207,266	136,751	—	N/A	18,908	6,473	—
LDVF Patent Fund (2007)	Nov-27	42,457	(39,584)	36,895	34,022	—	N/A	1,715	1,471	—
Real Assets Fund (2007)	Jun-17	359,024	(335,000)	141,121	117,097	—	N/A	13,004	5,285	—
Credit										
Opportunities Fund (2008)	Oct-20	5,542,293	(6,723,137)	1,374,412	2,555,256	—	N/A	200,517	301,802	121,285
Credit										
Opportunities Fund II (2009)	Jul-22	2,262,185	(2,164,437)	1,192,006	1,094,258	—	N/A	144,303	70,318	15,000
FCO Managed Account (2010)	Jun-22	574,352	(496,165)	367,510	289,323	—	N/A	42,587	12,347	—
SIP Managed Account (2010)	Sep-20	11,000	(33,700)	10,872	33,572	—	N/A	2,174	4,540	—
Japan Opportunity Fund (2009)	Jun-19	988,462	(1,031,344)	838,452	881,334	—	N/A	118,261	64,953	16,000
Net Lease Fund I (2010)	Feb-20	152,721	(221,668)	4,959	73,906	—	N/A	303	9,396	6,300
Real Estate										
Opportunities Fund (2011)	Sep-24	533,698	(212,539)	431,176	110,017	—	N/A	8,402	1,202	63,000
Global										
Opportunities Fund (2010)	Sep-20	304,304	(157,541)	212,464	65,701	—	N/A	11,002	1,788	1,700
								\$561,176	\$479,987	\$1,041,163
Credit PE Funds in Investment or Commitment Period										
Credit										
Opportunities Fund III (2011)	Mar-24	\$2,592,599	\$(1,120,567)	\$1,988,145	\$516,113	\$—	\$ N/A	\$84,579	\$16,459	\$3,000

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

FCO Managed Accounts (2008-2012)	Apr-22 to Mar-27	3,637,284	(2,624,911)	2,138,941	1,126,568	—	N/A	140,757	81,856	40
Japan Opportunity Fund II (Yen) (2011)	Dec-21	616,578	(202,364)	615,513	201,299	—	N/A	31,563	9,312	—
Japan Opportunity Fund II (Dollar) (2011)	Dec-21	562,041	(164,458)	579,285	181,702	—	N/A	23,569	11,462	—
Life Settlements Fund (2010)	Dec-22	390,760	(299,330)	68,279	(23,151)	71,057	94,208	—	—	—
Life Settlements Fund MA (2010)	Dec-22	31,978	(24,482)	5,380	(2,116)	5,836	7,952	—	—	—
Real Estate Opportunities REOC Fund (2011)	Oct-23	49,472	(18,840)	47,593	16,961	—	N/A	2,691	684	31
Real Estate Opportunities Fund II(2014)	May-27	121,405	—	121,147	(258)	1,413	1,671	—	—	—
								\$283,159	\$119,773	\$4

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Investment	Inception to Date Distribution	Net Asset Value ("NAV")	NAV Surplus (Deficit)	Current Preferred Return Threshold (D)	Gain to Incentive Threshold (E)	Cross Incentive Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income Subject to Clawback (H)	Incentive Income Subject to Clawback (I)	Graded Incentive Income (J)	Net Incentive Income (K)	
Private Permanent Capital Vehicle in Investment Period or Commitment Period														
WWTAI (2011)	Jan-25	\$499,372	\$(85,231)	\$471,833	\$57,692	\$34,797	N/A		\$4,755	\$744	\$744	\$—	\$—	

Fund (Vintage) (A)	Equity Eligible for Incentive (L)	Gain to Cross Incentive Income Threshold (F)	Life-to-Date Incentive Income Crystallized (P)
Publicly Traded Permanent Capital Vehicles			
Newcastle	\$1,650,704	\$ (F)	\$41,283
Eurocastle Investment Limited ("Eurocastle")	510,099	156,938	39,217
New Residential Investment Corp. ("New Residential")	1,372,067	—	47,795
New Media (W)	511,028	8,995	—

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

	Incentive Income Eligible NAV (L)	Gain to Cross Incentive Income Threshold (M)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (N)	Undistributed Incentive Income (O)	Year to Date Incentive Income Crystallized (P)
Liquid Hedge Funds					
Macro Funds (Q) (T)					
Main fund investments	\$ 1,585,061	\$ 73,036	14.1	% \$458	\$69
Single investor funds	862,958	44,451	0.8	% 19	—
Sidepocket investments (R)	10,574	8,124	N/A	163	334
Sidepocket investments - redeemers (S)	113,342	71,364	N/A	1,132	1,204
Managed accounts	659,948	35,540	0.6	% 10	1
Asia Macro Funds (T)					
Main fund investments	2,651,697	67,529	5.5	% 397	—
Managed accounts	325,618	12,925	0.0	% —	—
Fortress Convex Asia Funds (T)					
Main fund investments	189,061	10,590	11.3	% 14	—
Fortress Partners Funds (T)					
Main fund investments	6,230	20,814	0.0	% —	—
Sidepocket investments (R)	126,434	19,380	N/A	5,754	—
Credit Hedge Funds					
Special Opportunities Funds (T)					
Main fund investments	\$4,666,211	\$—	100.0	% \$72,838	\$—
Sidepocket investments (R)	63,902	—	N/A	4,779	—
Sidepocket investments - redeemers (S)	213,034	53,072	N/A	5,218	1,217
Main fund investments (liquidating) (U)	516,753	—	100.0	% 66,615	24,833
Managed accounts	7,919	45,458	0.0	% —	—
Worden Funds					
Main fund investments	260,911	83	97.9	% 3,182	2
Fortress Japan Income Fund					
Main fund investments	13,362	N/A	0.0	% —	—
Value Recovery Funds (V)					
Managed accounts	17,089	5,249	60.3	% 45	—

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

Logan Circle

Main fund investments	\$55,000	\$4	0.0	% \$—	\$—
Managed accounts	303,882	836	50.7	% 178	—

31

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

- (A) Vintage represents the year in which the fund was formed.
 Represents the contractual maturity date including the assumed exercise of all extension options, which in some (B) cases may require the approval of the applicable fund advisory board. Private equity funds that have reached their maturity date are included in the table to the extent they have generated incentive income.
- (C) Includes an increase to the NAV surplus related to the U.S. income tax expense of certain investment entities, which is considered a distribution for the purposes of computing incentive income.
- (D) A NAV deficit represents the gain needed to cross the incentive income threshold (as described in (F) below), excluding the impact of any relevant performance (i.e. preferred return) thresholds (as described in (E) below).
- (E) Represents the gain needed to achieve the current relevant performance thresholds, assuming the gain described in (D) above is already achieved.
 Represents the immediate increase in NAV needed for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see (J) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (I) below). For the publicly traded permanent capital vehicles, represents the (F) immediate increase of the company's applicable supplemental measure of operating performance needed for Fortress to begin earning incentive income. As of September 30, 2014, 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 (G) of the period at its NAV. The incentive income amounts presented in this table are based on the estimated results of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles. As of September 30, 2014, a portion of Fund V's capital is above the 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 and is therefore recorded on the consolidated balance sheet as Deferred Incentive Income. This amount will either (I) be recorded as revenue when all related contingencies are resolved, or, if the fund does not meet certain performance thresholds, will be returned by Fortress to the fund (i.e., "clawed back").
 Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. "Gross" and "Net" refer to (J) amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. Fortress remains liable to the funds for these amounts even if it is unable to collect the amounts from employees/affiliates. Fortress withheld a portion of the amounts due to employees under these profit sharing arrangements as a reserve against future clawback; as of September 30, 2014, Fortress held \$31.8 million of such amounts on behalf of employees related to all of the private equity funds.
 The Fund I distributed incentive income amount is presented for the total fund, of which Fortress was entitled to (K) approximately 50%. Fund V includes Fund V (GLPI Sisterco) and Fund V Coinvestment includes Fund V Coinvestment (GLPI Sisterco).
- (L) Represents the portion of a fund's or managed account's NAV or trading level that is eligible to earn incentive income. For the publicly traded permanent capital vehicles, represents the equity basis that is used to calculate incentive income.
- (M) Represents, for those investors whose NAV is below the performance threshold Fortress needs to obtain before it can earn incentive income from such investors (their "incentive income threshold" or "high water mark"), the amount

by which their aggregate incentive income thresholds exceed their aggregate NAVs. The amount by which the NAV of each investor within this category is below their respective incentive income threshold varies and, 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.

(N) The amount by which the NAV of each fund investor who is not in this category is below their respective incentive income threshold may vary, and may vary significantly. This percentage represents the performance of only the main fund investments and managed accounts relative to their respective incentive income thresholds. It does not incorporate the impact of unrealized losses on sidepocket investments that can reduce the amount of incentive income earned from certain funds. See footnote (R) below.

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.

(O) Main Fund Investments (Liquidating) pay incentive income only after all capital is returned. For the Fortress Japan Income Fund, represents the amount of incentive income Fortress would earn from the fund assuming the amount of investment income earned in excess of the preferred return threshold was distributed as of the end of the period. For the Value Recovery Fund managed accounts, Fortress can earn incentive income if aggregate realizations exceed an agreed threshold. The incentive income amounts presented in this table are based on the estimated results of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Represents the amount of incentive income Fortress has earned in the current period which is not subject to (P) 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.

The Drawbridge Global Macro SPV (the "SPV"), which was established in February 2009 to liquidate illiquid investments and distribute the proceeds to then existing investors, is not subject to incentive income and is therefore not presented in the table. However, realized gains or losses within the SPV can decrease or increase, (Q) respectively, the gain needed to cross the incentive income threshold for investors with a corresponding investment in the main fund. The unrealized gains and losses within the SPV at September 30, 2014, as if they became realized, would not materially impact the amounts presented in the table.

Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. The performance of these investments may impact Fortress's ability to earn incentive income from main fund investments. For the credit hedge funds and Fortress Partners (R) Funds, realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments. For the Macro Funds, only realized losses from individual sidepockets reduce the incentive income earned from main fund investments. Based on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at September 30, 2014, the undistributed incentive income from the Macro main fund would not be impacted.

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

(T) Includes onshore and offshore funds.

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

Excludes the Value Recovery Funds which had a NAV of \$292.3 million at September 30, 2014. Fortress began (V) managing the third party originated Value Recovery Funds in June 2009 and generally does not expect to earn any significant incentive income from the fund investments.

Fortress has a management agreement with New Media whereby it may earn incentive income. New Media is a (W) VIE consolidated by Fortress (see Note 1) and as a result any New Media incentive income earned by Fortress is eliminated in consolidation. However, Fortress has included New Media in the above table solely for informational purposes.

Logan Circle

During the nine months ended September 30, 2014, Logan Circle, Fortress's fixed income asset manager, began managing two new fixed income funds which had a total net asset value of \$100.6 million as of September 30, 2014.

Private Equity Funds and Credit PE Funds

During the nine months ended September 30, 2014, Fortress formed new Private Equity and Credit PE funds which had capital commitments as follows as of September 30, 2014:

	Private Equity (A)	Credit PE
Fortress	\$ 11,533	\$ 12,000
Fortress's affiliates	303,285	1,205

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

Third party investors	765,512	284,630
Total capital commitments	\$1,080,330	\$297,835

(A) Private equity includes a new fund which is a consolidated VIE.

During the nine months ended September 30, 2014, Fortress's senior living management subsidiary entered into agreements to manage seven senior living properties which are owned by Newcastle. Fortress will receive management fees equal to 6.0% of revenues (as defined in the agreements) for the first two years and 7.0% thereafter and reimbursement of certain expenses, including the compensation expense of all on-site employees. These properties will be included as part of Newcastle's spin off of its senior housing business during the fourth quarter of 2014 (see Note 12).

In June 2014, Fortress's senior living management subsidiary entered into agreements to manage two senior living properties owned by a third party. Fortress will receive management fees of 5.5% of revenues (as defined in the agreements) and reimbursement of certain expenses, including the compensation expense associated with all on-site employees. In connection with these agreements, Fortress paid the third party property owner \$1.9 million in the third quarter of 2014.

During the second quarter of 2014, certain PE Funds (Fund II, FRID and FRIC) substantially liquidated their respective remaining investments. These funds distributed a majority of the sale proceeds to their respective investors and are in the process of final

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

liquidation. During the second quarter of 2014, Fortress received additional net incentive income of \$0.9 million from Fund II and returned \$16.4 million to FRID representing prior net incentive income distributions received (\$10.0 million net of employee amounts). No remaining clawback amount exists for these funds.

Liquid Hedge Funds and Credit Hedge Funds

During the nine months ended September 30, 2014, Fortress formed, or became the manager of, hedge funds with net asset values as follows as of September 30, 2014:

	Liquid Hedge Funds (B)	Credit Hedge Funds
Fortress	\$47,029	\$—
Fortress's affiliates	34,887	—
Third party investors	—	13,362
Total capital NAV (A)	\$81,916	\$13,362

(A) Or other fee paying basis, as applicable.

(B) Liquid hedge funds includes a new fund which is a consolidated VIE.

4. INVESTMENTS AND FAIR VALUE

Investment Manager

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

Investments can be summarized as follows:

	September 30, 2014	December 31, 2013
Equity method investees	\$1,086,449	\$1,174,878
Equity method investees, held at fair value (A)	13,506	78,388
Total equity method investments	\$1,099,955	\$1,253,266
Options in equity method investees	\$70,251	\$104,338

Includes publicly traded private equity portfolio companies, primarily GAGFAH (the sale of which was completed (A) in June 2014), as well as the publicly traded permanent capital vehicles (NCT, NRZ and ECT). Does not include New Media which is eliminated in consolidation.

Gains (losses) can be summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net realized gains (losses)	\$ (10,150	) \$36	\$ (9,558	) \$ (335

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

Net realized gains (losses) from affiliate investments	3,640	6,616	47,988	(A) 6,499
Net unrealized gains (losses)	16,845	52	11,321	5,654
Net unrealized gains (losses) from affiliate investments	(29,694	) 799	(75,986	)(A) 33,760
Total gains (losses)	\$(19,359	) \$7,503	\$(26,235	) \$45,578

(A) Includes the impact of the sale of GAGFAH which was completed in June 2014.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

These gains (losses) were generated as follows:

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013	2013	2013	2013
Mark to fair value on affiliate investments and options	\$(25,777	) \$7,008	\$(27,743	) \$39,590
Mark to fair value on derivatives	11,994	(1,476	) 8,300	3,805
Mark to fair value on equity securities	(98	) 1,527	672	1,524
Realized gains (losses) on digital currency (Bitcoin)	(11,515	) —	(11,515) —
Reversal of prior period unrealized (gains) losses on digital currency (Bitcoin)	5,974	—	3,702	—
Other	63	444	349	659
Total gains (losses)	\$(19,359	) \$7,503	\$(26,235	) \$45,578

Investments in Equity Method Investees

Fortress holds investments in certain Fortress Funds which are recorded based on the equity method of accounting. Fortress's maximum exposure to loss with respect to these entities is generally equal to its investment plus its basis in any options received from such entities, plus any receivables from such entities as described in Note 7. In addition, unconsolidated affiliates also hold ownership interests in certain of these entities. Summary financial information related to these investments is as follows:

	Fortress's Investment		Fortress's Equity in Net Income (Loss)			
	September 30, 2014	December 31, 2013	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
			2013	2013	2013	2013
Private equity funds, excluding NIH	\$711,567	\$786,093	\$31,278	\$44,469	\$48,628	\$79,711
NIH	—	—	—	—	—	(554
Publicly traded portfolio companies (A)(B)	1,022	63,001	N/A	N/A	N/A	N/A
WWTAI	3,799	3,801	(6	) 83	(64	) 218
Newcastle (B)	4,383	5,953	N/A	N/A	N/A	N/A
New Residential (B)	6,046	6,928	N/A	N/A	N/A	N/A
Eurocastle (B)	2,055	2,506	N/A	N/A	N/A	N/A
Total private equity	728,872	868,282	31,272	44,552	48,564	79,375
Liquid hedge funds	126,649	158,920	515	7,525	3,801	14,138
Credit hedge funds	56,773	58,825	1,595	3,372	6,404	9,037
Credit PE funds	178,471	159,044	4,810	5,311	22,204	23,161
Other	9,190	8,195	736	(252	) 777	(196
	\$1,099,955	\$1,253,266	\$38,928	\$60,508	\$81,750	\$125,515

- (A) Represents Fortress's direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH (the sale of which was completed in June 2014).
- (B) Fortress elected to record these investments at fair value pursuant to the fair value option for financial instruments.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

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

Nine Months Ended September 30, 2014

Private Equity

	NIH	Other Funds	Publicly Traded Portfolio Companies (A)	Permanent Capital Vehicles (A)	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds	Other	Total
Investment, beginning	\$—	\$ 786,093	\$ 63,001	\$ 19,188	\$ 158,920	\$ 58,825	\$ 159,044	\$ 8,195	\$ 1,253,266
Earnings from equity method investees	—	48,628	N/A	(64)	3,801	6,404	22,204	777	81,750
Other comprehensive income from equity method investees	—	—	N/A	—	—	—	—	—	—
Contributions to equity method investees (B)	—	2,290	—	(49)	89,324	167,669	28,949	568	288,751
Distributions of earnings from equity method investees	—	(48,139)	N/A	(38)	(4,482)	(6,196)	(19,449)	(33)	(78,337)
Distributions of capital from equity method investees (B)	—	(77,730)	N/A	147	(120,914)	(169,929)	(11,445)	(107)	(379,978)
Total distributions from equity method investees	—	(125,869)	—	109	(125,396)	(176,125)	(30,894)	(140)	(458,315)
Mark to fair value - during period (C)	N/A	(1,249)	5,186	(1,777)	N/A	N/A	N/A	N/A	2,160
Translation adjustment	—	—	(741)	(188)	—	—	(830)	—	(1,759)
Dispositions	—	—	(66,424)	—	—	—	(2)	(210)	(66,636)
Reclassification to Due to Affiliates (D)	—	1,674	—	—	—	—	—	—	1,674
Consolidation of Non-Investment Manager (E)	—	—	—	(936)	—	—	—	—	(936)
Investment, ending	\$—	\$ 711,567	\$ 1,022	\$ 16,283	\$ 126,649	\$ 56,773	\$ 178,471	\$ 9,190	\$ 1,099,955
Ending balance of undistributed earnings	\$—	\$ 77,818	\$ N/A	\$—	\$ 386	\$ 2,195	\$ 10,978	\$ 2,719	\$ 94,096

(A)

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

Fortress elected to record the publicly traded private equity portfolio companies and the publicly traded permanent capital vehicles at fair value pursuant to the fair value option for financial instruments. Does not include New Media which is eliminated in consolidation.

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

	Nine Months Ended September 30, 2014	
	Contributions	Distributions of Capital
Per consolidated statements of cash flows	\$21,487	\$(368,373)
Investments of incentive receivable amounts into Fortress Funds	256,993	—
Change in distributions payable out of Fortress Funds	—	176
Net funded*	10,271	(10,271)
Other	—	(1,510)
Per Above	\$288,751	\$(379,978)

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

(C) Recorded to Gains (Losses).

(D) Represents a portion of the general partner liability discussed in Note 10.

(E) Represents the elimination of Fortress's direct investment in New Media, a consolidated VIE, as of the date of consolidation.

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

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

	Private Equity Funds excluding NIH (B)	
	September 30, 2014	December 31, 2013
Assets	\$14,267,465	\$16,982,954
Debt	(3,251)	(1,626)
Other liabilities	(141,389)	(185,144)
Equity	\$14,122,825	\$16,796,184
Fortress's Investment	\$711,567	\$786,093
Ownership (A)	5.0	% 4.7 %
	Nine Months Ended September 30,	
	2014	2013
Revenues and gains (losses) on investments	\$891,148	\$2,731,208
Expenses	(146,652)	(148,233)
Net Income (Loss)	\$744,496	\$2,582,975
Fortress's equity in net income (loss)	\$48,628	\$79,711

	Liquid Hedge Funds		Credit Hedge Funds		Credit PE Funds (B) (C)	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Assets	\$18,115,038	\$13,167,316	\$11,311,558	\$10,226,023	\$11,445,230	\$10,544,754
Debt	—	—	(4,468,255)	(3,918,692)	(168,275)	(161,225)
Other liabilities	(11,119,029)	(6,735,989)	(382,626)	(332,510)	(367,364)	(311,538)
Non-controlling interest	—	—	(13,605)	(6,470)	(4,456)	(3,461)
Equity	\$6,996,009	\$6,431,327	\$6,447,072	\$5,968,351	\$10,905,135	\$10,068,530
Fortress's Investment	\$126,649	\$158,920	\$56,773	\$58,825	\$178,471	\$159,044
Ownership (A)	1.8	% 2.5	% 0.9	% 1.0	% 1.6	% 1.6 %

	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013	2014	2013
Revenues and gains (losses) on investments	\$(32,720)	\$538,394	\$797,387	\$975,979	\$1,687,296	\$1,296,556
Expenses	(161,404)	(111,418)	(258,480)	(182,961)	(194,818)	(233,363)
Net Income (Loss)	\$(194,124)	\$426,976	\$538,907	\$793,018	\$1,492,478	\$1,063,193
Fortress's equity in net income (loss)	\$3,801	\$14,138	\$6,404	\$9,037	\$22,204	\$23,161

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

(B)

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

For Private Equity Funds, includes four entities which are recorded on a one quarter lag (i.e. current year balances reflected for these entities are for the period ended June 30, 2014). For Credit PE Funds, includes one entity which is recorded on a one quarter lag and several entities which are recorded on a one month lag. They are recorded on a lag because they are foreign entities, or they have substantial operations in foreign countries, and do not provide financial reports under GAAP within the reporting time frame necessary for U.S. public entities.

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

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

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 in Investments on the consolidated balance sheet and described in Note 4, and/or (ii) entities from which Fortress earns fees, which are included in revenues and described in Note 3.

As of September 30, 2014 Fortress had interests in 204 entities, 143 of which were entities, primarily Fortress Funds, classified as voting interest entities. These entities generally 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.

A significant majority of the 61 entities classified as VIEs were investing vehicles set up on behalf of the Fortress Funds to make investments. A Fortress Fund will generally have a majority ownership and a majority economic interest in the investing vehicles that are VIEs. Most of the remaining VIEs are entities that are majority-owned and controlled by third parties and are insignificant in size.

A Fortress Fund is generally the primary beneficiary of each of these investing vehicles because it is the entity most closely associated with the VIE based on the applicable consolidation guidance. Fortress is not considered the primary beneficiary of, and, therefore, does not consolidate, any of the VIEs in which it holds an interest, except as described below. No reconsideration events occurred during the nine months ended September 30, 2014 or 2013, respectively, which caused a change in Fortress's accounting, except as described below.

The following tables set forth certain information as of September 30, 2014 regarding variable interest entities in which Fortress holds a variable interest. The amounts presented below are included in, and not in addition to, the equity method investment tables above.

Entities initially classified as variable interest entities during the nine months ended September 30, 2014:

Business Segment	Fortress is not Primary Beneficiary				Notes
	Number of VIEs	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	
Credit PE Funds	6	\$ 100,023	\$ 33,562	\$ 1,093	(D)
Logan Circle	2	105,037	—	—	(C)
Liquid Hedge Funds	2	34,982	—	95	(D)
Business Segment	Fortress is Primary Beneficiary				Notes
	Number of VIEs	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	
Private Equity Funds	1	\$ 58,476	\$—	\$ 50	(F)
Permanent Capital Vehicles (Non-Investment Manager)	1	822,977	232,275	6,474	(G)
Liquid Hedge Funds	1	133,730	37,258	47,532	(F)
Credit Hedge Funds	3	—	—	—	(G)

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

All variable interest entities:

Business Segment	Fortress is not Primary Beneficiary				Fortress is not Primary Beneficiary				Notes
	September 30, 2014				December 31, 2013				
	Number of VIEs	Gross Assets	Financial Obligations	Fortress Investment (A)	Number of VIEs	Gross Assets	Financial Obligations	Fortress Investment (A)	(B)
Private Equity Funds	1	\$ 547	\$ —	\$ —	1	\$ 789	\$ —	\$ 155	(C)
Permanent Capital Vehicles	3	13,310,838	9,421,240	123,477	3	13,950,294	9,804,741	145,472	(C)
Liquid Hedge Funds	4	4,894,165	1,682,004	4,789	2	4,897,650	2,343,406	40,816	(D)
Credit Hedge Funds	6	2,010,902	259,722	3,122	6	1,966,802	370,607	50,945	(D) (E)
Credit PE Funds	37	1,163,735	144,090	6,728	33	1,229,250	362,642	5,350	(D) (E)
Logan Circle	3	360,917	—	195	1	244,828	—	144	(C)

38

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Business Segment	Fortress is Primary Beneficiary				December 31, 2013				Notes
	September 30, 2014				December 31, 2013				
	Number of VIEs	Gross Assets	Financial Obligations	Fortress Investment (A)	Number of VIEs	Gross Assets	Financial Obligations	Fortress Investment (A)	(B)
Private Equity Funds	2	\$96,459	\$ —	\$ 11,444	1	\$52,976	\$ —	\$ 15,868	(F) (H)
Permanent Capital Vehicles (Non-Investment Manager)	1	822,977	232,275	6,474	—	—	—	—	(G)
Liquid Hedge Funds	1	133,730	37,258	47,532	—	—	—	—	(F)
Credit Hedge Funds	3	—	—	—	—	—	—	—	(G)

Represents financial obligations of the VIEs, which are not recourse to Fortress. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these VIEs have additional debt within unconsolidated subsidiaries. The debt obligations of the VIEs are not cross collateralized with the debt (A) obligations of Fortress. Fortress has no obligation to satisfy the liabilities of the VIEs. Similarly, Fortress does not have the right to make use of the assets of the VIEs to satisfy its obligations. 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 direct and indirect investments in these entities, plus any receivables due from these entities. In addition to the table above, Fortress is exposed to potential changes in cash flow and revenues attributable to the management fees and/or incentive (B) 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 Fortress Funds that are a VIE because the fund's at-risk equity holders as a group lack the characteristics of a controlling financial interest because (i) the decision making is through a management contract that is not an at-risk equity investment and/or (ii) the voting rights of an investor are not proportional to its obligation to absorb (C) 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 funds. Fortress is not the primary beneficiary of these funds because it and its related parties do not absorb a majority of the funds' expected losses or residual returns based on a quantitative analysis.

(D) Includes entities (including investing vehicles and master funds) 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 ability to make decisions or have power over 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. Among the related party group, a Fortress Fund is determined to be most closely associated with, and thus is the primary beneficiary of, these VIEs because the VIE was designed to act on behalf of the Fortress Fund to make

investments. In addition, the activities of the VIE are more significant to the Fortress Fund, and in evaluating exposure to the expected losses or variability associated with the economic performance of the VIEs, in most cases the Fortress Fund holds both a majority ownership and majority economic interest in the VIE.

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

(E) Fortress is not the general partner, managing member or investment manager of these entities. The primary beneficiary of these entities is the third party investor who either is the general partner or has a majority ownership interest and a majority economic interest and power over the entity. These entities represent an insignificant portion of the amounts presented in the table.

(F) Includes entities that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because the 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 determined to be most closely associated with, and thus is the primary beneficiary of, these VIEs. As of September 30, 2014, includes \$58.5 million and \$133.7 million of gross assets of a consolidated private equity fund and liquid hedge fund, respectively, which are disclosed under Investment Company, consolidated VIEs in the consolidated financial statements.

(G) Includes entities that are a VIE because (i) the entity's equity investment at-risk is determined to be insufficient and/or (ii) the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because the decision making is through a management contract that is not an at-risk equity investment. Fortress is the investment manager of these entities. Fortress is determined to be the primary beneficiary of these entities since it has both power over the activities that most significantly affect the success of the entity or impact the entity's economic performance and has the right to receive benefits from the VIE that potentially could be significant to the entity. Included in credit hedge funds are investment vehicles formed during the second quarter of 2014. As of September 30, 2014, the credit hedge fund investment vehicles did not hold any assets or have any debt outstanding.

Includes an entity that is a VIE because the entity's equity investment at risk is determined to be insufficient.

(H) 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.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

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, 2014	December 31, 2013	
Investment Manager			
Assets (within Investments)			
Newcastle, New Residential and Eurocastle common shares	\$12,484	\$15,387	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies	1,022	63,001	Level 1 - Quoted prices in active markets for identical assets
Total equity method investments carried at fair value	\$13,506	\$78,388	
Newcastle, New Residential and Eurocastle options	\$70,251	\$104,338	Level 2 - Option valuation models using significant observable inputs
Assets (within Other Assets)			
Derivatives	\$17,785	\$9,749	Level 2 - See below
Equity Securities (A)	\$16,990	\$23,005	Level 1 - Quoted prices in active markets for identical assets
Liabilities (within Accrued Compensation and Benefits)			
Options in affiliates granted to employees	\$(8,831)	\$(16,390)	) Level 2 - Option valuation models using significant observable inputs
Liabilities (within Other Liabilities)			
Derivatives	\$(2,416)	\$(1,820)	) Level 2 - See below

Represents direct investments made by Fortress in accounts managed by Logan Circle's growth equities business. (A) The equity investments in these accounts are owned on Fortress's behalf and are held at fair value and classified as trading.

See Note 5 regarding the fair value of outstanding debt.

During the three months ended June 30, 2014, Fortress sold 4,190,761 shares of GAGFAH and realized a gain of approximately \$44.7 million. From inception through March 31, 2014, Fortress recorded a cumulative unrealized gain of approximately \$41.0 million in its investment income, resulting approximately in a \$3.7 million gain in the second quarter of 2014.

In April 2014, New Residential issued 14.4 million shares of its common stock in a public offering at a price to the public of \$12.20 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for New Residential, in connection with this offering, New Residential granted options to Fortress to purchase 1.4 million shares of New Residential's common stock at the public offering price, which were valued at \$1.6 million. The options

were fully vested upon issuance, become exercisable over thirty months and have a ten-year term. In October 2014, New Residential effected a 2-for-1 reverse stock split of its common stock. As a result of the reverse stock split, every two shares of New Residential's common stock were converted into one share of common stock, reducing the number of issued and outstanding shares of New Residential's common stock from approximately 282.8 million to approximately 141.4 million as of September 30, 2014. Every two options held by Fortress in New Residential were converted into one option with a corresponding increase in the strike price of the option. All New Residential share data and historical prices included herein have been adjusted for the reverse stock split.

In August 2014, Newcastle effected a 3-for-1 reverse stock split of its common stock. During October 2014, Newcastle also effected a 2-for-1 reverse stock split of its common stock. As a result of these reverse stock splits, every six shares of Newcastle's common stock were converted into one share of common stock, reducing the number of issued and outstanding shares of Newcastle's common stock from 398.4 million to 66.4 million as of September 30, 2014. Every six options held by Fortress in Newcastle were

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

converted into one option with a corresponding increase in the strike price of the option. All Newcastle share data and historical prices included herein have been adjusted for these reverse stock splits.

In August 2014, Newcastle issued 7.7 million shares of its common stock in a public offering at a price to the public of \$26.34 per share (as adjusted for reverse stock splits). For purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 0.8 million shares of Newcastle's common stock at the public offering price, which were valued at \$1.7 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

In September 2014, New Media issued approximately 7.5 million shares of its common stock in a public offering at a price to the public of \$16.25 a share for net proceeds of approximately \$114.9 million. For purposes of compensating Fortress for its successful efforts in raising capital for New Media, in connection with this offering, New Media granted options to Fortress to purchase approximately 0.7 million shares of New Media's common stock at the public offering price, which were valued at approximately \$3.0 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term. These options are eliminated in consolidation.

Derivatives

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

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

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

	Balance Sheet September 30, 2014 (or nine months ended)				Maturity
	Location (A)	Fair Value	Notional Amount	Gains/(Losses) (B)	Date
Foreign exchange forward contracts	Other Assets	\$ 1,088	¥1,776,837	\$ 1,088	Dec 14 - Jun 16
Foreign exchange option contracts	Other Assets	\$ 16,697	¥40,835,266	\$ 7,730	Dec 14 - Mar 17
Foreign exchange option contracts	Other Liabilities	\$(2,416)	¥4,719,235	\$(606)	Dec 14 - Sep 17

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

(B) Reflects unrealized gains (losses) related to contracts existing at period end.

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

Investment Company

Investments, at fair value, consist primarily of financial instruments held by the Investment Company, and are comprised of the following:

	September 30, 2014		Percentage of	
	Cost	Fair Value	Investment Company	
Common stock	\$71,437	\$70,351	52	%
Investments in affiliates (A)	58,155	58,155	43	%
Options	822	590	1	%
Derivatives	—	4,761	4	%
	\$130,414	\$133,857	100	%

(A) Represents equity investments in private portfolio companies.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

At September 30, 2014, investments, at fair value are predominantly concentrated in North America and Europe.

Investment Company liabilities consist primarily of securities sold not yet purchased, at fair value and options and derivatives which are included in Other liabilities on the consolidated balance sheet.

	September 30, 2014		Percentage of	
	Cost	Fair Value	Investment Company	
Securities sold not yet purchased, at fair value	\$38,902	\$37,258	98	%
Options	33	23	0	%
Derivatives	—	780	2	%
	\$38,935	\$38,061	100	%

The following summarizes the assets and liabilities held by the Investment Company measured at fair value, on a recurring basis within the fair value hierarchy as of September 30, 2014.

	Financial assets as of September 30, 2014			
	Level 1 (B)	Level 2 (C)	Level 3 (D)	Total
Common Stock	\$70,351	\$—	\$—	\$70,351
Investments in affiliates	—	—	58,155	58,155
Options	375	215	—	590
Derivatives (A)	43	5,511	—	5,554
	\$70,769	\$5,726	\$58,155	\$134,650

	Financial liabilities as of September 30, 2014			
	Level 1 (B)	Level 2 (C)	Level 3 (D)	Total
Securities sold not yet purchased, at fair value	37,258	—	—	37,258
Options	—	23	—	23
Derivatives (A)	88	1,485	—	1,573
	\$37,346	\$1,508	\$—	\$38,854

GAAP requires that reporting entities provide sufficient information to permit a reconciliation of the fair value measurement hierarchy disclosures to the consolidated balance sheet. The amounts presented in the table above are presented on a gross basis and, therefore, do not take into consideration rights to offset in the netting agreements.

(A) Provided these investments are held with the same legal counterparty governed by the Investment Company's standard trading agreements (the "Netting agreement"), certain balances are presented on a net basis in the consolidated balance sheet. See table below for a reconciliation between the gross and net amounts of each financial instrument type.

(B) Level 1 - Fair value is determined using quoted unadjusted prices in active markets for identical assets or liabilities.

(C) Level 2 - Fair value is determined using quotations received from dealers making a market for these assets or liabilities, valuations obtained from independent third-party pricing services, the use of models or other valuation methodologies based on pricing inputs that are either directly or indirectly market observable as of the measurement date.

Level 3 - Fair value is determined using pricing inputs that are unobservable in the market and includes situations where there is little, if any, market activity for the asset or liability. The fair value of assets and liabilities in this category may require significant judgment or estimation in determining fair value of the assets or liabilities. The (D) fair value of these assets and liabilities may be estimated using a combination of observed transaction prices, independent pricing services, relevant broker quotes, models or other valuation methodologies based on pricing inputs that are neither directly or indirectly market observable.

The Investment Company's quarterly average derivative trading volume, based on the underlying notional amounts, was \$211.1 million as of September 30, 2014.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

During the nine months ended September 30, 2014, the Investment Company had total Level 3 investment purchases of \$58.2 million and there were no transfers to or from Level 3 investments. As of September 30, 2014, the Investment Company's carrying value of its Level 3 investments was \$58.2 million which is equal to their cost basis. As a significant majority of these investments were acquired during the three months ended September 30, 2014 management has determined that the investments' purchase price approximates fair value as of September 30, 2014.

The Investment Company has agreements with certain counterparties with which it trades derivative instruments that contain credit-risk-related contingent features that could be triggered by certain circumstances (such as agreed upon capital balance thresholds). At times the Investment Company may have derivative instruments with counterparty credit-risk-related contingent features that are in a net liability position gross of collateral with various counterparties. If such credit-risk-related contingencies were triggered, the counterparties would have the option of terminating the agreements in the event the Investment Company was unable to renegotiate the terms of its agreements with such counterparties. Additionally, the Investment Company may be required to post collateral or settle the differences in the amount equal to the fair value of the derivative instruments less the collateral posted. During the nine months ended September 30, 2014, no such contingencies were triggered.

The Investment Company has trading agreements with certain counterparties which do not allow the right to set off. Such amounts are presented on a gross basis in the consolidated balance sheet and in the following reconciliation. Additionally, management has elected not to net options in the consolidated balance sheet, even if the right to offset exists in the netting agreements.

The following table sets forth the fair value of the Investment Company derivative contracts on a gross basis and any amount offset as permitted by the netting agreements as of September 30, 2014.

Offsetting of Financial Assets and Derivative Assets

	Gross Amounts of Recognized Assets as of September 30, 2014	Gross Amounts Offset in the Consolidated Balance Sheet as of September 30, 2014	Net Amounts of Assets Presented in the Consolidated Balance Sheet as of September 30, 2014
Options	\$590	\$—	\$590
Derivatives	5,554	(793	) 4,761
	\$6,144	\$(793	) \$5,351

Offsetting of Financial Liabilities and Derivative Liabilities

	Gross Amounts of Recognized Liabilities as of September 30, 2014	Gross Amounts Offset in the Consolidated Balance Sheet as of September 30, 2014	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet as of September 30, 2014
Options	\$23	\$—	\$23

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

Derivatives	1,573	(793	) 780
	\$1,596	\$(793	) \$803

As of September 30, 2014, prior to the application of netting agreements, the Investment Company pledged cash collateral of \$14.4 million, none of which is subject to offset.

The Investment Company records written option contracts as liabilities in the consolidated balance sheet. In writing an option, the Investment Company bears the market risk of an unfavorable change in the financial instrument underlying the written option. The exercise of an option written by the Investment Company could result in the Investment Company buying or selling a financial instrument at a price higher or lower than the current fair value.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

For the period from June 1, 2014 (commencement of operations) to September 30, 2014, the Investment Company wrote put and call options which may require it to purchase or sell certain investments if the written options are exercised against the Investment Company by the option holder. At September 30, 2014, the fair value of options written was less than \$0.1 million and is included in Other liabilities in the consolidated balance sheet. The written options expire on December 19, 2014. The maximum payout for written put options is limited to the number of contracts written and the related strike prices, whereas the maximum payout for written call options provides no limitation and is contingent upon the number of contracts written and the market price of the underlying instruments at the date of a payout. At September 30, 2014, the Investment Company had a maximum payout amount of approximately \$14.0 million relating to written put option contracts, which expire in less than 1 year. The maximum payout amount could be offset by the subsequent sale of assets obtained via the execution of a payout event. The fair value of these underlying assets of the written put options at September 30, 2014 is \$16.5 million. Written call option contracts expire in less than one year.

Gains (losses) can be summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net realized gains (losses)	\$(5,743	) \$—	\$(8,744) \$—
Net unrealized gains (losses)	752	—	4,317	—
	\$(4,991	) \$—	\$(4,427) \$—

These gains (losses) were generated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Mark to fair value on investments and options	\$(2,076	) \$—	\$(1,258) \$—
Mark to fair value on derivatives	(2,915	) —	(3,169) —
	\$(4,991	) \$—	\$(4,427) \$—

5. DEBT OBLIGATIONS

Investment Manager

	Face Amount and Carrying Value		Contractual	Final	September 30, 2014
	September 30, 2014	December 31, 2013	Interest Rate	Stated Maturity	Amount Available for Draws
Debt Obligation					
Revolving credit agreement (A)(B)	\$75,000	\$—	LIBOR + 2.50% (C)	Feb 2016	\$72,332
Total	\$75,000	\$—			

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

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

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

Management believes the fair value of its outstanding debt was approximately \$75.1 million as of September 30, 2014 (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, 2014. The following table sets forth the financial covenant requirements as of September 30, 2014.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

	September 30, 2014 (dollars in millions)		
	Requirement	Actual	Notes
AUM, as defined	≥ \$25,000	\$45,311	(A)
Consolidated Leverage Ratio	≤ 2.00	0.23	(B)
Consolidated Interest Coverage Ratio	≥ 4.00	112.12	(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 contained in the credit agreement.

The Consolidated Leverage Ratio is equal to Adjusted Net Funded Indebtedness, as defined, divided by the trailing four quarters' Consolidated EBITDA, as defined. The Consolidated Interest Coverage Ratio is equal to the quotient of (A) the trailing four quarters' Consolidated EBITDA, as defined, divided by (B) the trailing four quarters' interest charges as defined in the Credit Agreement. Consolidated EBITDA, as defined, is impacted by the same factors as distributable earnings, except Consolidated EBITDA is not impacted by changes in clawback reserves or gains and losses, including impairment, on investments.

Fortress's compliance with its debt covenants is not impacted by or dependent on the activities of the Media Business or on the terms and conditions of the New Media Credit Agreement.

The debt obligations of the Media Business are not cross collateralized with the debt obligations of the Investment Manager. Fortress has no obligation to satisfy the liabilities of New Media. Similarly, Fortress does not have the right to make use of the assets of New Media to satisfy its obligations.

New Media's debt obligations have no impact on the Investment Manager's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.

Non-Investment Manager

New Media Credit Agreement

On June 4, 2014, New Media Holdings II LLC (the "New Media Borrower"), a wholly owned subsidiary of New Media, entered into a credit agreement (the "New Media Credit Agreement") among the New Media Borrower, New Media Holdings I LLC ("Holdings I"), the lenders party thereto, RBS Citizens, N.A. and Credit Suisse Securities (USA) LLC as joint lead arrangers and joint bookrunners, Credit Suisse AG, Cayman Islands Branch as syndication agent and Citizens Bank of Pennsylvania as administration agent which provides for (i) a \$200.0 million senior secured term facility (the "Term Loan Facility") and (ii) a \$25.0 million senior secured revolving credit facility (of which \$15.0 million was drawn as of September 30, 2014), with a \$5.0 million sub-facility for letters of credit and a \$5.0 million sub-facility for swing loans (the "Revolving Credit Facility" and together with the Term Loan Facility, the "Senior Secured Credit Facilities"). In addition, the New Media Borrower may request one or more new commitments for term loans or revolving loans from time to time up to an aggregate total of \$75.0 million (the "Incremental Facility") subject to certain conditions. On June 4, 2014, the New Media Borrower borrowed \$200.0 million under the Term Loan Facility (the "Term Loans"). The Term Loans mature on June 4, 2020 and the maturity date for the Revolving Credit Facility is June 4, 2019.

The proceeds of the Term Loans, which included a \$6.7 million original issue discount, were primarily used to repay in full all amounts outstanding under the GateHouse Credit Facilities and the Local Media Credit Facility.

Borrowings under the Term Loan Facility bear interest, at the New Media Borrower's option, at a rate equal to either (i) the Eurodollar Rate (as defined in the New Media Credit Agreement), plus an applicable margin equal to 6.25% per annum (subject to a Eurodollar Rate floor of 1.00%) or (ii) the Base Rate (as defined in the New Media Credit Agreement), plus an applicable margin equal to 5.25% per annum (subject to a Base Rate floor of 2.00%).

Borrowings under the Revolving Credit Facility bear interest, at the New Media Borrower's option, at a rate equal to either (i) the Eurodollar Rate, plus an applicable margin equal to 5.25% per annum or (ii) the Base Rate, plus an applicable margin equal to 4.25% per annum, with a step down based on achievement of a certain total leverage ratio.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

If any borrowings under the Incremental Facility have an all-in yield more than 50 basis points greater than the Term Loans (the "Incremental Yield"), the all-in yield for the Term Loans shall be adjusted to be 50 basis points less than the Incremental Yield.

The Senior Secured Credit Facilities are unconditionally guaranteed by Holdings I and certain subsidiaries of the New Media Borrower (collectively, the "Guarantors") and is required to be guaranteed by all future material wholly-owned domestic subsidiaries, subject to certain exceptions. All obligations under the New Media Credit Agreement are secured, subject to certain exceptions, by substantially all of the New Media Borrower's assets and the assets of the Guarantors, including (a) a pledge of 100% of the equity interests of the New Media Borrower and the Guarantors (other than Holdings I), (b) a mortgage lien on the New Media Borrower's material real property and that of the Guarantors and (c) all proceeds of the foregoing.

Repayments made under the Term Loans are equal to 1.0% annually of the original principal amount in equal quarterly installments for the life of the Term Loans, with the remainder due at maturity. The New Media Borrower is permitted to make voluntary prepayments at any time without premium or penalty, except in the case of prepayments made in connection with certain repricing transactions with respect to the Term Loans effected within six months of the closing date of the New Media Credit Agreement, to which a 1.00% prepayment premium applies. The New Media Borrower is required to repay borrowings under the Senior Secured Credit Facilities (without payment of a premium) with (i) net cash proceeds of certain debt obligations (except as otherwise permitted under the New Media Credit Agreement), (ii) net cash proceeds from non-ordinary course asset sales (subject to reinvestment rights and other exceptions), and (iii) commencing with New Media's fiscal year started December 30, 2013, 100% of Excess Cash Flow (as defined in the New Media Credit Agreement), subject to step-downs to 50%, 25% and 0% of Excess Cash Flow based on achievement of a total leverage ratio of less than or equal to 3.0 to 1.0 but greater than 2.75 to 1.0; less than or equal to 2.75 to 1.0 but greater than 2.5 to 1.0; and less than or equal to 2.5 to 1.0, respectively. The New Media Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to Holdings I, the New Media Borrower and the New Media Borrower's subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, fundamental changes, dispositions, and dividends and other distributions. The New Media Credit Agreement contains a financial covenant that requires Holdings I, the New Media Borrower and the New Media Borrower's subsidiaries to maintain a maximum total leverage ratio of 3.25 to 1.0. The New Media Credit Agreement contains customary events of default. The foregoing description of the Senior Secured Credit Facilities are qualified in their entirety by reference to the Senior Secured Credit Facilities. The New Media Credit Agreement was amended July 17, 2014 to cure an omission.

One lender under the New Media Credit Agreement was also a lender under the GateHouse Credit Facilities. This portion of the transaction was accounted for as a modification, as the difference between the present value of the cash flows under the New Media Credit Agreement and the present value of the cash flows under the GateHouse Credit Facilities was less than 10%. The unamortized deferred financing costs of \$1.9 million and original issuance discount balance of \$0.9 million as of the refinance date pertaining to this lender's portion of the GateHouse Credit Facilities will be amortized over the terms of the new facility. The remaining portion of the Gatehouse Credit Facilities and Local Media Facility debt refinancing constituted an extinguishment of debt, and was accounted for accordingly. In connection with this transaction, New Media incurred approximately \$10.2 million of fees and expenses, of which \$6.7 million were recognized as original issue discount and \$1.7 million were recognized as deferred financing costs. These amounts were capitalized and will be amortized over the terms of the Senior Secured Credit Facilities. Additionally, New Media recorded a loss on early extinguishment of debt of \$9.0 million associated with this

transaction, which consisted of the write-off of unamortized deferred financing costs and other expenses not eligible for capitalization.

During September 2014, the New Media Credit Agreement was amended to provide for additional term loans under the Incremental Facility in an aggregate principal amount of \$25.0 million (such term loans, the "Incremental Term Loan," and such amendment, the "Incremental Amendment"). The Incremental Term Loan is on terms identical to the term loans that were extended pursuant to the New Media Credit Agreement and will mature on June 4, 2020. In addition, the New Media Borrower was required to pay an upfront fee of 2.00% of the aggregate amount of the Incremental Term Loan as of the effective date of the Incremental Amendment.

During the nine months ended September 30, 2014, New Media paid \$0.9 million of deferred financing costs related to the GateHouse Credit Facilities and Local Media Credit Facility and \$1.7 million related to the New Media Credit Agreement.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

GateHouse Credit Facilities

The Revolving Credit, Term Loan and Security Agreement (the “First Lien Credit Facility”) dated November 26, 2013 by and among GateHouse, GateHouse Media Intermediate Holdco, LLC formerly known as GateHouse Media Intermediate Holdco, Inc. (“GMIH”), certain wholly-owned subsidiaries of GMIH, all of which are wholly owned subsidiaries of New Media (collectively with GMIH and GateHouse, the “Loan Parties”), PNC Bank, National Association, as the administrative agent, Crystal Financial LLC, as term loan B agent, and each of the lenders party thereto provided for (i) a term loan A in the aggregate principal amount of \$25.0 million, a term loan B in the aggregate principal amount of \$50.0 million, and a revolving credit facility in an aggregate principal amount of up to \$40.0 million.

The Term Loan and Security Agreement (the “Second Lien Credit Facility” and together with the First Lien Credit Facility, the “GateHouse Credit Facilities”) dated November 26, 2013 by and among the Loan Parties, Mutual Quest Fund and each of the lenders party thereto provided for a term loan in an aggregate principal amount of \$50.0 million. The GateHouse Credit Facilities were secured by a first and second priority security interest in substantially all the assets of the Loan Parties.

The GateHouse Credit Facilities were paid in full on June 4, 2014.

Local Media Credit Facility

Certain of Local Media Parent’s subsidiaries (together, the “Borrowers”) and Local Media entered into a Credit Agreement, dated as of September 3, 2013, with a syndicate of financial institutions with Credit Suisse AG, Cayman Islands Branch, as administrative agent (the “Local Media Credit Facility”).

The Local Media Credit Facility provided for: (a) a \$33.0 million term loan facility; and (b) a \$10.0 million revolving credit facility, with a \$3.0 million sub-facility for letters of credit and a \$4.0 million sub-facility for swing loans. The Local Media Credit Facility was secured by a first priority security interest in substantially all assets of the Borrowers and Local Media Parent. In addition, the loans and other obligations of the Borrowers under the Local Media Credit Facility are guaranteed by Local Media Group Holdings LLC.

The Local Media Credit Facility was paid in full on June 4, 2014.

Fair Value

As of September 30, 2014, the estimated fair value of long-term debt under the New Media Credit Agreement was \$240.0 million, based on discounted future contractual cash flows and a market interest rate adjusted for necessary risks, including New Media’s credit risk as there are no rates currently observable in publicly traded debt markets of risk with similar terms and average maturities. Accordingly, New Media’s long-term debt under the New Media Credit Agreement is classified within Level 3 of the fair value hierarchy.

Payment Schedule

As of September 30, 2014, scheduled principal payments of New Media’s outstanding debt are as follows:

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

	Amount
October 1, 2014 through December 31, 2014	\$563
2015	2,250
2016	2,250
2017	2,813
2018	1,687
Thereafter	230,437
	240,000
Less: Original issue discount	7,725
Total New Media debt obligations	\$232,275

47

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

6. INCOME TAXES AND TAX RELATED PAYMENTS

Investment Manager

A portion of Fortress's income is not subject to U.S. federal income tax, but is allocated directly to Fortress's shareholders.

Fortress recognizes compensation expense from the issuance of RSUs and RPUs (Note 8) over their vesting period. Consequently, Fortress records an estimated income tax benefit associated with RSUs and RPUs. However, Fortress is not entitled to an actual deduction on its income tax returns until a later date when the compensation is considered taxable to the employee. The actual income tax deduction can vary significantly from the amount recorded as an income tax benefit in earlier periods and is based on the value of the stock at the date the compensation is taxable to the employee.

At each tax deduction date, Fortress is required to compare the amount of the actual income tax benefit to the estimated amount recognized earlier. Excess tax benefits associated with RSUs and RPUs are credited to stockholder's equity to the extent that the actual tax benefit is greater than what was previously estimated. If the actual tax benefit is less than that estimated, which will occur if the price of the stock has declined during the vesting period, Fortress has a "tax shortfall." The tax shortfall must be charged to income tax expense to the extent Fortress does not have prior excess tax benefits (i.e., prior actual tax benefits associated with RSUs and RPUs that were greater than the estimated benefits).

For the nine months ended September 30, 2014, Fortress recorded \$3.0 million to paid in capital for excess tax benefits from RSUs delivered during the period and as a financing activity on the consolidated statements of cash flows.

Based on the value of the RSUs and RPUs which vested during the nine months ended September 30, 2013, Fortress estimated tax shortfalls of \$25.1 million which were charged to income tax expense during the period.

The provision for income taxes consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Current				
Federal income tax expense (benefit)	\$4,057	\$3,150	\$(395	) \$(16,366
Foreign income tax expense (benefit)	2,358	2,038	6,966	4,942
State and local income tax expense (benefit)	939	1,712	1,937	612
	7,354	6,900	8,508	(10,812
Deferred				
Federal income tax expense (benefit)	(4,065	) 6,777	6,548	45,327
Foreign income tax expense (benefit)	432	(62	) 1,108	(22
State and local income tax expense (benefit)	(697	) 1,179	770	7,743
	(4,330	) 7,894	8,426	53,048

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

Total expense (benefit)	\$3,024	\$14,794	\$16,934	\$42,236
-------------------------	---------	----------	----------	----------

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

	September 30, 2014	December 31, 2013
Total deferred tax assets	\$421,907	\$421,027
Less:		
Valuation allowance	(26,726	) (49,805
Deferred tax liabilities (A)	(9,880	) (16,696
Deferred tax assets, net	\$385,301	\$354,526

The deferred tax liabilities primarily relate to timing differences in the recognition of income from compensatory (A) options received from the 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.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

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

Valuation Allowance at December 31, 2013	\$49,805	
Changes due to FIG Corp. ownership change	(1,472)
Net decreases (A)	(21,607)
Valuation Allowance at September 30, 2014	\$26,726	

Primarily related to the write-off of certain fully reserved deferred tax assets associated with funds in the process (A) of liquidation, offset by the change in the portion of the deferred tax asset that would be realized in connection with future capital gains.

For the nine months ended September 30, 2014, a net deferred income tax provision of \$0.4 million was credited to other comprehensive income, primarily related to the equity method investees. For the nine months ended September 30, 2014, a current income tax benefit of \$0.6 million was credited to paid-in capital, related to dividend equivalent payments on RSUs (Note 9), as applicable, which are currently deductible for income tax purposes.

FIG Corp. decreased its ownership in the underlying Fortress Operating Group entities during the nine months ended September 30, 2014 as a result of the purchase of Class A shares from Nomura. This decrease was offset by an increase from the delivery of vested RSUs (Note 8) and the offering of Class A shares and the repurchase of an equivalent number of outstanding Fortress Operating Group units and an equal number of Class B shares. As a result of this change in ownership and other factors, the deferred tax asset decreased by \$11.4 million with an offsetting decrease of \$2.4 million to the valuation allowance. In addition, the deferred tax asset was increased by \$49.0 million related to a step-up in tax basis due to the repurchase of Fortress Operating Group units which will result in additional tax deductions, with an offsetting increase of \$0.9 million to the valuation allowance, while the liability for the tax receivable agreement was increased by \$39.1 million to represent 85% of the expected cash savings resulting from the increase in tax basis deductions. The establishment of these net deferred tax assets, net of the change in the tax receivable agreement liability, also increased additional paid-in capital.

Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the nine months ended September 30, 2014, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be \$15.5 million. In addition, during the nine months ended September 30, 2014, the realization of certain tax benefits, which were previously offset by a valuation allowance, gave rise to a \$4.0 million increase in the expected tax receivable agreement liability.

Non-Investment Manager

Income tax expense (benefit) consists of the following:

	Three Months Ended September 30, 2014	Period from February 14, 2014 September 30, 2014
Current		
Federal income expense (benefit)	\$—	\$—
State and local income expense (benefit)	—	—

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

Deferred	—	—
Federal income expense (benefit)	2,495	1,365
State and local income expense (benefit)	621	339
	3,116	1,704
Total New Media income tax expense (benefit)	\$3,116	\$1,704

49

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

The tax effects of temporary differences that give rise to significant portions of the net deferred tax liabilities, included in other liabilities, net on the consolidated balance sheets, as of September 30, 2014 are presented below:

	September 30, 2014
Definite and indefinite lived intangible assets	\$78,605
Net operating losses	102,258
Other	25,337
Total deferred tax assets	206,200
Less:	
Valuation allowance	(169,533)
Deferred tax liabilities (A)	(38,371)
Deferred tax liabilities, net	\$(1,704)

The deferred tax liabilities primarily relate to timing differences in the recognition of depreciation expense related (A) to fixed assets. Deferred tax assets are shown net of deferred tax liabilities since they are both primarily of similar tax character and tax jurisdiction.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

For the period from February 14, 2014 to September 30, 2014, the valuation allowance increased by \$4.8 million.

As of September 30, 2014, New Media had tax effected net operating loss carryforwards for federal and state income tax purposes of approximately \$102.0 million, which are available to offset future taxable income, if any. These federal and state net operating loss carryforwards begin to expire on various dates from 2019 through 2033. The majority of the operating losses are subject to the limitations of Internal Revenue Code (the "Code") Section 382. This section provides limitations on the availability of net operating losses to offset current taxable income if significant ownership changes have occurred for Federal tax purposes.

As of September 30, 2014, New Media had uncertain tax positions of \$1.1 million which, if recognized, would impact the effective tax rate. New Media did not record significant amounts of interest and penalties related to uncertain tax positions for the period from February 14, 2014 to September 30, 2014.

New Media does not anticipate significant increases or decreases in its uncertain tax positions within the next twelve months. New Media recognizes penalties and interest relating to uncertain tax positions in the provision for income taxes. For the period from February 14, 2014 to September 30, 2014, New Media did not recognize any accrued interest or penalties. As of September 30, 2014, of the accrued uncertain tax positions, New Media has \$0.3 million of interest and penalties accrued.

New Media files a U.S. federal consolidated income tax return for which the statute of limitations remains open for the 2010 tax year and beyond. U.S. state jurisdictions have statute of limitations generally ranging from 3 to 6 years.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

7. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES

Investment Manager

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

	Private Equity Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Other	Total
September 30, 2014								
Management fees and incentive income (A)	\$34,843	\$37,434	\$842	\$1,483	\$16,542	\$937	\$—	\$92,081
Expense reimbursements (A)	1,332	4,723	6,906	7,965	7,322	156	—	28,404
Expense reimbursements - FCF (B)	27,774	124	—	—	—	—	—	27,898
Dividends and distributions	—	324	—	—	—	—	—	324
Other	—	658	—	—	—	—	15,709	16,367
	\$63,949	\$43,263	\$7,748	\$9,448	\$23,864	\$1,093	\$15,709	\$165,074
December 31, 2013								
Management fees and incentive income (A)	\$40,456	\$21,701	\$89,400	\$144,749	\$18,143	\$689	\$—	\$315,138
Expense reimbursements (A)	2,599	4,905	6,437	7,118	14,656	64	—	35,779
Expense reimbursements - FCF (B)	42,872	100	—	—	—	—	—	42,972
Dividends and distributions	—	405	—	—	—	—	—	405
Other	—	698	—	—	4	—	12,128	12,830
	\$85,927	\$27,809	\$95,837	\$151,867	\$32,803	\$753	\$12,128	\$407,124

(A) Net of allowances for uncollectible management fees and expense reimbursements of \$12.2 million and \$6.5 million as of September 30, 2014, respectively, and of \$12.2 million and \$6.3 million as of December 31, 2013, respectively. Allowances are recorded as General and Administrative expenses. As of September 30, 2014, excludes \$2.0 million of management fees due from New Media which are eliminated in consolidation.

(B) Represents expense reimbursements due to FCF, a consolidated VIE.

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

As of September 30, 2014, amounts due from Fortress Funds recorded in Due from Affiliates included \$33.6 million of past due management fees, excluding \$12.2 million which has been fully reserved by Fortress, and \$12.3 million of private equity general and administrative expenses advanced on behalf of certain Fortress Funds, excluding \$6.5 million which has been fully reserved by Fortress. Although such funds are currently experiencing liquidity issues, Fortress believes the unreserved portion of these fees and reimbursable expenses will ultimately be collectible. The unreserved amounts are primarily due from a fund and the amount represents less than 5% of this fund's NAV.

Due to affiliates was comprised of the following:

	September 30, 2014	December 31, 2013
Principals - tax receivable agreement - Note 6	\$284,265	\$241,006
Principals - Principal Performance Payments - Note 8	20,016	45,524
Distributions payable on Fortress Operating Group units	—	5,160
Other	8,437	11,345
General partner liability - Note 10	43,471	41,797
	\$356,189	\$344,832

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Other Related Party Transactions

For the nine months ended September 30, 2014 and 2013, Other Revenues included approximately \$2.0 million and \$1.3 million, respectively, of revenues from affiliates, primarily interest and dividends.

During 2014, Fortress advanced \$3.6 million to two of its senior employees who are not officers. These advances bear interest at LIBOR+4.00%. All principal and interest is due and payable no later than February 2018. In addition, three senior employees repaid advances aggregating \$3.4 million.

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:

	September 30, 2014	December 31, 2013
Fortress Operating Group units held by the Principals and one senior employee	\$519,780	\$725,424
Employee interests in majority owned and controlled fund advisor and general partner entities	65,277	62,381
Other	2,258	2,033
Total	\$587,315	\$789,838

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

	September 30, 2014	December 31, 2013
Fortress Operating Group equity (Note 13)	\$1,602,695	\$1,489,701
Less: Others' interests in equity of consolidated subsidiaries (Note 13)	(67,535)	(64,414)
Non-controlling interests in equity of Investment Company - consolidated VIEs	(58,426)	—
Non-controlling interests in equity of Non-Investment Manager - consolidated VIE	(479,516)	—
Total Fortress shareholders' equity in Fortress Operating Group	\$997,218	\$1,425,287
Fortress Operating Group units outstanding (A)	226,331,513	249,534,372
Class A shares outstanding	208,004,183	240,741,920
Total	434,335,696	490,276,292
Fortress Operating Group as a percent of total (B)	52.1	% 50.9
Equity of Fortress Operating Group units held by Principals and one senior employee	\$519,780	\$725,424

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

(B) As a result, the Registrant owned 47.9% and 49.1% of Fortress Operating Group as of September 30, 2014 and December 31, 2013, respectively.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Fortress Operating Group units held by the Principals and one senior employee	\$9,581	\$57,221	\$55,143	\$104,653
Employee interests in majority owned and controlled fund advisor and general partner entities	1,063	1,647	3,578	6,756
Other	198	(64	) 225	12
Total	\$10,842	\$58,804	\$58,946	\$111,421

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Fortress Operating Group net income (loss) (Note 13)	\$14,314	\$113,449	\$96,966	\$208,076
Adjust:				
Others' interests in net (income) loss of consolidated subsidiaries (Note 13)	(1,261	) (1,583	) (3,803	) (6,768
Redeemable Non-controlling interests in (income) loss of Investment Company - consolidated VIE	2,042	—	1,885	—
Non-controlling interests in (income) loss of Investment Company - consolidated VIEs	9	—	9	—
Non-controlling interests in (income) loss of Non-Investment Manager - consolidated VIE	3,014	—	10,305	—
Total Fortress shareholders' net income (loss) in Fortress Operating Group	\$18,118	\$111,866	\$105,362	\$201,308
Fortress Operating Group as a percent of total (A)	52.9	% 51.2	% 52.3	% 52.0
Fortress Operating Group net income (loss) attributable to the Principals and one senior employee	\$9,581	\$57,221	\$55,143	\$104,653

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

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net Income (loss) attributable to Class A shareholders	\$4,438	\$42,381	\$38,594	\$54,634
Transfers (to) from the Principals' and Others' Interests:				
Increase in Fortress's shareholders' equity for the conversion of Fortress Operating Group units by the Principals and one senior employee	—	—	—	10,143
Increase in Fortress's shareholders' equity for the delivery of Class A shares primarily in connection with vested RSUs and RPUs	273	3,062	5,049	12,550
Increase in Fortress's shareholders' equity for the public offering of Class A shares and repurchase of Class B shares and FOGUs	—	—	53,510	—
Decrease in Fortress's shareholders' equity for the repurchase and cancellation of Class A shares and FOGUs	—	—	(101,156)) —
Change from net income (loss) attributable to Fortress and transfers (to) from Principals' and Others' Interests	\$4,711	\$45,443	\$(4,003)	) \$77,327

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

8. EQUITY-BASED AND OTHER COMPENSATION

Investment Manager

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Equity-based compensation, per below	\$11,251	\$8,671	\$29,584	\$28,648
Profit-sharing expense, per below	53,383	29,540	159,131	194,091
Discretionary bonuses	60,341	52,033	173,062	155,121
Other payroll, taxes and benefits	62,274	56,213	182,105	161,731
	\$187,249	\$146,457	\$543,882	\$539,591

Equity-Based Compensation

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

	RSUs		Non-Employees		Restricted Shares Issued to Directors	
	Employees Number	Value (A)	Number	Value (A)	Number	Value (A)
Outstanding at December 31, 2013	19,228,466	\$4.14	14,500	\$3.12	955,744	\$5.41
Issued	8,340,227	7.19	237,498	7.18	89,390	7.38
Transfers	(141,423)	5.25	141,423	5.46	—	—
Converted to Class A shares	(4,530,852)	3.87	(7,437)	3.28	—	—
Forfeited	(1,468,490)	3.89	—	—	—	—
Outstanding at September 30, 2014 (B)	21,427,928	\$5.39	385,984	\$6.47	1,045,134	\$5.58

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Expense incurred (B)				
Employee RSUs	\$6,082	\$5,069	\$17,446	\$18,357
Non-Employee RSUs	563	—	572	1
Principal Performance Payments (C)	4,109	3,602	11,069	10,290
Granted Class A Shares (D)	497	—	497	—
Restricted Shares (E)	—	—	—	—
Total equity-based compensation expense	\$11,251	\$8,671	\$29,584	\$28,648

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

In future periods, Fortress will further recognize compensation expense on its non-vested equity based awards

(B) outstanding as of September 30, 2014 of \$62.7 million, with a weighted average recognition period of 2.3 years.

This does not include contingent amounts.

Accrued based on year-to-date performance; the actual number of RSUs granted are determined at year end. Based

(C) on year-to-date performance, a total of approximately 1.1 million RSUs would be awarded as Principal

Performance Payments.

(D) Represents expense associated with vested Class A shares granted during the three months ended September 30,

2014.

Certain restricted shares granted to directors are recorded in General and Administrative Expense (\$0.3 million and

(E) \$0.6 million for the nine months ended September 30, 2014 and 2013, respectively) and therefore are not included above.

When Fortress records equity-based compensation expense it records a corresponding increase in capital.

Fortress's management reviewed the estimated forfeiture factor as of September 30, 2014 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.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

In January 2014, Fortress granted 3.2 million non-dividend paying RSUs to its employees and affiliates valued at an aggregate of \$22.8 million on the grant date. These RSUs generally vest over three years.

In February 2014, Fortress awarded 3.2 million dividend paying RSUs as Principal Performance Payments based on 2013 results valued at an aggregate of \$25.8 million on the grant date. These RSUs vest over three years.

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

	Nine Months Ended September 30, 2014		
	Equity-Based Compensation	Profit Sharing Expense	Total
Private equity business	\$—	\$2,958	\$2,958
Liquid hedge fund business	2,756	1,250	4,006
Credit business	8,313	13,631	21,944
Total	\$11,069	\$17,839	\$28,908

Profit Sharing Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Private equity funds	\$—	\$—	\$303	\$2,135
Permanent capital vehicles (A)	(1,751	) (459	) 7,334	7,757
Liquid hedge funds	10,256	(3,578	) 18,663	35,458
Credit hedge funds	13,675	20,371	49,008	71,074
Credit PE funds	26,419	9,480	65,984	53,570
Principal Performance Payments (B)	4,784	3,726	17,839	24,097
Total	\$53,383	\$29,540	\$159,131	\$194,091

(A) Includes the mark-to market impact on the tandem options related to the publicly traded permanent capital vehicles.

(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.

During the nine months ended September 30, 2014, 2,477 unvested Newcastle tandem options and 7,434 unvested New Residential tandem options, as adjusted for the reverse stock splits, were forfeited and the accrued compensation and related liability was reversed.

Non-Investment Manager

New Media 401(K) Plan

New Media maintains the New Media Investment Group, Inc. Retirement Savings Plan (the “New Media 401(k) Plan”), which is intended to be a qualified defined contribution plan with a cash or deferred arrangement under Section 401(k) of the Code. In general, eligible employees of New Media and participating affiliates who satisfy minimum age and service requirements are eligible to participate. Eligible employees can contribute amounts up to 100% of their eligible compensation to the New Media 401(k) Plan, subject to IRS limitations. The New Media 401(k) Plan also provides for discretionary matching and nonelective contributions that can be made in separate amounts among different allocation groups. For the period ended September 30, 2014, New Media’s matching contributions to the New Media 401(k) Plan were \$0.4 million. New Media did not make nonelective contributions for the nine months ended September 30, 2014.

Stock Option and Incentive Award Plan

In February 2014, the Board of Directors of New Media adopted the New Media Investment Group Inc. Nonqualified Stock Option and Incentive Award Plan (the “Incentive Plan”).

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

Also in February 2014, the New Media Board adopted a form of the New Media Investment Group Inc. Non-Officer Director Restricted Stock Grant Agreement (the “Form Grant Agreement”) to govern the terms of awards of restricted stock (“New Media Restricted Stock”) granted under the Incentive Plan to directors who are not officers or employees of New Media (the “Non-Officer Directors”). The Form Grant Agreement provides for the grant of New Media Restricted Stock that vests in equal annual installments on each of the first, second and third anniversaries of the grant date, subject to the Non-Officer Director’s continued service as a member of the New Media Board, and immediate vesting in full upon his or her death or disability. If the non-officer director’s service terminates for any other reason, all unvested shares of New Media Restricted Stock will be forfeited. Any dividends or other distributions that are declared with respect to the shares of New Media Restricted Stock will be paid to the Non-Officer Director at the time such shares vest. On March 14, 2014, a grant of New Media restricted shares totaling 15,870 was made to New Media’s Non-Officer Directors with a grant date fair value of \$0.2 million.

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

Substantially all of Fortress's business is conducted at the Fortress Operating Group (“FOG”) level and FOG’s net income (loss) is allocated pro rata between the Fortress Operating Group units held by the Registrant, on the one hand, and the Principals and one senior employee, on the other hand. The FOG income allocated to the Principals and one 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 one 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 one senior employee.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

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

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	206,881,050	206,881,050	208,079,111	208,079,111
Fully vested restricted Class A share units with dividend equivalent rights	88,508	88,508	1,789,026	1,789,026
Fully vested restricted Class A shares	1,045,134	1,045,134	1,006,503	1,006,503
Fortress Operating Group units exchangeable into Class A shares (1)	—	—	—	232,790,917
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)	—	4,810,232	—	4,146,536
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	7,967,787	—	9,207,414
Total weighted average shares outstanding	208,014,692	220,792,711	210,874,640	457,019,507
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	\$4,438	\$4,438	\$38,594	\$38,594
Dilution in earnings due to fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4)	—	—	—	—
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(686	) (686	) (1,100	) (1,100
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)	—	—	—	38,712
Net income (loss) available to Class A shareholders	\$3,752	\$3,752	\$37,494	\$76,206
Weighted average shares outstanding	208,014,692	220,792,711	210,874,640	457,019,507
Basic and diluted net income (loss) per Class A share	\$0.02	\$0.02	\$0.18	\$0.17

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	237,470,346	237,470,346	231,019,933	231,019,933
Fully vested restricted Class A share units with dividend equivalent rights	982,225	982,225	2,821,011	2,821,011
Fully vested restricted Class A shares	952,016	952,016	909,641	909,641
Fortress Operating Group units and fully vested RPU's exchangeable into Class A shares (1)	—	249,534,372	—	252,789,561
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)	—	2,771,059	—	2,067,969
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	10,381,148	—	9,954,355
Total weighted average shares outstanding	239,404,587	502,091,166	234,750,585	499,562,470
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	\$42,381	\$42,381	\$54,634	\$54,634
Dilution in earnings due to RPU's treated as a participating security of Fortress Operating Group and fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4)				
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(777)	(777)	(590)	(590)
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 and fully vested RPU's exchangeable into Class A shares (1)	—	18,906	—	52,551
Net income (loss) available to Class A shareholders	\$41,604	\$60,510	\$54,044	\$106,595
Weighted average shares outstanding	239,404,587	502,091,166	234,750,585	499,562,470
Basic and diluted net income (loss) per Class A share	\$0.17	\$0.12	\$0.23	\$0.21

The Fortress Operating Group units and fully vested RPU's not held by Fortress (that is, those held by the Principals and one senior employee) are exchangeable into Class A shares on a one-to-one basis (fully vested RPU's would first have to be exchanged for Fortress Operating Group units and Class B shares). These units and fully vested RPU's are not included in the computation of basic earnings per share. These units and fully vested RPU's enter into (1) the computation of diluted net income (loss) per 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 and fully vested RPU's. 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. The final vesting of the RPU's occurred on January 1, 2013.

Restricted Class A shares granted to directors and certain restricted Class A share units granted to employees are eligible to receive dividend or dividend equivalent payments when dividends are declared and paid on Fortress's (2) Class A shares and therefore participate fully in the results of Fortress's operations from the date they are granted. They are included 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Share Units	13,592,852	14,766,136	13,167,782	15,761,068

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2014

(dollars in tables in thousands, except share data)

- Fortress Operating Group RPU's are eligible to receive partnership distribution equivalent payments when distributions are declared and paid on Fortress Operating Group units. The RPU's represent a participating security of Fortress Operating Group and the resulting dilution in Fortress Operating Group earnings available to
- (4) Fortress is reflected in the computation of both basic and diluted earnings per Class A share using the method prescribed for securities issued by a subsidiary. For purposes of the computation of basic and diluted earnings per Class A share, the fully vested restricted Class A share units with dividend equivalent rights are treated as outstanding Class A shares of Fortress and as outstanding partnership units of Fortress Operating Group.

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

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

	Weighted Average Three Months Ended September 30,		Weighted Average Nine Months Ended September 30,	
	2014	2013	2014	2013
Class A shares (public shareholders)	206,881,050	237,470,346	208,079,111	231,019,933
Restricted Class A shares (directors)	1,045,134	952,016	1,006,503	909,641
Restricted Class A share units (employees) (A)	88,508	982,225	1,789,026	2,821,011
Restricted Class A share units (employees) (B)	7,513,984	5,744,629	7,016,497	4,759,829
Fortress Operating Group units (Principals and one senior employee)	226,331,513	249,534,372	232,790,917	249,534,372
Fortress Operating Group RPU's (one senior employee)	—	—	—	3,255,189
Total	441,860,189	494,683,588	450,682,054	492,299,975

	As of September 30, 2014	As of December 31, 2013
Class A shares (public shareholders)	206,959,049	239,786,176
Restricted Class A shares (directors)	1,045,134	955,744
Restricted Class A share units (employees) (A)	103,684	6,704
Restricted Class A share units (employees) (B)	7,513,984	5,232,536
Fortress Operating Group units (Principals and one senior employee)	226,331,513	249,534,372
Total	441,953,364	495,515,532

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

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

On February 13, 2014, Fortress entered into a purchase agreement with Nomura Investment Managers U.S.A. ("Nomura") to acquire 60,568,275 Class A shares for \$363.4 million. All of the purchased Class A shares (and underlying Fortress Operating Group units) were canceled and ceased to be outstanding. As part of the purchase

agreement, Fortress agreed for each year, until the third anniversary of the date of the agreement, to engage Nomura and its affiliates to provide certain financial advisory and financing services and/or pay Nomura certain annual sums in lieu thereof equal to the difference, if any, between (i) \$12.0 million minus (ii) all fees earned or received by Nomura for the services provided to Fortress and its affiliates during each year.

In connection with the agreement to engage Nomura and its affiliates as described above, Fortress recorded a liability (included in Investment Manager other liabilities on the consolidated balance sheet) of approximately \$30.0 million, which has been recorded as a reduction to equity as part of the repurchase of Class A shares.

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

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Dividends and distributions during the nine months ended September 30, 2014 are summarized as follows:

	Declared in Prior Year, Paid in Current Year	Declared in Current Year		Total
		Declared and Paid	Declared but not yet Paid	
Dividends on Class A Shares	\$—	\$85,181	\$—	\$85,181
Dividend equivalents on restricted Class A share units (A)	—	3,436	—	3,436
Distributions to Fortress Operating Group unit holders				
(Principals and one senior employee) (B)	5,160	92,516	—	92,516
Total distributions	\$5,160	\$181,133	\$—	\$181,133

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

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

On April 30, 2014, Fortress declared a first quarter cash dividend of \$0.08 per Class A share. The dividend was payable on May 16, 2014 to holders of record of Class A shares on May 13, 2014. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was \$17.2 million.

On July 30, 2014, Fortress declared a base quarterly cash dividend of \$0.08 per Class A share and a special cash dividend of \$0.18 per Class A share resulting in total dividends of \$0.26 per Class A share for the second quarter of 2014. The dividend was payable on August 15, 2014 to holders of record of Class A shares on August 12, 2014. The aggregate amount of this dividend payment, including dividend equivalent payments to holders of restricted Class A share units, was \$56.0 million.

On October 30, 2014, Fortress declared a base quarterly cash dividend of \$0.08 per Class A share. The dividend is payable on November 17, 2014 to holders of record of Class A shares on November 12, 2014. The aggregate amount of this dividend payment, including dividend equivalent payments to holders of restricted Class A share units, is approximately \$17.2 million.

10. COMMITMENTS AND CONTINGENCIES

Investment Manager

Other than as described below, Fortress's commitments and contingencies remain materially unchanged from December 31, 2013.

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 3), the full amount of the negative net equity would be recorded on the balance sheet of the general partner entity. Such amount would be recorded on the Fortress balance sheet in consolidation until it is legally resolved. While these entities are limited liability companies and generally have no material assets other than their general partner interests, these entities and Fortress may be subject to litigation in connection with such amounts if fund creditors choose to sue Fortress to seek repayment. See “Litigation” below.

In March 2011, a private equity fund fell into a negative equity position, after considering all of Fortress’s interests in such fund and its reserves related thereto. As described above, the amount of the negative equity was recorded, through earnings (losses) from equity method investees, by the general partner entity and is therefore included in the consolidated financial statements of Fortress. When the fund matures and is liquidated, Fortress will record a gain in the event and to the extent it does not fund this negative equity. The amount of negative equity recorded at September 30, 2014 was \$43.5 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

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

as of September 30, 2014, 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, Private Permanent Capital Vehicle and Credit PE Fund Capital Commitments — Fortress has remaining capital commitments, which aggregated \$149.1 million as of September 30, 2014, 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 are as follows:

October 1, 2014 to December 31, 2014	\$6,543
2015	25,836
2016	23,404
2017	3,432
2018	937
2019	371
Thereafter	—
Total	\$60,523

Rent expense, including operating expense escalations, for the Investment Manager during the nine months ended September 30, 2014 and 2013 was \$17.5 million and \$17.9 million, respectively, and was included in general, administrative and other expense on the consolidated statements of operations.

Non-Investment Manager

Minimum future rental payments (excluding expense escalations) related to New Media's non-cancelable operating lease commitments are as follows:

October 1, 2014 to December 31, 2014	\$1,726
2015	6,103
2016	4,228
2017	4,116
2018	3,199
2019	1,253
Thereafter	3,376
Total minimum lease payments	\$24,001

Rent expense under operating leases for New Media for the period from February 14, 2014 to September 30, 2014 was \$4.2 million and was primarily included in operating costs on the consolidated statements of operations.

In addition to minimum lease payments, certain leases require payment of the excess of various percentages of gross revenue or net operating income over the minimum rental payments. The leases generally require the payment of taxes assessed against the leased property and the cost of insurance and maintenance. The lease terms typically range from 1 to 10 years with the longest term of 99 years, and typically, the leases contain renewal options. Certain office space leases provide for rent adjustments relating to changes in real estate taxes and other operating costs. These scheduled rent increases are recognized on a straight-line basis over the term of the lease, resulting in an accrual, which is included in accrued expenses, for the amount by which the cumulative straight-line rent exceeds the contractual cash rent.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

Litigation

New Media becomes involved from time to time in claims and lawsuits incidental to the ordinary course of its business, including with respect to such matters as libel, invasion of privacy, intellectual property infringement, wrongful termination actions, and complaints alleging employment discrimination. In addition, New Media is involved from time to time in governmental and administrative proceedings concerning employment, labor, environmental and other claims. Insurance coverage maintained by New Media mitigates potential loss for certain of these matters. While management is unable to predict the ultimate outcome of any currently outstanding legal actions, it is the opinion of management that it is a remote possibility that the disposition of these matters would have a material adverse effect upon the consolidated results of operations, financial condition or cash flow.

11. SEGMENT REPORTING

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

In the third quarter of 2014, Fortress reorganized its segments by:

Reclassifying its investments in and resulting pre-tax distributable earnings from the Fortress Funds, which were (1) previously presented under the principal investments segment, to each of the other segments that the investment relates to, and

Reclassifying one of its private equity funds, Worldwide Transportation and Infrastructure Investors ("WWTAI"), (2) from its private equity funds segment to its permanent capital vehicles segment, as Fortress expects that WWTAI will become a publicly traded company externally managed by Fortress.

The reclassifications were made to reflect changes in the way the business is reviewed and assessed by Fortress's chief operating decision maker ("CODM"). All of Fortress's internal reports have been changed to reflect this reorganization and Fortress's allocable expenses are now allocated amongst the segments based on this reorganization. Prior period amounts have been reclassified to reflect the segment reorganization described above.

For segment results of operations, 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.

"Distributable earnings" is a measure of operating performance used by management in analyzing its segment and overall results. For the existing Fortress businesses it is equal to net income (loss) attributable to Fortress's Class A shareholders adjusted as follows:

Incentive Income

- (i) a. for Fortress Funds which are private equity funds, a private permanent capital vehicle and credit PE funds, adding (a) incentive income paid (or declared as a distribution) to Fortress, less an applicable reserve for potential future clawbacks if the likelihood of a clawback is deemed greater than remote by

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

Fortress's chief operating decision maker (net of the reversal of any prior such reserves that are no longer deemed necessary), minus (b) incentive income recorded in accordance with GAAP, 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 payable on a quarterly basis, minus (b) incentive income recorded in accordance with GAAP,

c. adding the incentive income earned by Fortress in connection with New Media and the Investment Company, which is eliminated under GAAP as a result of the consolidation of New Media and the Investment Company,

Other Income

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

a. for equity method investments in the private equity funds, private permanent capital vehicle and credit PE funds as well as indirect equity method investments in hedge fund special investment accounts (which generally have investment profiles similar to private equity funds), treating these investments as cost basis investments by

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

adding (a) realizations of income, primarily dividends, from these funds, minus (b) impairment with respect to these funds, if necessary, minus (c) equity method earnings (or losses) recorded in accordance with GAAP,
b. subtracting gains (or adding losses) on stock 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,
d. adding equity method earnings (or losses) earned by Fortress in connection with the Investment Company, which is eliminated under GAAP,
adding (a) proceeds from the sale of shares received pursuant to the exercise of stock options in certain of the (iii) publicly traded permanent capital vehicles, in excess of their strike price, minus (b) management fee income recorded in accordance with GAAP in connection with the receipt of these options,
adding the management fee income earned by Fortress in connection with New Media and the Investment (iv) Company, which is eliminated under GAAP as a result of the consolidation of New Media and the Investment Company,

Expenses

(v) adding or subtracting, as necessary, the employee profit sharing in incentive income described in (i) above to match the timing of the expense with the revenue,
adding back equity-based compensation expense (including publicly traded permanent capital vehicle options (vi) assigned to employees, RSUs and RPU's (including the portion of related dividend and distribution equivalents recorded as compensation expense), and restricted shares),
adding or subtracting, as necessary, any changes in the fair value of contingent consideration payable with respect (vii) to the acquisition of a business, to the extent management intends to pay it in equity and it is recorded on the statement of operations under GAAP,
(viii) adding back the amortization of intangible assets and any impairment of goodwill or intangible assets recorded under GAAP,
(ix) adding back compensation expense recorded in connection with the forfeiture arrangements entered into among the principals, which expired in December 2011,
(x) adding the income (or subtracting the loss) allocable to the interests in consolidated subsidiaries attributable to Fortress Operating Group units,
(xi) subtracting the income (or adding the loss) of the Non-Investment Manager and Investment Company allocable to the Class A shareholders, and
(xii) adding back income tax benefit or expense and any income or expense recorded in connection with the tax receivable agreement (Note 6).

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

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

(i) any difference between the GAAP carrying amount of equity method investments and their carrying amount for segment reporting purposes, which is generally fair value for publicly traded investments and net asset value for

- nonpublic investments,
- (ii) employees' and others' portions of investments, which are reported gross for GAAP purposes (as assets offset by Principals' and others' interests in equity of consolidated subsidiaries) but net for segment reporting purposes,

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

- (iii) Fortress's investments in the Non-Investment Manager and Investment Company and receivables due to Fortress in connection with the related management agreements,
 (iv) total assets of the Non-Investment Manager and Investment Company,
 (v) the difference, if any, between the GAAP carrying amount of intangible assets and goodwill and their carrying amount for segment reporting purposes resulting from the distributable earnings adjustments listed above, and
 (vi) at interim periods, the accrued incentive income recorded for distributable earnings purposes in relation to the incentive income reconciling item in (i)(b) above.

Distributable Earnings Impairment

Clawback Reserve on Incentive Income for DE Purposes

Fortress had recognized incentive income for DE purposes from certain private equity funds, credit PE funds and the private permanent capital vehicle, which are subject to contingent clawback, as of September 30, 2014:

Fund (A)	Net Intrinsic Clawback (B)	Periods in Intrinsic Clawback	Prior Year End Inception-to-Date Net DE Reserve	Current Year-to-Date Gross DE Reserve (Reversal)	Current Year-to-Date Net DE Reserve (Reversal)	Inception-to-Date Net DE Reserve	Notes
Fund II	\$—	N/A	\$ 1,334	\$(1,999)	\$(1,334)	\$—	(C)
Fund III	45,108	27 Quarters	45,108	—	—	45,108	(D)
FRID	—	N/A	10,041	(16,447)	(10,041)	—	(E)
Total	\$45,108		\$ 56,483	\$(18,446)	\$(11,375)	\$45,108	

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

(B) See Note 3.

The previously recorded reserves with respect to this fund exceeded its net intrinsic clawback by approximately \$1.3 million immediately prior to March 31, 2014. Based on the criteria determined by the CODM, management (C) determined that a net reversal of \$1.3 million of clawback reserve was appropriate for the three months ended March 31, 2014. The fund is in process of liquidation and no clawback exists as of September 30, 2014.

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

(E) During the second quarter of 2014, Fortress returned all prior net incentive income distributions received from the fund. The fund is in liquidation and no clawback exists as of September 30, 2014.

Impairment Determination and Embedded Gain/Loss

During the nine months ended September 30, 2014, Fortress recorded \$2.7 million of impairment on its direct and indirect investments in its funds for segment reporting purposes. During the three months ended September 30, 2014, Fortress recognized an impairment charge of \$11.5 million related to its holdings of digital currency (Bitcoin). As of

September 30, 2014, Fortress had \$4.6 million of unrealized losses on certain investments that have not been recorded as impairment. As of September 30, 2014, Fortress's share of the net asset value of its direct and indirect investments exceeded its segment cost basis by \$572.3 million, representing net unrealized gains.

During the nine months ended September 30, 2014, Fortress recorded an aggregate net reversal of \$1.3 million of clawback reserve for DE purposes.

Fortress expects aggregate returns on its private equity funds and credit PE funds that are in an unrealized investment loss or intrinsic clawback position, after taking reserves into account, to ultimately exceed their carrying amount or breakeven point, as applicable. If such funds were liquidated at their September 30, 2014 NAV (although Fortress has no current intention of doing so), the result would be additional impairment losses and reserves for DE purposes of approximately \$4.6 million.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Embedded Incentive Income

As of September 30, 2014, Fortress had \$1,025.6 million of gross undistributed incentive income (Note 3), or \$958.7 million net of intrinsic clawback. Of the \$1,025.6 million, \$77.1 million has been recognized in distributable earnings. This amount represents accrued hedge fund incentive income recorded during the nine months ended September 30, 2014.

In addition, if Fortress had exercised all of its in-the-money Newcastle, New Residential, and Eurocastle options (Note 4) and sold all of the resulting shares at their September 30, 2014 closing price, it would have recorded \$64.0 million of gross additional distributable earnings, or \$55.7 million net of employee interests.

Segment Results of Operations

Summary financial data on Fortress's segments is presented on the following pages, together with a reconciliation to revenues, assets and net income (loss) for Fortress as a whole. Fortress's investments in, and earnings (losses) from, its equity method investees by segment are presented in Note 4.

September 30, 2014 and the Nine Months Then Ended

	Private Equity				PE Funds	Logan Circle	Unallocated	Fortress Subtotal
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds				
Segment revenues								
Management fees	\$ 104,552	\$ 50,434	\$ 103,373	\$ 84,129	\$ 71,898	\$ 34,328	\$ —	\$ 448,714
Incentive income	2,854	40,676	2,627	102,977	120,261	178	—	269,573
Segment revenues - total	\$ 107,406	\$ 91,110	\$ 106,000	\$ 187,106	\$ 192,159	\$ 34,506	\$ —	\$ 718,287
Fund management distributable earnings (loss) before Principal Performance Payments (B)								
Fund management distributable earnings (loss)	\$ 69,286	\$ 27,232	\$ 19,841	\$ 87,095	\$ 49,217	\$ (5,192)	\$ —	\$ 247,479
Pre-tax distributable earnings (loss)	\$ 69,286	\$ 24,274	\$ 18,591	\$ 74,854	\$ 47,827	\$ (5,192)	\$ —	\$ 229,640
Pre-tax distributable earnings (loss)	\$ 163,851	\$ 25,901	\$ 12,191	\$ 72,626	\$ 54,021	\$ (4,476)	\$ (1,497)	\$ 322,617
Total segment assets	\$ 788,798	\$ 147,344	\$ 222,841	\$ 121,747	\$ 260,029	\$ 60,561	\$ 784,222 (A)	\$ 2,385,542

(A) Unallocated assets includes cash of \$322.4 million and net deferred tax assets of \$385.3 million.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Three Months Ended September 30, 2014

	Private Equity							Fortress Subtotal
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Unallocated	
Segment revenues								
Management fees	\$33,638	\$17,934	\$33,733	\$28,796	\$23,571	\$12,280	\$—	\$149,952
Incentive income	—	15,936	1,339	28,846	41,489	178	—	87,788
Segment revenues - total	\$33,638	\$33,870	\$35,072	\$57,642	\$65,060	\$12,458	\$—	\$237,740
Fund management distributable earnings (loss) before Principal Performance Payments (B)								
Fund management distributable earnings (loss)	\$18,677	\$6,708	\$4,334	\$26,872	\$16,410	\$(1,660)	\$—	\$71,341
Pre-tax distributable earnings (loss)	\$18,701	\$7,133	\$(5,006)	\$17,968	\$18,044	\$(1,804)	\$(714)	\$54,322

(B) See Note 8. Fund management distributable earnings (loss) is only reduced for the profit sharing component of the Principal Performance Payments.

Nine Months Ended September 30, 2013

	Private Equity							Fortress Subtotal
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Unallocated	
Segment revenues								
Management fees	\$99,566	\$45,996	\$79,380	\$75,435	\$71,218	\$25,859	\$—	\$397,454
Incentive income	9,181	7,299	97,324	140,840	102,148	—	—	356,792
Segment revenues - total	\$108,747	\$53,295	\$176,704	\$216,275	\$173,366	\$25,859	\$—	\$754,246
Fund management distributable earnings (loss) before Principal Performance Payments (B)								
Fund management distributable earnings (loss)	\$72,883	\$20,801	\$86,543	\$100,678	\$44,861	\$(7,605)	\$—	\$318,161
Pre-tax distributable earnings (loss)	\$72,883	\$19,912	\$77,890	\$86,845	\$44,139	\$(7,605)	\$—	\$294,064

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

Pre-tax distributable earnings (loss) \$80,095 \$20,828 \$80,665 \$91,715 \$50,391 \$(6,043) \$(4,479) \$313,172

Three Months Ended September 30, 2013

	Private Equity Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Unallocated	Fortress Subtotal
Segment revenues								
Management fees	\$33,810	\$14,215	\$30,634	\$25,481	\$23,669	\$8,833	\$—	\$136,642
Incentive income	1,544	6,099	(27,387)	44,194	17,789	—	—	42,239
Segment revenues - total	\$35,354	\$20,314	\$3,247	\$69,675	\$41,458	\$8,833	\$—	\$178,881
Fund management distributable earnings (loss) before Principal Performance Payments (B)	\$24,095	\$7,996	\$(11,923)	\$32,844	\$7,442	\$(3,320)	\$—	\$57,134
Fund management distributable earnings (loss)	\$24,095	\$7,107	\$(10,730)	\$28,940	\$7,318	\$(3,320)	\$—	\$53,410
Pre-tax distributable earnings (loss)	\$30,717	\$7,403	\$(9,769)	\$30,567	\$8,436	\$(1,758)	\$(558)	\$65,038

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Reconciling items between segment measures and GAAP measures:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Fund management distributable earnings	\$66,558	\$53,410	\$229,640	\$294,064
Investment income (loss)	(11,405	) 12,412	95,347	23,870
Interest expense	(831	) (784	) (2,370	) (4,762
Pre-tax distributable earnings	54,322	65,038	322,617	313,172
Adjust incentive income				
Incentive income received from private equity funds, the private permanent capital vehicle and credit PE funds, subject to contingent repayment	(41,706	) (17,790	) (121,333	) (107,963
Incentive income received from third parties, subject to contingent repayment	(565	) —	(652) —
Incentive income accrued from private equity funds, the private permanent capital vehicle and credit PE funds, not subject to contingent repayment	13,416	15,883	66,778	50,262
Incentive income from hedge funds and Logan Circle, subject to annual performance achievement	(20,817	) 5,973	(77,095	) (185,858
Incentive income received from the sale of shares related to options	(6,833	) (1,921	) (8,318	) (1,921
Reserve for clawback, gross (see discussion above)	—	(1,544	) (1,999	) (3,367
	(56,505	) 601	(142,619	) (248,847
Adjust other income				
Distributions of earnings from equity method investees**	(5,540	) (3,685	) (61,890	) (12,529
Earnings (losses) from equity method investees**	37,635	57,532	74,850	116,748
Equity method (earnings) losses earned by Fortress in the Investment Company	3,200	—	2,974	—
Gains (losses) on options in equity method investees	(23,127	) 3,488	(28,999	) 27,233
Gains (losses) on other investments	15,585	(3,178	) (31,046	) 9,358
Impairment of investments (see discussion above)	2,635	380	2,695	1,107
Adjust income from the receipt of options	1,743	—	3,346	36,470
	32,131	54,537	(38,070	) 178,387
Adjust employee, Principal and director compensation				
Adjust employee, Principal and director equity-based compensation expense (including publicly traded permanent capital vehicle options assigned)	(1,307	) (6,415	) (22,438	) (34,769
Adjust employee portion of incentive income from private equity funds, the private permanent capital vehicle and credit PE funds, accrued prior to the	(4,945	) 555	(1,771	) 1,210

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

realization of incentive income	(6,252	) (5,860	) (24,209	) (33,559)
Adjust amortization of intangible assets and impairment of goodwill and intangible assets	(12	) (12	) (34	) (34)
Adjust non-controlling interests related to Fortress Operating Group units	(9,581	) (57,221	) (55,143	) (104,653)
Adjust tax receivable agreement liability	(4,036	) —	(4,036	) (7,739)
Adjust income taxes - Investment Manager	(2,972	) (14,702	) (16,919	) (42,093)
Adjust consolidated Non-Investment Manager income (loss) allocable to Class A Shareholders	543	—	(19) —	
Adjust consolidated Investment Company income (loss) allocable to Class A Shareholders	(3,200	) —	(2,974) —	
Total adjustments	(49,884	) (22,657	) (284,023	) (258,538)
Net Income (Loss) Attributable to Class A Shareholders Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	4,438	42,381	38,594	54,634	
Redeemable non-controlling interests in Income (Loss) of Consolidated Investment Company	10,842	58,804	58,946	111,421	
Non-controlling interest in Income (Loss) of Consolidated Investment Company	(2,042	) —	(1,885) —	
Non-controlling interests in Income (Loss) of Consolidated Non-Investment Manager	(9	) —	(9) —	
Net Income (Loss) (GAAP)	(3,014	) —	(10,305) —	
	\$10,215	\$101,185	\$85,341	\$166,055	

** This adjustment relates to all of the private equity, permanent capital vehicle and credit PE Fortress Funds and hedge fund special investment accounts in which Fortress has an investment.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

	September 30, 2014
Total Segment Assets	\$2,385,542
Adjust equity investments from segment carrying amount	(38,699)
Adjust investments gross of employees' and others' portion	34,460
Adjust intangible assets to cost	(22,790)
Accrued incentive income subject to annual performance achievement	(77,095)
Less: Fortress's investment in and receivables from Non-Investment Manager - consolidated VIE	(6,474)
Less: Fortress's investment in and receivables from Investment Company - consolidated VIEs	(47,582)
Add: Total assets of consolidated Non-Investment Manager	822,977
Add: Total assets of consolidated Investment Company	192,206
Total assets (GAAP)	\$3,242,545

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Segment revenues	\$237,740	\$178,881	\$718,287	\$754,246
Adjust management fees	252	313	979	565
Adjust management fees for Non-Investment Manager - consolidated VIE	(1,498)	—	(3,727)	—
Adjust management fees for Investment Company - consolidated VIEs	—	—	—	—
Adjust incentive income	(56,505)	601	(142,909)	(248,847)
Adjust income from the receipt of options	1,743	—	3,346	36,470
Adjust other revenues (including expense reimbursements)*	56,771	52,224	167,704	157,014
Add: Total revenues - consolidated Non-Investment Manager	165,061	—	397,315	—
Add: Total revenues - consolidated Investment Company	196	—	244	—
Total revenues (GAAP)	\$403,760	\$232,019	\$1,141,239	\$699,448

* Segment revenues do not include GAAP other revenues, except to the extent they represent management fees or incentive income; such revenues are included elsewhere in the calculation of distributable earnings.

Fortress's depreciation and amortization expense by segment prior to the allocation of corporate and intra-segment depreciation and amortization expense to the business segments was as follows. Amortization expense, related to intangible assets, is not a component of distributable earnings.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

Three Months Ended September 30, 2014	Private Equity		Liquid	Credit		Logan Circle	Corporate	Total
	Funds	Permanent Capital Vehicles	Hedge Funds	Hedge Funds	PE Funds			
Depreciation	\$396	\$208	\$2,027	\$1,280	\$304	\$83	\$687	\$4,985
Amortization	—	—	—	—	—	12	—	12
Total	\$396	\$208	\$2,027	\$1,280	\$304	\$95	\$687	\$4,997
2013								
Depreciation	\$393	\$159	\$582	\$1,416	\$89	\$68	\$782	\$3,489
Amortization	—	—	—	—	—	12	—	12
Total	\$393	\$159	\$582	\$1,416	\$89	\$80	\$782	\$3,501
Nine Months Ended September 30, 2014								
Depreciation	\$1,176	\$604	\$5,254	\$4,058	\$779	\$252	\$2,178	\$14,301
Amortization	—	—	—	—	—	34	—	34
Total	\$1,176	\$604	\$5,254	\$4,058	\$779	\$286	\$2,178	\$14,335
2013								
Depreciation	\$1,132	\$432	\$1,561	\$4,173	\$238	\$192	\$2,332	\$10,060
Amortization	—	—	—	—	—	34	—	34
Total	\$1,132	\$432	\$1,561	\$4,173	\$238	\$226	\$2,332	\$10,094

12. SUBSEQUENT EVENTS

These financial statements include a discussion of material events, if any, which have occurred subsequent to September 30, 2014 (referred to as “subsequent events”) through the issuance of these consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

In October 2014, Newcastle announced that its board of directors set a distribution date of November 6, 2014 for the common shares of New Senior Investment Group Inc. (“New Senior”, NYSE: SNR) to its shareholders. Fortress will enter into a management agreement as of the distribution date with New Senior in which it will receive an annual management fee of 1.5% of the company's equity (as defined in the agreement) and incentive compensation (as defined in the agreement). Additionally, as of September 30, 2014, Fortress manages 22 senior living properties which are owned by New Senior for which Fortress receives management fees ranging from 6% to 7% of revenues (as defined in the agreements) and reimbursement of certain expenses, including the compensation expense of all on-site employees. Fortress determined that New Senior will qualify as a variable interest entity and, upon the completion of Newcastle's distribution of New Senior's common shares, Fortress determined that it will be the primary beneficiary. As a result, Fortress will consolidate New Senior as of the date of distribution.

For additional subsequent events, see Notes 4 and 9.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

13. CONSOLIDATING FINANCIAL INFORMATION

The following consolidating financial information presents the balance sheet, statement of operations and statement of cash flows for Fortress Operating Group (on a combined basis), FOE II (New) LP, Certain Consolidated Entities (Non-Investment Manager and Investment Company) and Fortress Investment Group LLC (including its consolidated subsidiaries other than those within Fortress Operating Group) on a deconsolidated basis, as well as the related eliminating entries for intercompany balances and transactions, which sum to Fortress Investment Group's consolidated financial statements as of, and for the nine months ended September 30, 2014.

Fortress Operating Group includes all of Fortress's operating and investing entities. The upper tier Fortress Operating Group entities, other than FOE II (New) LP, are the obligors on Fortress's credit agreement (Note 5). Segregating the financial results of this group of entities provides a more transparent view of the capital deployed in Fortress's businesses as well as the relevant ratios for borrowing entities.

The consolidating balance sheet information is as follows:

	As of September 30, 2014						
	Fortress Operating Group Combined (A)	FOE II (New) LP	Certain Consolidated Entities (B)	Fortress Operating Group Eliminations	Fortress Investment Group LLC Consolidated (C)	Elimination Adjustments	Fortress Investment Group LLC Consolidated
Assets							
Investment Manager							
Cash and cash equivalents	\$ 330,980	\$ 678	\$ —	\$ —	\$ 500	\$ —	\$ 332,158
Due from affiliates	167,338	2,498	—	(4,762)	—	—	165,074
Investments	1,148,279	2,175	—	(50,499)	477,438	(477,438)	1,099,955
Investments in options	73,458	—	—	(3,207)	—	—	70,251
Deferred tax asset, net	—	—	—	—	385,301	—	385,301
Other assets	162,127	2,200	—	—	10,296	—	174,623
Investment Company - consolidated VIEs							
Cash and cash equivalents	—	—	16,604	—	—	—	16,604
Receivables from brokers and counterparties	—	—	40,825	—	—	—	40,825
Investments, at fair value	—	—	133,857	—	—	—	133,857
Other assets	—	—	920	—	—	—	920
	1,882,182	7,551	192,206	(58,468)	873,535	(477,438)	2,419,568
Non-Investment Manager -							

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

consolidated VIE							
Cash and cash equivalents	—	—	135,063	—	—	—	135,063
Fixed assets, net	—	—	290,481	—	—	—	290,481
Goodwill	—	—	125,407	—	—	—	125,407
Intangible assets, net	—	—	155,133	—	—	—	155,133
Other assets, net	—	—	116,893	—	—	—	116,893
	—	—	822,977	—	—	—	822,977
Total Assets	\$1,882,182	\$7,551	\$1,015,183	\$(58,468)	\$873,535	\$(477,438)	\$3,242,545

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

	As of September 30, 2014						
	Fortress Operating Group Combined (A)	FOE II (New) LP	Certain Consolidated Entities (B)	Fortress Operating Group Eliminations	Fortress Investment Group LLC Consolidated (C)	Elimination Adjustments	Fortress Investment Group LLC Consolidated
Liabilities and Equity							
Investment Manager							
Accrued compensation and benefits	\$266,221	\$2,839	\$—	\$—	\$—	\$—	\$269,060
Due to affiliates	71,924	2,273	—	(2,273)	284,265	—	356,189
Deferred incentive income	283,684	—	—	—	—	—	283,684
Debt obligations payable	75,000	—	—	—	—	—	75,000
Other liabilities	117,215	92	—	—	(1,194)	—	116,113
Investment Company - consolidated VIEs							
Due to brokers and counterparties	—	—	12,577	—	—	—	12,577
Securities sold not yet purchased, at fair value	—	—	37,258	—	—	—	37,258
Other liabilities	—	—	1,980	(503)	—	—	1,477
	814,044	5,204	51,815	(2,776)	283,071	—	1,151,358
Non-Investment Manager - consolidated VIE							
Deferred revenue	—	—	36,125	—	—	—	36,125
Debt obligations payable	—	—	232,275	—	—	—	232,275
Accrued expenses and other liabilities	—	—	74,165	(1,986)	—	—	72,179
	—	—	342,565	(1,986)	—	—	340,579
Total Liabilities	814,044	5,204	394,380	(4,762)	283,071	—	1,491,937
Commitments and Contingencies							
Redeemable Non-controlling Interests, Investment Company - consolidated VIE							
	—	—	—	34,887	—	—	34,887

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

Equity							
Paid-in capital	5,741,427	5,597	635,997	(638,194)	2,004,828	(5,744,827)	2,004,828
Retained earnings (accumulated deficit)	(4,734,622)	(3,250)	(15,194)	11,659	(1,412,494)	4,741,407	(1,412,494)
Accumulated other comprehensive income (loss)	(6,202)	—	—	—	(1,870)	6,202	(1,870)
Total Fortress shareholders' equity (D)	1,000,603	2,347	620,803	(626,535)	590,464	(997,218)	590,464
Principals' and others' interests in equity of consolidated subsidiaries	67,535	—	—	—	—	519,780	587,315
Non-controlling interests in equity of Investment Company - consolidated VIEs	—	—	—	58,426	—	—	58,426
Non-controlling interests in equity of Non-Investment Manager - consolidated VIE	—	—	—	479,516	—	—	479,516
Total Equity	1,068,138	2,347	620,803	(88,593)	590,464	(477,438)	1,715,721
Total Liabilities, Redeemable Non-controlling Interests and Equity	\$1,882,182	\$7,551	\$1,015,183	\$(58,468)	\$873,535	\$(477,438)	\$3,242,545

(A) Excluding FOE II (New) LP and certain consolidated entities.

(B) Comprised of the Investment Company and Non-Investment Manager.

(C) Other than Fortress Operating Group.

(D) Includes the Principals' (and one senior employee's) equity in the Fortress Operating Group column, which is eliminated in consolidation.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

The consolidating statement of operations information is as follows:

	Nine Months Ended September 30, 2014						
	Fortress Operating Group Combined (A)	FOE II (New) LP	Certain Consolidated Entities (B)	Fortress Operating Group Eliminations	Fortress Investment Group LLC Consolidated (C)	Elimination Adjustments	Fortress Investment Group LLC Consolidated
Revenues							
Investment Manager							
Management fees: affiliates	\$400,189	\$3,701	\$ —	\$ (6,690)	\$ —	\$ —	\$ 397,200
Management fees: non-affiliates	51,855	257	—	—	—	—	52,112
Incentive income: affiliates	125,634	—	—	—	—	—	125,634
Incentive income: non-affiliates	1,030	—	—	—	—	—	1,030
Expense reimbursements: affiliates	130,459	22,989	—	—	—	—	153,448
Expense reimbursements: non-affiliates	7,877	2,054	—	—	—	—	9,931
Other revenues (affiliate portion disclosed in Note 7)	4,345	—	—	(20)	—	—	4,325
Investment Company - consolidated VIEs							
Interest and divided income	—	—	244	—	—	—	244
	721,389	29,001	244	(6,710)	—	—	743,924
Non-Investment Manager - consolidated VIE							
Advertising	—	—	236,434	—	—	—	236,434
Circulation	—	—	118,049	—	—	—	118,049
Commercial printing and other	—	—	42,832	—	—	—	42,832
	—	—	397,315	—	—	—	397,315
Total Revenues	721,389	29,001	397,559	(6,710)	—	—	1,141,239
Expenses							
Investment Manager							
Compensation and benefits	515,821	28,061	—	—	—	—	543,882
General, administrative and other	118,959	1,688	—	—	(1)	—	120,646
Depreciation and amortization	14,282	53	—	—	—	—	14,335
Interest expense	2,377	23	—	(22)	176	—	2,554

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

Investment Company - consolidated VIEs							
Other	—	—	685	—	—	—	685
	651,439	29,825	685	(22	)	175	—
							682,102
Non-Investment Manager - consolidated VIE							
Operating Costs	—	—	225,249	—	—	—	225,249
General, administrative and other	—	—	134,627	(3,727)	—	—
							130,900
Depreciation and amortization	—	—	26,201	—	—	—	26,201
Interest expense	—	—	10,813	—	—	—	10,813
Loss on extinguishment of debt	—	—	9,047	—	—	—	9,047
	—	—	405,937	(3,727)	—	—
Total Expenses	651,439	29,825	406,622	(3,749	)	175	—
							1,084,312

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

	Nine Months Ended September 30, 2014						
	Fortress Operating Group Combined (A)	FOE II (New) LP	Certain Consolidated Entities (B)	Fortress Operating Group Eliminations	Fortress Investment Group LLC Consolidated (C)	Elimination Adjustments	Fortress Investment Group LLC Consolidated
Other Income (Loss)							
Investment Manager Gains (losses) (affiliate portion disclosed in Note 4)	(25,681)	—	—	(554)	—	—	(26,235)
Tax receivable agreement liability adjustment	—	—	—	—	(4,036)	—	(4,036)
Earnings (losses) from equity method investees Investment Company - consolidated VIEs	78,776	—	—	2,974	50,219	(50,219)	81,750
Gains (losses)	—	—	(4,427)	—	—	—	(4,427)
Total Other Income (Loss)	53,095	—	(4,427)	2,420	46,183	(50,219)	47,052
Income (Loss) Before Income Taxes	123,045	(824)	(13,490)	(541)	46,008	(50,219)	103,979
Income tax benefit (expense) - Investment Manager	(9,530)	10	—	—	(7,414)	—	(16,934)
Income tax benefit (expense) - Non-Investment Manager - consolidated VIE	—	—	(1,704)	—	—	—	(1,704)
Total Income Tax Benefit (Expense)	(9,530)	10	(1,704)	—	(7,414)	—	(18,638)
Net Income (Loss)	\$ 113,515	\$(814)	\$(15,194)	\$(541)	\$ 38,594	\$(50,219)	\$ 85,341
Allocation of Net Income (Loss)							
Principals' and Others' Interests in Income (Loss) of	3,803	—	—	—	—	55,143	58,946

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

Consolidated Subsidiaries Redeemable Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIE	—	—	—	(1,885)	—	—	(1,885)
Non-controlling Interests in Income (Loss) of Investment Manager - consolidated VIEs	—	—	—	(9)	—	—	(9)
Non-controlling Interests in Income (Loss) of Non-Investment Manager - consolidated VIE	—	—	—	(10,305)	—	—	(10,305)
Net Income (Loss) Attributable to Class A Shareholders (D)	109,712	(814)	(15,194)	11,658	38,594	(105,362)	38,594
	\$113,515	\$(814)	\$(15,194)	\$(541)	\$38,594	\$(50,219)	\$85,341

(A) Excluding FOE II (New) LP and certain consolidated entities.

(B) Comprised of the Investment Company and Non-Investment Manager.

(C) Other than Fortress Operating Group.

(D) Includes net income (loss) attributable to the Principals' (and one senior employee's) interests in the Fortress Operating Group column, which is eliminated in consolidation.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

The consolidating statement of cash flows information is as follows:

	Nine Months Ended September 30, 2014						
	Fortress Operating Group Combined (A)	FOE II (New) LP	Certain Consolidated Entities (B)	Fortress Operating Group Eliminations	Fortress Investment Group LLC Consolidated (C)	Elimination Adjustments	Fortress Investment Group LLC Consolidated
Cash Flows From Operating Activities							
Net income (loss)	\$ 113,515	\$(814)	\$(15,194)	\$(541)	\$ 38,594	\$(50,219)	\$ 85,341
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities							
Investment Manager Depreciation and amortization	14,282	53	—	—	—	—	14,335
Other amortization and accretion (included in interest expense)	585	—	—	—	—	—	585
(Earnings) losses from equity method investees	(78,776)	—	—	(2,974)	(50,219)	50,219	(81,750)
Distributions of earnings from equity method investees	78,337	—	—	—	—	—	78,337
(Gains) losses	25,681	—	—	554	—	—	26,235
Deferred incentive income	(66,778)	—	—	—	—	—	(66,778)
Deferred tax (benefit) expense	1,012	—	—	—	7,414	—	8,426
Options received from affiliates	(6,310)	—	—	2,964	—	—	(3,346)
Tax receivable agreement liability adjustment	—	—	—	—	4,036	—	4,036
Equity-based compensation	29,584	—	—	—	—	—	29,584
Options in affiliates granted to employees	759	—	—	—	—	—	759
Other	(653)	—	—	—	—	—	(653)
Investment Company - consolidated VIEs							
(Gains) losses	—	—	4,427	—	—	—	4,427

Non-Investment Manager -
consolidated
VIE

Depreciation and amortization	—	—	26,201	—	—	—	26,201
Loss on extinguishment of debt	—	—	5,949	—	—	—	5,949
Amortization of deferred financing costs (included in interest expense)	—	—	708	—	—	—	708
Deferred tax (benefit) expense	—	—	1,704	—	—	—	1,704
Other	—	—	462	—	—	—	462
Cash flows due to changes in							
Investment Manager							
Due from affiliates	(14,610)	(634)	—	4,047	—	—	(11,197)
Other assets	36,179	(1,761)	—	—	(2,111)	—	32,307
Accrued compensation and benefits	(81,959)	554	—	—	—	—	(81,405)
Due to affiliates	(21,855)	2,064	—	(2,064)	170	—	(21,685)
Deferred incentive income	99,553	—	—	—	—	—	99,553
Other liabilities	37,927	30	—	—	(1,520)	—	36,437
Investment Company - consolidated VIEs							
Purchases of investments and payments to cover securities sold not yet purchased	—	—	(458,794)	—	—	—	(458,794)
Proceeds from sale of investments and securities sold not yet purchased	—	—	386,242	—	—	—	386,242
Receivables from brokers and counterparties	—	—	(40,825)	—	—	—	(40,825)
Other assets	—	—	(9,362)	—	—	—	(9,362)
Due to brokers and counterparties	—	—	12,577	—	—	—	12,577
Other liabilities	—	—	2,467	—	—	—	2,467

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

	Nine Months Ended September 30, 2014						
	Fortress Operating Group Combined (A)	FOE II (New) LP	Certain Consolidated Entities (B)	Fortress Operating Group Eliminations	Fortress Investment Group LLC Consolidated (C)	Elimination Adjustments	Fortress Investment Group LLC Consolidated
Non-Investment Manager							
-							
consolidated VIE							
Other assets	—	—	239	—	—	—	239
Deferred revenue	—	—	(439)	—	—	—	(439)
Accrued expenses and other liabilities	—	—	970	(1,986)	—	—	(1,016)
Net cash provided by (used in) operating activities	166,473	(508)	(82,668)	—	(3,636)	—	79,661
Cash Flows From Investing Activities							
Investment Manager Contributions to equity method investees	(71,540)	—	—	50,053	(33,664)	33,664	(21,487)
Distributions of capital from equity method investees	368,373	—	—	—	85,660	(85,660)	368,373
Purchase of securities	(14,936)	—	—	—	—	—	(14,936)
Proceeds from sale of equity securities	83,039	—	—	—	—	—	83,039
Purchase of fixed assets	(7,631)	—	—	—	—	—	(7,631)
Purchase of software and technology-related assets	(25,976)	—	—	—	—	—	(25,976)
Non-Investment Manager							
-							
consolidated VIE							
Existing cash on consolidation date	—	—	23,845	—	—	—	23,845
Purchase of fixed assets	—	—	(2,550)	—	—	—	(2,550)
Acquisitions, net of cash acquired	—	—	(71,822)	—	—	—	(71,822)
Other	—	—	714	—	—	—	714
	331,329	—	(49,813)	50,053	51,996	(51,996)	331,569

Net cash provided by (used in) investing activities							
Cash Flows From Financing Activities							
Investment Manager Repayments of debt obligations	(50,000)	—	—	—	—	—	(50,000)
Borrowings under debt obligations	125,000	—	—	—	—	—	125,000
Proceeds from public offering (Note 9)	—	—	—	—	186,551	—	186,551
Repurchase of Class B shares (Note 9)	—	—	—	—	(186,551)	—	(186,551)
Issuance (purchase) of Class A shares (RSU settlements)	(33,664)	—	—	—	33,664	—	—
Repurchase of Class A shares (Note 9)	(363,260)	(150)	—	—	—	—	(363,410)
Capital contributions (distributions)	33,664	—	—	—	—	(33,664)	—
Dividends and dividend equivalents paid	(89,096)	—	—	—	(85,181)	85,660	(88,617)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	600	—	—	—	—	—	600
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(152,686)	—	—	—	—	—	(152,686)
Excess tax benefits from delivery of RSUs	—	—	—	—	3,030	—	3,030
Investment Company - consolidated VIEs							
Redeemable non-controlling interests - contributions	—	—	66,256	(50,003)	—	—	16,253
Non-redeemable non-controlling interests in Investment Company - contributions	—	—	58,485	(50)	—	—	58,435

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 SEPTEMBER 30, 2014
 (dollars in tables in thousands, except share data)

	Nine Months Ended September 30, 2014						
	Fortress Operating Group Combined (A)	FOE II (New) LP	Certain Consolidated Entities (B)	Fortress Operating Group Eliminations	Fortress Investment Group LLC Consolidated (C)	Elimination Adjustments	Fortress Investment Group LLC Consolidated
Non-Investment Manager - consolidated VIE							
Repayments of debt obligations	—	—	(185,989)	—	—	—	(185,989)
Borrowings under debt obligations	—	—	239,840	—	—	—	239,840
Payment of debt issuance costs	—	—	(2,505)	—	—	—	(2,505)
Proceeds from public offering (net of offering costs)	—	—	116,130	—	—	—	116,130
Dividends and dividend equivalents paid	—	—	(8,069)	—	—	—	(8,069)
Net cash provided by (used in) financing activities	(529,442)	(150)	284,148	(50,053)	(48,487)	51,996	(291,988)
Net Increase (Decrease) in Cash and Cash Equivalents	(31,640)	(658)	151,667	—	(127)	—	119,242
Cash and Cash Equivalents, Beginning of Period	362,620	1,336	—	—	627	—	364,583
Cash and Cash Equivalents, End of Period	\$330,980	\$678	\$ 151,667	\$ —	\$500	\$ —	\$ 483,825
Cash and Cash Equivalents - Investment Manager, End of Period	\$330,980	\$678	\$ —	\$ —	\$500	\$ —	\$ 332,158
Cash and Cash Equivalents - Investment Company - consolidated VIEs, End of Period	\$—	\$—	\$ 16,604	\$ —	\$—	\$ —	\$ 16,604
Cash and Cash Equivalents - Non-	\$—	\$—	\$ 135,063	\$ —	\$—	\$ —	\$ 135,063

Investment Manager -
consolidated VIE,
End of Period

- (A) Excluding FOE II (New) LP and certain consolidated entities.
- (B) Comprised of the Investment Company and Non-Investment Manager.
- (C) Other than Fortress Operating Group.

76

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(tables in thousands except as otherwise indicated and per share data)

The following discussion should be read in conjunction with Fortress Investment Group's consolidated financial statements and the related notes (referred to as "consolidated financial statements" or "historical consolidated financial statements") included within this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events may differ significantly from those expressed or implied in such forward-looking statements due to a number of factors, including those included in Part II, Item 1A, "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q.

Overview

Our Business

Fortress is a leading, highly diversified global investment management firm with approximately \$66.0 billion in AUM as of September 30, 2014. Fortress applies its deep experience and specialized expertise across a range of investment strategies — private equity, credit, liquid markets and traditional fixed income — on behalf of approximately 1,600 institutional clients and private investors worldwide. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our alternative investment funds, and investment income (loss) from our investments in our funds. We continue to invest capital in our alternative investment businesses.

The performance of our funds was mixed in the first nine months of 2014, with strong performances in some funds and weakness in others, and overall our operating results were flat to slightly down in comparison to the first nine months of 2013. In addition, we have continued capital raising within our funds and we have improved our capital structure by repurchasing Class A shares at a discount to their market price. For more information about these topics, please refer to "— Performance of our Funds," "— Assets Under Management," and "— Liquidity and Capital Resources" below.

As of September 30, 2014, we managed the following businesses:

Private Equity — a business that manages approximately \$14.2 billion of AUM comprised of two business segments: (i) 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 (ii) permanent capital vehicles, which includes publicly traded companies that are externally managed by Fortress pursuant to management agreements and a private fund. The publicly traded companies invest in a wide variety of real estate related assets, including securities, loans, real estate properties and mortgage servicing related assets, and media assets and the private fund invests in transportation and infrastructure assets.

Liquid Hedge Funds — a business that manages approximately \$7.5 billion of AUM. These funds invest globally in fixed income, currency, equity and commodity markets and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments; a fund that primarily focuses on an international "event driven" investment strategy, particularly in Europe, Asia-Pacific and Latin America; and a fund that seeks to generate returns by executing a positively convex investment strategy.

Credit Funds — a business that manages approximately \$13.2 billion of AUM comprised of two business segments: (i) credit hedge funds which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance on a global basis and throughout the capital structure,

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

Logan Circle — our traditional asset management business, which has approximately \$31.1 billion of AUM, provides institutional clients actively managed investment solutions across a broad spectrum of fixed income and growth equity strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt. Logan Circle's growth equities investment business is focused on investing and managing concentrated portfolios of publicly traded U.S. equities.

Understanding the Asset Management Business

As an asset manager we perform a service — we use our investment expertise to make investments on behalf of other parties (our “fund investors”). An “alternative” asset manager is simply an asset manager that focuses on certain investment methodologies, typically hedge funds and private equity style funds as described below. Our private equity business also manages permanent capital vehicles, also described below.

Private equity style funds (including the private permanent capital vehicle) are typically “closed-end” funds, which means they work as follows. We solicit fund investors to make capital commitments to a fund. Fund investors commit a certain amount of capital when the fund is formed. We may “draw” or “call” this capital from the fund investors as the fund makes investments. Capital is returned to fund investors as investments are realized. The fund has a set termination date and we must use an investment strategy that permits the fund to realize all of the investments it makes in the fund within that period. Fund investors may not withdraw or redeem capital, barring certain extraordinary circumstances, and additional fund investors are not permitted to join the fund once it is fully formed. Typically, private equity style funds make longer-term, less liquid (i.e. less readily convertible to cash) investments.

Publicly traded permanent capital vehicles are publicly traded entities which are externally managed by us. “Externally managed” means that their senior management is typically employed by us and that they rely on us for their decision making. In exchange, we receive management fees, incentive income and, when we assist these entities in raising equity capital, options to purchase their common stock. “Publicly traded” means that their equity, in the form of common stock, is typically traded on a major public stock exchange, such as the New York Stock Exchange. As a result, their equity investors (stockholders) may trade in and out of their positions, but Fortress continues to earn management fees and incentive income regardless of any turnover in ownership. These entities have indefinite lives and typically pay dividends or distributions to their stockholders only from earnings, while capital is reinvested.

Hedge funds are typically “open-end” funds, which means they work as follows. We solicit fund investors to invest capital at the fund formation and invest this capital as it is received. Additional fund investors are permitted to join the fund on a periodic basis. Fund investors are generally permitted to redeem their capital on a periodic basis. The fund has an indefinite life, meaning that it continues for an indeterminate period as long as it retains fund investors. Typically, hedge funds make short-term, liquid investments. Our credit hedge funds share certain characteristics of both private equity and hedge funds, and generally make investments that are relatively illiquid in nature.

In addition, Fortress has a traditional asset management business. The traditional asset management business works similarly to the hedge fund business, except that generally there is no provision for incentive income and management fee rates are lower.

In exchange for our services, we receive remuneration in the form of management fees and incentive income. Management fees are typically based on a fixed annual percentage of the capital we manage for each fund investor, and are intended to compensate us for the time and effort we expend in researching, making, managing and realizing investments. Incentive income is typically based on achieving specified performance criteria, and it is intended to align our interests with those of the fund investors and to incentivize us to earn attractive returns.

We also invest our own capital alongside the fund investors in order to further align our interests and to earn a return on the investments.

In addition, Fortress typically receives a number of options to purchase common stock of publicly traded permanent capital vehicles equal to 10% of the number of shares of common stock sold by any such entity when raising equity capital. The options received by Fortress typically have a strike price equal to the market price of the relevant stock on the day of issuance and a ten-year term. When an option is exercised, Fortress pays the strike price and receives a share of common stock of the publicly traded permanent capital vehicle. If the value of the stock were to increase

during the term of the option, the value of the share received by Fortress upon exercise would exceed the strike price paid by Fortress.

In order to be successful, we must do a variety of things including, but not limited to, the following:

- Increase the amount of capital we manage for fund investors, also known as our “assets under management,” or “AUM.”
- Earn attractive returns on the investments we make.
- Effectively manage our liquidity, including our debt, if any, and expenses.

Each of these objectives is discussed below.

Assets Under Management

Management fee paying assets under management, or AUM, fluctuate based on four primary factors:

Capital raising: AUM increases when we receive more capital from our fund investors to manage on their behalf or when the publicly traded permanent capital vehicles raise capital such as in an equity offering. Typically, fund investors make this decision based on: (a) the amount of capital they wish, or are able, to invest in the types of investments a certain manager or fund makes, and (b) the reputation and track record of the manager and its key investment employees.

Realization of private equity investments and return of capital distributions: In “closed-end” funds, AUM decreases when we return capital to fund investors as investments are realized. Investments are realized when they are sold or otherwise converted to cash by the manager. Similarly, AUM decreases in publicly traded investment vehicles, including the publicly traded permanent capital vehicles, when return of capital distributions are made to investors.

Redemptions: In “open-end” funds, AUM decreases after fund investors ask for their capital to be returned, or “redeemed,” at periodic intervals. Typically, fund investors make this decision based on the same factors they used in making the original investment, which may have changed over time or based on circumstances, as well as on their liquidity needs.

Fund performance: AUM increases or decreases in accordance with the performance of fund investments.

It is critical for us to continue to raise capital from fund investors. Without new capital, AUM declines over time as private equity investments are realized and hedge fund investors redeem capital based on their individual needs. Therefore, we strive to maintain a good reputation and a track record of strong performance. We strive to also form and market funds in accordance with investor demand.

We disclose the changes in our assets under management below, under “— Assets Under Management.”

Performance

Performance can be evaluated in a number of ways, including the measures outlined below:

Fund returns: Fund returns express the rate of return a fund earns on its investments in the aggregate. They can be compared to the returns of other managers, to returns offered by other investments or to broader indices. They can also be compared to the performance hurdles necessary to generate incentive income. We disclose our fund returns below, under “— Performance of Our Funds.”

Proximity to incentive income threshold: This is a measure of a fund's performance relative to the performance criteria it needs to achieve in order for us to earn incentive income.

Incentive income is calculated differently for the hedge funds, private equity funds and publicly traded permanent capital vehicles, as described below.

We generally earn incentive income from hedge funds based on a straight percentage of the returns of each fund investor, since fund investors may enter the fund at different times. Incentive payments are made periodically, typically annually for the Fortress hedge funds. Once an incentive payment is made, it is not refundable. However, if a particular fund investor suffers a loss on its investment, either from the date of the Fund's inception or since the last incentive payment to the manager, this establishes a “high water mark” for that investor, meaning a threshold that has to be exceeded in order for us to begin earning incentive income again from that fund investor. Investors in the same fund could have different high water marks, in terms of both percentage return and dollar amount.

Since it is impractical to disclose this information on a fund investor-by-investor basis, it may be disclosed based on the following metrics: the percentage of fund investors who have a high water mark, and the aggregate dollar difference between the value of those fund investors' investments and their applicable aggregate high water mark. The investments held by fund investors who do not have a high water mark are eligible to generate incentive income for us on their next dollar earned.

We generally earn incentive income from private equity style funds based on a percentage of the returns of the fund, subject to the achievement of a minimum return (the "preferred" return) to fund investors. Incentive income is generally paid as each investment in a fund is realized, subject to a "clawback." At the termination of a fund, a computation is done to determine how much incentive income we should have earned based on the fund's overall performance, and any incentive income payments received by us in excess of the amount we should have earned must be returned by us (or "clawed back") to the fund for distribution to fund investors. Certain of our private equity style funds pay incentive income only after all of the fund's invested capital has been returned.

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

We generally earn incentive income from publicly traded permanent capital vehicles based on a percentage of operating results in excess of specified returns to shareholders, calculated on a cumulative but not compounding basis. Incentive income is generally earned quarterly and once incentive is earned, it is not subject to clawback. However, if at a later date the total incentive income received by us is in excess of the cumulative amount calculated as of this later date, we would have to make up that difference in order to us to begin earning incentive income again.

Depending on where they are in their life cycle and how they have performed, private equity funds will fall into one of several categories as shown below:

PE Style Fund Status			Key Disclosures
In a liquidation of the fund's assets at their estimated fair value as of the reporting date:			
Has the fund made incentive income payments to us?	Would the fund owe us incentive income?	Would we owe a clawback of incentive income to the fund?	(Refer to Note 4 to our consolidated financial statements)
Yes	Yes	No	- The amount of previously distributed incentive income. - The amount of "undistributed incentive income," which is the amount of incentive income that would be due to us upon a liquidation of the fund's remaining assets at their current estimated fair value.
Yes	No	Yes	- The amount of previously distributed incentive income. - The "intrinsic clawback," which is the amount of incentive income that we would have to return to the fund upon a liquidation of its remaining assets at their current estimated fair value. - The amount by which the total current fund value would have to increase as of the reporting date in order to reduce the intrinsic clawback to zero such that we would be in a position to earn additional incentive income from the fund in the future.
No	Yes	N/A	- The amount of "undistributed incentive income," which is the amount of incentive income that would be due to us upon a liquidation of the fund's remaining assets at their current estimated fair value.
No	No	N/A	- The amount by which the total current fund value would have to increase as of the reporting date such that we would be in a position to earn incentive income

from the fund in the future.

We disclose each of these performance measures, as applicable, for all of our funds in Note 4 to our consolidated financial statements contained herein.

80

Liquidity, Debt and Expense Management

We may choose to use leverage, or debt, to manage our liquidity or enhance our returns. We strive to achieve a level of debt that is sufficient to cover working capital and investment needs, but not in an amount or manner which causes undue stress on performance, either through required payments or restrictions placed on Fortress.

Our liquidity, and our ability to repay our debt, as well as the amount by which our metrics exceed those required under our financial covenants are discussed below, under “— Liquidity and Capital Resources,” “— Debt Obligations,” and “— Covenants.”

We must structure our expenses, primarily compensation expense which is our most significant expense, so that key employees are fairly compensated and can be retained, while ensuring that expenses are not fixed in such a way as to endanger our ability to operate in times of lower performance or reduced liquidity. To this end, we generally utilize discretionary bonuses, profit sharing and equity-based compensation as significant components of our compensation plan.

Profit sharing means that when profits increase, either of Fortress as a whole or of a specified component (such as a particular fund) of Fortress, employees receive increased compensation. In this way, employees' interests are aligned with Fortress's, employees can receive significant compensation when performance is good, and we are able to reduce expenses when necessary.

Equity-based compensation means that employees are paid in equity of Fortress rather than in cash. This form of compensation has the advantage of not requiring a cash expenditure, while aligning employees' interests with those of Fortress.

Our liquidity is discussed below, under “— Liquidity and Capital Resources.” Our compensation expenses, including profit sharing and equity-based compensation, are discussed in Note 8 to our consolidated financial statements contained herein. Our segment operating margin, which we define as the ratio of our fund management distributable earnings to our segment revenues, and which is a measure of our profitability, is discussed in Note 11 to our consolidated financial statements contained herein.

Non-Investment Manager

New Media

We consolidated New Media Investment Group Inc. (“New Media”) beginning in February 2014. We entered into a management agreement with New Media pursuant to which we receive annual management fees and incentive income. We determined that New Media qualified as a variable interest entity (“VIE”) and, upon the completion of the distribution of New Media's common shares, that we were the primary beneficiary. Therefore, in addition to our asset management business (disclosed under Investment Manager in our financial statements), we also consolidate New Media, a newly listed company primarily focused on investing in a high quality portfolio of local media assets (disclosed under Non-Investment Manager in our financial statements and also referred to as the “Media Business”). As of September 30, 2014, Fortress owned approximately 0.20% of New Media's outstanding common stock.

New Media's results impact our net income, but do not have a material impact on our net income attributable to Class A shareholders, Class A basic and diluted earnings per share or total Fortress shareholders' equity as substantially all of the operating results of New Media are attributable to non-controlling interests. New Media's assets and liabilities are also recorded on our balance sheet. However, Fortress has no obligation to satisfy the liabilities of New Media. Similarly, Fortress does not have the right to make use of New Media's assets to satisfy its obligations. In addition, the debt obligations of the Media Business are not cross collateralized with the debt obligations of Fortress. New Media'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.

New Media had no operations until November 2013, when it became the owner of GateHouse Media, LLC ("GateHouse" or the predecessor) and Local Media Group Holdings LLC, the parent of Local Media Group, Inc. (formerly known as Dow Jones Local Media Group, Inc.) ("Local Media"). New Media has a particular focus on owning and acquiring local media assets in small to mid-size markets. They focus on two large business categories: consumers and small to medium size businesses ("SMBs"). Consumer revenue comes primarily from subscription income as consumers pay for local content, primarily in print and to a lesser extent online. SMB revenue comes from a variety of print and digital advertising products, digital service products offered through the Propel business, a digital marketing services business, and commercial printing services. Operating costs consist primarily of labor, newsprint, and delivery costs. Selling, general and administrative expenses consist primarily of labor costs.

Advertising revenue tends to follow a seasonal pattern, with higher advertising revenue in months containing significant events or holidays. Accordingly, first quarter, followed by third quarter, historically are the weakest quarters of the year in terms of

revenue. Correspondingly, second and fourth fiscal quarters, historically, are the strongest quarters. We expect that this seasonality will continue to affect advertising revenue in future periods.

New Media's predecessor, GateHouse, has experienced on-going declines in print advertising revenue streams and increased volatility of operating performance, despite geographic diversity, well-balanced portfolio of products, broad customer base and reliance on smaller markets. New Media may experience additional declines and volatility in the future. These declines in print advertising revenue have come with the shift from traditional media to the Internet for consumers and businesses. New Media is making investments in digital platforms, such as Propel, as well as online, and mobile applications, to support print publications in order to capture this shift.

New Senior

In October 2014, Newcastle announced that its board of directors set a distribution date of November 6, 2014 for the common shares of New Senior Investment Group Inc. ("New Senior", NYSE: SNR) to its shareholders. Fortress will enter into a management agreement with New Senior as of the distribution date in which it will receive annual management fees and incentive compensation. Additionally, Fortress manages 22 senior living properties which are owned by New Senior for which Fortress receives management fees and reimbursement of certain expenses, including the compensation expense of all on-site employees. Fortress determined that New Senior will qualify as a VIE and, upon the completion of Newcastle's distribution of New Senior's common shares, Fortress determined that it will be the primary beneficiary. As a result, Fortress will consolidate New Senior as of the date of distribution.

Understanding our Financial Statements

Balance Sheet

Our assets consist primarily of the following:

- 1) Investments in our funds, recorded generally based on our share of the funds' underlying net asset value, which in turn is based on the estimated fair value of the funds' investments. In addition, we hold options to purchase shares of common stock of our publicly traded permanent capital vehicles.
- 2) Cash.
- 3) Amounts due from our funds for fees and expense reimbursements.
- 4) Deferred tax assets, which relate to potential future tax benefits. This asset is not tangible - it was not paid for and does not represent a receivable or other claim on assets.
- 5) Media related assets of New Media, a consolidated VIE.
- 6) Assets of the consolidated investment companies (collectively, the "Investment Company"), which are consolidated VIEs.

Our liabilities consist primarily of the following:

- 1) Debt owed under our credit facility or other debt obligations (if any).
- 2) Accrued compensation, generally payable to employees shortly after year-end.
- 3) Amounts due to our Principals under the tax receivable agreement. These amounts partially offset the deferred tax assets and do not become payable to the Principals until the related future tax benefits are realized.
Deferred incentive income, which is incentive income that we have already received in cash but is subject to contingencies and may have to be returned ("clawed back") to the respective funds if certain performance hurdles are not met.
- 4) Media related liabilities of New Media, a consolidated VIE.
- 5) Liabilities of the Investment Company, which are consolidated VIEs.

Management, in considering the liquidity and health of the company, mainly focuses on the following aspects of the consolidated balance sheet:

- 1) Expected cash flows from funds, including the potential for incentive income.
- 2) Cash on hand.
- 3) Collectibility of receivables.
- 4) Current amounts due under our credit facility or other debt obligations (if any).
- 5) Other current liabilities, primarily accrued compensation.
- 6) Financial covenants under our debt obligations.
- 7) Likelihood of clawback of incentive income.

Income Statement

Our revenues and other income consist primarily of the following:

- 1) Fees and expense reimbursements from our funds, including management fees, which are based on the size of the funds, and incentive income, which is based on the funds' performance.
- 2) Returns on our investments in the funds.
- 3) Advertising, circulation and commercial printing revenues related to New Media.
- 4) Interest and dividends related to the Investment Company, which are consolidated VIEs.

Our expenses consist primarily of the following:

- 1) Employee compensation paid in cash, including profit sharing compensation.
Equity-based compensation, which is not paid in cash but has a dilutive effect when it vests because it results in
- 2) additional shares being issued. (This amount is broken out from total compensation in Note 8 to our consolidated financial statements.)
- 3) Other general and administrative expenses and interest expense.
- 4) Taxes.
- 5) New Media related operating expenses and interest expense.
- 6) Expenses relating to the Investment Company, which are consolidated VIEs.

Essentially, the key components of our income are the fees we are earning from our funds in comparison to the compensation and other corporate expenses we are paying in cash, and the resulting operating margin. Other significant components include (i) the unrealized changes in value of our funds, reported as unrealized gains (losses) and earnings (losses) from equity method investees, as this is indicative of changes in potential future cash flows, (ii) taxes, and (iii) equity-based compensation, because it will eventually have a dilutive effect when the related shares are issued.

For additional information regarding the Investment Company see Note 1 and Note 4 to our consolidated financial statements.

Managing Business Performance

We conduct our management and investment business through the following primary segments: (i) private equity funds, (ii) permanent capital vehicles, (iii) liquid hedge funds, (iv) credit hedge funds, (v) credit PE funds and (vi) Logan Circle. These segments are differentiated based on their varying strategies and, secondarily, on fund investor terms. In the third quarter of 2014, we reorganized our segments. See "—Results of Operations — Segment Analysis" below.

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

Management assesses our 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 (held by the principals and one senior employee) and income tax expense.

Management assesses the performance of each segment based on its "distributable earnings." Distributable earnings is not a measure of cash generated by operations that is available for distribution. Rather distributable earnings is a supplemental measure of operating performance used by management in analyzing its segment and overall results. Distributable earnings should not be considered as an alternative to cash flow in accordance with GAAP or as a measure of our liquidity, and is not necessarily indicative of cash available to fund cash needs (including dividends

and distributions).

We believe that the presentation of distributable earnings enhances a reader's understanding of the economic operating performance of our segments. For a more detailed discussion of distributable earnings and how it reconciles to our GAAP net income (loss), see “— Results of Operations — Segments Analysis” below.

83

Table of Contents

Market Considerations

Our revenues consist primarily of (i) management fees based generally on AUM, (ii) incentive income based on the performance of our funds and (iii) investment income from our investments in those funds. Our ability to maintain and grow our revenues - both at Fortress and within our funds - depends on our ability to retain existing investors, attract new capital and investors, secure investment opportunities, obtain financing for transactions, consummate investments and deliver attractive risk-adjusted returns.

Our ability to execute our business strategy depends upon a number of market conditions, including:

The strength and liquidity of the U.S. and global equity and debt markets and related financial and economic conditions.

U.S. and global financial and economic conditions have a substantial impact on the success of our business strategy, including our ability to effect realizations and make new investments. In addition, equity market conditions impact the ability of our private equity funds to increase the value, and effect realizations, of their portfolio company investments and the ability of our funds that invest in equities to generate positive investment returns. The condition of the debt markets also has a meaningful impact on our business. Several of our funds are directly and indirectly exposed to the debt markets: we invest in debt instruments, our funds borrow money to make investments and our funds utilize leverage in order to increase investment returns, which ultimately drive the performance of our funds. Our portfolio companies also require access to financing for their operations and refinancing of their debt. Furthermore, from time to time, we utilize debt to finance our investments in our funds and for working capital purposes. In general, strong financial and economic conditions including equity and debt markets enable us to execute our business strategy and generate attractive returns while dampening distressed investment strategies, and periods of weakening economies and markets and increased volatility can also present opportunities to invest at reduced valuations and in distressed asset classes, while negatively impacting fees, realizations and value creation. For example, a significant decline in the value of our funds' investments would require that our funds satisfy minimum return or "high water mark" requirements before generating incentive income and could subject us to "clawback" payments relating to incentive income previously collected. For hedge funds, opportunities to generate returns depend on their investment strategies, which may benefit from market declines or volatility.

Global markets continue to be impacted by an overall challenging environment characterized by uncertainty and an absence of clear trends. Volatility remained generally low during the third quarter and equities and fixed income markets delivered mixed results, while the U.S. dollar gained strength. Over the past few weeks, volatility has increased in the markets due to concerns over a global slowdown even with prolonged stimulus from central banks. While additional easing is expected from the European Central Bank and the Bank of Japan, the Federal Reserve's asset purchase program is expected to come to an end shortly. Markets continue to focus on the path of U.S. monetary policy and the expected transition in 2015 as an indicator of the likely direction of global interest rates and are focused on recent low inflation as well. In addition, markets are also focused on how additional U.S. dollar strength could impact growth and inflation outlook, as well as Federal Reserve policy. It is unclear what action the Federal Reserve may take after ending its quantitative easing program, given mixed economic data, uneven growth and the low levels of inflation. Although the U.S. economy appears to be recovering, the recovery has been uneven, with weakness in some areas and improvement in others. During the last quarter, the labor market has been stronger, with unemployment generally decreasing, and the housing market remained modest but slowly improving. However, weak consumer spending continues to hamper additional U.S. growth, though some measures of consumer spending have also begun to improve. Inconsistent economic data points have made the recovery's progress more difficult to assess. This imbalance presents a challenge for the Federal Reserve and, given the uncertainty of a broader recovery, markets could potentially become more sensitive to key economic data points and indications by the Federal Reserve of their revised policy. Markets will be looking for clarity from the Federal Reserve and other central banks and governments

as well as indicators of growth.

In the Eurozone, the European Central Bank adopted a wide ranging package of easing measures, including decreased refinancing and deposit rates, liquidity enhancing measures aimed at increasing funding for the non-financial sector through a series of targeted long-term refinancing operations, and announced it would begin its asset-backed securities and covered bond purchase program in the last quarter of 2014. While this was important for continued Eurozone recovery, growth is still slow and in general, much lower than that of the U.S. Although we believe sovereign risk has generally decreased overall in the Eurozone, it may be increasing again and inflation remains far below the European Central Bank's price stability mandate, which makes the Eurozone vulnerable to another external shock and creates uncertainty over its capacity to regain competitiveness. In addition, the Ukraine conflict with Russia has increased geopolitical risk and has had a negative impact on business and consumer confidence amid generally high unemployment in Europe. The broader Eurozone is also likely to face difficult discussions around additional support packages and restructuring of financial institutions, though we expect additional easing to be implemented. Our hedge funds hold actively-traded long and short positions, with frequently changing levels of exposure, in the debt of several European sovereignties. Based on the positions held by our funds as of September 30, 2014, there was not a material risk to the performance of the company under typical market stress scenarios. However, the investments held by certain of our funds could be material to the individual performance of such funds and, therefore, our reputation.

Table of Contents

In Japan, the Bank of Japan has continued the substantial pace of its easing policy and we expect it to continue through the end of the year, with any reassessment occurring after an expected decision on whether to implement a second consumption tax increase. Third quarter GDP will be a key consideration in contemplating a second consumption tax increase towards the end of the year, which we expect would occur together with additional fiscal stimulus. Renewed weakening of the Yen in recent weeks also provides the Bank of Japan with additional time to consider whether more assertive policy is necessary to achieve its inflation targets for the year. Consequently, while its asset purchasing program is expected to increase, any possible expansion of its easing policy is likely to occur only after the end of the year. Despite these measures, the Japanese equity market has declined so far this year, after increases in 2013.

The overall view on emerging markets remains mixed. We expect that emerging markets will be likely tied to U.S. interest rates and Federal Reserve policy indicators. However, while a stronger U.S. economy would contribute to growth, it would be likely be offset by lower growth outside the U.S., which is an additional downside risk for emerging markets even if we experience positive U.S. growth. In Brazil, the October 2014 elections were polarizing, increasing uncertainty despite re-election of the current president. Markets are also cautious given Brazil's vulnerability to an eventual increase in rates by the Federal Reserve.

Market conditions over the last several years have impacted our business in several ways:

Volatility in the markets since the financial crisis in 2008 increased the importance of maintaining sufficient liquidity without relying upon additional infusions of capital from the equity and debt markets. Based on cash balances, committed financing and short-term operating cash flows, in the judgment of management we have sufficient liquidity in the current market environment. The maintenance of sufficient liquidity may limit our ability to make investments, distributions, or engage in other strategic transactions.

Improved economic conditions over the last several years, including relatively low interest rates, have benefited our business in a number of ways, including, but not limited to, a strong financing environment that has enabled our private equity funds and their portfolio companies to secure long-term financing, refinance debt at attractive levels, raise public and private equity capital and improve portfolio company profitability. Improving economic conditions and higher valuations in private equity funds have also contributed to their ability to launch new investment vehicles and raise capital for them. While improved conditions have created a more challenging environment for identifying new investments, we continue to deploy meaningful amounts of new capital.

Following a period of deleveraging, that resulted in significant opportunities for investors with sufficient capital to acquire assets at reduced prices, near-term investment opportunities have become more sporadic in nature given pricing and market dynamics. However, potential opportunities exist, particularly where access to capital is restricted and in Europe where economies may remain uncertain.

Despite the uncertain economic recovery, our funds continue to make investments on an opportunistic basis, and we continue to raise new funds as discussed above and illustrated in the AUM table below.

The strength of, and competitive dynamics within, the alternative asset management industry, including the amount of capital invested in, and withdrawn from, alternative investments.

The strength of the alternative asset management industry, and our competitive strength relative to our peers, are dependent upon several factors, including, among other things, (1) the investment returns alternative asset managers can provide relative to other investment options, (2) the amount of capital investors allocate to alternative asset managers, and (3) our performance relative to our competitors and the related impact on our ability to attract new capital.

The strength of the alternative asset management industry is dependent upon the investment returns alternative asset managers can provide relative to other investment options. This factor depends, in part, on returns available from

traditional investment products, and to a lesser extent on interest rates and credit spreads (which represent the yield demanded on financial instruments by the market in comparison to a benchmark rate, such as the relevant U.S. Treasury rate or LIBOR) available on other investment products. This is because as interest rates rise and/or spreads widen, returns available on such investments would tend to increase and, therefore, become more attractive relative to the returns of investment products offered by alternative asset managers.

Solving for funding gaps and historically low interest rates have caused pension plans and other institutional investors to look to alternative investments in order to increase the yield on their investments. As a result, the amount of capital being invested into the alternative investment sector appears to have increased significantly in the first nine months of 2014 and the outlook for 2014 remains positive. However, certain investors appear to have become increasingly focused on the liquidity and redemption terms of alternative investment funds and have expressed a desire to have the ability to redeem or otherwise liquidate their investments in a more rapid time frame than what is permitted under the terms of many existing funds. Investors in long-term, locked-up (i.e., "private equity style") funds have engaged in longer, more intensive and detailed due diligence procedures prior to making commitments to invest in such funds, which has led to the general perception across the alternative asset management industry

Table of Contents

that capital raising for long-term capital will require longer time periods, a greater commitment of capital raising resources and will generally be more difficult overall than it was previously. Moreover, some investors are increasingly shifting to managed accounts with fee structures that are less favorable to us.

The factor which most directly impacts our results is our investment performance relative to our competitors, including products offered by other alternative asset managers. As illustrated in “- Performance of Our Funds” below, we have generated strong returns in some funds and weaker returns in others, and the performance of our more recent vintage private equity funds has rebounded significantly since 2008, with slight increases in the first nine months of 2014. As illustrated in “- Assets Under Management” below, we have been able to raise additional capital in our funds, including existing hedge funds and permanent capital vehicles. However, our ongoing ability to raise capital for new and existing funds will be a function of investors' assessment of our investment performance relative to that of our competition in the current market environment, as well as other factors.

The strength of the industries or sectors in which our funds have concentrated investments, or in which variable interest entities that we consolidate operate.

Our private equity funds, as well as certain of our managed accounts and permanent capital vehicles, currently have significant investments in companies whose assets are concentrated in the following industries and sectors: financial services (particularly loan servicing and consumer finance), transportation and infrastructure, gaming, real estate (including Florida commercial real estate), and senior living. The overall performance of our funds may be affected by market conditions and trends related to these industries and sectors. Within the financial services industry, the regulatory pressure on banks in the U.S. after the financial crisis contributed to a positive market for the expansion of non-bank financial institutions. This development has recently led to increased regulatory focus on non-bank financial institutions, resulting in slower growth within some of our financial services investments. Worldwide growth in trade and transportation continued to expand albeit at a more modest pace than in the previous years, with growing demand for both cargo and passenger-related transportation infrastructure and equipment. In addition, we believe there are significant investment opportunities in transportation and infrastructure investments in the energy industry, driven by growth in oil and gas production. The senior living sector continues to benefit from a favorable consolidation and supply/demand dynamics as well as an appreciation of related real estate values. European markets have presented opportunities for distressed investments in country specific markets such as Italy.

We believe that unfolding developments in the U.S. residential housing market are generating significant investment opportunities. The residential mortgage industry is undergoing major structural changes that are transforming the way mortgages are originated, owned and serviced. In particular, we believe that mortgage servicing rights, excess mortgage servicing rights and other servicing related investments present an attractive investment opportunity. Nationstar Mortgage Holdings Inc. ("Nationstar") is a mortgage servicer, which is majority owned by our Fortress Funds, and New Residential Investment Corp. ("New Residential"), which is managed by Fortress, and the MSR Opportunities Funds have made significant investments in excess MSR and other servicing related assets. The timing, size and potential returns of future investments in this sector may be less attractive than prior investments due to a number of factors, most of which are beyond our control. Such factors include, but are not limited to, recent increased competition for excess MSR and other servicing assets, which we believe is causing a related increase in the price for these assets. In addition, regulatory and government sponsored entity approval processes have been more extensive and taken longer than the process and timelines we experienced in prior periods, which has increased the amount of time and effort required to complete transactions.

Our macro liquid hedge funds actively trade in global markets. Overall performance for the first nine months of 2014 has been negative, with losses attributable to global equities, which were partially offset by gains in global currency positions and emerging markets. Global market conditions and trends formed around them are always subject to change as are the positions held by our liquid hedge funds.

In addition, we consolidated New Media, which exposes us to the industry in which it operates. The newspaper industry and New Media's predecessor experienced declining same store revenue and profitability over the past several years. General economic conditions, including declines in consumer confidence, continued high unemployment levels, declines in real estate values, and other trends, have also impacted the industry in which New Media operates. Additionally, media companies continue to be impacted by the migration of consumers and businesses to an internet and mobile-based, digital medium. These conditions may continue to negatively impact print advertising and other revenue sources as well as increase operating costs in the future, even after an economic recovery. In addition, we will consolidate New Senior when it completes its spin-off; the senior living industry is discussed above.

Table of Contents

Assets Under Management

We measure AUM by reference to the fee paying assets we manage. Our AUM has changed as a result of the factors set forth in the table below (in millions):

	Private Equity Funds (I)	Permanent Capital Vehicles (I)	Liquid Hedge Funds	Credit (I) Hedge Funds	PE Funds	Logan Circle	Total
AUM December 31, 2013	\$11,861	\$3,722	\$7,398	\$5,856	\$7,527	\$25,386	\$61,750
Capital raised (A)	—	483	2,072	512	31	—	3,098
Increase in invested capital	127	348	—	15	1,036	—	1,526
Redemptions (B)	—	—	(1,438)	(37)	—	—	(1,475)
RCA distributions (C)	—	—	—	(487)	—	—	(487)
Return of capital distributions (D)	(2,798)	(97)	(120)	(47)	(1,395)	—	(4,457)
Adjustment for capital reset (E)	—	—	—	—	(86)	—	(86)
Crystallized incentive income (F)	—	—	(130)	(169)	—	—	(299)
Net client flows (traditional)	—	—	—	—	—	4,385	4,385
Income (loss) and foreign exchange (G)	597	(45)	(253)	497	(30)	1,325	2,091
AUM September 30, 2014 (H)	\$9,787	\$4,411	\$7,529	\$6,140	\$7,083	\$31,096	\$66,046

(A) Includes offerings of shares by our publicly traded permanent capital vehicles, if any.

(B) Excludes redemptions which reduced AUM subsequent to September 30, 2014. Redemptions are further detailed below.

Represents distributions from (i) assets held within redeeming capital accounts (“RCA”) in our Drawbridge Special

(C) Opportunities Funds, which represent accounts where investors have provided withdrawal notices and are subject to payout as underlying fund investments are realized, and (ii) the Value Recovery Funds.

For private equity funds, the private permanent capital vehicle and credit PE funds, return of capital distributions are based on realization events. Such distributions include, in the case of private equity funds, the private

(D) permanent capital vehicle and credit PE funds that are in their capital commitment periods, recallable capital distributions. For credit hedge funds, return of capital distributions include income distributions from Fortress Japan Income Fund. For publicly traded permanent capital vehicles, return of capital distributions represent the portion of dividends paid and categorized as return of capital.

The reset date of certain private equity or credit PE funds is an event determined by the earliest occurrence of (i) the first day following the expiration of the capital commitment period of a fund, (ii) a successor fund or entity draws capital contributions or charges management fees (not applicable to credit PE funds) or (iii) the date on which all unpaid capital obligations have been canceled. For the period commencing with the initial closing of or

(E) contribution to the fund and ending on the last day of the semi-annual or quarterly period ending on or after the reset date, certain funds generate management fees as a percentage of the fund's capital commitments and certain funds generate management fees as a percentage of the fund's aggregate capital contributions. Thereafter, such funds generally generate management fees as a percentage of the aggregate capital contributed adjusted for the fair value of each investment that is below the associated investment's contributed capital.

(F) Represents the transfer of value from investors (fee paying) to Fortress (non-fee paying) related to realized hedge fund incentive income.

(G) Represents the change in AUM resulting from realized and unrealized changes in the reported value of the funds.

For certain private equity funds, also includes the impact of a change in AUM basis from invested capital to fair

value for certain portfolio companies which became publicly traded.

(H) AUM is presented mainly in reference to Fortress's ability to generate management fees. Note 3 to our consolidated financial statements, contained herein, provides further information regarding incentive income, and Note 4 provides further information regarding Fortress's investments in the funds, including gains and losses thereon. The percentage of capital invested by Fortress across different funds varies.

(I) As of September 30, 2014, the private equity funds, the private permanent capital vehicle and credit funds had approximately \$2.1 billion, \$0.6 billion and \$4.8 billion of uncalled and callable capital, respectively, that will become assets under management if deployed/called, of which an aggregate of \$2.0 billion is only available for follow-on investments, management fees and other fund expenses.

Redemptions

Fortress's liquid hedge funds, other than the Fortress Partners Funds, are subject to varying redemption terms based on investor classes, but generally offer monthly or quarterly redemption terms. Redemption notices generally must be received in the period prior to payment.

Certain of Fortress's liquid managed accounts provide for management fees based on a leverage factor (which cannot go below 1.0) that is applied to net asset value, meaning that increasing or decreasing the leverage factor impacts management fees. Investors in these accounts may redeem their capital on a periodic basis similarly to the liquid hedge fund investors, and may also elect on

Table of Contents

a monthly basis to increase or decrease the leverage factor in their accounts. An election to decrease the leverage factor is treated similarly to a redemption request in the tables set forth below due to its impact on AUM.

The Fortress Partners Funds provide for annual redemption terms. Redemption notices must be received at least 180 days prior to a calendar year end, and related payments are made subsequent to year end. For instance, the 2014 redemption notice date was July 5, 2014 for redemptions to be paid in the first quarter of 2015.

The credit hedge funds generally provide for annual return of capital terms. Return of capital requests must be received at least 90 days prior to a calendar year end, and related payments are made subsequent to year end. For instance, the 2014 return of capital request notice date was October 3, 2014 for capital to be returned after December 31, 2014. Such returns of capital may be paid over time as the underlying fund investments are realized, in accordance with the governing terms of the applicable funds. During the period prior to the return of capital for which a return request has been submitted, such amounts continue to be subject to management fees and, as applicable, incentive income. In particular, return of capital requests within the flagship credit hedge fund (onshore only) in 2009, 2010, 2011, 2012 and 2013 are being paid over time as the underlying fund investments are realized. In such a case, pending payment, this capital is referred to as a redeeming capital account or "RCA."

In certain cases, redemption notices may be subject to cancellation after receipt and prior to payment.

Redemption notices and return of capital requests received from fee paying investors, and related payments which are made in periods after notices are received, are shown in the table below.

Redemption Notices / Return of Capital Requests Received and Outstanding through September 30, 2014 (in thousands):

Notice Receipt Period	Liquid Hedge Fund Redemption Notices Received	Payments Made with Respect to those Notices - Inception to Date	Liquid Hedge Fund Remaining Outstanding Notices	Credit Hedge Fund Return of Capital Requests Received	Payments Made with Respect to those Requests - Inception to Date (C)	Credit Hedge Fund Remaining Outstanding Notices
2014	\$1,520,811	(D) \$917,177	\$603,353	\$203,450	(D) \$751	\$202,699
2013	957,414	981,914	—	157,251	116,201	46,727
2012	1,482,907	1,483,319	—	248,402	250,621	38,292
Prior			—	(A)		365,120 (A)
			\$603,353	(B)		\$652,838 (B)

(A) Includes all prior periods with notices / requests that are still outstanding as of period end.

For liquid hedge funds, reflects \$295.7 million to be paid primarily within one quarter and \$307.7 million to be paid in the first quarter of 2015. For credit hedge funds, reflects \$202.7 million to be paid in the first quarter of

(B) 2015 and thereafter and approximately \$450.1 million in RCAs to be paid as the underlying investments are realized. Excludes any notices received from investors whose status has changed from fee paying to non-fee paying subsequent to notice receipt.

(C) RCA payments are reflected in the AUM rollforward table as RCA distributions rather than as redemptions.

(D) In October 2014, Fortress's liquid hedge funds and credit hedge funds received \$101.3 million and \$13.9 million, respectively, of additional redemption requests.

We note that performance between the notice / request date and the payment date may result in differences between the amount of redemption notices / return of capital requests received and the ultimate payments. The table above reflects the actual notices / requests received, the actual payments made, and the actual remaining NAV of related investors. Therefore, the aggregate notices / requests received will not equal the total payments made plus the remaining outstanding notices / requests, due primarily to post-notice performance and redemption cancellations.

Table of Contents

Performance of Our Funds

The performance of our funds has been as follows (dollars in millions):

Name of Fund	Inception		AUM September 30,		Returns (B) Inception to	
	Date	Maturity Date (A)	2014	2013	September 30, 2014	
Private Equity						
Private Equity Funds that Report IRR's						
Fund I	Nov-99	Closed May-13	\$—	\$—	25.7	%
Fund II	Jul-02	In Liquidation	—	—	35.5	%
Fund III	Sep-04	Jan-15	763	1,159	6.0	%
Fund III Coinvestment	Nov-04	Jan-15	41	96	1.7	%
Fund IV	Mar-06	Jan-17	2,322	3,445	2.3	%
Fund IV Coinvestment	Apr-06	Jan-17	348	449	(1.1))%
Fund V (E)	May-07	Feb-18	4,263	2,814	5.6	%
Fund V Coinvestment (E)	Jul-07	Feb-18	491	615	(5.9))%
GAGACQ Coinvestment Fund (GAGFAH)	Sep-04	In Liquidation	—	—	19.4	%
FRID (GAGFAH)	Mar-05	In Liquidation	—	723	(0.3))%
FRIC (Brookdale)	Mar-06	In Liquidation	—	159	(1.6))%
FICO (Intrawest)	Aug-06	Jan-17	—	—	(100.0))%
FHIF (Holiday)	Dec-06	Jan-17	771	1,083	6.9	%
FECI (Florida East Coast Railway/Florida East Coast Industries)	Jun-07	Feb-18	436	441	0.7	%
MSR Opportunities Fund I A	Aug-12	Aug-22	228	284	18.1	%
MSR Opportunities Fund I B	Aug-12	Aug-22	57	71	18.0	%
MSR Opportunities Fund II A	Jul-13	Jul-23	45	28	(C)	
MSR Opportunities Fund II B	Jul-13	Jul-23	1	—	(C)	
MSR Opportunities MA I	Jul-13	Jul-23	10	6	(C)	
Italian NPL Opportunities Fund	Dec-13	Sep-24	11	—	(C)	
Private Permanent Capital Vehicle						
WWTAI	Jul-11	Jan-25	451	192	(C)	

Continued on next page.

89

Table of Contents

Name of Fund	Inception Date	Maturity Date (A)	AUM		Returns (B) Inception to Date (D)	Nine Months Ended September 30,				
			September 30, 2014	2013		2014	2013			
Publicly Traded Permanent Capital Vehicles										
Newcastle Investment Corp.	Jun-98	Permanent	\$1,579	\$1,494	N/A	9.5	%	7.1	%	
New Residential Investment Corp.	May-13	Permanent	1,366	1,196	N/A	12.0	%	10.6	%	
Eurocastle Investment Limited	Oct-03	Permanent	510	547	N/A	7.5	%	6.4	%	
New Media Investment Group Inc.	Feb-14	Permanent	505	—	N/A	6.5	%	N/A		
Liquid Hedge Funds										
Drawbridge Global Macro Funds (A)	Jun-02	Redeemable	223	293	7.9	%	(5.4)	)%	8.6	%
Fortress Macro Funds	May-09	Redeemable	1,537	1,425	6.6	%	(4.9)	)%	9.8	%
Fortress Macro MA1	Nov-11	Redeemable	304	334	9.0	%	(4.9)	)%	10.3	%
Fortress Partners Fund LP (A)	Jul-06	Redeemable	480	559	2.7	%	1.8	%	4.2	%
Fortress Partners Offshore Fund LP (A)	Nov-06	Redeemable	455	650	3.0	%	1.7	%	7.2	%
Fortress Asia Macro Funds	Mar-11	Redeemable	2,793	1,594	10.0	%	(4.0)	)%	11.7	%
Fortress Convex Asia Funds	May-12	Redeemable	189	107	(5.1)	)%	(4.2)	)%	(1.5))%
Fortress Redwood Fund LTD	Aug-13	Redeemable	582	585	(C)		(C)		(C)	
Credit Hedge Funds										
Drawbridge Special Opp's Fund LP (F)	Aug-02	PE style redemption	4,224	3,757	11.6	%	7.7	%	13.5	%
Drawbridge Special Opp's Fund LTD (F)	Aug-02	PE style redemption	1,324	1,232	11.3	%	5.6	%	13.2	%
Worden Fund	Jan-10	PE style redemption	223	196	12.1	%	5.9	%	11.2	%
Worden Fund II	Aug-10	PE style redemption	38	28	10.3	%	4.6	%	10.5	%
Japan Income Fund	Dec-13	Redeemable	14	—	(C)		(C)		N/A	
Value Recovery Funds and related assets	(G)	Non-redeemable	309	449	(G)		(G)		(G)	

Continued on next page.

90

Table of Contents

Name of Fund	Inception Date	Maturity Date (A)	AUM September 30,		Returns (B) Inception to September 30, 2014	
			2014	2013		
Credit PE Funds						
Credit Opportunities Fund	Jan-08	Oct-20	\$575	\$693	25.4	%
Credit Opportunities Fund II	Jul-09	Jul-22	576	737	18.2	%
Credit Opportunities Fund III	Sep-11	Mar-24	1,624	950	(C)	
FCO Managed Accounts	Sep-08 to Oct-10	Apr-22 to Jun-24	1,072	805	19.0	%
FCO Managed Accounts (C)	Apr-12 to Jun-12	Mar-24 to Mar-27	608	631	(C)	
Long Dated Value Fund I	Apr-05	Apr-30	163	185	5.3	%
Long Dated Value Fund II	Nov-05	Nov-30	121	142	4.2	%
Long Dated Value Fund III	Feb-07	Feb-32	74	91	8.7	%
LDVF Patent Fund	Nov-07	Nov-27	3	3	11.6	%
Real Assets Fund	Jun-07	Jun-17	64	85	8.1	%
Japan Opportunity Fund	Jun-09	Jun-19	316	409	29.6	%
Japan Opportunity Fund II (Dollar)	Dec-11	Dec-21	714	714	(C)	
Japan Opportunity Fund II (Yen)	Dec-11	Dec-21	668	745	(C)	
Net Lease Fund I	Jan-10	Feb-20	3	65	21.2	%
Global Opportunities Fund	Sep-10	Sep-20	160	274	10.5	%
Life Settlements Fund	Dec-10	Dec-22	91	238	(C)	
Life Settlements Fund MA	Dec-10	Dec-22	7	21	(C)	
Real Estate Opportunities Fund	May-11	Sep-24	165	109	15.3	%
Real Estate Opportunities Fund II	May-14	May-27	31	—	(C)	
Real Estate Opportunities REOC Fund	Oct-11	Oct-23	41	25	(C)	
Subtotal - all funds			33,969	32,933		
Managed accounts			981	1,457		
Total - Alternative Investments			34,950	34,390		
Logan Circle			31,096	23,581		
Total (H)			\$66,046	\$57,971		

(A) For funds with a contractual maturity date, maturity date represents the final contractual maturity date including the assumed exercise of extension options, which in some cases require the approval of the applicable fund advisory board. The publicly traded permanent capital vehicles are considered to have permanent equity as they have an indefinite life and no redemption terms. Investor capital in the liquid hedge funds and the Fortress Partners Funds is generally redeemable at the option of the fund investors; however, a substantial portion of the Drawbridge Global Macro Funds' and Fortress Partner Funds' investor capital is not redeemable by its investors and such capital will only be distributed as underlying assets are realized, in accordance with their governing documents. The Drawbridge Special Opportunities Funds and Worden Funds may pay redemptions over time, as the underlying investments are realized, in accordance with their governing documents ("PE style redemption"). The Value Recovery Funds generally do not allow for redemptions, but are in the process of realizing their remaining investments in an orderly liquidation. Management notes that funds which had a term of three years or longer at inception, funds which have permanent equity, funds which have a PE style redemption and funds which do not allow for redemptions aggregated approximately 78% of our alternative investment AUM as of September 30, 2014.

(B) Represents the following:

For the private equity funds, private permanent capital vehicle and credit PE funds, returns represent net annualized internal rates of return to limited partners after management fees and incentive allocations, and are computed on an inception to date basis consistent with industry standards. Incentive allocations are computed based on a hypothetical liquidation of the net assets of each fund as of the balance sheet date. Returns are calculated for the investors as a whole. The computation of such returns for an individual investor may vary from these returns based on different management fee and incentive arrangements, and the timing of capital transactions.

For publicly traded permanent capital vehicles, returns represent the current dividend yield which is calculated by annualizing the most recently declared base dividend and dividing the result by the closing stock price for the period. Excludes the impact of special dividends declared in connection with REIT compliance, which may increase returns. There can be no assurance regarding the publicly traded permanent capital vehicles' respective dividend yields, which may fluctuate meaningfully as a result of changes in the amount of dividends paid in the future and/or changes in their respective stock prices.

Table of Contents

For liquid and credit hedge funds, returns represent net returns after taking into account any fees borne by the funds for a “new issue eligible,” single investor class as of the close of business on the last date of the relevant period. Specific performance may vary based on, among other things, whether fund investors are invested in one or more special investments.

(C) These funds had no successor fund formed and either (a) were in their investment or commitment periods and had capital, other than callable capital, remaining to invest, or (b) had less than one year elapsed from their inception, through the end of these periods.

(D) For liquid hedge funds and credit hedge funds, reflects a composite of monthly returns presented on an annualized net return basis.

(E) Fund V includes Fund V (GLPI Sisterco) and Fund V Coinvestment includes Fund V Coinvestment (GLPI Sisterco).

(F) The returns for the Drawbridge Special Opportunities Funds reflect the performance of each fund excluding the performance of the redeeming capital accounts (i.e. investors who requested redemptions in prior periods and who are being paid out as investments are realized).

(G) Fortress began managing the third party originated Value Recovery Funds in June 2009. Their returns are not comparable since we are only managing the realization of existing investments within these funds which were acquired prior to Fortress becoming their manager.

(H) In addition to the funds listed, Fortress manages NIH, FPRF and Mortgage Opportunities Funds I and II. Such funds are excluded from the table because they did not include any fee paying assets under management at the end of the periods presented. Fund I, Fund II, GAGACQ Coinvestment Fund (GAGFAH) and FICO (Intrawest) had zero AUM as of September 30, 2014 and 2013, but for purposes of continuity of presentation, the returns of these funds have been left in the table.

Table of Contents

Results of Operations

The following is a discussion of our results of operations as reported under GAAP. For a detailed discussion of distributable earnings, revenues and expenses from each of our segments, see “— Segment Analysis” below.

The results of operations of Fortress’s asset management business are disclosed in the table below under the Investment Manager caption, including the Investment Company. The results of operations of New Media, a consolidated VIE, are disclosed in the table below under the Non-Investment Manager caption. See Notes 1 and 4 to our consolidated financial statements for information on consolidation of the Investment Company, New Media, and other VIEs.

	Nine Months Ended September 30,		Variance	Three Months Ended September 30,		Variance
	2014	2013	\$	2014	2013	\$
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
Revenues						
Investment Manager						
Management fees: affiliates	\$397,200	\$388,957	\$8,243	\$133,674	\$121,593	\$12,081
Management fees: non-affiliates	52,112	45,531	6,581	16,774	15,361	1,413
Incentive income: affiliates	125,634	103,176	22,458	30,941	40,934	(9,993)
Incentive income: non-affiliates	1,030	4,770	(3,740)	343	1,907	(1,564)
Expense reimbursements: affiliates	153,448	149,308	4,140	50,600	49,301	1,299
Expense reimbursements: non-affiliates	9,931	4,752	5,179	4,869	1,904	2,965
Other revenues	4,325	2,954	1,371	1,302	1,019	283
Investment Company - consolidated VIEs						
Interest and dividend income	244	—	244	196	—	196
	743,924	699,448	44,476	238,699	232,019	6,680
Non-Investment Manager - consolidated VIE						
Advertising	236,434	—	236,434	96,761	—	96,761
Circulation	118,049	—	118,049	49,803	—	49,803
Commercial printing and other	42,832	—	42,832	18,497	—	18,497
	397,315	—	397,315	165,061	—	165,061
Total Revenues	1,141,239	699,448	441,791	403,760	232,019	171,741
Expenses						
Investment Manager						
Compensation and benefits	543,882	539,591	4,291	187,249	146,457	40,792
General, administrative and other expense (including depreciation and amortization)	134,981	110,064	24,917	45,852	36,816	9,036
Interest expense	2,554	4,856	(2,302)	916	778	138
Investment Company - consolidated VIEs						
Other	685	—	685	466	—	466
	682,102	654,511	27,591	234,483	184,051	50,432

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

Non-Investment Manager -
consolidated VIE

Operating costs	225,249	—	225,249	93,716	—	93,716
General, administrative and other expense (including depreciation and amortization)	157,101	—	157,101	65,229	—	65,229
Interest expense	10,813	—	10,813	4,519	—	4,519
Loss on extinguishment of debt	9,047	—	9,047	—	—	—
	402,210	—	402,210	163,464	—	163,464
Total Expenses	1,084,312	654,511	429,801	397,947	184,051	213,896

93

Table of Contents

	Nine Months Ended September 30, 2014 (Unaudited)		Variance \$	Three Months Ended September 30, 2013 (Unaudited)		Variance \$
Other Income (Loss)						
Investment Manager						
Gains (losses)	(26,235)	45,578	(71,813)	(19,359)	7,503	(26,862)
Tax receivable agreement liability adjustment	(4,036)	(7,739)	3,703	(4,036)	—	(4,036)
Earnings (losses) from equity method investees	81,750	125,515	(43,765)	38,928	60,508	(21,580)
Investment Company - consolidated VIEs						
Gains (losses)	(4,427)	—	(4,427)	(4,991)	—	(4,991)
Total Other Income (Loss)	47,052	163,354	(116,302)	10,542	68,011	(57,469)
Income (Loss) Before Income Taxes	103,979	208,291	(104,312)	16,355	115,979	(99,624)
Income tax benefit (expense) - Investment Manager	(16,934)	(42,236)	25,302	(3,024)	(14,794)	11,770
Income tax benefit (expense) - Non-Investment Manager - consolidated VIE	(1,704)	—	(1,704)	(3,116)	—	(3,116)
Total Income Tax Benefit (Expense)	(18,638)	(42,236)	23,598	(6,140)	(14,794)	8,654
Net Income (Loss)	\$85,341	\$166,055	\$(80,714)	\$10,215	\$101,185	\$(90,970)
Allocation of Net Income (Loss):						
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	58,946	111,421	(52,475)	10,842	58,804	(47,962)
Redeemable Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIE	(1,885)	—	(1,885)	(2,042)	—	(2,042)
Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIEs	(9)	—	(9)	(9)	—	(9)
Non-controlling Interests in Income (Loss) of Non-Investment Manager - consolidated VIE	(10,305)	—	(10,305)	(3,014)	—	(3,014)
Net Income (Loss) Attributable to Class A Shareholders	38,594	54,634	(16,040)	4,438	42,381	(37,943)
	\$85,341	\$166,055	\$(80,714)	\$10,215	\$101,185	\$(90,970)

Factors Affecting Our Business and Results of Operations

During the periods discussed herein, the following are significant factors that have affected our business and/or materially impacted our results of operations:

- changes in our AUM;
- level of performance of our funds;
- changes in the size of our fund management and investment platform and our related compensation structure; and
- consolidation of New Media.

Each of these factors is described below, except for the consolidation of New Media, which is described under "- Non-Investment Manager - New Media." We also expect that the consolidation of New Senior as of the distribution date on November 6, 2014 will have a material impact on our net income but will not have a material impact on our net income attributable to Class A shareholders.

Table of Contents

Average Management Fee Paying AUM

Average management fee paying AUM represents the reference amounts upon which our management fees are based. The reference amounts for management fee purposes are: (i) capital commitments or invested capital (or NAV, on an investment by investment basis, if lower) for the private equity funds, private permanent capital vehicle and credit PE funds, which in connection with private equity funds raised after March 2006 includes the mark-to-market value on public securities held within the fund, (ii) contributed capital for the publicly traded permanent capital vehicles, or (iii) the NAV for hedge funds and the NAV or fair value for managed accounts (including Logan Circle).

Average fee paying AUM, based on a simple quarterly average, was as follows (in millions):

Nine Months Ended	Private Equity						
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds	Logan Circle	Total
September 30, 2014	\$10,916	\$3,971	\$7,633	\$6,012	\$7,107	\$28,052	\$63,691
September 30, 2013	\$10,965	\$3,393	\$5,983	\$5,678	\$7,106	\$21,900	\$55,025
Three Months Ended	Private Equity						
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds	Logan Circle	Total
September 30, 2014	\$10,145	\$4,216	\$7,698	\$6,111	\$6,961	\$30,114	\$65,245
September 30, 2013	\$11,182	\$3,397	\$6,692	\$5,714	\$6,818	\$22,489	\$56,292

We note that, in certain cases, there are timing differences between an event's impact on average AUM and its impact on management fees earned. For instance, AUM is adjusted upon the occurrence of a private equity fund's reset date, but management fees are not impacted until the next contractual management fee calculation date (generally semi-annual).

Management Fees

Changes in average AUM have an effect on our management fee revenues. Depending on the timing of capital contributions in a given period, the full economic benefits of an increase in AUM may not be recognized until the following period.

In July 2012, Fortress formed a senior living property management subsidiary which has agreements to manage certain senior living properties, most of which are owned by Newcastle Investment Corp. ("Newcastle"). For these services, Fortress receives management fees based on a percentage of revenues from the properties. These properties will be included as part of Newcastle's distribution of the common shares of New Senior to its shareholders in November 2014.

Incentive Income

Incentive income is calculated as a percentage of returns (or in some cases taxable income) earned by the Fortress Funds. Incentive income that is not subject to contingent repayment is recorded as earned. Incentive income received from funds that continues to be subject to contingent repayment is deferred and recorded as a deferred incentive income liability until the related contingency is resolved. The contingencies related to a portion of the incentive income we have received from certain private equity Fortress Funds have been resolved.

In determining our segment measure of operations, distributable earnings, we generally recognize private equity style incentive income when gains are realized and hedge fund incentive income based on current returns, and we recognize our employees' share of this income as compensation expense at the same time. In contrast, GAAP requires that we likewise recognize the compensation when incurred, but we must defer the recognition of the revenue until all contingencies, primarily minimum returns over the lives of the private equity style funds and annual performance requirements of the hedge funds, are resolved - regardless of the probability of such returns being met. As a result, when we have significant private equity style realizations or positive returns in interim periods in our hedge funds, which we regard as positive events, the related incentive income impact improves our segment distributable earnings while reducing our GAAP results for the same period.

Table of Contents

Employees

Fund Management and Investment Platform

In order to accommodate the demands of our funds' investment portfolios, we have created investment platforms, which are comprised primarily of our people, financial and operating systems and supporting infrastructure. Expansion of our investment platform historically required increases in headcount, consisting of newly hired investment professionals and support staff, as well as leases and associated improvements to corporate offices to house the increasing number of employees, and related augmentation of systems and infrastructure. Our headcount changed from 1,056 asset management employees as of September 30, 2013, to 1,159 asset management employees as of September 30, 2014. Additionally, as of September 30, 2014 we have 1,720 employees at the senior living properties that we manage (whose compensation expense is reimbursed to us by the owners of the facilities) compared to 1,209 such employees as of September 30, 2013.

Non-Investment Manager

As of September 30, 2014, New Media had approximately 6,153 employees, consisting of hourly and salaried employees. New Media employs union personnel at a number of their core publications representing approximately 929 employees. As of September 30, 2014, there were 32 collective bargaining agreements covering union personnel. Most of New Media's unionized employees work under collective bargaining agreements that expire in 2014.

Revenues

Nine months ended September 30

Total revenues were \$1,141.2 million for the nine months ended September 30, 2014, a net increase of \$441.8 million, compared to \$699.4 million for the nine months ended September 30, 2013. The increase in revenues was primarily attributable to an increase of \$397.3 million from the Media Business as a result of the consolidation of New Media beginning February 14, 2014, and an increase of \$44.5 million in Investment Manager revenues.

The increase in Investment Manager revenues of \$44.5 million was primarily attributable to (i) increases of \$8.2 million and \$6.6 million in management fees from affiliates and non-affiliates, respectively, (ii) an increase of \$22.5 million in incentive income from affiliates, (iii) increases of \$4.1 million and \$5.2 million in expense reimbursements from affiliates and non-affiliates, respectively and (iv) an increase of \$1.4 million in other revenues. These increases were partially offset by a decrease in incentive income from non-affiliates of \$3.7 million.

The increase in management fees from affiliates of \$8.2 million was mainly due to (i) a net increase of \$40.1 million in management fees from our liquid hedge funds, credit hedge funds, private equity and permanent capital vehicles primarily as a result of increases in average fee paying AUM, based on a simple quarterly average, of \$2.5 billion and (ii) a \$1.2 million increase in management fees earned by our senior living property manager. This increase was partially offset by a decrease of \$33.1 million in management fees resulting from publicly traded permanent capital vehicle options granted to Fortress during the nine months ended September 30, 2014 as compared to the prior period.

The increase in management fees from non-affiliates of \$6.6 million was primarily related to an \$8.2 million increase in management fees from non-affiliates from Logan Circle due to an increase in average fee paying AUM, based on a simple quarterly average, of \$6.2 billion partially offset by (i) net decreases of \$1.0 million and \$0.6 million in management fees from non-affiliates from our liquid hedge fund managed accounts and permanent capital vehicles, respectively.

The increase in incentive income from affiliates of \$22.5 million was primarily attributable to (i) an increase of \$26.8 million in crystallized incentive income recognized from the permanent capital vehicles, primarily related to New Residential, (ii) an increase of \$16.3 million in incentive income from our credit PE funds, primarily due to an increase in deemed tax distributions, which are not subject to clawback and (iii) an increase of \$5.2 million of incentive income recognized from Fund II as a result of realization events during the nine months ended September 30, 2014 as compared to the prior period, which resulted in the recognition of income as certain contingencies for repayment were resolved. These increases were partially offset by (i) a net decrease of \$15.7 million primarily as a result of a decrease in crystallized incentive due to the transfer of interests between two of our liquid hedge funds during August 2013 and a decrease in incentive earned on redemptions in the nine months ended September 30, 2014 as compared to the prior period, (ii) a decrease of \$5.3 million in incentive income earned from our credit hedge funds primarily due to a decrease in incentive income recognized from the Worden Funds and a decrease in incentive income earned on distributions from the Drawbridge Special Opportunities Funds' redeeming capital accounts (or "RCA"), which represent accounts where

Table of Contents

investors have provided withdrawal notices and are subject to payout as underlying fund investments are realized and (iii) a decrease of \$4.9 million of incentive income recognized in the prior period from the liquidation of Fund I in May 2013.

The \$3.7 million decrease in incentive income from non-affiliates was primarily related to a net decrease in crystallized incentive income of \$3.6 million from our liquid hedge fund managed accounts, as compared with the prior period.

The increase in expense reimbursements from affiliates of \$4.1 million was primarily related to an increase in operating expenses eligible for reimbursement from the funds and an increase in expense reimbursements related to our senior living property manager for the nine months ended September 30, 2014 as compared to the prior comparative period.

The increase in expense reimbursements from non-affiliates of \$5.2 million was primarily related to an increase in operating expenses eligible for reimbursements from our managed accounts.

Expenses

Nine months ended September 30

Expenses were \$1,084.3 million for the nine months ended September 30, 2014, a net increase of \$429.8 million, compared to \$654.5 million for the nine months ended September 30, 2013. The increase was primarily attributable to \$402.2 million of expenses from the Media Business as a result of the consolidation of New Media beginning February 14, 2014 and an increase of \$27.6 million in Investment Manager expenses. The increase in Investment Manager expenses was primarily due to (i) an increase in compensation and benefits of \$4.3 million, (ii) an increase in general, administrative and other expenses (including depreciation and amortization) of \$24.9 million, (iii) an increase in Investment Company expenses of \$0.7 million and partially offset by a decrease in interest expense of \$2.3 million.

Total compensation and benefits increased primarily due to (i) a \$20.4 million increase in other payroll, taxes and benefits as a result of an increase in headcount, (ii) a \$17.9 million increase in discretionary bonus accruals, and (iii) a \$12.4 million increase in profit sharing expenses related to our credit PE funds as a result of changes due to realization events and the amount of profit sharing interests held by employees in the respective periods. These increases were offset by a \$46.4 million decrease in profit-sharing expenses primarily related to our liquid hedge funds, credit hedge funds, private equity funds and Principal Performance Payments, as a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective periods.

The increase in general, administrative and other expenses was primarily due to (i) an increase of \$11.9 million in general and other expenses, (ii) an increase of \$8.8 million in professional fees and (iii) an increase of \$4.2 million in depreciation and amortization expenses.

The decrease in interest expense of \$2.3 million primarily relates to a decrease in the average outstanding Investment Manager debt balance and average interest rate for the nine months ended September 30, 2013, as compared to the prior period.

Revenues

Three months ended September 30

Total revenues were \$403.8 million for the three months ended September 30, 2014, a net increase of \$171.7 million, compared to \$232.0 million for the three months ended September 30, 2013. The increase in revenues was primarily attributable to an increase of \$165.1 million from the Media Business as a result of the consolidation of New Media beginning February 14, 2014 and an increase of \$6.7 million in Investment Manager revenues.

The increase in Investment Manager revenues of \$6.7 million was primarily attributable to (i) increases of 12.1 million and \$1.4 million in management fees from affiliates and non-affiliates, respectively, (ii) increases of \$1.3 million and \$3.0 million in expense reimbursements from affiliates and non-affiliates, respectively and (iii) an increase of \$0.3 million in other revenues. These increases were partially offset by decreases of \$10.0 million and \$1.6 million in incentive income from affiliates and non-affiliates, respectively.

The increase in management fees from affiliates of \$12.1 million was due to (i) an increase of \$9.9 million primarily in our liquid hedge funds, permanent capital vehicles, credit hedge funds and credit PE funds as a result of increases in the average management fee paying AUM, based on a simple quarterly average, of \$2.6 billion, (ii) an increase of \$1.7 million in management fees resulting

Table of Contents

from an increase of permanent capital vehicle options granted to Fortress during the three months ended September 30, 2014, as compared to the prior period and (iii) a \$0.5 million increase in management fees earned by our senior living property manager.

The increase in management fees from non-affiliates of \$1.4 million was primarily related to an increase of \$3.3 million in Logan Circle as a result of an increase in average management fee paying AUM, based on a simple quarterly average, of \$7.6 billion, partially offset by a decrease of \$1.9 million from our liquid hedge fund managed accounts as a result of a decrease in average management fee paying AUM of \$0.3 billion.

The decrease in incentive income from affiliates of \$10.0 million was primarily attributable to (i) a net decrease of \$10.2 million related to crystallized incentive income from our liquid hedge funds primarily as a result of a decrease in crystallized incentive due to the transfer of interests between two of our funds during August 2013, (ii) a decrease of \$6.4 million of incentive income recognized from Fund II as a result of a realization event in July 2013, which resulted in the recognition of income as certain contingencies for repayment were resolved and (iii) a decrease of \$2.5 million in incentive income earned from our credit hedge funds primarily due to a decrease in incentive income recognized from the Worden Funds and a decrease in incentive income earned on distributions from the Drawbridge Special Opportunities Funds' RCAs. These decreases were partially offset by an increase of \$4.7 million in crystallized incentive income recognized from our publicly traded permanent capital vehicles primarily relating to New Residential and an increase of \$4.4 million in incentive income from our credit PE funds, primarily due to an increase in deemed tax distributions, which are not subject to clawback.

The decrease in incentive income from non-affiliates of \$1.6 million relates primarily to a decrease of \$1.1 million and \$0.4 million in crystallized incentive income from liquid hedge fund managed accounts and a credit PE fund managed account, respectively.

The increase in expense reimbursements from affiliates of \$1.3 million was primarily related to an increase in operating expenses eligible for reimbursement from the funds and an increase in expense reimbursements related to our senior living property manager for the three months ended September 30, 2014 as compared to the prior comparative period.

The increase in expense reimbursements from non-affiliates of \$3.0 million was primarily related to an increase in operating expenses eligible for reimbursements from our managed accounts.

Expenses

Three months ended September 30

Expenses were \$397.9 million for the three months ended September 30, 2014, a net increase of \$213.9 million, compared to \$184.1 million for the three months ended September 30, 2013. The increase was primarily attributable to \$163.5 million of expenses from the Media Business as a result of the consolidation of New Media beginning February 14, 2014 and an increase of \$50.4 million in Investment Manager expenses. The increase in Investment Manager expenses is primarily due to an increase in compensation and benefits of \$40.8 million and an increase in general, administrative and other expenses (including depreciation and amortization) of \$9.0 million.

Total compensation and benefits increased primarily due to (i) a \$31.8 million increase in profit-sharing expenses primarily related to our liquid hedge funds, credit PE funds and Principal Performance Payments, as a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective periods, (ii) a \$8.3 million increase in discretionary bonus accruals, (iii) a \$6.1 million increase in other

payroll, taxes and benefits as a result of an increase in headcount and (iv) a \$2.6 million increase in equity-based compensation. These increases were offset by a \$8.0 million decrease in profit-sharing expenses related to our credit hedge funds and permanent capital vehicles as a result of changes in the performance of relevant funds, the amount of profit sharing interests held by employees in the respective periods and changes in the fair value of tandem options held by employees.

The increase in general, administrative and other expenses was primarily due to (i) an increase of \$5.3 million in general and other expenses, (ii) an increase of \$2.2 million in professional fees and (iii) an increase of \$1.5 million in depreciation and amortization expenses.

Current and Future Compensation Expense - Investment Manager

We seek to compensate our Investment Manager employees in a manner that aligns their compensation with the creation of long-term value for our shareholders. We aim to reward sustained financial and operational performance for all of our businesses and to motivate key employees to remain with us for long and productive careers. We must achieve our goals of alignment, motivation

Table of Contents

and retention within the confines of current performance and liquidity. Aside from base salary, there are three significant components in our compensation structure.

Discretionary bonuses are awarded annually based on performance and on our estimation of market compensation. We note that while the payment of discretionary bonuses is optional, it is important for us to maintain a certain level of discretionary bonuses, based on the level of market compensation, even in periods of weaker performance, in order to retain and motivate employees. Equity-based compensation awards, primarily RSUs, which are typically subject to service-based vesting conditions, are a key component of this compensation as they achieve all three goals. We set the level of our equity-based compensation each year based on performance (firm and individual) and our liquidity, as well as the number of shares available under our equity incentive plan and the dilutive impact they would have upon vesting.

In future periods, we will further recognize non-cash compensation expense on our non-vested equity-based awards outstanding as of September 30, 2014 of \$62.7 million with a weighted average recognition period of 2.3 years.

Profit-sharing compensation is awarded, generally upon fund formation and, in certain cases, subject to vesting, based on certain employees' roles within the fund businesses and serves to motivate these employees and align their interests with both our and our funds' investors. Private equity, private permanent capital vehicle and credit PE profit-sharing expense is generally based on a percentage of realized fund incentive income. Liquid and credit hedge fund profit sharing expense may be based on a percentage of fund incentive income, a percentage of fund "net management fees" (management fees less related expenses), or a percentage of the incentive income generated by an individual trader (regardless of overall fund performance). The actual expense is based on actual performance within the funds and is detailed by business in Note 8 to our consolidated financial statements contained herein. We note the following with respect to profit-sharing expense:

Within our hedge funds, profit-sharing expenses can vary greatly by fund, depending on the compensation packages negotiated with key traders and investment officers within these funds. Therefore, the overall profit-sharing percentage of a given hedge fund segment will vary from year to year depending on which funds and which employees generate the most profits within the segment.

From time to time, senior management engages a compensation consultant to provide management with surveys to help us understand how the compensation we offer to our employees compares to the compensation our peers offer to their employees.

Other Income (Loss)

Nine months ended September 30

Other Income (Loss) was \$47.1 million for the nine months ended September 30, 2014, a net decrease of \$116.3 million, compared to \$163.4 million for the nine months ended September 30, 2013. This decrease is primarily related to (i) decreases of \$27.7 million in the fair value of options and common stock in our publicly traded permanent capital vehicles and publicly traded private equity portfolio companies for the nine months ended September 30, 2014 as compared to an increase of \$39.6 million in the prior comparative period, resulting in a net decrease of \$67.3 million, (ii) a net decrease of \$43.8 million in earnings from equity method investees primarily with respect to our investments in our private equity funds, liquid hedge funds, credit hedge funds and credit PE funds for the nine months ended September 30, 2014 relative to the prior comparative period, (iii) a net realized loss of \$7.8 million associated with our holdings of digital currency, (iv) \$4.4 million relating to Investment Company losses and (v) a \$0.9 million decrease relating to our trading securities. These decreases were partially offset by a decrease of \$3.7 million in the tax receivable agreement liability expense and an increase of \$4.5 million in the fair value of the

derivatives held, primarily Japanese Yen foreign exchange contracts for the nine months ended September 30, 2014 as compared to the prior period.

Three months ended September 30

Other Income (Loss) was \$10.5 million for the three months ended September 30, 2014, a net decrease of \$57.5 million, compared to \$68.0 million for the three months ended September 30, 2013. This decrease is primarily related to (i) decreases of \$25.8 million in the fair value of options and common stock in our publicly traded permanent capital vehicles and publicly traded private equity portfolio companies for the three months ended September 30, 2014, as compared to an increase of \$7.0 million in the prior comparative period, resulting in a net decrease of \$32.8 million, (ii) a net decrease of \$21.6 million in earnings from equity method investees primarily with respect to our investments in our credit PE funds, private equity funds, credit hedge funds and liquid hedge funds, (iii) a net loss of \$5.5 million associated with our holdings of digital currency, (iv) \$5.0 million relating to Investment Company losses, (v) the recognition of a \$4.0 million expense associated with an increase in the tax receivable agreement liability and (vi) a \$1.6 million decrease relating to our trading securities. These decreases were partially offset by an increase of \$13.5 million in the fair value of the derivatives held, primarily Japanese Yen foreign exchange contracts.

Table of Contents

Income Tax Benefit (Expense)

Nine months ended September 30

Fortress has recorded a significant deferred tax asset. A substantial portion of this asset is offset by a liability associated with the tax receivable agreement with our Principals. This deferred tax asset is further discussed under “—Critical Accounting Policies” below and the tax receivable agreement is discussed in our consolidated financial statements included herein.

For the nine months ended September 30, 2014 and 2013, Fortress recognized income tax expense for the Investment Manager of \$16.9 million and \$42.2 million, respectively. The primary reasons for changes in income tax expense (benefit) are (i) changes in annual taxable income and related foreign and state income taxes (and forecasts thereof which are used to calculate the tax provision during interim periods), (ii) changes in the mix of businesses producing income, which may be subject to tax at different rates, and related changes in our structure and (iii) the tax impact of RSUs and RPU's that vested and were delivered at a value substantially less than their original value.

Factors that impacted the period-over-period change in the Investment Manager's income tax expense (benefit) are detailed as follows:

	Comparative Periods	
	Nine Months Ended September 30, 2014 vs. 2013	
Change in pre-tax income applicable to Class A Shareholders (A)	\$ (15,304)
Change in foreign and state income taxes	(2,495)
Change in mix of business (B)	4,129)
Change in deferred tax asset-impact of equity compensation vesting (C)	(20,549)
Change in deferred tax asset valuation allowance and related adjustments (D)	12,348)
Other	(3,431)
Total change (E)	\$ (25,302)

Changes in pre-tax income applicable to Class A shareholders are caused by changes in the pre-tax income of (A) Fortress Operating Group and by changes in the Class A shareholders' ownership interest in Fortress Operating Group.

For the first nine months of 2014 a greater proportion of our total income was subject to corporate tax, as (B) compared to the first nine months of 2013. In 2013, we generated more unrealized gains and certain other income, which income is passed directly to shareholders, increasing the proportion of our total income which was not subject to corporate tax and thereby reducing the proportion which was subject to corporate income tax.

(C) This factor changes based on the amount of equity-based compensation delivered in a given year and the stock price on the date of delivery.

(D) Primarily related to the write-off of certain fully reserved deferred tax assets associated with funds in the process of liquidation, offset by the change in the portion of the deferred tax asset that would be realized in connection with future capital gains.

(E) Interim period tax provisions are based on estimates, including estimates of full year taxable amounts, and are therefore subject to significant judgment and uncertainty. This can result in significant variability from period to period and comparability may be limited.

For the period from February 14, 2014 to September 30, 2014, New Media recognized an income tax expense of \$1.7 million.

Three months ended September 30

Fortress has recorded a significant deferred tax asset. A substantial portion of this asset is offset by a liability associated with the tax receivable agreement with our Principals. This deferred tax asset is further discussed under “— Critical Accounting Policies” below and the tax receivable agreement is discussed in our consolidated financial statements included herein.

For the three months ended September 30, 2014 and 2013, Fortress recognized income tax expense for the Investment Manager of \$3.0 million and \$14.8 million, respectively. The primary reasons for changes in income tax expense (benefit) are (i) changes in annual taxable income and related foreign and state income taxes (and forecasts thereof which are used to calculate the tax provision during interim periods), (ii) changes in the mix of businesses producing income, which may be subject to tax at different rates, and related changes in our structure and (iii) the tax impact of RSUs and RPU's that vested and were delivered at a value substantially less than their original value.

For the three months ended September 30, 2014, New Media recognized an income tax expense of \$3.1 million.

Table of Contents

Non-controlling Interests in Income (Loss)

Nine months ended September 30

Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries decreased from \$111.4 million to \$58.9 million, a decrease of \$52.5 million, primarily attributable to (i) a decrease of \$49.9 million resulting from a \$49.5 million decrease in Fortress Operating Group consolidated net income during the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, (ii) an increase of \$0.4 million resulting from the dilution of non-controlling interests in Fortress Operating Group caused by the net impact of the repurchase of Class A shares from Nomura, the issuance of Class A shares, the repurchase from the Principals of an equivalent amount of Fortress Operating Group units and Class B shares, as well as the delivery of Class A shares primarily in connection with vested RSUs and RPU's and (iii) a decrease of \$3.0 million resulting from Others' interests in the net income of consolidated subsidiaries of Fortress Operating Group.

Beginning February 14, 2014, Non-controlling Interests in Income (Loss) of Non-Investment Manager were recognized by us as a result of the consolidation of New Media, representing 99.80% of the equity interest in New Media not owned by Fortress for the period from February 14, 2014 to September 30, 2014.

Three months ended September 30

Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries decreased from \$58.8 million to \$10.8 million, a decrease of \$48.0 million, primarily attributable to (i) a decrease of \$48.7 million resulting from a \$47.6 million decrease in Fortress Operating Group consolidated net income during the three months ended September 30, 2014 as compared to the three months ended September 30, 2013, (ii) an increase of \$1.0 million resulting from the dilution of non-controlling interests in Fortress Operating Group caused by the delivery of Class A shares primarily in connection with vested RSUs and RPU's and (iii) a decrease of \$0.3 million resulting from Others' interests in the net income of consolidated subsidiaries of Fortress Operating Group.

Non-controlling Interests in Income (Loss) of Non-Investment Manager were recognized by us as a result of the consolidation of New Media, representing the share of New Media income (loss) attributable to 99.80% of the equity interest in New Media not owned by Fortress, for the three months ended September 30, 2014.

Redeemable Non-controlling Interests in Income (Loss)

Beginning June 1, 2014, Redeemable Non-controlling Interests in Income (Loss) of Investment Company were recognized by us as a result of the consolidation of the Investment Company, representing the share of the Investment Company income (loss) attributable to the equity interests in the Investment Company, which are redeemable by an investor and not owned by Fortress, for the period from June 1, 2014 to September 30, 2014.

Non-controlling Interests in Income (Loss) of Investment Company

Represents the non-redeemable non-controlling Interests in Income (Loss) of the Investment Company for the period from January 1, 2014 to September 30, 2014.

Segment Analysis

Fortress conducts its management and investment business through the following primary segments: (i) private equity funds, (ii) permanent capital vehicles, (iii) liquid hedge funds, (iv) credit hedge funds, (v) credit PE funds and (vi) Logan Circle. These segments are differentiated based on their varying strategies and, secondarily, on fund investor

terms.

In the third quarter of 2014, Fortress reorganized its segments by:

Reclassifying its investments in and resulting pre-tax distributable earnings from the Fortress Funds, which were (1) previously presented under the principal investments segment, to each of the other segments that the investment relates to and

Reclassifying one of its private equity funds, Worldwide Transportation and Infrastructure Investors ("WWTAI"), (2) from its private equity funds segment to its permanent capital vehicles segment, as we expect that WWTAI will become a publicly traded company externally managed by us.

The reclassifications were made to reflect changes in the way the business is reviewed and assessed by Fortress's chief operating decision maker ("CODM"). All of Fortress's internal reports have been changed to reflect this reorganization and Fortress's allocable

101

Table of Contents

expenses are now allocated amongst the segments based on this reorganization. Prior period amounts have been reclassified to reflect the segment reorganization described above.

For segment results of operations, 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.

Discussed below are our results of operations for each of our reportable segments. They represent the separate segment information available and utilized by our management committee, which consists of our principals and certain key officers, and which functions as our CODM to assess performance and to allocate resources. Management evaluates the performance of each segment based on its distributable earnings.

Management assesses our segments on a Fortress Operating Group (with the Non-Investment Manager and Investment Company on an unconsolidated basis) and pre-tax basis, and therefore adds back the non-controlling interests in consolidated subsidiaries related to Fortress Operating Group units (held by the principals and one senior employee), non-controlling interest in the consolidated Non-Investment Manager business and income tax expense.

Distributable earnings is described in Note 11 to Part I, Item 1, "Financial Statements — Segment Reporting," which includes a complete discussion of distributable earnings basis impairment and reserves, including the methodology used in estimating the amounts as well as the amounts incurred in the relevant periods.

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

Incentive Income

(i) for Fortress Funds which are private equity funds, a private permanent capital vehicle and credit PE funds, adding (a) incentive income paid (or declared as a distribution) to Fortress, less an applicable reserve for potential future clawbacks if the likelihood of a clawback is deemed greater than remote by Fortress's chief operating decision maker (net of the reversal of any prior such reserves that are no longer deemed necessary), minus (b) incentive income recorded in accordance with GAAP,

a. for other Fortress Funds, at interim periods, adding (a) incentive income on an accrual basis as if the incentive income from these funds were payable on a quarterly basis, minus (b) incentive income recorded in accordance with GAAP,

c. adding the incentive income earned by Fortress in connection with New Media and the Investment Company, which is eliminated under GAAP as a result of the consolidation of New Media and the Investment Company,

Other Income

(ii) with respect to income from certain investments in our funds and certain other interests or assets that cannot be readily transferred or redeemed:

a. for equity method investments in the private equity funds, private permanent capital vehicle and credit PE funds as well as indirect equity method investments in hedge fund special investment accounts (which generally have investment profiles similar to private equity funds), treating these investments as cost basis investments by adding (a) realizations of income, primarily dividends, from these funds, minus (b) impairment with respect to these funds, if necessary, minus (c) equity method earnings (or losses) recorded in accordance with GAAP,

b. subtracting gains (or adding losses) on stock options held in the publicly traded permanent capital vehicles, subtracting unrealized gains (or adding unrealized losses) on derivatives, direct investments in publicly traded portfolio companies and in the publicly traded permanent capital vehicles,

c. adding equity method earnings (or losses) earned by Fortress in connection with the Investment Company, which is eliminated under GAAP,

(iii)

adding (a) proceeds from the sale of shares received pursuant to the exercise of stock options in certain of the publicly traded permanent capital vehicles, in excess of their strike price, minus (b) management fee income recorded in accordance with GAAP in connection with the receipt of these options, adding the management fee income earned by Fortress in connection with New Media and the Investment (iv) Company, which is eliminated under GAAP as a result of the consolidation of New Media and the Investment Company,

Table of Contents

Expenses

- (v) adding or subtracting, as necessary, the employee profit sharing in incentive income described in (i) above to match the timing of the expense with the revenue,
 - adding back equity-based compensation expense (including publicly traded permanent capital vehicle options
- (vi) assigned to employees, RSUs and RPU's (including the portion of related dividend and distribution equivalents recorded as compensation expense), and restricted shares),
 - adding or subtracting, as necessary, any changes in the fair value of contingent consideration payable with respect
- (vii) to the acquisition of a business, to the extent management intends to pay it in equity and it is recorded on the statement of operations under GAAP,
- (viii) adding back the amortization of intangible assets and any impairment of goodwill or intangible assets recorded under GAAP,
- (ix) adding back compensation expense recorded in connection with the forfeiture arrangements entered into among the principals, which expired in December 2011,
- (x) adding the income (or subtracting the loss) allocable to the interests in consolidated subsidiaries attributable to Fortress Operating Group units,
- (xi) subtracting the income (or adding the loss) of the Non-Investment Manager and the Investment Company allocable to the Class A shareholders, and
- (xii) adding back income tax benefit or expense and any income or expense recorded in connection with the tax receivable agreement (Note 6).

Private Equity Funds

The following table presents our results of operations for our private equity funds segment:

	Nine Months Ended September 30,		2014 vs.	Three Months Ended September 30,		2014 vs.
	2014	2013	2013	2014	2013	2013
Segment revenues						
Management Fees	\$ 104,552	\$ 99,566	\$ 4,986	\$ 33,638	\$ 33,810	\$(172)
Incentive Income	2,854	9,181	(6,327)	—	1,544	(1,544)
Segment revenues — total	\$ 107,406	\$ 108,747	\$(1,341)	\$ 33,638	\$ 35,354	\$(1,716)
Pre-tax distributable earnings	\$ 163,851	\$ 80,095	\$ 83,756	\$ 18,701	\$ 30,717	\$(12,016)

Nine months ended September 30

Pre-tax distributable earnings increased by \$83.8 million primarily due to:

Revenues

Management fees were \$104.6 million for the nine months ended September 30, 2014, a net increase of \$5.0 million, compared to \$99.6 million for the nine months ended September 30, 2013. Management fees increased by \$5.0 million due to (i) a net increase of \$7.7 million in management fees primarily from Fund IV and Fund V as a result of an increase in the market values of certain portfolio companies, some of which were below their invested capital in the prior period, which impacted the computation of fees for the nine months ended September 30, 2014 as compared to the prior period and (ii) an increase of \$1.3 million in management fees from the MSR Opportunities Funds which called initial capital in January 2013. These increases were partially offset by a decrease of (i) \$2.8 million in management fees related to Fund III, Fund III Co and Fund V Co primarily as a result of return of capital distributions

and a decrease in the market values of certain portfolio companies, some of which were below their invested capital and (ii) a decrease of \$1.4 million related to FRIC and FRID which both substantially liquidated their respective investments during the second quarter of 2014.

Incentive income was \$2.9 million for the nine months ended September 30, 2014, a net decrease of \$6.3 million, compared to \$9.2 million of incentive income recognized for the nine months ended September 30, 2013. Incentive income decreased by \$6.3 million primarily as a result of (i) a decrease of \$4.9 million in the amount of incentive income earned from realization events that occurred as a result of the liquidation of Fund I during the nine months ended September 30, 2013 and (ii) a decrease of \$1.4 million primarily due to a decrease of clawback reserve reversal related to Fund II during the nine months ended September 30, 2014 as compared to the prior period.

Table of Contents

Expenses

Expenses were \$38.1 million for the nine months ended September 30, 2014, a net increase of \$2.2 million, compared to \$35.9 million for the nine months ended September 30, 2013. The net increase of \$2.2 million in expenses was primarily attributable to (i) an increase of \$4.1 million in compensation and benefits expense due to an increase in average headcount and (ii) a net increase of \$1.4 million in general and administrative and corporate allocable expenses. These increases were partially offset by a decrease of \$3.3 million in profit sharing compensation expense for the nine months ended September 30, 2014 as compared to the prior period.

Net Investment Income

Net investment income was \$94.6 million for the nine months ended September 30, 2014, a net increase of \$87.4 million, compared to \$7.2 million for the nine months ended September 30, 2013. Net investment income increased by \$87.4 million primarily due to (i) an increase of \$47.8 million in distributions from realization events primarily from FRIC, FRID and the Mortgage Opportunities Funds I and II and (ii) an increase of \$40.3 million in gain related to the sale of our GAGFAH common stock for the nine months ended September 30, 2014 as compared to the prior period. These increases were partially offset by a \$0.9 million increase in realized losses on foreign currency hedges.

Three months ended September 30

Pre-tax distributable earnings decreased by \$12.0 million primarily due to:

Revenues

Management fees were \$33.6 million for the three months ended September 30, 2014, a net decrease of \$0.2 million, compared to \$33.8 million for the three months ended September 30, 2013. Management fees decreased by \$0.2 million primarily due to (i) a decrease of \$1.8 million in management fees primarily from Fund III, Fund III Co, and Fund V Co primarily as a result of return of capital distributions and a decrease in the market values of certain portfolio companies, some of which were below their invested capital, which impacted the computation of fees for the three months ended September 30, 2014 as compared to the prior period and (ii) a net decrease of \$2.5 million in management fees from the liquidation of FRIC and FRID, which both substantially liquidated their respective investments during the second quarter of 2014. These decreases were partially offset by an increase of \$4.3 million in management fees from Fund IV, Fund IV Co and Fund V primarily as a result of an increase in the market values of certain portfolio companies, some of which were below their invested capital in the prior period, which impacted the computation of fees for the three months ended September 30, 2014 as compared to the prior period.

There was no incentive income for the three months ended September 30, 2014, compared to \$1.5 million of incentive income recognized for the three months ended September 30, 2013. Incentive income decreased by \$1.5 million primarily due to clawback reserve reversal related to Fund II during the three months ended September 30, 2013.

Expenses

Expenses were \$15.0 million for the three months ended September 30, 2014, a net increase of \$3.7 million, compared to \$11.3 million for the three months ended September 30, 2013. The net increase of \$3.7 million in expenses was primarily attributable to (i) a net increase of \$3.1 million in compensation and benefit expenses due to an increase in average headcount, and (ii) a net increase of \$1.2 million in general and administrative and corporate allocable expenses. These increases were partially offset by a decrease of \$0.6 million in profit sharing compensation expense for the three months ended September 30, 2014 as compared to the prior period.

Net Investment Income

Net investment income was less than \$0.1 million for the three months ended September 30, 2014, a net decrease of \$6.6 million, compared to \$6.6 million for the three months ended September 30, 2013. Net investment income decreased by \$6.6 million primarily due to (i) a decrease of \$5.6 million in realized gain on investments due to a partial sale of our GAGFAH common stock for the three months ended September 30, 2013, and (ii) a decrease of \$1.0 million in distributions from realization events from our private equity funds for the three months ended September 30, 2013.

Table of Contents

Permanent Capital Vehicles

The following table presents our results of operations for our permanent capital vehicles segment:

	Nine Months Ended September 30,		2014 vs. 2013	Three Months Ended September 30,		2014 vs. 2013
	2014	2013	\$	2014	2013	\$
Segment revenues						
Management Fees	\$50,434	\$45,996	\$4,438	\$17,934	\$14,215	\$3,719
Incentive Income	40,676	7,299	33,377	15,936	6,099	9,837
Segment revenues — total	\$91,110	\$53,295	\$37,815	\$33,870	\$20,314	\$13,556
Pre-tax distributable earnings	\$25,901	\$20,828	\$5,073	\$7,133	\$7,403	\$(270)

Nine months ended September 30

Pre-tax distributable earnings increased by \$5.1 million primarily due to:

Revenues

Management fees were \$50.4 million for the nine months ended September 30, 2014, a net increase of \$4.4 million, compared to \$46.0 million for the nine months ended September 30, 2013. Management fees increased by \$4.4 million primarily as a result of (i) a \$7.8 million increase in management fees primarily due to an increase in average AUM for New Residential which was spun off by Newcastle in May 2013, (ii) a \$3.7 million increase in management fees due to a new management agreement with New Media which was spun off by Newcastle in February 2014, as well as an increase in average AUM as a result of equity raised by New Media during the third quarter of 2014, (iii) an increase of \$2.0 million in management fees primarily due to an increase in WWTAI average AUM as a result of net capital inflows and (iv) an increase of \$1.2 million in fees generated by our senior living property management business for the nine months ended September 30, 2014 as compared to the prior period. These increases were partially offset by (i) a \$5.0 million decrease in Newcastle management fees primarily due to the distribution of common shares of New Residential and New Media as described above resulting in a decrease in average AUM and (ii) a \$5.1 million decrease in Eurocastle management fees primarily due to a decrease in average AUM as a result of their restructuring process and amended management agreement in April 2013.

Incentive income was \$40.7 million for the nine months ended September 30, 2014, an increase of \$33.4 million, compared to \$7.3 million of incentive income recognized for the nine months ended September 30, 2013. Incentive income increased by \$33.4 million primarily as a result of (i) an increase of \$26.8 million of incentive income related to New Residential for the nine months ended September 30, 2014 as compared to the prior period, (ii) an increase of \$6.4 million due to the exercise of a portion of our publicly traded permanent capital vehicle options and (iii) \$0.2 million of incentive income related to WWTAI for the nine months ended September 30, 2014.

Expenses

Expenses were \$66.8 million for the nine months ended September 30, 2014, a net increase of \$33.5 million, compared to \$33.3 million for the nine months ended September 30, 2013. The increase of \$33.5 million in expenses was primarily attributable to (i) a \$12.4 million increase in compensation and benefits expense primarily due to an increase in average headcount in Newcastle, New Residential and the senior living property management business, (ii) a net increase of \$6.0 million in general and administrative and corporate allocable expenses, (iii) an increase of \$13.0 million in profit sharing expense related to the recognition of the incentive income discussed above (including a \$6.4 million increase related to the exercise of a portion of our publicly traded permanent capital vehicle options allocated

to employees) and (iv) an increase of \$2.1 million in accruals for Principal Performance Payments as compared to the prior period.

Net Investment Income

Net investment income was \$1.6 million for the nine months ended September 30, 2014, a net increase of \$0.7 million, compared to \$0.9 million for the nine months ended September 30, 2013. Net investment income increased by \$0.7 million primarily due to (i) an increase of \$0.3 million in dividend income primarily from our direct investments in Newcastle and New Residential common stock and (ii) an increase of \$0.4 million in other investment income.

Table of Contents

Three months ended September 30

Pre-tax distributable earnings decreased by \$0.3 million primarily due to:

Revenues

Management fees were \$17.9 million for the three months ended September 30, 2014, a net increase of \$3.7 million, compared to \$14.2 million for the three months ended September 30, 2013. Management fees increased by \$3.7 million primarily due to (i) a \$1.5 million increase in management fees due to a new management agreement with New Media which was spun off by Newcastle in February 2014, as well as an increase in average AUM as a result of equity raised by New Media during the third quarter of 2014, (ii) a \$1.1 million increase in WWTAI management fees due to an increase in average AUM as compared to the prior period, (iii) a \$0.5 million increase in fees generated by our senior living property management business for the three months ended September 30, 2014 as compared to the prior period and (iv) a \$0.7 million increase in management fees due to an increase in New Residential average AUM resulting from equity raised in 2014.

Incentive income was \$15.9 million for the three months ended September 30, 2014, a net increase of \$9.8 million, compared to \$6.1 million of incentive income recognized for the three months ended September 30, 2013. Incentive income increased by \$9.8 million primarily as a result of (i) an increase of \$4.7 million primarily due to the recognition of incentive income related to New Residential for the three months ended September 30, 2014, (ii) an increase of \$4.9 million due to the exercise of a portion of our publicly traded permanent capital vehicle options and (iii) \$0.2 million of incentive income related to WWTAI for the three months ended September 30, 2014.

Expenses

Expenses were \$27.3 million for the three months ended September 30, 2014, a net increase of \$14.1 million, compared to \$13.2 million for the three months ended September 30, 2013. The increase of \$14.1 million in expenses was primarily attributable to (i) a \$5.8 million increase in compensation and benefits expense primarily due to an increase in average headcount in Newcastle, New Residential and the senior living property management business, (ii) a net increase of \$2.6 million in general and administrative and corporate allocable expenses and (iii) an increase of \$6.5 million in profit sharing expense related to the recognition of the incentive income discussed above (including a \$4.9 million increase related to the exercise of a portion of our publicly traded permanent capital vehicle options allocated to employees). These increases were partially offset by a decrease of \$0.7 million in accruals for Principal Performance Payments.

Net Investment Income

Net investment income was \$0.6 million for the three months ended September 30, 2014, a net increase of \$0.3 million, compared to \$0.3 million for the three months ended September 30, 2013. Net investment income increased by \$0.3 million primarily due to (i) an increase of \$0.1 million in dividend income primarily from our direct investments in Newcastle and New Residential common stock and (ii) an increase of \$0.2 million in other investment income.

Liquid Hedge Funds

The following table presents our results of operations for our liquid hedge funds segment:

Nine Months Ended September 30,	2014 vs. 2013	Three Months Ended September 30,	2014 vs. 2013
------------------------------------	------------------	-------------------------------------	------------------

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

	2014	2013	\$	2014	2013	\$
Segment revenues						
Management Fees	\$ 103,373	\$ 79,380	\$ 23,993	\$ 33,733	\$ 30,634	\$ 3,099
Incentive Income	2,627	97,324	(94,697)	1,339	(27,387)	28,726
Segment revenues - total	\$ 106,000	\$ 176,704	\$ (70,704)	\$ 35,072	\$ 3,247	\$ 31,825
Pre-tax distributable earnings (loss)	\$ 12,191	\$ 80,665	\$ (68,474)	\$ (5,006)	\$ (9,769)	\$ 4,763

106

Table of Contents

Nine months ended September 30

Pre-tax distributable earnings decreased by \$68.5 million primarily due to:

Revenues

Management fees were \$103.4 million for the nine months ended September 30, 2014, a net increase of \$24.0 million, compared to \$79.4 million for the nine months ended September 30, 2013. Management fees increased by \$24.0 million primarily due to (i) a \$24.9 million increase in management fees earned from the Fortress Asia Macro Funds (including related managed accounts) as a result of an increase in net capital inflows and (ii) a \$5.1 million increase in management fees related to Fortress Redwood Fund (which launched in August 2013). These increases were partially offset by a \$6.0 million net decrease in management fees from certain of our other liquid hedge funds and managed accounts primarily as a result of net capital outflows.

Incentive income, which is determined on a fund-by-fund basis, was \$2.6 million for the nine months ended September 30, 2014, a net decrease of \$94.7 million, compared to \$97.3 million for the nine months ended September 30, 2013. Incentive income decreased by \$94.7 million primarily due to decreases of \$62.7 million, \$25.2 million, and \$5.5 million in the incentive income generated by the Fortress Macro Funds (including related managed accounts), the Fortress Asia Macro Funds (including related managed accounts), and Fortress Macro MA I Fund, respectively, due to lower returns during the nine months ended September 30, 2014 as compared to the prior period.

Expenses

Expenses were \$87.4 million for the nine months ended September 30, 2014, a net decrease of \$11.4 million, compared to \$98.8 million for the nine months ended September 30, 2013. The decrease of \$11.4 million in expenses was primarily attributable to (i) a decrease of \$16.8 million in profit sharing compensation expense related to the recognition of incentive income discussed above and (ii) a decrease of \$7.4 million in accruals for Principal Performance Payments. These decreases were partially offset by an increase of \$9.7 million in compensation and benefits expense and by a net increase of \$3.1 million in general and administrative expenses and corporate allocable expenses.

Net Investment Income

Net investment income (loss) was \$(6.4) million for the nine months ended September 30, 2014, a change of \$9.2 million, compared to net investment income of \$2.8 million for the nine months ended September 30, 2013. Net investment income changed by \$9.2 million primarily due to (i) a \$5.8 million impairment on Fortress's holdings of digital currency, (ii) an increase of \$3.2 million in losses attributable to investments in our liquid hedge funds and (iii) an increase of \$1.7 million in recorded impairments with respect to our special investments in our liquid hedge funds as compared to the prior period. These increases in losses were partially offset by an increase of \$1.6 million in distribution of earnings from realization events in special investments in liquid hedge funds for the nine months ended September 30, 2014 as compared to the prior period.

Three months ended September 30

Pre-tax distributable loss decreased by \$4.8 million primarily due to:

Revenues

Management fees were \$33.7 million for the three months ended September 30, 2014, a net increase of \$3.1 million, compared to \$30.6 million for the three months ended September 30, 2013. Management fees increased by \$3.1 million primarily due to (i) a \$6.2 million increase in management fees earned from the Fortress Asia Macro Funds (including related managed accounts), primarily as a result of an increase in net capital inflows and (ii) a \$0.7 million increase in management fees related to Fortress Redwood Fund (which launched in August 2013). These increases were partially offset by a \$3.8 million net decrease in management fees from our other liquid hedge funds and managed accounts, primarily as a result of net capital outflows.

Incentive income, which is determined on a fund-by-fund basis, was \$1.3 million for three months ended September 30, 2014, a change of \$28.7 million, compared to a \$(27.4) million reversal of accrued incentive income for the three months ended September 30, 2013. Incentive income changed by \$28.7 million primarily due to (i) the reversal of accrued incentive income of \$21.8 million, \$3.6 million and \$2.0 million related to the Fortress Macro Funds (including related managed accounts), the Fortress Asia Macro Funds (including related managed accounts) and Fortress Macro MA I Fund, respectively, for the three months ended September 30, 2013 as compared to (ii) \$1.3 million of incentive income recognized for the three months ended September 30, 2014 primarily related to the Drawbridge Global Macro Fund, Fortress Macro Funds (and related managed accounts) and Fortress Asia Macro Funds (and related managed accounts).

Table of Contents

Expenses

Expenses were \$31.0 million for the three months ended September 30, 2014, a net increase of \$17.0 million, compared to \$14.0 million for the three months ended September 30, 2013. The increase of \$17.0 million in expenses was primarily attributable to (i) an increase of \$13.8 million in profit sharing compensation expense related to the recognition of incentive income discussed above, (ii) an increase of \$1.5 million in accruals for Principal Performance Payments, (iii) an increase of \$1.3 million in general and administrative expenses and corporate allocable expenses and (iv) a net increase of \$0.4 million in compensation and benefits expense.

Net Investment Income

Net investment income (loss) was \$(9.1) million for the three months ended September 30, 2014, a change of \$10.1 million, compared to \$1.0 million for the three months ended September 30, 2013. Net investment income changed by \$10.1 million primarily due to (i) a \$5.8 million impairment on Fortress's holdings of digital currency, (ii) an increase of \$4.0 million in losses attributable to investments in our liquid hedge funds and (iii) an increase of \$2.3 million in recorded impairments with respect to our special investments in our liquid hedge funds as compared to the prior period. These increases in losses were partially offset by a \$2.1 million increase in distribution of earnings from realization events in special investments in liquid hedge funds for the three months ended September 30, 2014 as compared to the prior period.

Credit Hedge Funds

The following table presents our results of operations for our credit hedge funds segment:

	Nine Months Ended September 30,		2014 vs. 2013	Three Months Ended September 30,		2014 vs. 2013
	2014	2013	\$	2014	2013	\$
Segment revenues						
Management Fees	\$84,129	\$75,435	\$8,694	\$28,796	\$25,481	\$3,315
Incentive Income	102,977	140,840	(37,863)	28,846	44,194	(15,348)
Segment revenues - total	\$187,106	\$216,275	\$(29,169)	\$57,642	69,675	\$(12,033)
Pre-tax distributable earnings	\$72,626	\$91,715	\$(19,089)	\$17,968	\$30,567	\$(12,599)

Nine months ended September 30

Pre-tax distributable earnings decreased by \$19.1 million primarily due to:

Revenues

Management fees were \$84.1 million for the nine months ended September 30, 2014, a net increase of \$8.7 million, compared to \$75.4 million for the nine months ended September 30, 2013. Management fee increased by \$8.7 million primarily due to an increase of \$8.4 million in management fees from the Drawbridge Special Opportunities Funds.

Incentive income, which is determined on a fund-by-fund basis, was \$103.0 million for nine months ended September 30, 2014, a net decrease of \$37.8 million, compared to \$140.8 million for the nine months ended September 30, 2013. Incentive income decreased by \$37.8 million primarily due to (i) a decrease of \$33.6 million in incentive income generated by the Drawbridge Special Opportunities Funds primarily due to relatively lower returns for the nine months ended September 30, 2014 as compared to the prior period and (ii) a decrease of \$5.2 million in incentive

income generated by the Worden Funds mainly due to lower returns for the nine months ended September 30, 2014 as compared to the prior period. These decreases were partially offset by a \$0.9 million increase in incentive income from other investments for the nine months ended September 30, 2014 as compared to the prior period.

Expenses

Expenses were \$112.3 million for the nine months ended September 30, 2014, a net decrease of \$17.1 million, compared to \$129.4 million for the nine months ended September 30, 2013. The decrease of \$17.1 million in expenses was primarily attributable to (i) a decrease of \$18.4 million in profit sharing compensation expense related to the recognition of incentive income discussed above, (ii) a decrease of \$1.6 million in accruals for Principal Performance Payments and (iii) a net decrease of \$2.3 million in general and administrative expenses and corporate allocable expenses for the nine months ended September 30, 2014 as compared to the prior period. These decreases were partially offset by a \$5.1 million increase in compensation and benefits expense for the nine months ended September 30, 2014 as compared to the prior period.

Table of Contents

Net Investment Income

Net investment income (loss) was \$(2.2) million for the nine months ended September 30, 2014, a change of \$7.1 million, compared to net investment income of \$4.9 million for the nine months ended September 30, 2013. Net investment income changed by \$7.1 million primarily due to (i) a \$5.8 million impairment on Fortress's holdings of digital currency, (ii) a decrease of \$1.2 million in earnings from our investments in our credit hedge funds and (iii) a decrease of \$0.2 million in dividend income from a private investment for nine months ended September 30, 2013.

Three months ended September 30

Pre-tax distributable earnings decreased by \$12.6 million primarily due to:

Revenues

Management fees were \$28.8 million for the three months ended September 30, 2014, a net increase of \$3.3 million, compared to \$25.5 million for the three months ended September 30, 2013. Management fees increased by \$3.1 million and \$0.2 million primarily due to an increase in management fees from the Drawbridge Special Opportunities Funds and Worden Funds, respectively.

Incentive income, which is determined on a fund-by-fund basis, was \$28.8 million for the three months ended September 30, 2014, a net decrease of \$15.4 million, compared to \$44.2 million for the three months ended September 30, 2013. Incentive income decreased by \$15.4 million primarily due to decreases of \$15.7 million and \$0.2 million in incentive income generated by the Drawbridge Special Opportunities Funds and Worden Funds, respectively, primarily due to lower returns for the three months ended September 30, 2014 as compared to the prior period. These decreases were partially offset by a \$0.6 million increase in incentive income from other investments for the three months ended September 30, 2014 as compared to the prior period.

Expenses

Expenses were \$34.8 million for the three months ended September 30, 2014, a net decrease of \$5.9 million, compared to \$40.7 million for the three months ended September 30, 2013. The decrease of \$5.9 million in expenses was primarily attributable to (i) a decrease of \$5.8 million in profit sharing compensation expense and (ii) a decrease of \$2.8 million in general and administrative expenses and corporate allocable expenses for the three months ended September 30, 2014 as compared to the prior period. These decreases were partially offset by an increase of \$2.5 million in compensation and benefits expenses for the three months ended September 30, 2014 as compared to the prior period.

Net Investment Income

Net investment income (loss) was \$(4.9) million for the three months ended September 30, 2014, a change of \$6.5 million, compared to net investment income of \$1.6 million for the three months ended September 30, 2013. Net investment income changed by \$6.5 million primarily due to (i) a \$5.8 million impairment on Fortress's holdings of digital currency and (ii) a decrease of \$0.8 million in earnings from our investments in our credit hedge funds.

Credit PE Funds

The following table presents our results of operations for our credit PE segment:

Nine Months Ended September 30,	2014 vs. 2013	Three Months Ended September 30,	2014 vs. 2013
------------------------------------	------------------	-------------------------------------	------------------

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

	2014	2013	\$	2014	2013	\$
Segment Revenues						
Management Fees	\$71,898	\$71,218	\$680	\$23,571	\$23,669	\$(98)
Incentive Income	120,261	102,148	18,113	41,489	17,789	23,700
Segment revenues - total	\$192,159	\$173,366	\$18,793	\$65,060	\$41,458	\$23,602
Pre-tax distributable earnings	\$54,021	\$50,391	\$3,630	\$18,044	\$8,436	\$9,608

109

Table of Contents

Nine months ended September 30

Pre-tax distributable earnings increased by \$3.6 million primarily due to:

Revenues

Management fees were \$71.9 million for the nine months ended September 30, 2014, a net increase of \$0.7 million, compared to \$71.2 million for the nine months ended September 30, 2013. Management fees increased by \$0.7 million primarily due to an increase of \$6.9 million related to Credit Opportunities Fund III and Real Estate Opportunities Fund attributable to net capital contributions made after the third quarter of 2013. This increase in management fees was partially offset by decreases of \$1.9 million, \$2.2 million, \$1.1 million and \$0.8 million in management fees related to Credit Opportunities Fund, Credit Opportunities Fund II, a certain FCO Managed Account and Net Lease Fund, respectively, primarily due to net capital distributions made after the third quarter of 2013.

Incentive income was \$120.3 million for the nine months ended September 30, 2014, a net increase of \$18.1 million, compared to \$102.1 million for the nine months ended September 30, 2013. Incentive income increased by \$18.1 million primarily due to (i) a net increase of \$9.4 million in incentive income generated primarily by the Credit Opportunities Funds and FCO Managed Accounts as a result of an increase in distributions generated by realization events and (ii) a net increase of \$9.5 million in incentive income generated by the Japan Opportunity Funds I and II during the nine months ended September 30, 2014 as compared to the prior period.

Expenses