

Fortress Investment Group LLC
Form 10-Q
August 14, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007

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
(State or other jurisdiction of
incorporation or organization)
1345 Avenue of the Americas, New York, NY
(Address of principal executive offices)
(212) 798-6100
(Registrant's telephone number, including area code)

20-5837959
(I.R.S. Employer
Identification No.)
10105
(Zip 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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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: 94,597,646 outstanding as of August 10, 2007.

Class B Shares: 312,071,550 outstanding as of August 10, 2007.

FORTRESS INVESTMENT GROUP LLC

FORM 10-Q

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DEFINED TERMS

As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires:

“Assets Under Management,” or “AUM,” refers to the assets we manage, including 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 net asset value, or “NAV,” of our private equity funds and hedge funds plus the capital that we are entitled to call from investors pursuant to the terms of their capital commitments to those funds;
- (ii) the NAV of managed accounts; and
- (iii) the market capitalization of the common stock of each of our publicly traded alternative investment vehicles, which we refer to as our “Castles”.

We earn management fees pursuant to management agreements on a basis which varies from Fortress Fund to Fortress Fund (e.g., any of “net asset value”, “capital commitments”, “invested equity” or “gross equity,” each as defined in the applicable management agreement, may form the basis for a management fee calculation). 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 AUM measure includes, for instance, assets under management for which we charge either no or nominal fees, generally related to our principal investments in funds as well as investments in funds by our principals, directors and employees. Our 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.

“Fortress,” “we,” “us,” “our,” and the “company” refer, (i) following the consummation of the reorganization and the Nomura transaction, collectively, to Fortress Investment Group LLC and its subsidiaries, including the Fortress Operating Group and all of its subsidiaries, and, (ii) prior to the consummation of the reorganization and the Nomura transaction on January 17, 2007, to the Fortress Operating Group and all of its subsidiaries, in each case not including funds that, prior to March 31, 2007, were consolidated funds, except with respect to our historical financial statements and discussion thereof unless otherwise specified. Effective March 31, 2007, all of our previously consolidated funds were deconsolidated. The financial statements contained herein represent consolidated financial statements of Fortress Investment Group LLC subsequent to the reorganization and combined financial statements of Fortress Operating Group, considered the predecessor, prior to the reorganization. See Part I, Item 1, “Financial Statements.”

“Fortress Funds” and “our funds” refers to the private investment funds and alternative asset companies that are managed by the Fortress Operating Group.

“Fortress Operating Group” refers to the combined entities, which were wholly-owned by the principals prior to the Nomura transaction and in each of which Fortress Investment Group LLC acquired an indirect controlling interest upon completion of the Nomura transaction (described below).

“principals” refers to Peter Briger, Wesley Edens, Robert Kauffman, Randal Nardone and Michael Novogratz, collectively, who prior to the completion of our initial public offering and the Nomura transaction directly owned 100% of the Fortress Operating Group units and following completion of our initial public offering and the Nomura transaction own a majority of the Fortress Operating Group units and all of the Class B shares, representing a majority

of the total combined voting power of all of our outstanding Class A and Class B shares. The principals' ownership percentage is subject to change based on, among other things, equity offerings by Fortress and dispositions by the principals.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under 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," Part II, Item 1A, "Risk Factors," 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," 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. 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.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORTRESS INVESTMENT GROUP LLC
(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP – NOTE 1)
CONSOLIDATED AND COMBINED BALANCE SHEETS
(dollars in thousands, except share data)

	June 30, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	\$ 321,445	\$ 61,120

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Cash held at consolidated subsidiaries and restricted cash	—	564,085
Due from affiliates	180,429	635,748
Receivables from brokers and counterparties	—	109,463
Investment company holdings, at fair value		
Loans and securities	—	6,874,748
Investments in affiliates	—	14,985,578
Derivatives	—	84,270
Other investments		
Loans and securities	—	317
Equity method investees	642,518	37,250
Options in affiliates	106,324	139,266
Deferred tax asset	475,091	2,808
Other assets	61,914	187,920
	\$ 1,787,721	\$ 23,682,573
Liabilities and Shareholders' Equity		
Liabilities		
Due to affiliates	\$ 415,976	\$ 15,112
Due to brokers and counterparties	—	187,495
Accrued compensation and benefits	213,767	159,931
Dividends payable	21,284	—
Other liabilities	37,333	152,604
Deferred incentive income	221,657	1,648,782
Securities sold not yet purchased, at fair value	—	97,717
Derivative liabilities, at fair value	2,652	123,907
Investment company debt obligations payable	—	2,619,456
Other debt obligations payable	350,000	687,153
	1,262,669	5,692,157
Commitments and Contingencies		
Principals' and Others' Interests in Equity of Consolidated Subsidiaries	358,392	17,868,895
Shareholders' Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 94,597,646 shares issued and outstanding	—	—
Class B shares, no par value, 750,000,000 shares authorized, 312,071,550 shares issued and outstanding	—	—
Paid-in capital	293,185	—
Retained earnings (accumulated deficit)	(126,385)	—
Fortress Operating Group members' equity	—	119,561
Accumulated other comprehensive income (loss)	(140)	1,960
	166,660	121,521
	\$ 1,787,721	\$ 23,682,573
See notes to consolidated and combined financial statements		

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FORTRESS INVESTMENT GROUP LLC
(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP – NOTE 1)

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CONSOLIDATED AND COMBINED INCOME STATEMENTS (Unaudited)

(dollars in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues				
Management fees from affiliates	\$ 118,678	\$ 29,568	\$ 161,965	\$ 74,544
Incentive income from affiliates	132,961	15,789	177,189	75,771
Other revenues	16,480	19,101	36,265	35,499
Interest and dividend income – investment company holdings				
Interest income	—	208,804	243,713	376,813
Interest income from controlled affiliate investments	—	14,189	4,707	28,346
Dividend income	—	1,056	7,436	4,312
Dividend income from controlled affiliate investments	—	39,762	53,174	103,015
	268,119	328,269	684,449	698,300
Expenses				
Interest expense				
Investment company holdings	—	127,442	132,620	245,690
Other	6,711	12,338	18,731	19,195
Compensation and benefits	187,783	100,000	405,300	183,445
Principals agreement compensation – Note 7	242,659	—	380,933	—
General, administrative and other	23,603	27,014	62,908	50,285
Depreciation and amortization	2,184	1,620	4,193	3,186
	462,940	268,414	1,004,685	501,801
Other Income				
Gains (losses) from investments				
Investment company holdings				
Net realized gains	—	22,211	86,264	72,848
Net realized gains from controlled affiliate investments	—	501,703	715,024	522,460
Net unrealized gains (losses)	—	(173,461)	(19,928)	(223,163)
Net unrealized gains (losses) from controlled affiliate investments	—	174,787	(1,428,837)	1,045,180
Other investments				
Net realized gains (losses)	(1,735)	(1,154)	54	(114)
Net realized gains from affiliate investments	9,452	—	145,493	—
Net unrealized gains (losses)	(396)	(2,392)	(677)	(2,941)
Net unrealized gains (losses) from affiliate investments	(36,338)	(23,357)	(167,166)	58,029
Earnings from equity method investees	7,231	524	7,427	2,420
	(21,786)	498,861	(662,346)	1,474,719
Income (Loss) Before Deferred Incentive Income, Principals' and Others' Interests in Income of Consolidated Subsidiaries and Income Taxes				
Deferred incentive income	—	(109,701)	307,034	(261,407)
Principals' and others' interests in loss (income) of consolidated subsidiaries	166,485	(489,164)	702,016	(1,314,536)
Income (Loss) Before Income Taxes	(50,122)	(40,149)	26,468	95,275

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Income tax expense	(5,009)	(2,126)	(19,456)	(7,270)
Net Income (Loss)	\$ (55,131)	\$ (42,275)	\$ 7,012	\$ 88,005
Dividends declared per Class A share	\$ 0.2250		\$ 0.3924	
			January 1 through January 16	
Earnings Per Unit – Fortress Operating Group				
Net income per Fortress Operating Group unit		\$ (0.12)	\$ 0.36	\$ 0.24
Weighted average number of Fortress Operating Group units outstanding		367,143,000	367,143,000	367,143,000
			January 17 through June 30	
Earnings Per Class A share – Fortress Investment Group				
Net income (loss) per Class A share, basic	\$ (0.59)		\$ (1.43)	
Net income (loss) per Class A share, diluted	\$ (0.66)		\$ (1.43)	
Weighted average number of Class A shares outstanding, basic	94,894,636		89,226,434	
Weighted average number of Class A shares outstanding, diluted	406,966,186		89,226,434	
See notes to consolidated and combined financial statements				

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FORTRESS INVESTMENT GROUP LLC
(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP – NOTE 1)
CONSOLIDATED AND COMBINED STATEMENT OF MEMBERS’
AND SHAREHOLDERS’ EQUITY (Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2007
(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit) (Subsequent to January 16, 2007)	Fortress Operating Group Members’ Equity (Prior to January 17, 2007)	Accumulated Other Comprehensive Income (Loss)	Share M E
Fortress Operating Group Members’ equity – December 31, 2006	—	—	—	\$ —	\$ 119,561	\$ 1,960	\$
Distributions declared by Fortress Operating Group prior to January 17, 2007	—	—	—	—	(415,876)	—	(

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Reorganization and issuance of shares to Nomura	55,071,450	312,071,550	888,000	—	—	—
Dilution impact of Nomura transaction	—	—	(912,437)	—	162,918	—
Dividends declared after January 16, 2007 but prior to initial public offering	—	—	(2,474)	—	—	—
Initial public offering of Class A shares	39,428,900	—	652,669	—	—	—
Dilution impact of initial public offering	—	—	(490,648)	—	—	—
Deferred tax effects resulting from acquisition of Fortress Operating Group units	—	—	89,026	—	—	—
Director restricted share grant	97,296	—	54	—	—	—
Dividends declared subsequent to initial public offering	—	—	(32,874)	—	—	—
Capital increase related to equity-based compensation	—	—	103,507	—	—	—
Dividend equivalents accrued in connection with equity-based compensation	—	—	(1,638)	—	—	—
Comprehensive income						
Net income (loss)	—	—	—	(126,385)	133,397	—
Foreign currency translation	—	—	—	—	—	97
Net unrealized (loss) on derivatives designated as cash flow hedges	—	—	—	—	—	(8)
Comprehensive income (loss) from equity method investees	—	—	—	—	—	(2,652)
Allocation to Principals' and others' interests in equity of consolidated subsidiaries	—	—	—	—	—	463
Total comprehensive income	—	—	—	—	—	—
Shareholders' equity –						
June 30, 2007	94,597,646	312,071,550	\$ 293,185	\$(126,385)	\$ —	\$ (140)

See notes to consolidated and combined financial statements

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FORTRESS INVESTMENT GROUP LLC
(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP – NOTE 1)
CONSOLIDATED AND COMBINED STATEMENT OF CASH FLOWS (Unaudited)
JUNE 30, 2007
(dollars in tables in thousands, except share data)

	Six Months Ended June 30,	
	2007	2006
Cash Flows From Operating Activities		
Net income	\$ 7,012	\$ 88,005
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	4,193	3,186
Other amortization and accretion	1,275	2,775
Earnings from equity method investees	(7,427)	(2,420)
Distributions of earnings from equity method investees	4,211	5,873
(Gains) losses from investments	669,773	(1,472,299)
Deferred incentive income	(311,174)	261,407
Principals' and others' interests in income of consolidated subsidiaries	(702,016)	1,314,536
Deferred tax expense	2,484	4,420
Options received from affiliates	(2,006)	(18,693)
Assignments of options to employees	1,717	—
Equity-based compensation	445,233	—
Cash flows due to changes in		
Cash held at consolidated subsidiaries and restricted cash	(166,199)	(517,641)
Due from affiliates	421,310	(123,023)
Receivables from brokers and counterparties and other assets	(9,106)	(102,902)
Due to affiliates	(8,380)	(48,074)
Accrued compensation and benefits	72,733	20,786
Due to brokers and counterparties and other liabilities	65,592	135,652
Investment company holdings		
Purchases of investments	(5,105,865)	(5,739,707)
Proceeds from sale of investments	3,398,739	4,304,223
Net cash used in operating activities	(1,217,901)	(1,883,896)
Cash Flows From Investing Activities		
Purchase of other loan and security investments	—	(232,194)
Proceeds from sale of other loan and security investments	317	163,210
Contributions to equity method investees	(94,751)	(373)
Proceeds from sale of equity method investments	29,071	—
Distributions of capital from equity method investees	39,906	269
Cash received on settlement of derivatives	132	—
Purchase of fixed assets	(7,136)	(5,193)
Net cash used in investing activities	(32,461)	(74,281)
Cash Flows From Financing Activities		
Borrowings under debt obligations	1,924,070	3,320,221
Repayments of debt obligations	(2,010,025)	(2,368,554)
Payment of deferred financing costs	(6,656)	(12,300)
Issuance of Class A shares to Nomura	888,000	—
Issuance of Class A shares in initial public offering	729,435	—
Costs related to initial public offering	(76,766)	—
Dividends paid	(16,542)	—
Fortress Operating Group capital distributions to Principals	(415,876)	(307,332)
Purchase of Fortress Operating Group units from Principals	(888,000)	—
Principals' and others' interests in equity of consolidated subsidiaries – contributions	3,215,372	2,499,422
	(1,832,325)	(1,127,791)

Principals' and others' interests in equity of consolidated subsidiaries – distributions

Net cash provided by financing activities	1,510,687	2,003,666
Net Increase in Cash and Cash Equivalents	260,325	45,489
Cash and Cash Equivalents, Beginning of Period	61,120	36,229
Cash and Cash Equivalents, End of Period	\$ 321,445	\$ 81,718
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest (excluding interest paid by master funds while such funds were consolidated of \$85.1 million and \$162.5 million, respectively)	\$ 63,944	\$ 67,351
Cash paid during the period for income taxes	\$ 28,407	\$ 1,093
Supplemental Schedule of Non-cash Investing and Financing Activities		
Investment of amounts payable to employees into Fortress Funds	\$ 15,072	\$ 21,102
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	\$ 47,272	\$ —
See Note 1 regarding the non-cash deconsolidation transaction		
See notes to consolidated and combined financial statements		

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FORTRESS INVESTMENT GROUP LLC
(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP – NOTE 1)
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2007
(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

Fortress Investment Group LLC (the “Registrant,” or, together with its subsidiaries, “Fortress”) is a global alternative asset 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 (the “Fortress Funds”). Fortress generally makes principal investments in these funds.

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

- 1) Private equity funds, which invest in debt and equity securities of public or privately held entities.
- 2) Liquid hedge funds, which invest in the global fixed income, commodities, currency and equity markets, and their related derivatives.
- 3) Hybrid hedge funds, which invest in undervalued, distressed and other less liquid investments, as well as investment funds managed by external managers.
- 4) Publicly traded alternative investment vehicles that Fortress refers to as the “Castles,” which are companies that invest in operating real estate and real estate related loans and securities (debt

and equity).

The accompanying consolidated financial statements include the following:

- subsequent to Fortress’s reorganization and the inception of operations of Fortress Investment Group LLC on January 17, 2007, the accounts of Fortress Investment Group LLC and its consolidated subsidiaries, and
- prior to such reorganization and the inception of operations of Fortress Investment Group LLC, the accounts of eight affiliated entities under common control and management (“Fortress Operating Group” or the “predecessor”) and their respective consolidated subsidiaries. Each of the eight entities was owned either directly or indirectly by its members, Peter Briger, Wesley Edens, Robert Kauffman, Randal Nardone, and Michael Novogratz (the “Principals”).

Reorganization of Fortress Operating Group

Fortress Investment Group LLC was formed on November 6, 2006 for the purpose of becoming the general partner of Fortress Operating Group, completing the Nomura Transaction (described below), and effecting a public offering of shares and related transactions (the “Transactions”) in order to carry on the business of its predecessor, Fortress Operating Group, as a publicly traded entity. The Registrant completed the Nomura Transaction and commenced its operations on January 17, 2007 and completed its initial public offering on February 8, 2007. As a result of the Transactions, the Registrant acquired control of Fortress Operating Group and held, through two intermediate holding companies (FIG Corp. and FIG Asset Co. LLC), approximately 23.3% of the Fortress Operating Group limited partnership units and all of the general partner interests. The Principals retained the remaining 76.7% of the Fortress Operating Group limited partnership units and a 76.7% voting interest in the Registrant. All of the businesses engaged in by the Registrant continue to be conducted by Fortress Operating Group. The ownership percentages are subject to change based on, among other things, equity offerings by Fortress and dispositions by the Principals. As of June 30, 2007, the Fortress Operating Group units were owned as follows: Registrant 23.3%, Principals 76.7%.

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FORTRESS INVESTMENT GROUP LLC
(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP – NOTE 1)
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2007
(dollars in tables in thousands, except share data)

In January 2007, in connection with the Nomura transaction and the initial public offering, Fortress Operating Group was reorganized from eight limited liability companies, each having individual capital accounts for each of the Principals, into four limited partnerships, each having a unitized capital structure. The Principals were issued 367,143,000 non-voting limited partner interests in each of the four limited partnerships and the Registrant, through two intermediate holding companies, was issued the non-economic general partner interest in each of them. The Principals were also issued 367,143,000 non-economic Class B shares of the Registrant, of which 55,071,450 were cancelled in the Nomura transaction (see below). The term “Fortress Operating Group unit” is used to represent one limited partner interest in each limited partnership. A Fortress Operating Group unit is not a legal interest but is the term used to refer to the aggregate of one limited partnership interest in each reorganized Fortress Operating Group entity.

As the Registrant is a newly formed company, Fortress Operating Group is considered its predecessor for accounting purposes, and its combined financial statements have become the Registrant's historical financial statements. Also, because the Principals controlled Fortress Operating Group before the Transactions and control the Registrant after the Transactions, the Transactions have been accounted for as a reorganization of entities under common control. Accordingly, the Registrant has carried forward unchanged the value of assets and liabilities recognized in Fortress Operating Group's combined financial statements into its consolidated financial statements. When the Registrant purchased Fortress Operating Group units, from the Principals and directly from the Fortress Operating Group partnerships, it recorded the proportion of Fortress Operating Group net assets acquired at their historical carrying value and proportionately reduced the Principals' and others' interests in equity of consolidated subsidiaries. The excess of the amounts paid for the purchase of Fortress Operating Group units over the historical carrying value of the proportion of net assets acquired was charged to paid-in capital and is identified in the statement of members' and shareholders' equity as dilution.

FIG Corp. is a corporation for tax purposes. As a result, the Registrant is subject to income taxes on that portion of its income which flows through FIG Corp.

Following completion of the Transactions, substantially all of Fortress's expenses (other than (i) income tax expenses of the Registrant, FIG Corp. and FIG Asset Co. LLC (Note 5), (ii) obligations incurred under the tax receivable agreement (Note 5) and (iii) payments on indebtedness incurred by the Registrant, FIG Corp. and FIG Asset Co. LLC), including substantially all expenses incurred by or attributable solely to the Registrant, such as expenses incurred in connection with the Transactions, are accounted for as expenses of Fortress Operating Group.

Nomura Transaction

On December 18, 2006, the Principals entered into a securities purchase agreement with Nomura Investment Managers U.S.A., Inc., a Delaware corporation, or Nomura (whose ultimate parent is Nomura Holdings, Inc., a Japanese corporation), pursuant to which Nomura acquired a then 15% indirect stake in Fortress Operating Group for \$888 million, all of the proceeds of which were paid to the Principals. On January 17, 2007, Nomura completed the transaction by purchasing 55,071,450 Class A shares of the Registrant for \$888 million and the Registrant, in turn, purchased 55,071,450 Fortress Operating Group units, which then represented 15% of Fortress Operating Group's economic interests, and the sole general partner interest, from the Principals for \$888 million.

Initial Public Offering ("IPO")

On February 8, 2007, the Registrant completed an initial public offering of 39,428,900 of its Class A shares, including the underwriters' over allotment option, for net proceeds of approximately

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FORTRESS INVESTMENT GROUP LLC
(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP – NOTE 1)
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2007
(dollars in tables in thousands, except share data)

\$652.7 million. The Registrant contributed the net proceeds from the offering to Fortress Operating Group in exchange for 39,428,900 Fortress Operating Group units. Fortress Operating Group applied those proceeds as follows: (a) to pay \$250 million outstanding under its term loan facility, as required by the credit agreement (Note 4), and (b) to pay \$85 million then outstanding under its revolving credit facility (Note 4), and intended to use the remaining proceeds (a) to fund \$169 million of commitments to existing and future private equity funds, and (b) to use \$149 million for general business purposes. As of June 30, 2007, \$177.9 million of IPO proceeds remain unused, of which \$67.7 million is intended for private equity capital commitments and \$110.2 million is intended for general business purposes.

Following the IPO, Fortress adopted accounting policies with respect to new transactions as described in Notes 5, 7 and 8.

Consolidation and Deconsolidation of Fortress Funds

Certain of the Fortress Funds were consolidated into Fortress prior to the Transactions, notwithstanding the fact that Fortress has only a minority economic interest in these funds. Consequently, Fortress's financial statements reflected the assets, liabilities, revenues, expenses and cash flows of the consolidated Fortress Funds on a gross basis through the date of their deconsolidation, as described below. The majority ownership interests in these funds, which are not owned by Fortress, were reflected as Principals' and others' interests in equity of consolidated subsidiaries in the accompanying financial statements during periods in which such funds were consolidated. The management fees and incentive income earned by Fortress from the consolidated Fortress Funds were eliminated in consolidation; however, Fortress's allocated share of the net income from these funds was increased by the amount of these eliminated fees. Accordingly, the consolidation of these Fortress Funds had no net effect on Fortress's earnings from the Fortress Funds. For a reconciliation between the financial statements and the segment-based financial data that management uses for making operating decisions and assessing performance, see Note 10.

Following the IPO, each Fortress subsidiary that acts as a general partner of a consolidated Fortress Fund has granted rights, effective March 31, 2007, to the investors in the fund to provide that a simple majority of the fund's unrelated investors are able to liquidate the fund, without cause, in accordance with certain procedures, or to otherwise have the ability to exert control over the fund. The granting of these rights has led to the deconsolidation of the Fortress Funds from Fortress's financial statements as of March 31, 2007. The deconsolidation of the Fortress Funds has had significant effects on many of the items within these financial statements but has had no net effect on net income or equity. Since the deconsolidation did not occur until March 31, 2007, the income statement and the statement of cash flows for the six months ended June 30, 2007 are presented with these funds on a consolidated basis for three of the six months. The unaudited pro forma effects of the deconsolidation on these financial statements are described in Note 12.

The accompanying consolidated financial statements and related notes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Fortress's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements

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should be read in conjunction with Fortress's combined financial statements for the year ended December 31, 2006 and notes thereto included in Fortress's annual report on Form 10-K filed with the Securities and Exchange Commission. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's combined financial statements for the year ended December 31, 2006.

In connection with the reevaluation of certain transactions previously reported in 2006, Fortress has concluded that the classification of certain interest expense should be presented net of interest income, resulting in a \$179 million reduction of both interest income and expense for the six months ended June 30, 2006. This reclassification had no net effect on Fortress's financial position, results of operations or liquidity, nor did it impact distributable earnings or segment (unconsolidated) revenues or expenses. Accordingly, Fortress has concluded that this reclassification is not material to its financial position taken as a whole.

2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

Management Fees, Incentive Income and Related Profit Sharing Expense

On a pro forma basis (Note 12), as adjusted for the deconsolidation of the consolidated Fortress Funds as if it had occurred on January 1, 2007, Fortress recognized management fees and incentive income as follows:

	Six Months Ended June 30, 2007
Private Equity Funds	
Management fees	\$ 62,294
Incentive income	211,942
Liquid Hedge Funds	
Management fees	68,062
Incentive income	158,199
Hybrid Hedge Funds	
Management fees	59,680
Incentive income	825
Castles	
Management fees	22,995
Management fees – options	2,006
Incentive income	17,905
Total	
Management fees	\$ 215,037
Incentive income	\$ 388,871
Incentive Income Subject to Annual Performance Criteria	

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) and has not been recognized for these funds during the six months ended June 30, 2007 and 2006. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, \$83.4 million and \$53.2 million of additional

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incentive income from affiliates would have been recognized during the six months ended June 30, 2007 and 2006, respectively. These amounts are included as “undistributed” deferred incentive income in the table below.

Deferred incentive income from the Fortress Funds, subject to contingent repayment, was comprised of the following:

	June 30, 2007	December 31, 2006
Distributed – gross	\$ 391,595	\$ 252,774
Less: Recognized (A)	(169,938)	(9,473)
Distributed – unrecognized	\$ 221,657	243,301
Undistributed (B)	1,030,065	1,405,481
Total	\$ 1,251,722	\$ 1,648,782

(A) All related contingencies have been resolved.

(B) On a consolidated basis, undistributed incentive income from the Fortress Funds is recognized on the balance sheet as deferred incentive income; on a deconsolidated basis subsequent to March 31, 2007, undistributed incentive income is no longer recorded and has been removed from the balance sheet.

As of June 30, 2007, Fortress has recognized and paid compensation expense under its employee profit sharing arrangements in connection with the \$391.6 million of distributed incentive income. If the \$1,030.1 million of undistributed incentive income were realized, Fortress would recognize an additional \$317.2 million of compensation expense.

The change in deferred incentive income is summarized as follows:

	Distributed	Undistributed	Total
Deferred incentive income as of December 31, 2006	\$ 243,301	\$ 1,405,481	\$ 1,648,782

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Share of income (loss) of Fortress Funds	190,298	(375,416)	(185,118)
Recognition of previously deferred incentive income	(211,942)	—	(211,942)
Deferred incentive income as of June 30, 2007	\$ 221,657	\$ 1,030,065	\$ 1,251,722

Recognized profit sharing compensation expense is summarized as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Private equity funds	\$ 20,692	\$ 24,992	\$ 92,445	\$ 34,406
Liquid hedge funds	58,499	15,849	87,446	43,054
Hybrid hedge funds	18,728	12,034	38,246	25,936
Castles	4,518	2,900	6,874	5,361
Total	\$ 102,437	\$ 55,775	\$ 225,011	\$ 108,757

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Principals' and Others' Interests in Consolidated Subsidiaries

This balance sheet caption was comprised of the following at June 30, 2007:

Employee interests in majority owned and controlled fund advisor and general partner entities	\$ 59,648
Principals' Fortress Operating Group units	294,512
Other	4,232
Total	\$ 358,392

This income statement caption was comprised of shares of consolidated net income related to the following, on a pre-tax basis:

Three Months Ended	Six Months Ended
June 30, 2007	June 30, 2007
Actual	Actual

			Pro Forma (A)
Employee interests in majority owned and controlled fund advisor and general partner entities	\$ 3,158	\$ 6,000	\$ 6,000
Third party investors in Fortress Funds	—	(460,615)	—
Principals' Fortress Operating Group units	(169,759)	(247,401)	(247,401)
Other	116	—	—
Total	\$ (166,485)	\$ (702,016)	\$ (241,401)

(A) On a pro forma basis (Note 12), as adjusted for the deconsolidation of the consolidated Fortress Funds as if it had occurred on January 1, 2007.

Private Equity Funds

In January 2007, Fortress increased its capital commitment to one of its private equity funds by \$80 million.

In February 2007, Fortress had its first closing of a new private equity Fortress Fund, Long Dated Value Fund III ("LDVF III"). A second closing was held in March 2007. A third and final closing was held in June 2007 resulting in total commitments of \$345.1 million. Fortress, its affiliates and employees represent \$22.3 million of the total commitments. Fortress will manage LDVF III under similar terms to the other private equity Fortress Funds.

In March 2007, \$11.6 million of Fortress's remaining capital commitment to one of its private equity funds was extinguished.

In May 2007, Fortress formed a new private equity Fortress Fund known as Fortress Investment Fund V ("Fund V") with total capital commitments from third-party investors of \$4.0 billion. Fortress has committed to contribute to Fund V an amount equal to 1.5% of Fund V's total equity contributed by third party investors, or \$60 million. In June 2007, Fortress formed two additional private equity funds for the purpose of co-investing alongside Fund V in either single or multiple transactions. In total, \$2.0 billion was committed by investors to these two additional funds, of which \$0.4 billion was committed by Fortress and its employees. Fortress has entered into management agreements with the

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Fund V entities and will manage Fund V and the related funds under essentially the same terms as the other private equity Fortress Funds, including management fees and incentive income.

In June 2007, Fortress formed a new private equity Fortress Fund known as Real Assets Fund with total capital commitments of \$300.4 million. Fortress, its affiliates and employees represent \$95.0 million of the total

commitments. Fortress will manage Real Assets Fund under similar terms to the other private equity Fortress Funds.

Liquid Hedge Funds and Hybrid Hedge Funds

Approximately \$383.8 million of distributions were made to the Principals during the period from January 1, 2007 through the date of the IPO from the net proceeds from collection of deferred fee receivables, earned in prior periods, related to the liquid and hybrid hedge funds. Following this distribution, all of the deferred fee arrangements were terminated. Subsequently, \$27.4 million of net proceeds from all of the remaining deferred fee receivables were collected.

In February 2007, one of the then consolidated hybrid hedge funds raised \$1.2 billion of capital commitments from existing and new limited partners, of which 18% was called in the first quarter of 2007 and 20% was called in the second quarter of 2007. During the capital commitment period, which expires on the earlier of when it is fully drawn or December 31, 2008, no other new third party investors will be permitted in this fund.

In February 2007, one of the consolidated hybrid hedge funds originated a \$1.2 billion loan in connection with a transaction between two third parties. As part of the syndication of this loan, Fortress formed four managed account relationships totaling \$425 million, whereby Fortress manages investments on behalf of third parties in exchange for fees, syndicated \$300 million to a third party participant and retained the remainder in certain Fortress Funds. Fortress will earn incentive income from the managed account relationships based upon the performance of the underlying investment.

In June 2007, one of the liquid hedge funds, which had begun an orderly liquidation process after the completion of Fortress's initial public offering, liquidated its positions and all investors fully redeemed out of the fund, including \$14.5 million redeemed to third party investors.

3. INVESTMENTS IN EQUITY METHOD INVESTEES

Investments in Equity Method Investees

Fortress holds investments in certain unconsolidated Fortress Funds which are accounted for under the equity method. Upon the deconsolidation of the consolidated Fortress Funds on March 31, 2007 (Note 1), these funds also became equity method investees. 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 as described below. In addition, unconsolidated affiliates also hold an ownership interest in certain of these entities. Summary financial information related to these investments is as follows:

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	Equity Held by Fortress		Fortress's Equity in Net Income (Loss)			
	December		Six Months Ended		Three Months Ended	
	June 30, 2007	31, 2006	June 30, 2007	2006	June 30, 2007	2006
Private equity funds, excluding NIH (A)	\$ 270,768	\$ (A)	\$ (8,024)	\$ (A)	\$ (8,024)	\$ (A)
NIH	6,834	8,213	(1,024)	794	(843)	(151)
Total private equity funds	277,602	8,213	(9,048)	794	(8,867)	(151)
Liquid hedge funds (A)	49,156	(A)	3,993	(A)	3,993	(A)
Hybrid hedge funds (A)	291,827	(A)	11,335	(A)	11,335	(A)
Newcastle	11,389	13,756	1,189	1,336	460	668
Eurocastle	11,062	11,844	(89)	204	309	(38)
Other	1,482	3,437	47	86	1	45
	\$ 642,518	\$ 37,250	\$ 7,427	\$ 2,420	\$ 7,231	\$ 524

(A) These entities were consolidated prior to March 31, 2007.

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

	Six Months Ended June 30, 2007							
	Private Equity Funds		Liquid Hedge Funds	Hybrid Hedge Funds	Castles		Other	
	NIH	Other			Newcastle	Eurocastle		
Investment, beginning	\$ 8,213	\$ —	\$ —	\$ —	\$ 13,756	\$ 11,844	\$ 3,437	\$ —
Earnings from equity method investees	(1,024)	(8,024)	3,993	11,335	1,189	(89)	47	
Other comprehensive income from equity method investees	(355)	—	—	—	(2,110)	(187)	—	
Contributions to equity method investees	—	8,250	37,318	20,293	—	—	28,890	
Distributions of earnings from equity method investees	—	—	(1,849)	(869)	(1,446)	—	(47)	
Distributions of capital from equity method investees	—	—	(22,286)	(14,685)	—	(796)	(2,139)	
Total distributions from equity method investees	—	—	(24,135)	(15,554)	(1,446)	(796)	(2,186)	
Translation adjustment	—	—	—	—	—	290	—	
Sale of investments	—	—	—	—	—	—	(28,706)	
Deconsolidation	—	270,542	31,980	275,753	—	—	—	
Investment, ending	\$ 6,834	\$ 270,768	\$ 49,156	\$ 291,827	\$ 11,389	\$ 11,062	\$ 1,482	\$ —
Ending balance of undistributed earnings	\$ 4,555	\$ —	\$ 2,144	\$ 10,466	\$ 606	\$ —	\$ —	\$ —

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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.

	Private Equity Funds excluding NIH June 30, 2007	Newcastle Investment Holdings LLC (“NIH”) June 30, 2007	December 31, 2006
Assets	\$ 14,285,265	\$ 433,942	\$ 457,436
Liabilities	(797,662)	(305,157)	(315,732)
Equity	\$ 13,487,603	\$ 128,785	\$ 141,704
Equity held by Fortress Ownership (A)	\$ 270,768 2.0%	\$ 6,834 4.8%	\$ 8,213 4.8%

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2007	2006
Revenues and gains (losses) on investments	\$ (1,477,818)	\$ (2,876)	\$ 33,427
Expenses	(102,040)	(9,844)	(16,843)
Net Income (Loss)	\$ (1,579,858)	\$ (12,720)	\$ 16,584
Fortress’s equity in net income (loss)	\$ (8,024) (B)	\$ (1,024)	\$ 794

	Liquid Hedge Funds June 30, 2007	Hybrid Hedge Funds June 30, 2007
Assets	\$ 7,618,740	\$ 9,826,827
Liabilities	(159,915)	(3,293,357)
Minority interest	—	—
Equity	\$ 7,458,825	\$ 6,533,470
Equity held by Fortress Ownership (A)	\$ 49,156 0.7%	\$ 291,827 4.5%

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2007
Revenues and gains (losses) on investments	\$ 1,108,498	\$ 623,181

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Expenses	(541,936)	(191,000)
Net Income	\$ 566,562	\$ 432,181
Fortress's equity in net income	\$ 3,993	\$ 11,335
	(B)	(B)

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

(B) The revenues and expenses of these entities were consolidated through March 31, 2007, the effective date of the deconsolidation (Note 1). As a result, the amounts shown for Fortress's equity in net income of these entities relate to the period subsequent to March 31, 2007.

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	Newcastle Investment Corp.		Eurocastle Investment Ltd.	
	June 30, 2007	December 31, 2006	June 30, 2007	December 31, 2006
Assets	\$ 10,023,568	\$ 8,604,392	\$ 10,374,961	\$ 7,295,320
Liabilities	(8,890,182)	(7,602,412)	(8,528,013)	(5,427,716)
Minority interest	—	—	(8)	(8)
Equity	\$ 1,133,386	\$ 1,001,980	\$ 1,846,940	\$ 1,867,596
Equity held by Fortress	\$ 11,389	\$ 13,756	\$ 11,062	\$ 11,844
Ownership, basic (A)	1.9%	2.2%	1.6%	1.6%
Ownership, diluted (A) (B)	4.5%	4.8%	10.0%	10.4%
Ownership by Fortress and affiliates, diluted (B)	14.4%	12.3%	28.5%	26.6%
Market value of shares owned (A) (C)	\$ 25,715	\$ 32,126	\$ 46,600	\$ 51,203

	Six Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues	\$ 374,016	\$ 254,985	\$ 346,862	\$ 139,304
Expenses	(300,693)	(193,261)	(408,234)	(132,564)
Net gain on sale of investment property	—	—	51,564	—
Discontinued operations	(19)	225	—	—
Preferred dividends	(5,890)	(4,657)	—	—
Net Income (Loss)	\$ 67,414	\$ 57,292	\$ (9,808)	\$ 6,740
Fortress's equity in net income (loss)	\$ 1,189	\$ 1,336	\$ (89)	\$ 204

(A) Excludes shares owned by other Fortress Funds, the Principals, employees and other affiliates.

(B)

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Fully diluted ownership represents the percentage of outstanding common shares owned assuming that all options are exercised.

(C)Based on the closing price of the related shares and, if applicable, the foreign currency exchange rate on the last day of trading in the applicable period.

Options in Affiliates

Fortress holds options to purchase additional shares of its equity method investees with carrying values as follows:

	June 30, 2007	December 31, 2006	Accounting Treatment
Newcastle options	\$ 3,556	\$ 2,950	Held at cost subject to impairment
Eurocastle options	102,768	136,316	Qualify as a derivative, held at fair value
	\$ 106,324	\$ 139,266	

The fair value of the Newcastle options as of June 30, 2007 was approximately \$2.3 million.

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In January 2007, in connection with a capital raise, Newcastle issued 242,000 options to purchase shares of its common stock at \$31.30 per share to Fortress, which were valued at \$0.8 million. Fortress assigned 121,605 of these options to employees, recording compensation expense of \$0.4 million. In addition, during May 2004 and January 2005, Newcastle issued 675,000 options (at a weighted average strike price of \$27.63) to purchase shares of its common stock to Fortress. During March 2007, Fortress assigned 261,525 of these options to employees, recording compensation expense of \$0.5 million.

During the six months ended June 30, 2007, Fortress assigned a total of 317,670 Eurocastle options, with a weighted average strike price of €19.24 per share, to certain of its employees. Fortress recorded compensation expense of \$1.6 million and \$3.3 million associated with the assignment of these options during the three and six months ended June 30, 2007, respectively.

In April 2007, in connection with a capital raise, Newcastle issued 456,000 options to purchase shares of its common stock at \$27.75 per share to Fortress, which were valued at \$1.2 million. Fortress assigned 162,450 of these options to employees and recorded compensation expense of \$0.4 million. The Principals in their personal capacities purchased approximately \$60 million in the aggregate of the shares sold in this offering directly from the underwriter at the public offering price.

Investments in Variable Interest Entities

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As part of the deconsolidation of the consolidated Fortress Funds (Note 1), Fortress caused reconsideration events to occur in each of the variable interest entities in which it was deemed to be the primary beneficiary. As a result of these reconsideration events, Fortress is no longer considered the primary beneficiary of, and therefore does not consolidate, any of the variable interest entities in which it holds an interest. No other reconsideration events occurred during the six months ended June 30, 2007 which caused a change in Fortress's accounting.

The following table represents information as of June 30, 2007 regarding entities formed during the six months ended June 30, 2007 that were determined to be VIEs in which Fortress holds a variable interest:

Business Segment	Fortress is not Primary Beneficiary	
	Gross Assets	Fortress Investment
Private Equity Funds	\$ 18,397	\$(554)(A)
Liquid Hedge Funds	\$ 6,750,470	\$121,360 (B)

(A) Fortress's interest in Fund V is negative as a result of Fortress's share of the loss incurred on a derivative used to hedge the anticipated financing of the fund's first investment. Fortress will be required to fund this loss based on its capital commitment to this fund. No capital contributions have been made as of June 30, 2007.

(B) Includes \$103.0 million of incentive income receivable. Also represents Fortress's maximum exposure to loss with respect to these entities.

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4. DEBT AND DERIVATIVE OBLIGATIONS

The following table presents summarized information regarding Fortress's debt obligations:

Debt Obligation/Collateral Credit agreement	Month Issued	Face Amount and Carrying Value		Contractual Interest Rate	Final Stated Maturity	As of June 30, 2007		
		June 30, 2007	December 31, 2006			Weighted Average Funding Cost	Weighted Average Maturity (Years)	Collateral Carrying Value

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Revolving debt (A)	May 2007	\$ —	\$ 85,000	LIBOR + 1.20% (B)	May 2012	0.00%	—	
Term loan	May 2007	350,000	600,000	LIBOR + 1.20%	May 2012	6.73%	4.87	
Delayed term loan (A)	May 2007	—	—	LIBOR + 1.20% (B)	Feb 2008	0.00%	—	
Aircraft loan	Jun 2002	—	2,153	LIBOR + 2.25%	Repaid	0.00%	—	\$ —
Total		\$350,000	687,153			6.73%	4.87	
Consolidated Fortress Fund debt			2,619,456					
Total			\$3,306,609					

(A) Approximately \$194.1 million and \$450 million were undrawn and available on the revolving debt and delayed term loan, respectively, as of June 30, 2007, including a \$25 million letter of credit subfacility of which \$5.9 million was utilized.

(B) Subject to unused commitment fees of 0.375% per annum (the unused commitment fee for the delayed term loan is 0.175% for the first 135 days after closing).

(C) Collateralized by substantially all of Fortress Operating Group's assets as well as Fortress Operating Group's rights to fees from the Fortress Funds and its equity interest therein.

In connection with a repayment of a prior credit facility, deferred loan costs of \$3.1 million were written off to interest expense in June 2006. In connection with the repayment of a portion of a prior term loan, \$2.0 million of deferred loan costs were written off to interest expense in February 2007. In May 2007, Fortress entered into a new credit agreement to refinance its existing credit agreement, reduce the amount of interest and other fees payable under its credit facilities, and increase the amount of funds available for investments.

Management believes that for similar financial instruments with comparable credit risks, the stated interest rates of Fortress's debt as of June 30, 2007 approximate market rates. Accordingly, the carrying values outstanding are believed to approximate fair value.

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The following table presents summarized information regarding Fortress's derivative assets (obligations):

Notional Amount	Fair Value	Longest Maturity June 30, 2007
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	June 30, 2007	June 30, 2007	December 31, 2006	
Interest rate swaps, treated as hedges	\$ —	\$ —	\$ 8	N/A
Foreign currency derivatives, treated as hedges	€ 8,648	(634)	(435)	Oct 30, 2007
Foreign currency derivatives, non-hedges	€ 27,552	(2,018)	(1,184)	Oct 30, 2007
Consolidated Fortress Fund derivatives, net		—	(38,018)	
Total		\$ (2,652)	\$ (39,629)	

5. INCOME TAXES AND TAX RELATED PAYMENTS

Prior to January 17, 2007, Fortress, as a partnership, generally had not been subject to U.S. federal income tax but certain of its subsidiaries had been subject to the New York City unincorporated business tax (“UBT”) on its U.S. earnings based on a statutory rate of 4%. One subsidiary of Fortress was subject to U.S. federal corporate income taxes. Certain subsidiaries of Fortress are subject to income tax of the foreign countries in which they conduct business. In connection with the Nomura transaction and the initial public offering (Note 1), Fortress was reorganized. Fortress was established as a publicly traded partnership and also established a wholly owned corporate subsidiary. Accordingly, a substantial portion of Fortress’s income earned by the corporate subsidiary is subject to U.S. federal income taxation and taxed at prevailing rates. The remainder of Fortress’s income is allocated directly to its shareholders and is not subject to a corporate level of taxation.

The Nomura transaction involved Fortress’s purchase of Fortress Operating Group units from the Principals and an election by certain Fortress Operating Group entities under Section 754 of the Code, resulting in the tax basis of the assets owned by Fortress Operating Group to increase. Fortress established a deferred tax asset of \$454.8 million for the expected tax benefit associated with the difference between the book value of net assets and the tax basis of net assets, based on an estimated combined marginal federal and state tax rate of approximately 39.4 % and the expectation, based on an analysis of expected future earnings, that it is more likely than not that this benefit will be realized. The establishment of the deferred tax asset increased additional paid in capital as the transaction giving rise to the increase in tax basis was between Fortress and its shareholders. The deferred tax asset described above reflects the tax impact of payments expected to be made under the tax receivable agreement (described below), which further increase Fortress’s deferred tax benefits and the estimated payments due under the tax receivable agreement.

As a result of the contribution of \$578.3 million of the net proceeds of the initial public offering by FIG Corp. to the capital of Fortress Operating Group, a temporary difference arose between the carrying value of Fortress Operating Group for financial reporting purposes and that for income tax purposes. A gross deferred tax asset of \$24.6 million has been recorded to reflect the deferred tax effects of the tax basis over financial reporting basis.

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

	June 30, 2007	December 31, 2006
Deferred tax assets	\$ 475,091	\$ 2,808
Deferred tax liabilities (A)	\$ 7,883	\$ 12,989

(A) Included in Other Liabilities.

For the period January 17, 2007, the reorganization date, through June 30, 2007, an estimated annual (January 17, 2007 through December 31, 2007) negative effective tax rate of (16.13%) was used to compute the tax provision on the Registrant's income subject to U.S. federal, state and local income taxes. Fortress incurred a loss before income taxes for financial reporting purposes, after deducting the compensation expense arising from the Principals' forfeiture agreement (Note 7). However, this compensation expense is not deductible for income tax purposes. Also, after the reorganization, a portion of Fortress's income is not subject to U.S. federal corporate income tax but is allocated directly to Fortress's shareholders.

The actual effective tax rate for the period ended June 30, 2007 is significantly different than the effective tax rate above primarily because (i) all of the income earned by the predecessor prior to January 17, 2007 was earned through partnerships and only subject to the New York City UBT; and (ii) significant income was earned by the predecessor prior to January 17, 2007 as compared to a loss incurred by the Registrant for the period from January 17, 2007 through June 30, 2007.

As a result of the foregoing, Fortress's effective tax rate for GAAP reporting purposes may be subject to significant variation from period to period.

Tax Receivable Agreement

The Principals have the right to exchange each of their Fortress Operating Group units for one of the Class A shares. The Fortress Operating Group entities intend to make an election under Section 754 of the Internal Revenue Code, as amended, which may result in an adjustment to the tax basis of the assets owned by Fortress Operating Group at the time of an exchange. The exchanges may result in increases in tax deductions and tax basis that would reduce the amount of tax that the corporate taxpayers (i.e. FIG Corp.) would otherwise be required to pay in the future. Additionally, the further acquisition of Fortress Operating Group units from the Principals, such as in the Nomura transaction (Note 1), also may result in increases in tax deductions and tax basis that would reduce the amount of tax that the corporate taxpayers would otherwise be required to pay in the future. The corporate taxpayers entered into a tax receivable agreement with each of the Principals that provides for the payment to an exchanging or selling Principal of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income tax that the corporate taxpayers actually realize (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change of control, as defined) as a result of these increases in tax basis. Such payments are expected to occur over approximately the next 15 years. In connection with the Nomura transaction and related tax effects, a \$390 million capital decrease and offsetting liability to the Principals was recorded with respect to the tax receivable agreement. Such amount is a component of the deferred tax effects reflected in the Statement of Members' and Shareholders' Equity. No further liability was recorded during the period ended June 30, 2007, nor were any payments made during that period. Although the

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tax receivable agreement payments are calculated based on annual tax savings, for the period ended June 30, 2007 the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were \$7.5 million.

Recently Adopted Accounting Pronouncement

We adopted the Financial Accounting Standards Board's Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109" ("FIN 48"), effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. The adoption of FIN 48 did not have a material effect on our consolidated financial position, liquidity or results of operations.

6. RELATED PARTY TRANSACTIONS

	Management Fees and Incentive Income		Dividends and Distributions		Total	
	December				December	
	June 30, 2007	31, 2006	June 30, 2007	December 31, 2006	June 30, 2007	31, 2006
Due from Affiliates						
Private equity funds	\$ 30,590	\$ —	\$ —	\$ 26,315	\$ 30,590	\$ 26,315
Castles	27,738	47,832	830	1,297	28,568	49,129
Liquid and hybrid hedge funds	115,301	500,889	—	—	115,301	500,889
Unconsolidated subsidiaries of liquid hedge fund subsidiaries	—	—	—	19,309	—	19,309
Subtotal	\$ 173,629	\$ 548,721	\$ 830	\$ 46,921	174,459	595,642
Other					5,970	40,106
Total					\$ 180,429	\$ 635,748

	December	
	June 30, 2007	31, 2006
Due to Affiliates		
Private equity funds		
– Payments on behalf of Fortress Funds Principals	\$ —	\$ 14,123
– Tax receivable agreement – Note 5	390,383	—
– Distributions payable on Fortress Operating Group units	24,927	—
Other	666	989
	\$ 415,976	\$ 15,112

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In February 2007, Fortress entered into a preliminary agreement with two employees who were departing from Fortress to form their own investment management company. Fortress received a profits interest in their management company, and, as part of the transaction, a Fortress Fund received certain rights to invest at discounted fee rates in the fund being formed by the departing employees, and committed to invest \$200 million in that fund subject to certain conditions. The transaction was approved by the advisory board of the Fortress Fund.

In March 2007, a departing Fortress employee entered into a sourcing agreement with a Fortress Fund pursuant to which the Fortress Fund agreed to make contingent payments to the former employee based on the employee sourcing future transactions for that Fortress Fund.

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In March 2007, one of the Portfolio Companies leased office space to a company owned by one of the Principals. The Principal pays approximately \$0.2 million per annum in rent to the Portfolio Company.

In March 2007, in conjunction with the deconsolidation (Note1), Fortress transferred its general partner interests in certain CDO Portfolio Companies to certain Fortress Funds for \$6.5 million.

In connection with the IPO, Fortress entered into a tax receivable agreement with the Principals, as described in Note 5, and the Principals entered into a forfeiture agreement with each other, as described in Note 7. The Principals, employees, directors and Fortress Funds have and continue to make investments in Fortress Funds.

In June 2007, Fortress sold two investments to Real Assets Fund, a private equity Fortress Fund. Fortress received \$29.1 million from the sales and recorded gains aggregating \$0.4 million.

7. EQUITY-BASED COMPENSATION

Fortress currently has seven categories of equity-based compensation which are accounted for as described in the table below. A total of 115,000,000 Class A shares have been authorized for issuance under Fortress's equity-based compensation plan. RSUs are Class A restricted share units which entitle the holder to receive Class A shares on various future dates if the applicable service conditions, if any, are met. LTIP means long-term incentive plan.

Granted To	Type of Award	Service Conditions	Entitled to Dividends	Accounting	June 30, 2007 Shares/Units Outstanding	Weighted Average Grant Date Estimated Value per	Weighted Average June 30, 2007 Estimated
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		(A)	(B)			Share/Unit	Value per Share/Unit
Employees	RSUs	Yes	Yes	Fair value at grant date (D) expensed over service period.	23,730,308	\$ 18.50	N/A
	RSUs	Yes	No	Fair value at grant date (D) discounted for the non-entitlement to dividends, expensed over service period.	16,544,710	14.96	N/A
	RSUs	No	Yes	Fair value at grant date (D) discounted for post-vesting restrictions (delivery of shares as described in (B)), expensed at grant date.	394,286	22.11	N/A
	RSUs	No	No	Fair value at grant date (D) discounted for the non-entitlement to dividends and further discounted for post-vesting restrictions (delivery of shares as described in (B)), expensed at grant date.	642,313	11.50	N/A
	LTIP (C)	Yes (C)	(C)	Fair value at grant date, based on a valuation model, expensed over service period.	2,857,143	7.24	N/A
Directors	Restricted Shares	Yes	Yes	Fair value at grant date (D) expensed over service period.	97,296	18.50	N/A
Employees of our Private Equity Funds	RSUs	Yes	No	Fair value at grant date (D) discounted for the non-entitlement to dividends, expensed over service period. Subsequent changes in fair value, through the vesting date, expensed over remaining service period with a cumulative catch-up adjustment in the period of change.	8,695,819	15.00	\$ 18.16

(A) Generally, such awards vest 25% at each of January 1, 2010, 2011, 2012, and 2013 (for employees) and 33-1/3% after each of our annual meetings in 2008, 2009 and 2010 (for directors). Certain employees (primarily those hired after the IPO) have different vesting schedules.

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- (B) Vested Class A shares will be delivered to employee grant recipients 25% at each of, or within no more than six months after, January 1, 2010, 2011, 2012, and 2013. Director restricted shares were delivered effective on the grant date. Certain awards entitle the recipient to receive dividend equivalent payments prior to such delivery dates.
- (C) Represents a profits interest in respect of certain Fortress Operating Group units that have a maximum value that corresponds to 2.9 million Fortress Operating Group units, granted by one of the Principals to one of Fortress's employees at the date of the IPO. The profits interests have a five-year cliff-vesting service condition.
- (D) For awards granted in connection with the IPO, the fair value is based on the IPO price. For awards granted subsequent to the IPO, the fair value is based on the closing price on the grant date of Fortress's Class A shares. The aggregate fair value of each of the RSU grants which are subject to service conditions is reduced by an estimated forfeiture factor (that is, the estimated amount of awards which will be forfeited prior to vesting). The estimated forfeiture factor is based upon historic turnover rates within Fortress, adjusted for the expected effects of the grants on turnover and other factors in the best judgment of management. The estimated forfeiture factor is updated at each reporting date. The estimated forfeiture factor as of the grant date and as of June 30, 2007 was 16% for unvested RSU awards that are entitled to dividends and 19% for unvested RSU awards that are not entitled to dividends. Since Fortress's initial public offering in February 2007, neither the actual forfeiture rate nor any other factors have caused a change in managements forfeiture expectations or assumptions.

The volatility assumption used in valuing certain awards, as described below, was based on five-year historical stock price volatilities observed for a group of comparable companies, since Fortress does not have sufficient historical share performance to use its own historical volatility, adjusted for management's judgment regarding expected volatility. Since Fortress's IPO in February 2007, its actual volatility has exceeded the volatility assumption used. To the extent that this trend continues, and management's judgment concerning volatility is changed, Fortress would adjust the volatility assumption used. The risk-free discount rate assumptions used in valuing certain awards were based on the applicable U.S. treasury rate of like term. The dividend yield assumptions used in valuing certain awards were based on Fortress's actual dividend rate at the time of the award; the dividend growth rate used with respect to one type of award was based on management's judgment and expectations.

The discount related to RSUs which do not entitle the recipients to dividend equivalents prior to the delivery of Class A shares was based on the estimated present value of dividends to be paid during the vesting period, which in turn was based on an estimated initial dividend rate (between 2.25% and 3.68% based on the actual dividend rate on the grant date), an estimated dividend growth rate (20%) and a risk-free discount rate (between 4.45% and 5.17% based on term).

The discount related to RSUs with no service conditions which are subject to the delayed delivery of Class A shares, which occurs in periods subsequent to the grant date, was based on the estimated value of a put option on such shares over the delayed delivery period since essentially this would be the value of owning, and being able to trade, those shares during the delayed delivery period rather than having to wait for delivery. This estimated value was in turn derived from a binomial option pricing model based on the following assumptions: volatility (35%), term (equal to delayed delivery period), dividend rate (between 2.96% and 3.68% based on grant date) and risk-free discount rate (between 4.54% and 4.79% based on term).

The estimated fair value of the LTIP award was estimated using a Monte Carlo simulation valuation model with the following assumptions: volatility (35%), term (equal to vesting period), and risk-free discount rate (4.71%) of like term.

Each of these elements, particularly the forfeiture factor and the volatility assumptions used in valuing certain awards, are subject to significant judgment and variability and the impact of changes in such elements on equity-based compensation expense could be material.

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The following table sets forth information regarding equity-based compensation activities during the six months ended June 30, 2007.

	RSUs		Restricted Shares	LTIP	Total Equity-Based Compensation Expense
	Employees	Non-Employees			
Issued at IPO	42,375,371	8,358,011	97,296		
Issued subsequent to IPO	768,402	500,000	—		
Forfeited	(1,832,156)	(162,192)	—		
Outstanding at June 30, 2007 (A)	41,311,617	8,695,819	97,296		
Expense incurred during the six months ended June 30, 2007	\$ 54,015	\$ 8,478	\$ 233	\$ 1,574	\$ 64,300
Expense incurred during the three months ended June 30, 2007	\$ 24,533	\$ 4,664	\$ 149	\$ (251)	\$ 29,095

(A) Excludes 3,600 RSUs approved for issuance to employees whose employment began after June 30, 2007. Fortress will further recognize compensation expense on its non-vested equity-based awards of \$818.8 million, with a weighted average recognition period of 5.50 years.

The Principals entered into an agreement among themselves (the “Principals Agreement”) which provides that, in the event a Principal voluntarily terminates his employment with Fortress Operating Group for any reason prior to the fifth anniversary of the IPO, a portion of the equity interests held by that Principal as of the completion of the IPO will be forfeited to the Principals who are employed by Fortress Operating Group generally as of the date that is six months after the date of such termination of employment. As a result of the service requirement, the fair value of Fortress Operating Group units subject to the risk of forfeiture of \$4,763 million will be charged to compensation expense on a straight-line basis over the five year service period, including \$380.9 million and \$242.7 million during the six and three months ended June 30, 2007, respectively.

When Fortress records equity-based compensation expense, including that related to the Principals Agreement, it records a corresponding increase in capital. Of the total increase in capital during the six months ended June 30, 2007 from equity-based compensation arrangements of \$445.2 million, \$103.5 million increased Fortress’s paid-in capital,

as reflected in the Statement of Members' and Shareholders' Equity, and \$341.7 million increased Principals' interests in equity of consolidated subsidiaries corresponding to the Principals' interest in the equity-based compensation expense.

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8. EARNINGS PER SHARE

As a result of Fortress's reorganization in January 2007 (Note 1), Fortress has calculated its earnings per share for two different periods within the six months ended June 30, 2007. For the first period, prior to the reorganization on January 17, 2007, the calculation is based on the income and outstanding units of Fortress Operating Group, which was owned by the Principals as described in Note 1, as if such units had been outstanding from the beginning of the period. For the second period, subsequent to the reorganization and commencement of operations of the Registrant, the calculation is based on the consolidated income of Fortress from January 17, 2007 through June 30, 2007 and the Class A shares outstanding for such period.

The computations of net income per Fortress Operating Group unit are set forth below:

	January 1 through January 16, 2007	
	Basic	Diluted
Weighted average units outstanding		
Fortress Operating Group units outstanding	367,143,000	367,143,000
Total weighted average units outstanding	367,143,000	367,143,000
Net income per unit is calculated as follows:		
Net income	\$ 133,397	\$ 133,397
Dilution in earnings of certain equity method investees	—	—
Net income available to Fortress Operating Group unitholders	\$ 133,397	\$ 133,397
Weighted average units outstanding	367,143,000	367,143,000
Net income per unit	\$ 0.36	\$ 0.36

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

	January 17 through June 30, 2007	
	Basic	Diluted

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Weighted average shares outstanding		
Class A shares outstanding	89,004,200	89,004,200
Fully vested restricted Class A share units with dividend equivalent rights	222,234	222,234
Fortress Operating Group units exchangeable into Fortress Investment Group LLC Class A shares ⁽¹⁾	—	—
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) ⁽²⁾	—	—
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) ⁽³⁾	—	—
Total weighted average shares outstanding	89,226,434	89,226,434

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	January 17 through June 30, 2007	
	Basic	Diluted
Basic and diluted net income (loss) per Class A share		
Net income (loss)	\$ (126,385)	\$ (126,385)
Dividend equivalents declared on non-vested restricted Class A share units	(1,617)	(1,617)
Dilution in earnings of certain equity method investees	—	—
Add back Principals' and others' interests in loss of Fortress Operating Group, net of assumed corporate income tax at enacted rates, attributable to Fortress Operating Group units exchangeable into Fortress Investment Group LLC Class A shares ⁽¹⁾	—	—
Net income (loss) available to Class A shareholders	\$ (128,002)	\$ (128,002)
Weighted average shares outstanding	89,226,434	89,226,434
Basic and diluted net income (loss) per Class A share	\$ (1.43)	\$ (1.43)
	Three Months Ended June 30, 2007	
	Basic	Diluted
Weighted average shares outstanding		
Class A shares outstanding	94,500,350	94,500,350
Fully vested restricted Class A share units with dividend equivalent rights	394,286	394,286
Fortress Operating Group units exchangeable into Fortress Investment	—	312,071,550

Group LLC Class A shares ⁽¹⁾		
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) ⁽²⁾	—	—
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) ⁽³⁾	—	—
Total weighted average shares outstanding	94,894,636	406,966,186

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	Three Months Ended June 30, 2007	
	Basic	Diluted
Basic and diluted net income (loss) per Class A share		
Net income (loss)	\$ (55,131)	\$ (55,131)
Dividend equivalents declared on non-vested restricted Class A share units	(1,048)	(1,048)
Dilution in earnings of certain equity method investees	—	—
Add back Principals' and others' interests in loss of Fortress Operating Group, net of assumed corporate income tax at enacted rates, attributable to Fortress Operating Group units exchangeable into Fortress Investment Group LLC Class A shares ⁽¹⁾	—	(212,759)
Net income (loss) available to Class A shareholders	\$ (56,179)	\$ (268,938)
Weighted average shares outstanding	94,894,636	406,966,186
<u>Basic and diluted net income (loss) per Class A share</u>	\$ (0.59)	\$ (0.66)

- (1) The Fortress Operating Group units not held by Fortress (that is, those held by the Principals) are exchangeable into Class A shares on a one-to-one basis. These units are not included in the computation of basic earnings per share. These units enter into the computation of diluted net income (loss) per Class A share when the effect is dilutive using the if-converted method. Under the if-converted method the Principals' and others' interests in income (loss) of Fortress Operating Group attributable to the units, net of assumed corporate income tax, is added to the net loss in the numerator of the computation and the Class A shares available from the assumed conversion of the Fortress Operating Group units, as if it had occurred at the beginning of the period, is added to the denominator. For the year-to-date period, the effect of including the units would have been antidilutive. The weighted average number of Fortress Operating Group units outstanding for the periods from January 17, 2007 through June 30, 2007 and the three months ended June 30, 2007 were 312,071,550 units.

(2)

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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 our Class A shares and therefore participate fully in the results of our operations from the date they are granted. They are included in the computation of both basic and diluted pro forma earnings per Class A share using the two-class method for participating securities, except during periods of net losses in accordance with EITF 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128." The weighted average restricted Class A shares and share units eligible to receive dividend or dividend equivalent payments outstanding for the periods from January 17, 2007 through June 30, 2007 and the three months ended June 30, 2007 were 83,733 and 97,296 shares and 20,572,005 and 23,730,308 share units, respectively.

- (3) 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 the effect is dilutive using the treasury stock method. As a result of the net loss incurred for the period, the effect of the units on the calculation is anti-dilutive for the periods. The weighted average restricted Class A share units which are not entitled to receive dividend or dividend equivalent payments outstanding for the

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periods from January 17, 2007 through June 30, 2007 and the three months ended June 30, 2007 were 21,993,462 and 25,705,670 share units, respectively.

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. The number of Class B shares outstanding did not change subsequent to the IPO.

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

	Weighted Average		
	Three	Six Months	
	Months	Ended	June 30,
	Ended	June 30,	June 30,
	June 30,	2007	2007
	2007	2007	2007
Class A shares	94,500,350	81,136,426	94,500,350

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Restricted Class A share units (A)	394,286	202,589	394,286
Restricted Class A shares	97,296	76,331	97,296
Restricted Class A share units	23,730,308	18,753,486	23,730,308
Fortress Operating Group units	312,071,550	316,939,744	312,071,550
Total	430,793,790	417,108,576	430,793,790

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

9. COMMITMENTS AND CONTINGENCIES

Indemnifications — In the normal course of business, Fortress and its subsidiaries enter into operating contracts that contain a variety of representations and warranties and that provide general indemnifications. In addition, subsidiaries of Fortress that act as general partners (or in similar capacities) of Fortress Funds enter into guarantees of certain obligations of such funds in the case of fraud by Fortress employees or under similar circumstances. Fortress's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against Fortress that have not yet occurred. However, based on experience, Fortress expects the risk of material loss to be remote.

Debt Covenants — Fortress's debt obligations contain various customary loan covenants. These covenants do not, in management's opinion, materially restrict Fortress's investment or financing strategy at this time. Fortress was in compliance with all of its loan covenants as of June 30, 2007.

Litigation — Fortress is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions that existed as of June 30, 2007, if any, will not materially affect Fortress's results of operations, liquidity or financial position.

On September 15, 2005, a lawsuit captioned David T. Atkins et al. v. Apollo Real Estate Advisors, L.P. et al. was brought on behalf of current and former limited partners in certain investing partnerships related to the sale of certain facilities to Ventas Realty Limited Partnership ("Ventas") against a number of defendants, including one of the Portfolio Companies and a subsidiary of Fortress ("FIG"). FIG was the investment manager of consolidated Fortress Funds that were controlling

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shareholders of the Portfolio Company during the relevant time periods. The suit alleges that the defendants improperly obtained certain rights with respect to such facilities from the investing partnerships. The plaintiffs have asked for damages in excess of \$100 million on each of nine counts, as to which FIG is a defendant on seven counts, including treble damages with respect to certain counts. Fortress has filed an action to have itself removed as a named

defendant in this case. The Portfolio Company has filed a motion to dismiss the claims and continues to vigorously defend this action. Fortress believes that the resolution of this action will not have a material adverse effect on its financial condition, liquidity or results of operations.

In addition, in the ordinary course of business, the Fortress Funds are and can be both the defendant and the plaintiff in numerous actions with respect to bankruptcy, insolvency and other types of proceedings. Such lawsuits may involve claims that adversely affect the value of certain financial instruments owned by the Fortress Funds. Although the ultimate outcome of actions cannot be ascertained with certainty, Fortress believes that the resolution of any such actions will not have a material adverse effect on its financial condition, liquidity or results of operations.

Private Equity Fund and Other Capital Commitments — Fortress has remaining capital commitments to certain of the Fortress Funds which aggregated \$458.3 million at June 30, 2007. These commitments can be drawn by the funds on demand.

Incentive Income Contingent Repayment — Incentive income received from certain Fortress Funds, primarily private equity funds, is subject to contingent repayment and is therefore recorded as deferred incentive income, a liability, until all related contingencies have been resolved. The Principals guaranteed the contingent repayments to certain funds and Fortress has indemnified the Principals for any payments to be made under such guarantees. Furthermore, one of the private equity funds (NIH) is entitled to 50% of the incentive income from another private equity fund (Fund I). Fortress is contingently liable under a guarantee for any contingent repayment of incentive income from Fund I to NIH. Fortress expects the risk of loss on each of these indemnifications and guarantees to be remote.

Minimum Future Rentals — Fortress is a lessee under operating leases for office space located in New York, Dallas, San Diego, Los Angeles, San Francisco, Atlanta, Toronto, Geneva, Sydney, Hong Kong, Tokyo, Frankfurt, Munich and London.

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The following is a summary of major lease terms:

	New York Leases	Other Leases
Lease end date	Dec-2016	Various dates through Apr-2012
Current annual rent	\$6,725	\$5,985
Scheduled rent changes	Year 5 to \$6,840; Year 9 to \$5,725	Varies by lease
Escalations	Generally, a fixed percentage of the landlord's annual operating expenses	Generally, a fixed percentage of the landlord's annual operating

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	and tax expense.	expenses and tax expense.
Free rent periods	6 – 9 months	4 – 12 months
Leasehold improvement incentives	\$3,186	\$497
Renewal periods	None	5-year option on one lease, remainder have none

Minimum future rental expense under these leases is as follows:

July 1 to December 31, 2007	\$ 6,689
2008	13,180
2009	12,604
2010	12,163
2011	9,135
2012	6,038
Thereafter	22,857
Total	\$ 82,666

Rent expense recognized on a straight-line basis during the six months ended June 30, 2007 and 2006 was \$7.4 million and \$3.7 million, respectively, and during the three months ended June 30, 2007 and 2006 was \$3.8 million and \$1.6 million, respectively, and was included in General, Administrative and Other Expense.

10. SEGMENT REPORTING

Fortress conducts its management and investment business through the following four primary segments: (i) private equity funds, (ii) liquid hedge funds, (iii) hybrid hedge funds, and (iv) Castles. These segments are differentiated based on their varying investment strategies.

The amounts not allocated to a segment consist primarily of interest income earned on short term investments, certain general and administrative expenses and all interest expense incurred with respect to corporate borrowings.

Management makes operating decisions and assesses performance with regard to each of Fortress's primary segments based on financial data that is presented without the consolidation of any Fortress Funds. Accordingly, segment data for these segments is reflected on an unconsolidated basis,

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even for periods prior to the deconsolidation (Note 1). Management also assesses Fortress's segments on a Fortress Operating Group and pre-tax basis and therefore adds back the interests in consolidated subsidiaries related to Fortress

Operating Group units (held by the Principals) and income tax expense.

Management assesses the net performance of each segment based on its “distributable earnings.” Distributable earnings is not a measure of cash generated by operations which is available for distribution. Rather, distributable earnings is a supplemental measure of the value created during any period which management uses in its determination of its periodic distributions to its dividend paying share and unit holders (Note 8). Distributable earnings should not be considered as an alternative to cash flow, in accordance with GAAP, as a measure of Fortress’s liquidity, and is not necessarily indicative of cash available to fund cash needs (including distributions).

“Distributable earnings” for the existing Fortress businesses is equal to net income adjusted as follows:

Incentive Income

- (i) a. for Fortress Funds which are private equity 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 (net of the reversal of any prior such reserves that are no longer deemed necessary), minus (b) incentive income recorded in accordance with GAAP,
- b. for other Fortress Funds, at interim periods, adding (a) incentive income on an accrual basis as if the incentive income from these funds were payable on a quarterly basis, minus (b) incentive income recorded in accordance with GAAP,

Other Income

- (ii) with respect to income from certain principal investments and certain other interests that cannot be readily transferred or redeemed:
 - a. for equity method investments in the Castles and private equity 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 Castles,
 - c. subtracting unrealized gains (or adding unrealized losses) from consolidated private equity funds,
- (iii) adding (a) proceeds from the sale of shares received pursuant to the exercise of stock options in certain of the Castles, in excess of their strike price, minus (b) management fee income recorded in accordance with GAAP in connection with the receipt of these options,

Expenses

- (iv) 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,

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-
- (v) adding back equity-based compensation expense (including Castle options assigned to employees, RSUs (including the portion of related dividend equivalents recorded as compensation expense), restricted shares and the LTIP),
 - (vi) adding back compensation expense recorded in connection with the forfeiture arrangements entered into among the principals (Note 7),
 - (vii) adding the income (or subtracting the loss) allocable to the interests in consolidated subsidiaries attributable to Fortress Operating Group units, and
 - (viii) adding back income tax expense and any expense recorded in connection with the tax receivable agreement (Note 5).

Management believes only the incentive income related to realized fund income should be considered available for distribution, subject to a possible reserve, determined on a fund by fund basis, as necessary, for potential future clawbacks deemed to have more than a remote likelihood of occurring. As such, distributable earnings generally includes incentive income to the extent it relates to paid or declared distributions from Fortress Funds' investments that have been monetized through sale or financing.

The computation of the clawback reserve, if any, takes into account, among other factors, the amount of unrealized incentive income within a given fund since, on an overall fund basis, this unrealized incentive income would have to suffer a complete loss before the realized portion becomes subject to contingent repayment. This type of incentive income is not recorded as revenue for GAAP purposes, under the revenue recognition method Fortress has selected, until the possibility of a clawback is resolved. This GAAP method is not completely reflective of value created during the period which is available for distribution as it disregards the likelihood that any contingent repayment will in fact occur.

Distributable earnings is limited in its usefulness in measuring earnings because it recognizes as revenues amounts which are subject to contingent repayment, it ignores significant unrealized gains and it does not fully reflect the economic costs to Fortress by ignoring certain equity-based compensation expenses. Management utilizes distributable earnings as well as net income in its analysis of the overall performance of Fortress and notes that the two measures are each useful for different purposes.

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

- (i) the 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 cost for nonpublic investments,
- (ii) employee 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, and
- (iii) the difference between the GAAP carrying amount for options owned in certain of the Castles and their carrying amount for segment reporting purposes, which is intrinsic value.

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

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Fortress's depreciation expense by segment was as follows:

	Private Equity Funds	Liquid Hedge Funds	Hybrid Hedge Funds	Castles	Unallocated	Total
Six Months Ended June 30,						
2007	\$ 482	\$ 1,211	\$ 1,229	\$ 426	\$ 845	\$ 4,193
2006	\$ 337	\$ 866	\$ 1,040	\$ 319	\$ 624	\$ 3,186
Three Months Ended June 30,						
2007	\$ 243	\$ 631	\$ 653	\$ 212	\$ 445	\$ 2,184
2006	\$ 173	\$ 444	\$ 534	\$ 160	\$ 309	\$ 1,620

Note that distributable earnings for the periods presented includes earnings (losses) on deferred fee arrangements (Note 3), net of any employee share, as presented in the table below. All of these deferred fees have been collected. The deferred fee arrangements were terminated in 2007 (Note 2) and therefore these earnings (losses) are not reflective of ongoing operations and will not contribute to distributable earnings subsequent to the termination date.

	Six Months Ended June 30,	
	2007	2006
Liquid hedge funds	\$ 1,926	\$ 25,597
Hybrid hedge funds	—	4,524
Total	\$ 1,926	\$ 30,121

	Private Equity Funds	Liquid Hedge Funds	Hybrid Hedge Funds	Castles	Unallocated	Fortress Unconsolidated Subtotal
June 30, 2007 and the Six Months Then Ended						
Segment revenues						
Management fees	\$ 62,616	\$ 69,341	\$ 60,720	\$ 22,746	\$ —	\$ 215,423
Incentive income	190,298	158,199	84,369	17,905	—	450,771
Segment revenues – total	\$ 252,914	\$ 227,540	\$ 145,089	\$ 40,651	\$ —	\$ 666,194
Pre-tax distributable earnings	\$ 176,204	\$ 112,102	\$ 71,716	\$ 20,706	\$ (17,891)	\$ 362,837
Total segment assets	\$ 265,784	\$ 149,735	\$ 255,295	\$ 196,765	\$ 860,320(A)	\$ 1,727,899

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	Fortress Unconsolidated Subtotal	Consolidation of Fortress Funds	Eliminations	Reconciliation to GAAP	Fortress Consolidated
Revenues	\$ 666,194	\$ 317,114	\$ (269,607)	\$ (29,252)	\$ 684,449
Pre-tax distributable earnings /net income	\$ 362,837	\$ (326,375)	\$ 326,375	\$ (355,825)	\$ 7,012
Total assets	\$ 1,727,899	\$ —	\$ —	\$ 59,822	\$ 1,787,721

(A) Unallocated assets include cash of \$321 million and deferred tax assets of \$475 million.

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June 30, 2007 and the Six Months Then Ended

Reconciling items between segment measures and GAAP measures:

Adjustments from segment revenues to GAAP revenues	
Adjust management fees*	\$ 325
Adjust incentive income	(61,793)
Adjust income from the receipt of options	2,006
Other revenues*	30,210
<u>Total adjustments</u>	\$ (29,252)

* Segment revenues do not include GAAP other revenues; GAAP other revenues are included elsewhere in the calculation of distributable earnings.

Adjustments from pre-tax distributable earnings to GAAP net income

Adjust incentive income	
Incentive income received from private equity funds, subject to contingent repayment	\$ (138,822)
Incentive income received from private equity funds, not subject to contingent repayment	(51,476)
Incentive income accrued from private equity funds, no longer subject to contingent repayment	211,942
Incentive income received from hedge funds, subject to annual performance achievement	(83,437)
Reserve for clawback	—
	(61,793)
Adjust other income	

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Distributions of earnings from equity method investees**	(12,326)	
(Earnings) losses from equity method investees**	(19,248)	
Unrealized (gains) losses on options in equity method investees, treated as derivatives	(24,456)	
Adjust income from the receipt of options	2,006	(54,024)
Adjust employee compensation		
Adjust employee equity-based compensation expense (including Castle options assigned)	(67,363)	
Adjust employee portion of incentive income from private equity funds, accrued prior to the realization of incentive income	(19,657)	(87,020)
Adjust Principals' equity-based compensation expense		(380,933)
Adjust non-controlling interests related to Fortress Operating Group units		247,401
Adjust income taxes		(19,456)
Total adjustments		\$ (355,825)
Adjustments from total segment assets to GAAP assets		
Adjust equity investments from fair value	\$ (49,963)	
Adjust equity investments from cost	42,812	
Adjust investments gross of employee portion	56,431	
Adjust option investments to intrinsic value	10,542	
Total adjustments	\$ 59,822	

**This adjustment relates to all of the Castles, private equity Fortress Funds and hedge fund special investment accounts in which Fortress has an investment. On an unconsolidated basis, each of these funds is accounted for under the equity method.

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	Private Equity Funds	Liquid Hedge Funds	Hybrid Hedge Funds	Castles	Unallocated	Fortress Unconsolidated Subtotal
Three Months Ended June 30, 2007						
Segment revenues						
Management fees	\$ 35,852	\$ 38,400	\$ 31,707	\$ 11,841	\$ —	\$ 117,800
Incentive income		— 112,920	38,264	14,217	—	165,401
Segment revenues – total	\$ 35,852	\$ 151,320	\$ 69,971	\$ 26,058	\$ —	\$ 283,201
Pre-tax distributable earnings	\$ 28,437	\$ 79,029	\$ 28,007	\$ 15,030	\$ (7,247)	\$ 143,256

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	Fortress Unconsolidated Reconciliation		Fortress Consolidated
	Subtotal	to GAAP	
Revenues	\$ 283,201	\$ (15,082)	\$ 268,119
Pre-tax distributable earnings / net income	\$ 143,256	\$ (198,387)	\$ (55,131)

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Three Months Ended June 30, 2007

Reconciling items between segment measures and GAAP measures:

Adjustments from segment revenues to GAAP revenues	
Adjust management fees*	\$ 325
Adjust incentive income	(32,376)
Adjust income from the receipt of options	1,195
Other revenues*	15,774
<u>Total adjustments</u>	<u>\$ (15,082)</u>

* Segment revenues do not include GAAP other revenues; GAAP other revenues are included elsewhere in the calculation of distributable earnings.

Adjustments from pre-tax distributable earnings to GAAP net income	
Adjust incentive income	
Incentive income received from private equity funds, subject to contingent repayment	\$ —
Incentive income received from private equity funds, not subject to contingent repayment	—
Incentive income accrued from private equity funds, no longer subject to contingent repayment	5,502
Incentive income received from hedge funds, subject to annual performance achievement	(37,878)
Reserve for clawback	—
	(32,376)
Adjust other income	
Distributions of earnings from equity method investees**	(2,433)
(Earnings) losses from equity method investees**	(8,098)
Unrealized (gains) losses on options in equity method investees, treated as derivatives	(29,606)

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Adjust income from the receipt of options	1,195	(38,942)
Adjust employee compensation		
Adjust employee equity-based compensation expense (including Castle options assigned)	(28,934)	
Adjust employee portion of incentive income from private equity funds, accrued prior to the realization of incentive income	(19,657)	
Adjust employee portion of incentive income from one private equity fund, not subject to contingent repayment	(569)	(49,160)
Adjust Principals' equity-based compensation expense		(242,659)
Adjust non-controlling interests related to Fortress Operating Group units		169,759
Adjust income taxes		(5,009)
<u>Total adjustments</u>		\$ (198,387)

**This adjustment relates to all of the Castles, private equity Fortress Funds and hedge fund special investment accounts in which Fortress has an investment. On an unconsolidated basis, each of these funds is accounted for under the equity method.

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	Private Equity Funds	Liquid Hedge Funds	Hybrid Hedge Funds	Castles	Unallocated	Fortress Unconsolidated Subtotal
Six Months Ended June 30, 2006						
Segment revenues						
Management fees	\$ 37,647	\$ 40,423	\$ 36,032	\$ 15,010	\$ —	\$ 129,112
Incentive income	96,176	70,909	53,507	6,469	—	227,061
Segment revenues – total	\$ 133,823	\$ 111,332	\$ 89,539	\$ 21,479	\$ —	\$ 356,173
Pre-tax distributable earnings	\$ 95,080	\$ 77,626	\$ 38,088	\$ 2,072	\$ (20,707)	\$ 192,159

	Fortress Unconsolidated Subtotal	Consolidation of Fortress Funds	Eliminations	Reconciliation to GAAP	Fortress Consolidated
Revenues	\$ 356,173	\$ 611,901	\$ (146,944)	\$ (122,830)	\$ 698,300
Pre-tax distributable earnings / net income	\$ 192,159	\$ 1,464,335	\$ (1,464,335)	\$ (104,154)	\$ 88,005

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Six Months Ended June 30, 2006

Reconciling items between segment measures and GAAP measures:

Adjustments from segment revenues to GAAP revenues	
Adjust management fees*	\$ 330
Adjust incentive income	(143,887)
Adjust income from the receipt of options	18,692
Other revenues*	2,035
Total adjustments	\$ (122,830)

*Segment revenues do not include GAAP other revenues; GAAP other revenues are included elsewhere in the calculation of distributable earnings.

Adjustments from pre-tax distributable earnings to GAAP net income	
Adjust incentive income	
Incentive income received from private equity funds, subject to contingent repayment	\$ (96,176)
Incentive income accrued from one private equity fund, not subject to contingent repayment	5,460
Incentive income accrued from hedge funds, subject to annual performance achievement	(53,171)
Reserve for clawback	—
	(143,887)
Adjust other income	
Distributions of earnings from equity method investees**	(5,069)
(Earnings) losses from equity method investees**	10,625
Unrealized (gains) losses on options in equity method investees, treated as derivatives	24,004
Adjust income from the receipt of options	18,692
	48,252
Adjust employee compensation	
Adjust compensation expense for assigned Castle options	65
Adjust employee portion of incentive income from one private equity fund, not subject to contingent payment	(1,337)
	(1,272)
Adjust income taxes	(7,247)
Total adjustments	\$ (104,154)

**This adjustment relates to all of the Castles, private equity Fortress Funds and hedge fund special investment accounts in which Fortress has an investment. On an unconsolidated basis, each of these funds is accounted for under the equity method.

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	Private Equity Funds	Liquid Hedge Funds	Hybrid Hedge Funds	Castles	Unallocated	Fortress Unconsolidated Subtotal
Three Months Ended June 30, 2006						
Segment revenues						
Management fees	\$ 25,143	\$ 21,619	\$ 19,355	\$ 7,401	\$ —	\$ 73,518
Incentive income	71,167	15,940	25,004	3,622	—	115,733
Segment revenues – total	\$ 96,310	\$ 37,559	\$ 44,359	\$ 11,023	\$ —	\$ 189,251
Pre-tax distributable earnings	\$ 69,169	\$ 6,410	\$ 16,884	\$ 254	\$ (16,202)	\$ 76,515

	Fortress Unconsolidated Subtotal	Consolidation of Fortress Funds	Eliminations	Reconciliation to GAAP	Fortress Consolidated
Revenues	\$ 189,251	\$ 348,285	\$ (114,227)	\$ (95,040)	\$ 328,269
Pre-tax distributable earnings/net income	\$ 76,515	\$ 464,948	\$ (464,948)	\$ (118,790)	\$ (42,275)

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Reconciling items between segment measures and GAAP measures:

Adjustments from segment revenues to GAAP revenues		
Adjust management fees*	\$	330
Adjust incentive income		(96,768)
Adjust income from the receipt of options		—
Other revenues*		1,398
Total adjustments	\$	(95,040)

*Segment revenues do not include GAAP other revenues; GAAP other revenues are included elsewhere in the calculation of distributable earnings.

Adjustments from pre-tax distributable earnings to GAAP net income		
Adjust incentive income		
Incentive income received from private equity funds, subject to contingent repayment	\$	(71,167)
Incentive income accrued from one private equity fund, not subject to contingent repayment		(1,052)
Incentive income accrued from hedge funds, subject to annual performance achievement		(24,549)
Reserve for clawback		—
		(96,768)
Adjust other income		
Distributions of earnings from equity method investees**		(3,212)
(Earnings) losses from equity method investees**		5,542
Unrealized (gains) losses on options in equity method investees, treated as derivatives		(22,472)
Adjust income from the receipt of options		—
		(20,142)
Adjust employee compensation		
Adjust compensation expense for assigned Castle options		—
Adjust employee portion of incentive income from one private equity fund, not subject to contingent payment		257
		257
Adjust income taxes		(2,137)
Total adjustments	\$	(118,790)

**This adjustment relates to all of the Castles, private equity Fortress Funds and hedge fund special investment accounts in which Fortress has an investment. On an unconsolidated basis, each of these funds is accounted for under the equity method.

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11. SUBSEQUENT EVENTS

In the third quarter of 2007, private equity Fortress Funds distributed approximately \$56 million of incentive income, net of employee allocations, to Fortress related to an investment realization event which occurred in late June 2007.

12. PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma financial information presented below was derived from the application of pro forma adjustments to the combined and consolidated financial statements of Fortress, as applicable, to give effect to the deconsolidation of the consolidated Fortress Funds. The deconsolidation transaction occurred effective March 31, 2007 as described in Note 1. The unaudited pro forma balance sheet information as of December 31, 2006 has been prepared as if this transaction had occurred on December 31, 2006. The unaudited pro forma income statement and statement of cash flows information for the six months June 30, 2007 have been prepared as if this transaction had occurred on January 1, 2007.

The primary effects of the deconsolidation transaction on Fortress's financial position, results of operations and liquidity are the following:

- Fortress no longer records on its balance sheet and income statement the gross assets, liabilities, revenues, expenses and other income of the deconsolidated Fortress Funds, along with the related interests of the fund investors in the equity and net income of these funds.
- Fortress reflects its investment in these funds on its balance sheet using the equity method of accounting, rather than eliminating the investment in consolidation.
- Fortress will include the management fees and incentive income earned from these funds on its income statement rather than eliminating the revenue in consolidation.
- Fortress will record its equity in the income of these funds using the equity method of accounting. However, it will not record any equity in income arising from incentive income arrangements to the extent that the incentive income is subject to contingent repayment until the contingency is resolved. Therefore, Fortress no longer needs to record deferred incentive income with respect to these funds for incentive income that it is not yet distributed.
- Fortress will also remove the cash flow activities of the deconsolidated funds from its statement of cash flows and replace them with its cash contributions to and distributions from the deconsolidated funds, which previously were eliminated in consolidation. This would not have any effect on Fortress's overall net change in cash for the period; however, it would result in significant changes to Fortress's operating, investing and financing cash flow categories.

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The unaudited pro forma effects of the deconsolidation of the Fortress Funds on the December 31, 2006 balance sheet information are as follows:

	As of December 31, 2006		
	Combined	Deconsolidation Adjustments	Pro Forma Deconsolidated
Assets			
Cash and cash equivalents	\$ 61,120	\$ —	\$ 61,120
Cash held at consolidated subsidiaries and restricted cash	564,085	(564,085)	—
Due from affiliates	635,748	50,336	686,084
Receivables from brokers and counterparties	109,463	(109,463)	—
Investment company holdings, at fair value	21,944,596	(21,944,596)	—
Other investments			—
Loans and securities	317	—	317
Equity method investees	37,250	452,143	489,393
Options in affiliates	139,266	—	139,266
Deferred tax asset	2,808	—	2,808
Other assets	187,920	(118,200)	69,720
	\$ 23,682,573	\$ (22,233,865)	\$ 1,448,708
Liabilities and Members' Equity			
Liabilities			
Due to affiliates	\$ 15,112	\$ (14,660)	\$ 452
Due to brokers and counterparties	187,495	(187,495)	—
Accrued compensation and benefits	159,931	—	159,931
Other liabilities	152,604	(95,413)	57,191
Deferred incentive income	1,648,782	(1,408,700)	240,082
Securities sold not yet purchased, at fair value	97,717	(97,717)	—
Derivative liabilities, at fair value	123,907	(122,288)	1,619
Investment company debt obligations payable	2,619,456	(2,619,456)	—
Other debt obligations payable	687,153	—	687,153
	5,692,157	(4,545,729)	1,146,428
Commitments and Contingencies			
Principals' and Others' Interests in Equity of Consolidated Subsidiaries	17,868,895	(17,688,136)	180,759
Members' Equity			
Members' equity	119,561	—	119,561
Accumulated other comprehensive income	1,960	—	1,960
	121,521	—	121,521
	\$ 23,682,573	\$ (22,233,865)	\$ 1,448,708

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FORTRESS INVESTMENT GROUP LLC

(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP – NOTE 1)

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2007

(dollars in tables in thousands, except share data)

The unaudited pro forma effects of the deconsolidation of the Fortress Funds on the income statement information for the six months ended June 30, 2007 are as follows:

	Six Months Ended June 30, 2007		
	Consolidated	Deconsolidation Adjustments	Pro Forma Deconsolidated
Revenues			
Management fees from affiliates	\$ 161,965	\$ 53,072	\$ 215,037
Incentive income from affiliates	177,189	211,682	388,871
Other revenues	36,265	(3,232)	33,033
Interest and dividend income – investment company holdings	309,030	(309,030)	—
	684,449	(47,508)	636,941
Expenses			
Interest expense			
Investment company holdings	132,620	(132,620)	—
Other	18,731	—	18,731
Compensation and benefits	405,300	(9,805)	395,495
Principals agreement compensation	380,933	—	380,933
General, administrative and other	62,908	(22,024)	40,884
Depreciation and amortization	4,193	—	4,193
	1,004,685	(164,449)	840,236
Other income			
Gains (losses) from investments			
Investment company holdings	(647,477)	647,477	—
Other investments			
Net realized gains	54	—	54
Net realized gains from affiliate investments	145,493	—	145,493
Net unrealized gains (losses)	(677)	—	(677)
Net unrealized gains (losses) from affiliate investments	(167,166)	—	(167,166)
Earnings from equity method investees	7,427	3,231	10,658
	(662,346)	650,708	(11,638)
Income (loss) before Deferred Incentive Income, Principals' and Others' Interests in Income of Consolidated Subsidiaries and Income Taxes	(982,582)	767,649	(214,933)
Deferred incentive income	307,034	(307,034)	—
Principals' and others' interests in loss (income) of consolidated subsidiaries	702,016	(460,615)	241,401
Income Before Income Taxes	26,468	—	26,468
Income tax expense	(19,456)	—	(19,456)
Net Income	\$ 7,012	\$ —	\$ 7,012

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The pro forma deconsolidated net gains and losses disclosed above of (\$22.3 million) include approximately (\$24.7 million) of loss on Eurocastle options and \$2.9 million of gains on deferred fee arrangements.

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FORTRESS INVESTMENT GROUP LLC
(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP – NOTE 1)
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2007
(dollars in tables in thousands, except share data)

The unaudited pro forma effects of the deconsolidation of the Fortress Funds on the statement of cash flows information for the six months ended June 30, 2007 are as follows:

	Six Months Ended June 30, 2007		
	Consolidated	Deconsolidation Adjustments	Pro Forma Deconsolidation
Cash Flows From Operating Activities			
Net income	\$ 7,012	\$ —	\$ 7,012
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation and amortization	4,193	—	4,193
Other amortization and accretion	1,275	(483)	792
Earnings from equity method investees	(7,427)	(3,231)	(10,658)
Distributions of earnings from equity method investees	4,211	3,231	7,442
(Gains) losses from investments	669,773	(647,477)	22,296
Recognition of deferred incentive income	—	(156,326)	(156,326)
Deferred incentive income	(311,174)	307,034	(4,140)
Principals' and others' interests in income of consolidated subsidiaries	(702,016)	460,615	(241,401)
Deferred tax expense	2,484	—	2,484
Options received from affiliates	(2,006)	—	(2,006)
Assignments of options to employees	1,717	—	1,717
Equity-based compensation	445,233	—	445,233
Cash flows due to changes in			
Cash held at consolidated subsidiaries and restricted cash	(166,199)	166,199	—
Due from affiliates	421,310	87,199	508,509
Receivables from brokers and counterparties and other assets	(9,106)	32,131	23,025
Due to affiliates	(8,380)	8,594	214
Accrued compensation and benefits	72,733	(144)	72,589
Deferred incentive income	—	142,041	142,041
Due to brokers and counterparties and other liabilities	65,592	(87,935)	(22,343)

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Investment company holdings			
Purchases of investments	(5,105,865)	5,105,865	—
Proceeds from sale of investments	3,398,739	(3,398,739)	—
Net cash provided by (used in) operating activities	(1,217,901)	2,018,574	800,673
Cash Flows From Investing Activities			
Proceeds from sale of other loan and security investments	317	—	317
Contributions to equity method investees	(94,751)	(148,812)	(243,563)
Proceeds from sale of equity method investees	29,071	—	29,071
Distributions of capital from equity method investments	39,906	22,685	62,591
Cash received on settlement of derivatives	132	—	132
Purchase of fixed assets	(7,136)	125	(7,011)
Net cash used in investing activities	(32,461)	(126,002)	(158,463)
Cash Flows From Financing Activities			
Borrowings under debt obligations	1,924,070	(1,564,070)	360,000
Repayments of debt obligations	(2,010,025)	1,312,872	(697,153)
Payment of deferred financing costs	(6,656)	660	(5,996)
Issuance of Class A shares to Nomura	888,000	—	888,000
Issuance of Class A shares in initial public offering	729,435	—	729,435
Costs related to initial public offering	(76,766)	—	(76,766)
Dividends paid	(16,542)	—	(16,542)
Fortress Operating Group capital distributions to Principals	(415,876)	—	(415,876)
Purchase of Fortress Operating Group units from Principals	(888,000)	—	(888,000)
Principals' and others' interests in equity of consolidated subsidiaries – contributions	3,215,372	(3,205,436)	9,936
Principals' and others' interests in equity of consolidated subsidiaries – distributions	(1,832,325)	1,563,402	(268,923)
Net cash provided by (used in) financing activities	1,510,687	(1,892,572)	(381,885)
Net Increase in Cash and Cash Equivalents	260,325	—	260,325
Cash and Cash Equivalents, Beginning of Period	61,120	—	61,120
Cash and Cash Equivalents, End of Period	\$ 321,445	\$ —	\$ 321,445

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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.

During the first quarter of 2007, we consummated a number of significant transactions, including the Nomura transaction, the formation transactions, our initial public offering, and the deconsolidation of a number of Fortress Funds. The deconsolidation of the Fortress Funds has had significant effects on many of the items within our financial statements but had no net effect on net income or equity. Since the deconsolidation did not occur until March 31, 2007, the income statement and the statement of cash flows for the six months ended June 30, 2007 are

presented including these funds on a consolidated basis for the period prior to deconsolidation. The pro forma effects of the deconsolidation on these financial statements are described in Note 12 to Part I, Item 1, “Financial Statements — Pro Forma Financial Information.”

General

Our Business

Fortress is a leading global alternative asset manager with approximately \$43.3 billion in AUM as of June 30, 2007. We raise, invest and manage private equity funds, hedge funds and publicly traded alternative investment vehicles. We earn management fees based on the size of our funds, incentive income based on the performance of our funds, and investment income from our principal investments in those funds. We invest capital in each of our businesses.

As of June 30, 2007, we managed approximately \$43.3 billion of alternative assets in three core businesses:

Private Equity Funds — a business that manages approximately \$23.4 billion of AUM that primarily makes significant, control-oriented investments in North America and Western Europe, with a focus on acquiring and building asset-based businesses with significant cash flows. We also manage a family of “long dated value” funds focused on investing in undervalued assets with limited current cash flows and long investment horizons;

Hedge Funds — a business that manages approximately \$15.6 billion of AUM comprised of two business segments; (i) hybrid hedge funds – which make highly diversified investments globally in assets, opportunistic lending situations and securities through the capital structure with a value orientation, as well as investment funds managed by external managers; and (ii) liquid hedge funds – which invest globally in fixed income, currency, equity and commodity markets and related derivatives to capitalize on imbalances in the financial markets; and

Publicly Traded Alternative Investment Vehicles, which we refer to as “Castles” — approximately \$4.3 billion of aggregate market capitalization in two publicly traded companies managed by us. The Castles currently invest primarily in real estate and real estate debt investments.

Managing Business Performance

We conduct our management and investment business through the following four primary segments: (i) private equity funds, (ii) liquid hedge funds, (iii) hybrid hedge funds, and (iv) Castles. These segments are differentiated based on the varying investment strategies of the funds we manage in each segment.

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The amounts not allocated to a segment consist primarily of interest earned on short-term investments, certain general and administrative expenses and all interest incurred with respect to corporate borrowings.

Management makes operating decisions and assesses performance with regard to each of our primary segments based on financial data that is presented without the consolidation of any Fortress Funds. Accordingly, segment data for these segments is reflected on an unconsolidated basis, even for periods prior to the deconsolidation. Management also 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 income tax expense.

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Management assesses the net performance of each segment based on its “distributable earnings.” Distributable earnings is not a measure of cash generated by operations which is available for distribution. Rather distributable earnings is a supplemental measure of the value created during any period which management uses in its determination of its periodic distributions to its dividend paying share and unit equity holders. 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 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, see “— Results of Operations — Segments Analysis” below.

Public Company Surplus

Our private equity funds have sponsored the initial public offerings of six portfolio companies since 2004 and have invested in one of the Castles whose initial public offering was sponsored directly by us. Our funds’ investments (including those of hedge funds) in these public companies include \$5.1 billion of unrealized gains based on their stock prices as of June 29, 2007. Our share of those profits, which we call our private equity unrealized “public company surplus,” represents Fortress’s unrealized potential incentive income in respect of these investments. This potential incentive income is not reflected currently in our revenues. The periods in which such incentive income will be realized on a Distributable Earnings basis will be a function of our decisions regarding the timing of realization of fund investments in our portfolio companies, with actual amounts, which may be significantly less, a function of market conditions at those times.

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Portfolio Company	IPO Date	Shares Owned ⁽¹⁾ (in thousands)	Price Per Share (June 29, 2007)	USD Market Value ⁽²⁾ (dollars in thousands)
Gatehouse Media (NYSE: GHS)	10/06	22,050	\$ 18.55	\$ 409,028
GAGFAH (FSE: GFJ)	10/06	150,320	€16.20	3,297,719
Aircastle Limited (NYSE: AYR)	8/06	34,933	\$ 39.81	1,390,677
Brookdale Senior Living (NYSE: BKD)	11/05	61,268	\$ 45.57	2,792,001
Mapeley Limited (LSE: MAY)	6/05	15,631	£ 28.06	881,051
Eurocastle Investment Ltd (ENXT: ECT)	N/A	8,571	€34.24	397,438
Crown Castle (NYSE: CCI) ⁽³⁾	N/A	N/A	N/A	890,925
Total				\$ 10,058,839
Potential USD Proceeds				\$ 10,058,839
Cost Basis (including debt) as of June 29, 2007				4,940,351
Total Potential Unrealized Gains ⁽⁴⁾				\$ 5,118,488
Incentive Income Paying %				93.77%
Incentive Income Eligible Dollars				\$ 4,799,612
Maximum Eligible Incentive Income %				20.00%
Total Potential Incentive Income				\$ 959,922
Fortress Retained % of Incentive Income ⁽⁵⁾				62.01%
Potential Incentive Income to Fortress Operating Group (unrealized public company surplus) ⁽⁶⁾				\$ 595,218

Incentive Income Proceeds (year-to-date)⁽⁷⁾ \$ 104,739

- (1) Includes shares owned in hedge funds.
- (2) Foreign exchange rates are as of June 29, 2007. Calculated as the number of shares held multiplied by the closing stock price on the applicable stock exchange, without regard to liquidity discounts or other factors that could adversely impact the potential proceeds that might be realized upon disposition of these shares.
- (3) Proceeds from sale of CCI shares on June 28, 2007 at \$35.30 per share. No distribution had occurred as of June 30, 2007. An incentive income distribution of \$56 million, net of employee allocations, was received in the third quarter of 2007 primarily related to these proceeds.
- (4) Assumes all incentive income thresholds specified in applicable fund agreements are met.
- (5) Represents percentage of incentive income not payable to employees.
- (6) Amounts ultimately received by us may vary significantly based on a variety of factors, including future public market values of these investments as well as the performance of investments that are not listed above held by the funds that hold the investments listed above. See Part II, Item 1A, "Risk Factors — Risks Related to Our Funds — The historical performance of our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on our Class A shares."
- (7) The amount of unrealized surplus was reduced by approximately \$104.7 million in January 2007 as a result of the distribution of proceeds from a financing arrangement entered into by certain Fortress Funds which own shares of GAGFAH.

Market Considerations

Our revenues consist principally of (i) management fees which are based on the size of our funds, (ii) incentive income which is based on the performance of our funds and (iii) investment income from our investments in those funds. Our ability to grow our revenues depends on our ability to attract new

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capital and investors, which in turn depends on our ability to successfully invest our funds' capital. The primary market factors that impact this are:

- The strength of the alternative investment management industry, including the amount of capital invested and withdrawn from alternative investments. Our share of this capital is dependent on the strength of our performance relative to the performance of our competitors. The capital we attract is a driver of our AUM, as are our returns, which in turn drive the fees we earn.
- The strength and liquidity of the U.S. and relevant global equity markets generally, and the IPO market specifically, which affect our ability to increase the value of our equity positions in our private equity portfolio companies.
- The strength and liquidity of the U.S. and relevant global debt markets. Our private equity funds and Castles all make investments in debt instruments which are assisted by a strong and liquid debt market. In addition, our funds borrow money to make acquisitions. Our funds utilize leverage in order to increase investment returns which ultimately drive the performance of our funds. Furthermore, we utilize debt to finance our investments in our funds and for working

capital purposes.

- Volatility within the markets. Volatility within the debt and equity markets, as well as within the commodity market to a limited extent, increases opportunities for investments within each of our segments, and directly impacts the performance of our liquid hedge funds.
- Other than in our liquid hedge funds, we benefit from stable interest rate and foreign currency exchange rate markets. The direction of the impact of changes in interest rates or foreign currency exchange rates on our liquid hedge funds is dependent on their expectations and the related direction of their investments at such time; therefore, historical trends in these markets are not necessarily indicative of future performance in these funds.

For the most part, we believe the trends in these factors have created a favorable investment environment for our funds.

- In recent years, the U.S. economy and capital markets have been robust, and we have successfully identified opportunities within other economies where trends have also been favorable for investment, such as Germany and the United Kingdom. Partially as a result of the globalization of our operations and the internationalization of our investments, we continue to identify what we believe to be attractive investment opportunities in new markets. Furthermore, the U.S. and international debt markets have expanded significantly in recent years as a result of the widespread growth in the securitization markets, although U.S. debt markets have recently experienced a tightening of available credit in the third quarter of 2007.
- Institutions, high net worth individuals and other investors are increasing their allocations of capital to the alternative investment sector. As a leader in this sector based on the size, diversity and performance of our funds, we have been and continue to be able to attract a significant amount of new capital, at least in part as a result of this trend.
- Allocations of capital to the alternative investment sector are also dependent, in part, on the strength of the economy and the returns available from other investments relative to returns from alternative investments. This, in turn, is also dependent on the interest rate and credit spread markets; as interest rates rise and/or spreads widen, returns available on other investments would tend to increase, which could slow capital flow to the alternative investment sector. In recent years, we have experienced relatively steady and historically low interest rates and tight credit spreads during the periods presented, which has been favorable to our business. However, market developments in the third quarter of 2007, which are discussed in more detail below, have caused credit spreads to widen.

Historically, the trends discussed above have been generally favorable to our performance. No assurance can be given that future trends will not be disadvantageous to us.

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While short-term disruptions in the markets, with respect to equity prices, interest rates, credit spreads or other market factors may adversely affect our existing positions, we believe such disruptions generally present significant new opportunities for investment, provided that we are able to finance investments on attractive terms.

In the first half of 2007, the per share market prices of the investments held by our private equity funds in European public companies have decreased, in some cases substantially. This, in turn, has resulted in a decrease in our public company surplus as described above under “— Surplus.” We believe these decreases are a result of a general downturn in

demand for real estate company stocks rather than of a change in the strength of the underlying companies.

In the second quarter of 2007, Fortress did not experience any realizations of incentive income from its private equity funds. Such realizations are subject to significant uncertainty with respect to timing and amount and are subject to management's judgment as to the optimal timing of the disposition of underlying investments.

In recent months, disruption in the subprime mortgage lending sector has adversely affected the financial markets. In particular, the effects of the disruption have expanded beyond the subprime mortgage lending sector during the third quarter to affect the U.S. and other credit markets generally. This disruption has negatively impacted the financial markets in which we operate in a number of ways:

- We have benefited in recent years from relatively tight interest rate spreads. Tight spreads have allowed us and the funds we manage to obtain financing for investments at attractive rates. Over the past several weeks, interest rate spreads have widened significantly. This widening will typically increase our costs when financing our investments using debt, which in turn reduces the net return we can earn on those investments. Moreover, there currently appears to be less debt and equity capital available in the market relative to the levels available in recent years, which, coupled with recent additional margin requirements imposed by lenders on some types of investments, has increased the importance of maintaining sufficient liquidity without relying upon additional infusions of capital from the debt and equity markets. Based on cash balances, committed financing and short-term operating cash flows, in the judgment of management we and the funds we manage have sufficient liquidity in the current market environment.
- A number of financial institutions have been required to provide additional margin as collateral to support their obligations under their existing investments. In general, neither we, nor the funds we manage, have been required to provide a material amount of additional margin. However, with respect to certain assets within various Fortress Funds, the relevant funds have posted a substantial amount of margin.

We do not currently know the full extent to which this recent disruption will affect us or the markets in which we operate. If the disruption continues, we and the funds we manage may experience future tightening of liquidity, reduced earnings and cash flow, impairment charges, as well as challenges in raising additional capital, obtaining investment financing and making investments on attractive terms. Currently, we do not expect the market developments of which we are aware to have a materially negative impact on our business or results of operations. Moreover, these developments may produce a number of attractive investment opportunities in the future.

For a more detailed description of how economic and global financial market conditions can materially affect our financial performance and condition, see Part II, Item 1A, "Risk Factors — Risks Related to Our Funds — Difficult market conditions can adversely affect our funds in many ways, including by reducing the value or performance of the investments made by our funds and reducing the ability of our funds to raise or deploy capital, which could materially reduce our revenue and adversely affect results of operations."

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Results of Operations

The following is a discussion of our results of operations as reported under GAAP. For a detailed discussion of

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distributable earnings and revenues from each of our segments, see “— Segment Analysis” below.

Effective March 31, 2007, we deconsolidated our Fortress Funds and, subsequent to this transaction, our results of operations are presented on a deconsolidated basis. To provide better insight and understanding of our results of operations based on our current structure, and a better comparative basis, the following tables compare the pro forma results of our operations for the six and three months ended June 30, 2007 and 2006 on a deconsolidated basis. The pro forma results will be the basis of the discussion in this section.

	Six Months Ended June 30, 2007			Six Months Ended June 30, 2006			Variation
	Consolidated	Deconsolidation Adjustments	Pro Forma Deconsolidated	Consolidated	Deconsolidation Adjustments	Pro Forma Deconsolidated	
Revenues							
Management fees from affiliates	\$ 161,965	\$ 53,072	\$ 215,037	\$ 74,544	\$ 73,583	\$ 148,127	\$ 66,910
Incentive income from affiliates	177,189	211,682	388,871	75,771	7,403	83,174	305,690
Other revenues	36,265	(3,232)	33,033	35,499	(33,458)	2,041	30,990
Interest and dividend income – investment company holdings	309,030	(309,030)	—	512,486	(512,486)	—	—
	684,449	(47,508)	636,941	698,300	(464,958)	233,342	403,590
Expenses							
Interest expense	151,351	(132,620)	18,731	264,885	(251,878)	13,007	5,720
Compensation and benefits	405,300	(9,805)	395,495	183,445	(18,795)	164,650	230,840
Principals agreement compensation	380,933	—	380,933	—	—	—	380,933
General, administrative and other (including depreciation and amortization)	67,101	(22,024)	45,077	53,471	(29,229)	24,242	20,830
	1,004,685	(164,449)	840,236	501,801	(299,902)	201,899	638,330
Other Income (Loss)							
Gains (losses) – investment company holdings	(647,477)	647,477	—	1,417,325	(1,417,325)	—	—
Gains (losses) – other investments	(22,296)	—	(22,296)	54,974	—	54,974	(77,270)
Earnings from equity method investees	7,427	3,231	10,658	2,420	14,610	17,030	(6,370)
	(662,346)	650,708	(11,638)	1,474,719	(1,402,715)	72,004	(83,640)
Income (Loss) Before Deferred Incentive Income, Principals’ and Others’ Interests in Income of Consolidated Subsidiaries and	(982,582)	767,649	(214,933)	1,671,218	(1,567,771)	103,447	(318,380)

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Income Taxes							
Deferred incentive income	307,034	(307,034)	—	(261,407)	261,407	—	
Principals' and others' interests in loss (income) of consolidated subsidiaries	702,016	(460,615)	241,401	(1,314,536)	1,306,342	(8,194)	249,599
Income Before Income Taxes	26,468	—	26,468	95,275	(22)	95,253	(68,786)
Income tax expense	(19,456)	—	(19,456)	(7,270)	22	(7,248)	(12,200)
Net Income	\$ 7,012	\$ —	\$ 7,012	\$ 88,005	\$ —	\$ 88,005	\$ (80,990)

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	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006 Consolidated	Deconsolidation Adjustments	Pro Forma Deconsolidated	Variance
Revenues					
Management fees from affiliates	\$ 118,678	\$ 29,568	\$ 44,664	\$ 74,232	\$ 44,446
Incentive income from affiliates	132,961	15,789	3,176	18,965	113,996
Other revenues	16,480	19,101	(17,700)	1,401	15,079
Interest and dividend income – investment company holdings	—	263,811	(263,811)	—	—
	268,119	328,269	(233,671)	94,598	173,521
Expenses					
Interest expense	6,711	139,780	(131,097)	8,683	(1,972)
Compensation and benefits	187,783	100,000	(10,902)	89,098	98,685
Principals agreement compensation	242,659	—	—	—	242,659
General, administrative and other (including depreciation and amortization)	25,787	28,634	(14,520)	14,114	11,673
	462,940	268,414	(156,519)	111,895	351,045
Other Income (Loss)					
Gains (losses) – investment company holdings	—	525,240	(525,240)	—	—
Gains (losses) – other investments	(29,017)	(26,903)	1,040	(25,863)	(3,154)
Earnings from equity method investees	7,231	524	5,373	5,897	1,334
	(21,786)	498,861	(518,827)	(19,966)	(1,820)
Income (Loss) Before Deferred Incentive Income, Principals' and Others' Interests in Income of Consolidated Subsidiaries and Income Taxes	(216,607)	558,716	(595,979)	(37,263)	(179,344)
Deferred incentive income	—	(109,701)	109,701	—	—
Principals' and others' interests in loss (income) of consolidated subsidiaries	166,485	(489,164)	486,680	(2,484)	168,969
Income (Loss) Before Income Taxes	(50,122)	(40,149)	402	(39,747)	(10,375)
Income tax expense	(5,009)	(2,126)	(11)	(2,137)	(2,872)

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Net Income (Loss)	\$ (55,131)	\$ (42,275)	\$ 391	\$ (41,884)	\$ (13,247)
Factors Affecting Our Business					

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

- growth in our AUM;
- level of performance of our funds;
- growth of our fund management and investment platform and our compensation structure to sustain that growth; and
- the income tax expenses as a result of our reorganization which occurred in 2007.

Assets Under Management

We measure total AUM by reference to the assets we manage, including the capital we have the right to call from our investors due to their capital commitments. As a result of raising new funds with sizeable capital commitments for our private equity funds, raising capital for our Castles, securing capital commitments to our hedge funds and increases in the NAVs of our hedge funds from new investor capital and their retained profits, our AUM has increased significantly over the periods discussed.

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Average Fee Paying AUM

Average 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 for the private equity funds, which in connection with funds raised after March 2006 includes the mark-to-market value on public securities held within the fund, (ii) contributed capital for the Castles, or (iii) the NAV for hedge funds.

Management Fees

Significant growth of our average fee paying AUM has had a positive effect on our revenues. As the AUM in our funds grew, so did the management fees we earned. 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.

Performance of Our Funds

Incentive Income

Incentive income is calculated as a percentage of profits earned by the Fortress Funds. Incentive income that is not subject to contingent repayment is recorded as earned, as incentive income from affiliates. 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 two private equity Fortress Funds have been resolved. As our private equity funds continue to mature, the amount of incentive income recognized

could continue to increase, subject to the performance of the funds and the resolution of the contingencies.

Fund Management and Investment Platform

In order to accommodate the increasing demands of our funds' rapidly growing investment portfolios, we have expanded our investment platforms, which are comprised primarily of our people, financial and operating systems and supporting infrastructure. Expansion of our investment platform 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 increased from 500 employees as of June 30, 2006 to 707 employees as of June 30, 2007. This resulted in increases in our compensation, office related and other personnel related expenses. In addition, in conjunction with and subsequent to our initial public offering, we have implemented an equity-based compensation plan described in Note 7 to Part I, Item 1, "Financial Statements — Equity-Based Compensation" as a means to provide an additional financial incentive to retain our existing and future employees.

Income Tax Expense

Prior to January 17, 2007, we, as a partnership, generally had not been subject to U.S. federal income tax but certain of our subsidiaries had been subject to the New York City unincorporated business tax ("UBT") on their U.S. earnings based on a statutory rate of 4%. One of our subsidiaries was subject to U.S. federal corporate income taxes. Certain of our subsidiaries are subject to income tax of the foreign countries in which they conduct business.

In connection with the Nomura transaction and the initial public offering (see Note 1 to Part I, Item 1, "Financial Statements — Organization and Basis of Presentation"), our operating entities were reorganized and a portion of our income is now subject to U.S. federal income taxes and taxed at the prevailing corporate tax rates.

The amount of income taxes that we may be required to pay could increase significantly if legislation recently introduced in the United States is passed in its proposed form. In June 2007,

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legislation was introduced in the U.S. Senate, which would tax us and other publicly traded partnerships as corporations, and similar legislation was introduced in the House. The proposed Senate legislation would not apply to us for five years, but the House legislation did not include any corresponding exemption period. In addition, legislation has been introduced in the House that would have the effect of taxing income recognized from "carried interests" as ordinary income. If any of this legislation is enacted in its current or similar form, we would incur a material increase in our tax liability. For more information on the proposed legislation, see Part II, Item IA, "Risk Factors — Risks Related to Taxation — Legislation has been introduced that would, if enacted, preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis."

Revenues

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	Six Months Ended June		
	30,		
	2007 (A)	2006 (A)	Variance
Management fees from affiliates	\$ 215,037	\$ 148,127	\$ 66,910
Incentive income from affiliates	388,871	83,174	305,697
Other revenues	33,033	2,041	30,992
Total Revenue	\$ 636,941	\$ 233,342	\$ 403,599

	Three Months Ended June		
	30,		
	2007	2006 (A)	Variance
Management fees from affiliates	\$ 118,678	\$ 74,232	\$ 44,446
Incentive income from affiliates	132,961	18,965	113,996
Other revenues	16,480	1,401	15,079
Total Revenue	\$ 268,119	\$ 94,598	\$ 173,521

(A) Pro Forma results of our operations on a deconsolidated basis.
Six months ended June 30

For the six months ended June 30, 2007 compared with the six months ended June 30, 2006, revenues increased as a result of the following:

Management fees from affiliates increased by \$66.9 million primarily due to the net effect of increases in average management fee-paying AUM of \$5.8 billion, \$2.6 billion and \$2.2 billion in our private equity funds, our hybrid hedge funds and our liquid hedge funds, respectively. The combined increase to average management fee-paying AUM drove \$71.4 million of additional management fees. This increase was partially offset by a decrease of \$16.7 million in management fees related to options that were received in the 2006 period from our Castles as compensation for services performed in raising capital.

Incentive income from affiliates increased by \$305.7 million primarily as a result of \$160.5 million of incentive income recognized from our private equity funds for the six months ended June 30, 2007, as contingencies for repayment had been resolved in certain funds allowing recognition, offset by \$5.5 million of incentive income accrued for one of our private equity funds for the six months ended June 30, 2006, which was not subject to contingencies. In addition, \$51.5 million of incentive income from our private equity funds that was distributed, and not subject to contingent repayment, was immediately recognized. Furthermore, performance of our liquid hedge funds and our Castles contributed an additional increase in incentive income of \$54.6 million and growth of average fee-paying AUM in our liquid hedge funds contributed a \$41.5 million increase.

Other revenues increased by \$31.0 million primarily due to \$20.2 million of additional expenses that were reimbursed to us by our funds, which are recorded gross on our income statement. In

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addition, interest income increased \$8.1 million primarily from interest earned on cash proceeds received from our initial public offering.

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Three months ended June 30

For the three months ended June 30, 2007 compared with the three months ended June 30, 2006, revenues increased as a result of the following:

Management fees from affiliates increased by \$44.4 million primarily due to the effect of increases in average management fee-paying AUM of \$5.4 billion, \$2.7 billion and \$2.4 billion in our private equity funds, our hybrid hedge funds and our liquid hedge funds, respectively. This combined increase to average management fee-paying AUM contributed \$35.8 million of additional management fees.

Incentive income from affiliates increased by \$114.0 million primarily due to improved performance within our liquid hedge funds and our Castles, which increased incentive income by \$93.6 million. Average fee-paying AUM grew in our liquid hedge funds, driving an increase of \$10.3 million. The remaining increase is due primarily to the incentive income that was recognized for Fund I and Fund II of \$4.1 million, as contingencies for repayment had been resolved for these funds.

Other revenues increased by \$15.1 million primarily due to \$10.4 million of additional expenses that were reimbursed to us by our funds, which are recorded gross on our income statement. In addition, interest income increased \$4.2 million primarily from interest earned on cash proceeds received from our initial public offering.

Expenses

In the analysis below, general, administrative and other expenses include depreciation and amortization.

	Six Months Ended June 30,		
	2007 (A)	2006 (A)	Variance
Interest expense	\$ 18,731	\$ 13,007	\$ 5,724
Compensation and benefits	395,495	164,650	230,845
Principals agreement compensation	380,933	—	380,933
General, administrative and other (including depreciation and amortization)	45,077	24,242	20,835
Total Expenses	\$ 840,236	\$ 201,899	\$ 638,337

	Three Months Ended June 30,		
	2007	2006 (A)	Variance
Interest expense	\$ 6,711	\$ 8,683	\$ (1,972)
Compensation and benefits	187,783	89,098	98,685
Principals agreement compensation	242,659	—	242,659
General, administrative and other (including depreciation and amortization)	25,787	14,114	11,673
Total Expenses	\$ 462,940	\$ 111,895	\$ 351,045

(A) Pro Forma results of our operations on a deconsolidated basis.
Six months ended June 30

For the six months ended June 30, 2007 compared with the six months ended June 30, 2006, total expenses increased as a result of the following:

Interest expense increased by \$5.7 million primarily due to the increase in our weighted average debt outstanding under Fortress Operating Group's credit facility from \$234.7 million for the six months ended June 30, 2006 to \$433.4 million for the six months ended June 30, 2007.

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Compensation and benefits expenses increased by \$611.8 million primarily due to non-cash compensation expense of \$380.9 million and \$67.3 million, relating to the Principals Agreement and equity-based compensation to employees, respectively. In connection with the initial public offering, the principals entered into an agreement among themselves, which provides that in the event a principal voluntarily terminates his employment with Fortress Operating Group for any reason prior to the fifth anniversary of the initial public offering, a portion of the equity interests held by that principal as of the completion of the initial public offering will be forfeited to the principals who are employed by Fortress Operating Group. As a result of this service requirement, the fair value of Fortress Operating Group units subject to the risk of forfeiture of \$4,763.0 million will be charged to compensation expense on a straight-line basis over the five-year period. When Fortress records this non-cash expense, it records a corresponding increase in capital. The increase to non-cash compensation expense relating to equity-based compensation to employees was primarily related to the restricted stock units and LTIP award. Furthermore, profit sharing compensation increased by \$116.3 million, primarily related to a significant private equity realization event in the first quarter of 2007 and increased profit from our hedge funds. In addition, our average headcount for the six months ended June 30, 2007 grew 46% compared to the six months ended June 30, 2006, which drove an increase of \$37.8 million.

General, administrative and other expenses increased by \$20.8 million, primarily as a result of increased office and administrative costs needed to support a significantly larger workforce, increased infrastructure demands, and professional fees and consulting fees relating to our transition to a public company.

Three months ended June 30

For the three months ended June 30, 2007 compared with the three months ended June 30, 2006, total expenses increased as a result of the following:

Interest expense decreased by \$2.0 million primarily as a result of write-offs of deferred financing fees and expenses of \$3.1 million related to the prepayment of our term loan during the three months ended June 30, 2006. This decrease was partially offset by an increase in our weighted average debt outstanding from \$263.2 million for the three months ended June 30, 2006 to \$350.0 million for the three months ended June 30, 2007, net of a decrease in our weighted average annual interest rates from 7.71% for the three months ended June 30, 2006 to 6.67% for the three months ended June 30, 2007.

Compensation and benefits expenses increased by \$341.3 million primarily due to non-cash compensation expense of \$242.7 million and \$28.8 million, relating to the Principals Agreement and equity-based compensation to employees, respectively, which are described above. Profit sharing compensation increased by \$46.7 million, primarily related to increased profit from our hedge funds. In addition, our average headcount for the three months ended June 30, 2007 grew 43% compared to the three months ended June 30, 2006, which drove an increase of \$17.5 million.

General, administrative and other expenses increased by \$11.7 million, primarily as a result of increased office and administrative costs needed to support a significantly larger workforce, increased infrastructure demands, and

professional fees and consulting fees related to our transition to a public company.

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Future Compensation Expense

We will further recognize, in the future, non-cash compensation expense on our non-vested equity-based awards of \$818.8 million with a weighted average recognition period of 5.5 years.

Other Income

	Six Months Ended June 30,		
	2007 (A)	2006 (A)	Variance
Gains (losses) – other investments	\$ (22,296)	\$ 54,974	\$ (77,270)
Earnings from equity method investees	10,658	17,030	(6,372)
Total Other Income	\$ (11,638)	\$ 72,004	\$ (83,642)

	Three Months Ended June 30,		
	2007	2006 (A)	Variance
Gains (losses) – other investments	\$ (29,017)	\$ (25,863)	\$ (3,154)
Earnings from equity method investees	7,231	5,897	1,334
Total Other Income	\$ (21,786)	\$ (19,966)	\$ (1,820)

(A) Pro Forma results of our operations on a deconsolidated basis.
Six months ended June 30

For the six months, the \$83.6 million decrease in other income was primarily driven by: (i) a decrease in the value of our options in one of our Castles, due to a decline in the underlying stock price, of \$48.7 million, (ii), lower gains from our deferred fee arrangements as they were terminated prior to our initial public offering (a decrease of \$31.2 million) and (iii) a decrease in the earnings on our investments in our funds of \$6.4 million.

Three months ended June 30

For the three months, the \$1.8 million decrease in other income was driven by: (i) the value of our options in one of our Castles due to a decline in the underlying stock price (a decrease of \$7.7 million), (ii) the earnings on our investments in the funds (an increase of \$1.6 million), (iii) an increase in the value of our derivatives which economically hedge our options in one of our Castles of \$1.8 million, and (iv) increased gains from our deferred fee arrangements, despite the termination of these arrangements as described above, since we recorded a loss for the three months ended June 30, 2006 (an increase of \$2.2 million).

Income Tax Expense

For the six and three months ended June 30, 2007 compared with six and three months ended June 30, 2006, income tax expense increased by \$12.2 million and \$2.9 million, respectively. The primary cause of these increases is our reorganization (see Note 1 to Part I, Item 1, "Financial Statements — Organization and Basis of Presentation"). Prior to our reorganization, we were generally not subject to U.S. federal income tax, with the exception of one subsidiary. Some subsidiaries were subject to New York City unincorporated business tax ("UBT") at a statutory rate of 4%. Certain subsidiaries were subject to income tax in the foreign countries in which they conduct business.

After our reorganization, FIG Corp., one of our wholly owned corporate subsidiaries, is taxed as a corporation for U.S. federal income tax purposes at a statutory rate of 35% on its share of income from Fortress Operating Group. Additionally, FIG Corp. is subject to state and local corporate income tax.

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Segment Analysis

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 which functions as our chief operating decision maker to assess performance and to allocate resources. Management evaluates the performance of each segment based on its distributable earnings.

As mentioned above, results of operations for each of our segments are reflected on an unconsolidated basis, even for periods prior to the deconsolidation. Management also assesses our segments on a Fortress Operating Group and pre-tax basis, and therefore adds back the non-controlling interests related to Fortress Operating Group units (held by the principals) and income taxes.

Distributable earnings is GAAP net income adjusted for the following items:

- i. adding a measure of incentive income which is subject to contingent repayment but for which collectibility is reasonably assured because management believes the likelihood of clawback is remote;
- ii. modifying the timing of recognition of compensation expense related to employee profit sharing in incentive income to match the timing of the recognition of the related revenue, which is not matched under GAAP;
- iii. recording income from equity method investees only to the extent it has been realized. While equity method income is a meaningful measure of the operating performance of equity method investees, it is not a measure of currently recognizable income for us as we are holding the interests in our funds for long-term investment purposes. Since any difference between our share of their GAAP income and the distributions we receive is unlikely to be realized until a liquidation transaction occurs, which is not planned in the foreseeable future, adjusting this income to delay recognition of our equity in undistributed earnings until it is realized is consistent with the principles of distributable earnings;
- iv. only recording income from options received once they are exercised and the underlying shares sold, since the timing and amount of economic gain which may be realized from options held in equity method investees is highly uncertain and the GAAP valuation of such options is not a reliable measure of sustainable earnings; and

- v. adding back our equity-based compensation because it does not require settlement by the future transfer or use of assets and therefore does not impact our analysis of earnings which will be available for potential distributions.

“Distributable earnings” for our existing businesses is equal to net income adjusted as follows:

- Incentive Income
 - (i) a. for Fortress Funds which are private equity funds, adding (a) incentive income paid (or declared as a distribution) to us, less an applicable reserve for potential future clawbacks if the likelihood of a clawback is deemed greater than remote (net of the reversal of any prior such reserves that are no longer deemed necessary), minus (b) incentive income recorded in accordance with GAAP, based on the accounting method described in “— Application of Critical Accounting Policies — Revenue Recognition on Incentive Income,”
 - b. for other Fortress Funds, at interim periods, adding (a) incentive income on an accrual basis as if the incentive income from these funds were payable on a quarterly basis, minus (b) incentive income recorded in accordance with GAAP,

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- Other Income
 - (ii) with respect to income from certain principal investments and certain other interests that cannot be readily transferred or redeemed:
 - a. for equity method investments in the Castles and private equity 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 Castles,
 - c. subtracting unrealized gains (or adding unrealized losses) from our consolidated private equity funds,
 - (iii) adding (a) proceeds from the sale of shares received pursuant to the exercise of stock options in certain of the Castles, in excess of their strike price, minus (b) management fee income recorded in accordance with GAAP in connection with our receipt of these options,
- Expenses
 - (iv) adding or subtracting, as necessary, the employee profit sharing in (i) above to match the timing of the expense with the revenue,
 - (v) adding back equity-based compensation expense (including Castle options assigned to employees, RSUs (including the portion of related dividend equivalents recorded as compensation expense), restricted shares and the LTIP),
 - (vi) adding back compensation expense recorded in connection with the forfeiture arrangements entered into among the principals (see Note 7 to Part I, Item 1, “Financial Statements — Equity-Based Compensation”),
 - (vii) adding the income (or subtracting the loss) allocable to the principals’ interests attributable to Fortress Operating Group units, and

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- (viii) adding back income tax expense and any expense recorded in connection with the tax receivable agreement (see Note 5 to Part I, Item 1, “Financial Statements — Income Taxes and Tax Related Payments”).

As a result of our reorganization on January 17, 2007 and our initial public offering on February 8, 2007, we have four additional reconciling items between our segment measure, distributable earnings, and GAAP net income. As reflected above, these adjustments relate to equity-based compensation expense of our employees and principals, interests in consolidated subsidiaries held by our principals, and income tax and related expense.

Private Equity Funds

	Six Months Ended			Three Months Ended		
	June 30,			June 30,		
	2007	2006	Variance	2007	2006	Variance
Management Fees	\$ 62,616	\$ 37,647	\$ 24,969	\$ 35,852	\$ 25,143	\$ 10,709
Incentive Income	190,298	96,176	94,122	—	71,167	(71,167)
Segment revenues – total	\$ 252,914	\$ 133,823	\$ 119,091	\$ 35,852	\$ 96,310	\$ (60,458)
Pre-tax distributable earnings	\$ 176,204	\$ 95,080	\$ 81,124	\$ 28,437	\$ 69,169	\$ (40,732)

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Six Months Ended June 30

Pre-tax distributable earnings increased by \$81.1 million mainly due to:

- a \$57.0 million net increase in incentive income. Incentive income grew by \$94.1 million partially offset by a corresponding increase in the employees’ share of incentive income of \$37.1 million reflected as compensation expense. The increase of \$94.1 million of incentive income was related to a realization event from the financing proceeds related to investments by several funds in a residential housing company during the six months ended June 30, 2007, net of a refinancing transaction of Brookdale that occurred during the six months ended June 30, 2006;
- a \$25.8 million net increase in management fees. Management fees increased by \$25.0 million and the employees’ share of management fees, recorded as compensation expense, decreased by \$0.8 million. This increase is due to \$28.8 million of management fees generated by the creation of new private equity funds primarily driven by Fund IV, Fund V, Fortress Holiday Investment Fund, Fortress Intrawest Coinvestment Fund and Fund IV Coinvestment Fund. These increases to management fees were slightly offset by a decrease of \$6.2 million in management fees collected from Fund II and Fund III, due to distributions to investors and reaching the reset date for Fund III as a consequence of the creation of Fund IV (after which Fund III pays management fees based on invested capital rather than capital commitments);
- a \$7.0 million increase in investment income primarily as a result of our share in the realized gains from the aforementioned funds related to the realization event from a residential housing company; and
- an \$8.7 million increase in operating expenses mainly driven by an increase in headcount.

Three Months Ended June 30

Pre-tax distributable earnings decreased by \$40.7 million mainly due to:

- a \$46.1 million net decrease in incentive income. Incentive income decreased by \$71.2 million partially offset by a corresponding decrease in the employees' share of incentive income of \$25.1 million, reflected as compensation expense. The decrease of \$71.2 million of incentive income was the result of having no realization events during the three months ended June 30, 2007, while a refinancing transaction of Brookdale triggered incentive income during the three months ended June 30, 2006;
- an \$11.0 million net increase in management fees. Management fees increased by \$10.7 million and employees' share of management fees, recorded as compensation expense, decreased by \$0.3 million. The increase is due to management fees generated by the creation of new private equity funds, primarily driven by Fund V, Fortress Holiday Investment Fund, Fortress Intrust Coinvestment Fund and Fund IV Coinvestment Fund. These increases in management fees were partially offset by a reduction in management fees related to Fund II and Fund III, due to distributions to investors and reaching the reset date for Fund III as a consequence of the creation of Fund IV (after which Fund III pays management fees based on invested capital rather than capital commitments);
- a \$1.1 million decrease in investment income primarily due to no realization events occurring in the three months ended June 30, 2007, while a refinancing transaction of Brookdale resulted in investment income during the three months ended June 30, 2006; and
- a \$4.5 million increase in operating expenses mainly driven by an increase in headcount.

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Liquid Hedge Funds

	Six Months Ended			Three Months Ended		
	June 30,		Variance	June 30,		Variance
	2007	2006		2007	2006	
Management Fees	\$ 69,341	\$ 40,423	\$ 28,918	\$ 38,400	\$ 21,619	\$ 16,781
Incentive Income	158,199	70,909	87,290	112,920	15,940	96,980
Segment revenues – total	\$ 227,540	\$ 111,332	\$ 116,208	\$ 151,320	\$ 37,559	\$ 113,761
Pre-tax distributable earnings	\$ 112,102	\$ 77,626	\$ 34,476	\$ 79,029	\$ 6,410	\$ 72,619

Six Months Ended June 30

Pre-tax distributable earnings increased by \$34.5 million mainly due to:

- a \$46.1 million net increase to incentive income. Incentive income increased by \$87.3 million partially offset by a corresponding increase in the employees' share of incentive income of \$41.2 million, reflected as compensation expense. The \$87.3 million increase in incentive income is attributable to both improved performance of one of our funds, which generated a \$46.3 million increase in incentive income, and an increase in average fee paying AUM, which

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contributed an increase of \$41.5 million;

- a \$25.1 million net increase in management fees. Management fees increased by \$28.9 million offset by a corresponding increase in the employees' share of management fees of \$3.8 million. The net increase was primarily a result of the growth in average management fee paying AUM, which drove \$22.0 million of additional management fees;
- a \$20.8 million decrease in investment income. This decline is mainly attributable to the distribution of previously earned fees which had generated \$28.1 million for the six months ended June 30, 2006, compared to \$2.9 million for the six months ended June 30, 2007. This decrease in investment income was partially offset by an increase of \$2.2 million in our earnings from our investment in these funds, net of the associated non-controlling interest in this investment of \$1.3 million, for a net increase of \$0.9 million; and
- a \$16.0 million increase in operating expenses mainly due to an increase in headcount.

Three Months Ended June 30

Pre-tax distributable earnings increased by \$72.6 million mainly due to:

- a \$49.7 million net increase in incentive income. Incentive income increased by \$97.0 million partially offset by a corresponding increase in the employees' share of incentive income of \$47.3 million, reflected as compensation expense. The \$97.0 million increase in incentive income is attributable to both improved performance of one of the funds, which generated \$85.6 million of increased incentive income, and an increase in average fee paying AUM, which contributed an increase of \$10.3 million;
- an \$18.4 million net increase to management fees. Management fees increased by \$16.8 million and the employees' share of management fees decreased by \$1.6 million. This increase was mainly the result of the growth in average management fee paying AUM, which resulted in an increase in management fees of \$16.5 million;
- an \$8.8 million increase in investment income. This increase is mainly due to income from the distribution of previously earned fees which had generated a loss of \$3.5 million for the three months ended June 30, 2006 and a gain of \$1.0 million for the three months ended June 30, 2007. In addition, earnings from our investment in the funds contributed \$3.4 million of investment income; and
- a \$4.3 million increase in operating expenses mainly driven by an increase in headcount.

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Hybrid Hedge Funds

	Six Months Ended			Three Months Ended		
	June 30,		Variance	June 30,		Variance
	2007	2006		2007	2006	
Management Fees	\$ 60,720	\$ 36,032	\$ 24,688	\$ 31,707	\$ 19,355	\$ 12,352
Incentive Income	84,369	53,507	30,862	38,264	25,004	13,260
Segment revenues – total	\$ 145,089	\$ 89,539	\$ 55,550	\$ 69,971	\$ 44,359	\$ 25,612
Pre-tax distributable earnings	\$ 71,716	\$ 38,088	\$ 33,628	\$ 28,007	\$ 16,884	\$ 11,123

Six Months Ended June 30

Pre-tax distributable earnings increased by \$33.6 million mainly due to:

- an \$18.6 million net increase in incentive income. Incentive income increased by \$30.9 million partially offset by a corresponding increase in the employees' share of incentive income of \$12.3 million, reflected as compensation expense. The increase in incentive income was mainly attributable to an increase in average fee paying AUM, which contributed to a \$25.7 million increase in incentive income. In addition, improved performance of one of our hedge funds, including special investments, yielded an increase in incentive income of \$3.8 million;
- a \$24.7 million increase in management fees. The increase to management fees was mainly a result of growth in average management fee paying AUM, which drove a \$19.9 million increase. Fortress Partners Fund earned \$3.5 million of management fees for the six months ended June 30, 2007 which was incremental to the six months ended June 30, 2006, as the fund was not created until July 2006;
- a \$15.7 million increase in investment income. This increase was mainly due to our investment in Fortress Partners Fund, which generated \$18.6 million in investment income. This increase in investment income was partially offset by a \$5.9 million decrease of income from the distribution of previously earned fees; and
- a \$25.3 million increase in operating expenses primarily related to an increase in headcount.

Three Months Ended June 30

Pre-tax distributable earnings increased by \$11.1 million mainly due to:

- a \$6.1 million net increase in incentive income. Incentive income increased by \$13.3 million partially offset by a corresponding increase in the employees' share of incentive income of \$7.2 million, reflected as compensation expense. The increase in incentive income is mainly attributable to an increase in average fee paying AUM, which yielded an increase of \$10.5 million, and improved performance of one of our funds including our special investments, which yielded an increase of \$2.7 million;
- a \$12.4 million increase in management fees primarily driven by the growth in average management fee paying AUM and the launch of Fortress Partners Fund;
- a \$7.3 million increase in investment income mainly due to our investment in Fortress Partners Fund, which generated \$9.7 million in income for the 2007 period. This increase was partially offset by a \$2.5 million decrease from the distribution of previously earned fees; and
- a \$14.7 million increase in operating expenses primarily attributable to an increase in headcount.

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Publicly Traded Alternative Investment Vehicles (“Castles”)

Six Months Ended
June 30,

Three Months Ended
June 30,

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	2007	2006	Variance	2007	2006	Variance
Management Fees	\$ 22,746	\$ 15,010	\$ 7,736	\$ 11,841	\$ 7,401	\$ 4,440
Incentive Income	17,905	6,469	11,436	14,217	3,622	10,595
Segment revenues – total	\$ 40,651	\$ 21,479	\$ 19,172	\$ 26,058	\$ 11,023	\$ 15,035
Pre-tax distributable earnings	\$ 20,706	\$ 2,072	\$ 18,634	\$ 15,030	\$ 254	\$ 14,776

Pre-tax distributable earnings increased by \$18.6 million primarily due to:

- an \$11.4 million increase in incentive income. Incentive income increased primarily as a result of higher FFO in excess of certain performance hurdles for Eurocastle and Newcastle;
- a \$4.6 million net increase in management fees. Management fees increased by \$7.7 million primarily as a result of the growth of average management fee paying AUM, which resulted in a \$7.2 million increase. This \$7.2 million increase was partially offset by a \$1.6 million increase in operating expenses, primarily due to increased headcount, and a \$1.5 million increase in the employees' share of operating income, reflected as compensation expense; and
- a \$2.6 million increase in investment income. The primary driver of this increase is a change in the loss from foreign currency derivatives related to Eurocastle and Northcastle of \$2.3 million.

Three Months Ended June 30

Pre-tax distributable earnings increased by \$14.8 million primarily due to:

- a \$10.6 million increase in incentive income. Incentive income increased primarily as a result of higher FFO in excess of certain performance hurdles for Eurocastle and Newcastle;
- a \$1.8 million net increase in management fees. Management fees increased by \$4.4 million as a result of the growth of average management fee paying AUM. This \$4.4 million increase was partially offset by a \$1.0 million increase in operating expenses, primarily due to increased headcount, and a \$1.6 million increase in the employees' share of operating income, reflected as compensation expense; and
- a \$2.4 million increase in investment income. The primary driver of this increase is a change in the loss from foreign currency derivatives related to Eurocastle and Northcastle of \$1.9 million.

Unallocated

	Six Months Ended June 30,			Three Months Ended June 30,		
	2007	2006	Variance	2007	2006	Variance
Management Fees	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Incentive Income	—	—	—	—	—	—
Segment revenues – total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Pre-tax distributable earnings	\$ (17,891)	\$ (20,707)	\$ 2,816	\$ (7,247)	\$ (16,202)	\$ 8,955

Pre-tax distributable earnings increased by \$2.8 million. The increase was primarily driven by a \$6.7 million increase in investment income, primarily as a result of interest earned on cash received

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from our initial public offering. In addition, operating expenses decreased by \$1.8 million. These increases to distributable earnings were partially offset by a \$5.7 million increase in interest expense driven by an increase to the weighted average debt outstanding from \$234.7 million for the six months ended June 30, 2006 to \$433.4 million for the six months ended June 30, 2007, which increased interest expense by \$7.5 million. This impact was slightly offset by a \$2.3 million combined decrease in interest expense as a result of a decline in the weighted average annual interest rates from 7.49% for the six months ended June 30, 2006 to 6.96% for the six months ended June 30, 2007, and a decrease in write-offs of deferred financing fees and expenses related to the prepayments of our term loan from \$3.1 million during the six months ended June 30, 2006 to \$2.0 million during the six months ended June 30, 2007.

Three Months Ended June 30

Pre-tax distributable earnings increased by \$9.0 million. The increase was primarily driven by a \$4.0 million increase in investment income, primarily as a result of interest earned on cash received in connection with our initial public offering. Operating expenses decreased by \$2.9 million. Furthermore, interest expense decreased \$2.0 million, primarily as a result of a \$3.1 million reduction in write-offs of deferred financing fees and expenses related to the prepayment of our term loan. This decrease was partially offset by a net \$1.5 million increase in interest expense as a result of an increase in the weighted average debt outstanding from \$263.2 million for the three months ended June 30, 2006 to \$350.0 million for the three months ended June 30, 2007, offset by a decline in our weighted average annual interest rates from 7.71% for the three months ended June 30, 2006 to 6.67% for the three months ended June 30, 2007.

Sensitivity

Investments held by the Fortress Funds are sensitive to changes in our valuation assumptions and estimates as well as fluctuations in fair value. A 10% change in the fair value of the net investments held by all of our funds (other than a permanent impairment) would have the following effects on our segment revenues:

	Segment Basis		
	Management Fees	Incentive Income	Investment Income (Unrealized Gains and Losses)
Private equity funds	None (A)	None (B)	None
Hedge funds (hybrid and liquid)	10% annual change in management fees from these funds, subsequent to the change in value.	Generally, a 10% immediate change in incentive income from these funds. Since the incentive income is generally equal to 20%-25% of fund returns, the dollar effect would be 2.0-2.5% (20%-25% of 10%) of the dollar change in values.	Generally, a 10% immediate change in investment income. Since we generally have a 1%-5% investment in these funds, the dollar effect would be 0.1%-0.5% (1%-5% of 10%) of the dollar change in values.
Castles	None	None	None

(A) For funds formed after March 2006 which are no longer in the commitment period, a 10% change in the fair value of net investments held in publicly traded entities would affect management fees by

10% of the management fees based on the value of such investments on a prospective basis, subsequent to the change in value.

(B) Although a change in fair value could indirectly impact our conclusion regarding a potential reserve.

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A 10% increase or decrease in the fair value of net investments held by all of our funds as of June 30, 2007 would have increased or decreased our segment incentive income by \$257.2 million or (\$197.3 million), respectively, and impacted investment income by \$34.1 million.

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, including our capital commitments to our funds, pay compensation, and satisfy our other general business needs including our obligation to pay U.S. federal income tax as a result of our reorganization (see Note 1 to Part I, Item 1, “Financial Statements — Organization and Basis of Presentation”). In addition, we will require cash to meet our intended distribution policy. Our primary sources of funds for liquidity consist of cash flows provided by operating activities, primarily the management fees and incentive income paid to us from the Fortress Funds, borrowings under loans, and the issuance of debt and equity securities, as well as the investment returns on our principal investments in these funds.

The timing of receipt of cash flows from operating activities is in large part dependent on the timing of distributions from our private equity funds and redemptions from our hedge funds, which are subject to restrictions and to management’s judgment regarding the optimal timing of the monetization of underlying investments. The timing of capital requirements to cover fund commitments is subject to management’s judgment regarding the acquisition of new investments within the funds, as well as the liquidity requirements of the funds. The timing of capital requirements and the availability of liquidity from operating activities may not always coincide and we may make short-term, lower-yielding investments with excess liquidity or fund shortfalls with short-term debt or other sources of capital.

We expect that our cash on hand and our cash flows from operating activities, plus the proceeds from our initial public offering in February 2007, will satisfy our liquidity needs with respect to current commitments relating to investments and with respect to our debt obligations over the next twelve months. We expect to meet our long-term liquidity requirements, including the repayment of our debt obligations and any new commitments, and any increases in our commitments, relating to principal investments, through the generation of operating income, additional borrowings and potential equity offerings.

On February 8, 2007, we completed an initial public offering of 39,428,900 of our Class A shares, including the underwriters’ over allotment option, for net proceeds of approximately \$652.7 million. We contributed the net proceeds from the offering to Fortress Operating Group in exchange for 39,428,900 limited partnership units. Fortress Operating Group applied these proceeds as follows: (a) to pay \$250 million outstanding under the term loan facility, as required by the credit agreement, and (b) to pay \$85 million then outstanding under the revolving credit facility. Fortress Operating Group intended to use the remaining proceeds (a) to fund \$169 million of commitments to existing and future private equity funds, and (b) to use \$149 million for general business purposes. As of June 30, 2007, \$177.9 million of initial public offering proceeds remain unused, of which \$67.7 million is intended for private equity capital commitments and \$110.2 million is intended for general business purposes.

In addition, in connection with the Nomura transaction and the initial public offering (see Note 1 to Part I, Item 1, “Financial Statements — Organization and Basis of Presentation”), we reorganized. We established a publicly traded partnership and also established a wholly owned corporate subsidiary. Accordingly, a substantial portion of our income earned by the corporate subsidiary is subject to U.S. federal income taxation and taxed at prevailing rates. The remainder of our income is allocated directly to our shareholders and is not subject to any corporate level of taxation.

Our ability to execute our business strategy, particularly our ability to form new funds and increase our AUM, depends on our ability to raise additional investor capital within our funds. Decisions by counterparties to enter into transactions with us will depend upon a number of factors, such as our historical and projected financial performance and condition, compliance with the terms of our current credit arrangements, industry and market trends and performance, the availability of

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capital and our counterparties’ policies and rates applicable thereto, the rates at which we are willing to borrow, and the relative attractiveness of alternative investment or lending opportunities.

As of June 30, 2007, our material cash commitments and contractual cash requirements were related to our distributions, capital commitments to our funds, lease obligations and debt obligations.

Dividends / Distributions

On June 15, 2007, we declared a second quarter cash dividend of \$0.225 per Class A share. The dividend was paid on July 13, 2007 to holders of record of our Class A shares on June 29, 2007. The aggregate amount of this dividend payment was \$21.3 million. In connection with this dividend, a distribution of \$70.2 million was declared from Fortress Operating Group to the principals and dividend equivalent payments of \$5.4 million were made to holders of restricted Class A share units.

On March 20, 2007, we declared a partial first quarter cash dividend of \$0.1225 per Class A share for the period beginning February 8, 2007 (the pricing date of our initial public offering) through March 31, 2007. The dividend was paid on April 13, 2007 to holders of record of our Class A shares on March 30, 2007. The aggregate amount of this dividend payment was \$11.6 million. In connection with this dividend, a distribution of \$39.4 million was declared from Fortress Operating Group to the principals and dividend equivalent payments of \$3.0 million were made to holders of restricted Class A share units.

Capital Commitments

We determine whether to make capital commitments to our private equity funds in excess of the minimum required amounts based on a variety of factors, including estimates regarding our liquidity over the estimated time period during which commitments will have to be funded, estimates regarding the amounts of capital that may be appropriate for other funds which we are in the process of raising or are considering raising, and our general working capital requirements.

We generally fund our principal investments in the Fortress Funds with cash, either from working capital or borrowings, and not with carried interest. We do not hold any principal investments in the funds other than through the Fortress Operating Group entities. Our principals do not own any portion of the carried interest in any fund

personally. Accordingly, their personal investments in the funds are funded directly with cash.

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Our capital commitments to our funds with outstanding commitments as of June 30, 2007 consisted of the following:

	Outstanding Commitment
Private Equity Funds	
Fund II	\$ 1,992
Fund III	3,763
Fund III Co	10
Fund IV	59,226
Fund IV Co	62
Fund V	60,000
Fund V Co	50
FRID	2,632
FICO	12
FHIF	8,474
Florida Co ⁽¹⁾	275,000
LDV Fund I	665
LDV Fund II	3,997
LDV Fund III	681
Real Assets	41,750
Total	\$ 458,314

(1) Fortress made a \$275 million co-investment commitment in connection with the acquisition by various Fortress-managed funds of Florida East Coast Industries, Inc., a Florida-based railroad and commercial real estate company.

Lease Obligations

Minimum future rental payments under our operating leases are as follows:

July 1 to December 31, 2007	\$ 6,689
2008	13,180
2009	12,604
2010	12,163
2011	9,135
2012	6,038
Thereafter	22,857
Total	\$ 82,666

Debt Obligations

As of June 30, 2007, our debt obligations consisted of the amount outstanding under our credit agreement, as described below.

In 2002, we borrowed \$2.9 million collateralized by our interest in an aircraft (the “aircraft loan”). This loan bore interest at LIBOR plus 2.25%. We had hedged our exposure to the risk of changes in market interest rates with respect to this loan by entering into an interest rate swap, which fixed the effective interest rate on this loan at approximately 6.80% through maturity. In June 2007, we repaid all amounts outstanding under the aircraft loan and terminated the related interest rate swap.

In March 2005, we entered into a new \$175 million credit agreement (the “2005 Credit Agreement”), which, among other things, refinanced a \$98.5 million credit facility. The 2005 Credit Agreement bore interest at LIBOR plus 2.75% and was subject to unused commitment fees of 0.375% per annum and letter of credit fees of 2.75% per annum. In December 2005, the agreement was amended to increase the available line by \$70.1 million.

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In June 2006, we entered into a new \$750 million credit agreement (the “2006 Credit Agreement”). Borrowings under the 2006 Credit Agreement bore interest at LIBOR plus 2.00%, with the agreement being subject to unused commitment fees of 0.375% per annum. The purpose of the 2006 Credit Agreement was to refinance the 2005 Credit Agreement described above, to make funds available for investments in the various existing and new Fortress Funds, and to make a one-time \$250 million distribution of capital to our principals. In connection with the repayment of the prior credit facility, deferred loan costs of \$3.1 million were written off to interest expense in June 2006.

As a result of our initial public offering, we became subject to a reduced unused commitment fee of 0.25% and a letter of credit fee of 1.50% and borrowings under the 2006 Credit Agreement accrued interest at a rate equal to (i) with respect to LIBOR loans, LIBOR plus 1.50% and (ii) with respect to base rate loans, the base rate, as defined in the credit agreement, plus 0.50%. \$250 million of the term loan and \$85 million of the revolving credit facility under the 2006 Credit Agreement were repaid with proceeds received from our initial public offering. In connection with the partial pay-down of the existing credit facility, deferred loan costs of \$2.0 million were written off to interest expense in February 2007.

On May 10, 2007, we entered into a new \$1 billion credit agreement (the “2007 Credit Agreement”) in order to refinance the 2006 Credit Agreement described above, reduce the amount of interest and other fees payable under our credit facilities and increase the amount of funds available for investments. The 2007 Credit Agreement is collateralized by substantially all the Fortress Operating Group assets as well Fortress Operating Group’s rights to fees from the Fortress Funds and its equity interests therein.

The credit facilities available under the 2007 Credit Agreement include a \$200 million revolving credit facility (including a \$25 million letter of credit subfacility), a \$350 million term loan facility and a \$450 million delayed term loan facility. Borrowings and letters of credit issued under the 2007 Credit Agreement bear interest at a rate equal to (i) with respect to LIBOR loans, LIBOR plus 1.20%, or (ii) with respect to base rate loans, the base rate, as defined in the agreement, plus 0.20%, with such rates subject to reduction upon the receipt of specified debt ratings by S&P and Moody’s. In addition, we will be required to pay a commitment fee of 0.375% per annum on the unused portion of amounts available under our revolving credit facility and our delayed term loan facility (provided that the unused commitment fee for the delayed term loan facility will be 0.175% per annum for the first 135 days after closing).

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The following table presents summarized information regarding our debt obligations:

Debt Obligation	Face Amount and Carrying Value		Final Stated Maturity	June 30, 2007	
	June 30, 2007	December 31, 2006		Weighted Average Funding Cost	Weighted Average Maturity (Years)
Credit Agreement					
Revolving debt ⁽¹⁾	\$ —	\$ 85,000	May 2012	0.00%	—
Term loan	350,000	600,000	May 2012	6.73%	4.87
Delayed term loan ⁽¹⁾	—	—	Feb 2008	0.00%	—
Aircraft loan	—	2,153	Repaid	0.00%	—
Total	\$ 350,000	\$ 687,153		6.73%	4.87
Consolidated Fortress Fund debt		2,619,456			
Total		\$ 3,306,609			

(1) Approximately \$194.1 million and \$450 million were undrawn and available on the revolving debt and delayed term loan, respectively, as of June 30, 2007, including a \$25 million letter of credit subfacility of which \$5.9 million was utilized.

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Covenants

Fortress Operating Group is required to prepay the 2007 Credit Agreement upon the occurrence of certain events, including asset sales and other dispositions.

The 2007 Credit Agreement includes customary covenants. Among other things, the borrowers are prohibited from incurring additional indebtedness or further encumbering their assets, subject to certain exceptions. In addition, Fortress Operating Group must not:

- Permit the assets under management subject to management fees to be less than \$18 billion during fiscal year 2007, plus an additional \$500 million during each subsequent fiscal year;
- Permit the EBITDA, as defined in the 2007 Credit Agreement, generated during the previous twelve months to be less than (i) \$375 million as of each of June 30, 2007, or September 30, 2007, (ii) \$400 million as of the end of each of December 31, 2007, March 31, 2008, June 30, 2008 or September 30, 2008, or (iii) \$500 million as of the end of each subsequent fiscal quarter;
- Permit the aggregate value of investments held to be less than the sum of (i) \$550 million plus (ii) the aggregate outstanding amount of any delayed draw term loans plus (iii) an additional \$50 million as of March 31 of each subsequent fiscal year (together, the “Required Investment Assets”);
- Permit the aggregate value of Fortress Fund Investments (generally defined in the 2007 Credit Agreement as the stock of Newcastle, Eurocastle and any other publicly traded company

pledged as collateral (and any options in respect of such stock), and Fortress Operating Group's interest in the Fortress private equity funds and hedge funds and certain other investment funds) to be less than 40% of the Required Investment Assets;

- Permit the aggregate value of the sum of (i) the Fortress Fund Investments plus (ii) certain investments in co-investment funds to be less than 60% of the Required Investment Assets (with no single co-investment fund investment exceeding \$75 million).

In addition, under the 2007 Credit Agreement, Fortress Operating Group is permitted to make cash distributions (i) in order for our shareholders to pay their taxes, and (ii) other cash distributions subject to the following restrictions: (a) no event of default exists immediately prior to or subsequent to the distribution, and (b) the distribution would not exceed cumulative free cash flow. Free cash flow, as defined in our 2007 Credit Agreement, is calculated on a cumulative basis as \$163 million plus EBITDA earned since March 31, 2007, minus interest paid, capital expenditures made and distributions made since March 31, 2007.

The events of default described under the 2007 Credit Agreement are typical of such agreements and include payment defaults, failure to comply with credit agreement covenants, cross-defaults to material indebtedness, bankruptcy and insolvency, change of control, and adverse events with respect to our material funds.

This summary is qualified by reference to our 2007 Credit Agreement, a copy of which has been filed with the SEC as an exhibit to our current report on Form 8-K dated May 14, 2007.

Cash Flows

Our historical consolidated statements of cash flows reflect the cash flows of Fortress Operating Group as well as those of our consolidated Fortress Funds (through their deconsolidation on March 31, 2007), which were all investment companies, but included Northcastle, which was not an investment company, for the period ended June 30, 2006.

The consolidated Fortress Funds, on a gross basis, are much larger than Fortress Operating Group and therefore substantially all of the gross cash flows reflected in our statement of cash flows, through their deconsolidation on March 31, 2007, relate to their activities. The primary cash flow activities of Fortress Operating Group are: (i) generating cash flow from operations, (ii) making investments in Fortress Funds (these cash flows are eliminated in consolidation through

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March 31, 2007), (iii) meeting financing needs through our credit agreement, and (iv) distributing cash flow to equity holders. The primary cash flow activities of the Fortress Funds which were consolidated through March 31, 2007 were: (i) raising capital from their investors, which have historically been reflected as Principals' and others' interests in equity of consolidated subsidiaries in our financial statements, (ii) using this capital to make investments, (iii) financing certain investments with debt, (iv) generating cash flow from operations through the realization of investments, and (v) distributing cash flow to investors.

As described above in "— Results of Operations," our AUM, which are primarily representative of the net assets within the Fortress Funds, have grown significantly throughout the periods reflected in our financial statements included in this Quarterly Report on Form 10-Q. This growth is a result of these funds raising and investing capital, and generating gains from investments, during these periods. Their cash flows, which are reflected in our statement of

cash flows for consolidated Fortress Funds through March 31, 2007, have increased substantially as a result of this growth. This growth is the primary cause of increases in the gross cash flows reflected in our statements of cash flows.

Our dividend policy has certain risks and limitations, particularly with respect to liquidity. Although we expect to pay dividends in accordance with our dividend policy, we may not pay the amount of dividends suggested by our policy, or at all, if, among other things, we do not have the cash necessary to pay the intended dividends. To the extent we do not have cash on hand sufficient to pay dividends, we may have to borrow funds to pay dividends, or we may determine not to borrow funds to pay dividends. By paying cash dividends rather than investing that cash in our future growth, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations or unanticipated capital expenditures, should the need arise.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, our principals will not reimburse the corporate taxpayers for any payments that have been previously made under the tax receivable agreement. As a result, in certain circumstances, payments could be made to our principals under the tax receivable agreement in excess of the corporate taxpayers' cash tax savings. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under this agreement, will depend upon a number of factors, including the timing and amount of our future income.

Operating Activities

Our net cash flow (used in) operating activities was (\$1,217.9) million and (\$1,883.9) million during the six months ended June 30, 2007 and 2006, respectively. These amounts primarily include net purchases of investments by consolidated Fortress Funds (included in our statements of cash flows through their deconsolidation on March 31, 2007), which are investment companies, after proceeds from sales of investments, of (\$1,707.1) million and (\$1,435.5) million during those periods, respectively, which are reflected as operating activities pursuant to investment company accounting.

The consolidation of the Fortress Funds and the voluntary deferral of certain fees (which are no longer being deferred) caused our historical cash flows from operations to be negative. We do not expect this to be the case subsequent to the discontinuation of the voluntary deferral of fees and the deconsolidation of the Fortress Funds, both of which have occurred.

Investing Activities

Our net cash flow (used in) investing activities was (\$32.5) million and (\$74.3) million during the six months ended June 30, 2007 and 2006, respectively. Our investing activities primarily included: (i) purchases, net of proceeds from sales of investments, of loan and security investments by one of our consolidated Fortress Funds (included in our statements of cash flows through its deconsolidation on March 31, 2007), which is not an investment company, of \$0.3 million and (\$69.0) million during those periods, respectively, (ii) contributions to equity method investees of (\$94.8) million and (\$0.4) million during those periods, respectively, (iii) distributions of capital from equity method investees of \$39.9 million and \$0.3 million during the periods, respectively, (iv) proceeds from sale of equity method investments of \$29.1 million for the period ending June 30, 2007, and (v) purchases of fixed assets of (\$7.1) million and (\$5.2) million during those periods, respectively.

Financing Activities

On December 18, 2006, the principals entered into a securities purchase agreement with Nomura, pursuant to which Nomura acquired a then 15% indirect stake in Fortress Operating Group for \$888 million, all of the proceeds of which were paid to the principals. On January 17, 2007, Nomura completed the transaction by purchasing 55,071,450 Class A shares for \$888 million and we, in turn, purchased 55,071,450 Fortress Operating Group limited partnership units, which then represented 15% of Fortress Operating Group's economic interests, and the sole general partner interest, from the principals for \$888 million.

In addition, on February 8, 2007, we completed an initial public offering of 39,248,900 of our Class A shares, for net proceeds of approximately \$652.7 million.

Our net cash flow provided by financing activities was \$1,510.7 million and \$2,003.7 million during the six months ended June 30, 2007 and 2006, respectively. Our financing activities included (i) contributions made by, net of distributions made to, the investors in our consolidated Fortress Funds (included in our statements of cash flows through their deconsolidation on March 31, 2007), historically reflected as others' interests in consolidated subsidiaries, of \$1,504.0 million and \$1,371.6 million during those periods, respectively, (ii) distributions made to principals of (\$536.9) million and (\$307.3) million during those periods, respectively, and (iii) our net borrowing and repayment activity.

Critical Accounting Policies

Consolidation

Historically, we consolidated certain of the Fortress Funds as a result of owning a substantive, controlling general partner interest in these entities, or, for variable interest entities, by being their primary beneficiary. We had operational discretion and control of these funds combined with the limited partners' limited substantive rights to impact their ongoing governance and operating activities which resulted in their being consolidated by us; however, in no case were we the majority equity holder. In connection with the initial public offering, Fortress granted rights effective March 31, 2007 to the investors in the consolidated Fortress Funds to provide a simple majority of the unrelated limited partners with the ability to liquidate the funds without cause or to otherwise have the ability to exert control over the funds, resulting in the deconsolidation of these funds for financial reporting purposes.

The analysis as to whether to consolidate an entity is subject to a significant amount of judgment. Some of the criteria considered are the determination as to the degree of control over an entity by its various equity holders, the design of the entity, how closely related the entity is to each of its equity holders, the relation of the equity holders to each other and a determination of the primary beneficiary in entities in which we have a variable interest. These analyses involve estimates, probability weighting of subjectively determined cash flow scenarios, and other estimates based on the assumptions of management.

Fortress Operating Group's combined financial statements reflected the assets, liabilities, revenues, expenses and cash flows of the consolidated Fortress Funds on a gross basis through March 31, 2007. Our investors' interests in these funds, which are the majority ownership interests, have historically been reflected as others' interests in consolidated subsidiaries in these financial statements. The management fees and incentive income earned by Fortress from the consolidated Fortress Funds were eliminated in consolidation; however, our allocated share of the net income from these funds was increased by the amount of these eliminated fees. Accordingly, the consolidation of these Fortress Funds had no net effect on our net earnings from the Fortress Funds and the deconsolidation of the funds likewise had no net effect on Fortress's earnings. The deconsolidation has had the effect of restoring the presentation of management fees and incentive income from the Fortress Funds that had been eliminated in consolidation.

Revenue Recognition on Incentive Income

Incentive income is calculated as a percentage of the profits earned by the Fortress Funds subject to the achievement of performance criteria. Incentive income from certain of the private equity funds

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we manage is subject to contingent repayment (or clawback) and may be paid to us as particular investments made by the funds are realized. If, however, upon liquidation of a fund the aggregate amount paid to us as incentive income exceeds the amount actually due to us based upon the aggregate performance of the fund, the excess is required to be returned by us (i.e. “clawed back”) to that fund. We have elected to adopt the preferred method of recording incentive income subject to contingencies, Method 1 of Emerging Issues Task Force Topic D-96 “Accounting for Management Fees Based on a Formula.” Under this method, we do not recognize incentive income subject to contingent repayment until all of the related contingencies have been resolved. Deferred incentive income related to a particular private equity fund, each of which has a limited life, would be recognized upon the termination of a private equity fund, or when distributions from a fund exceed the point at which a clawback of a portion or all of the historic incentive income distributions could no longer occur. Recognition of incentive income allocated to us prior to that date is deferred and recorded as a deferred incentive income liability. For GAAP purposes, the determination of when incentive income is recognized as income is formulaic in nature, resulting directly from each fund’s governing documents.

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 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 a quarterly or 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, where incentive income is received as investments are realized but is subject to clawback (see “Revenue Recognition on 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.

Our 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 that 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. Changes in the judgments and estimates made in arriving at the appropriate amount of profit sharing expense accrual could materially impact net income.

As of June 30, 2007, Fortress has recognized and paid compensation expense under its employee profit sharing arrangements in connection with the \$391.6 million of distributed incentive income from private equity funds. If the \$1,030.1 million of undistributed incentive income from private equity funds was realized, Fortress would recognize an additional \$317.2 million of compensation expense.

Valuation of Investments

As a result of the deconsolidation described above, our investments in the Fortress Funds are accounted for under the equity method subsequent to March 31, 2007. The Fortress Funds themselves apply specialized accounting principles specified by the AICPA Audit and Accounting Guide

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— Investment Companies. As such, our results are based on the reported fair value of the funds as of the reporting date with our pro rata ownership interest (based on our principal investment) in the changes in each fund's NAV reflected in our results of operations. Fair value generally represents the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. We are the manager of these funds and in certain cases participate in the valuation of underlying investments, many of which are illiquid and/or without a public market. The fair value of these investments is generally estimated based on either values provided by independent valuation agents, who use their own proprietary valuation models, or proprietary models developed by us, which include discounted cash flow analyses and other techniques and may be based, at least in part, on independently sourced market parameters. The material estimates and assumptions used in these models include the timing and expected amount of cash flows, the appropriateness of discount rates used, and, in some cases, the ability to execute, timing of, and estimated proceeds from expected financings. The values arrived at may be adjusted if, when estimating the value, it is determined that a more accurate value can be obtained from recent trading activity or by incorporating other relevant information that may not have been reflected in pricing obtained from the models. Fair values obtained from external sources are rarely (less than 1% of our value estimates) adjusted in this manner. Significant judgment and estimation goes into the assumptions which drive these models and the actual values realized with respect to investments could be materially different from values obtained based on the use of those estimates. The valuation methodologies applied impact the reported value of our investments in the Fortress Funds in our consolidated financial statements as of June 30, 2007.

Private Equity Funds

Under the valuation policies and guidelines of our private equity funds, investments are categorized into two types of securities: those for which there is a market quotation and those for which there is no market quotation. Securities for which there is a market quotation are valued at their quoted market price. A discount may be applied to those securities with sale restrictions. Securities for which there is no market quotation are referred to as private securities and are valued at fair value. Our guidelines state that the fair values of private securities are generally based on the following methods:

1. Public market transactions of similar securities
2. Private market transactions of similar or identical securities
3. Analytical methods

Our private equity funds have never based a valuation of a private security upon public or private market transactions

in a similar security. There have been no circumstances to date in which a security in a public market transaction, or a private market transaction of which we were aware, has been considered to be sufficiently similar to a private security owned by one of our private equity funds to be used as a measure of valuation for such private security investment.

Our private equity funds have used the price of private market transactions in identical securities as a valuation method for investments. In cases in which there has been a significant private transaction in a private security held by our private equity funds, the value of private equity fund investments in the private security are based upon the price of such recent private transaction in that security and no sensitivity analysis is used. Based on this guideline, the value of an investment is considered to be its purchase price for a period of one year after the date of acquisition, unless a more recent transaction has occurred.

If the fair value of private security investments held by our private equity funds cannot be valued by reference to a public or private market transaction, then the primary analytical method used to estimate the fair value of such private securities is the discounted cash flow method. Sensitivity analysis is applied to the estimated future cash flows using various factors depending on the investment, including assumed growth rates (in cash flows), capitalization rates (for determining terminal values) and appropriate discount rates based on the investment to determine a range of reasonable values. The valuation based on the inputs determined to be the most probable is used as

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the fair value of the investment. Our private equity funds may also use the performance statistics of similar public companies (for example, EBITDA multiples) to value private securities.

Liquid Hedge Funds

The vast majority of the investments in our liquid hedge funds are valued based on quoted market prices. Investments valued based on other observable market parameters in our liquid hedge funds are made up almost entirely of interest rate swaps and swaptions, equity swaps and foreign exchange swaps which are valued by the independent fund administrator using models with significant observable market parameters. The fair value of interest rate swaps and swaptions is calculated using the market price of the relevant interest rate and an appropriate discount rate to determine a present value. The fair value of equity swaps and foreign exchange swaps is calculated using the market price of the underlying stock or foreign exchange pair, plus the financing cost of carrying the transaction. The fair value of these investments is also confirmed independently with the counterparty to the transaction.

Hybrid Hedge Funds

In our hybrid hedge funds, investments are valued using quoted market prices, to the extent available. Independent valuation agents are used by our hybrid hedge funds to provide estimates of the fair value of investments for which quoted market prices are not available. For investments in our hybrid hedge funds, we understand that the independent valuation agents use some or all of the following methods and techniques to estimate the fair value of the relevant type of investments:

Private loans — The most common method used to value private loans is a discounted cash flow analysis. In this method, the estimated future payments to be made by the borrower under the loan agreement are discounted to the present using a discount rate appropriate to the risk level of the borrower.

If it is likely that a borrower will not be able to repay a loan in full, the loan may be valued by estimating how much the borrower will be able to repay based on obtaining refinancing from a new lender. Under this method, the borrower's business must be examined in detail, and then compared to known loans in the market to estimate how much the borrower will likely be able to borrow, and therefore repay under the existing loan. If the amount likely to be able to be refinanced is less than the total payments due under the loan, the fair value of the loan will be reduced.

Another method used to value loans that may not be repaid in full is to value the total amount of assets of the borrower that might be sold to raise proceeds to repay the loan if necessary. Under this method, all assets of the borrower must be analyzed and valued. If the total value is less than the total payments due under the loan, the fair value of the loan will be reduced.

Asset-backed securities and collateralized debt obligations for which there are no quoted market prices are valued using a discounted cash flow analysis based on the estimated cash flows to be generated by the relevant underlying assets and the appropriate interest rate based on the nature of the underlying assets.

Real estate is usually valued based on sales of comparable property. The value of real estate which is net leased is also influenced by the credit quality of major tenants, as their ability to make lease payments is relevant to the value of the property under lease.

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Sensitivity

		GAAP Basis Incentive Income	Earnings from Equity Method Investees
Private equity funds	Management Fees None (A)	None (B)	Generally, a 10% immediate change in earnings from equity method investees. Since we generally have a 1%-5% investment in these funds, the dollar effect would be 0.1%-0.5% (1%-5% of 10%) of the dollar change in values.
Hybrid & Liquid Hedge funds	10% annual change in management fees from these funds, subsequent to the change in value.	Generally, a 10% immediate change in incentive income from these funds. Since the incentive income is generally equal to 20%-25% of fund returns, the dollar effect would be 2.0%-2.5% (20%-25% of 10%) of the dollar change in values.	Generally, a 10% immediate change in earnings from equity method investees. Since we generally have a 1%-5% investment in these funds, the dollar effect would be 0.1%-0.5% (1%-5% of 10%) of the dollar change in values.

Castles None None None

(A) For funds formed after March 2006 which are no longer in the commitment period, a 10% change in the fair value of investments held in publicly traded entities would affect management fees by 10% of the management fees based on the value of such investments on a prospective basis, subsequent to the change in value.

(B) Except for one private equity fund whose incentive income is not subject to clawback, where the effect would be similar to that on a hedge fund.

A 10% increase or decrease in the fair value of investments held by Fortress Funds as of June 30, 2007 would have increased or decreased our results on an unconsolidated basis for the six months ended June 30, 2007 by \$207.1 million or (\$174.8 million), respectively. These changes are comprised of an increase or decrease of incentive income from hedge funds of \$145.2 million or (\$112.9 million), respectively, and of an increase or decrease of earnings from equity method investees from private equity funds of \$27.8 million, liquid hedge funds of \$4.9 million, and hybrid hedge funds of \$29.2 million.

As discussed above, the determination of investment fair values involves management's judgments and estimates. The degree of judgment involved is dependent upon the availability of quoted market prices or observable market parameters. The following table summarizes the investments held by the Fortress Funds by valuation methodology as of June 30, 2007.

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	Private Equity Funds	Liquid Hedge Funds	Hybrid Hedge Funds	Total Investment Company Holdings
Fair Value Based on Quoted market prices	57%	74%	19%	49%
Other observable market parameters (including valuations based on reports of independent valuation agents and internal models with significant observable market parameters)	3%	22%	78%	32%
Internal models with significant unobservable market parameters (A)	40%	4%	3%	19%
Total	100%	100%	100%	100%

(A) With respect to liquid and hybrid hedge funds, the investments valued in this way consist primarily of investments in funds managed by external managers and special investment accounts (which generally have investment profiles similar to private equity funds).

As of June 30, 2007, \$5,493.0 million of investments in our private equity funds, \$274.6 million of investments in our liquid hedge funds and \$238.3 million of investments in our hybrid hedge funds are valued by internal models with significant unobservable market parameters. A 10% increase or decrease in the value of investments held by the Fortress Funds valued through internal models with significant unobservable market parameters would have had the following increase or decrease on our results on an unconsolidated basis for the six months ended June 30, 2007, consistent with the table above:

Private Equity Liquid Hedge Hybrid

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	Funds	Funds	Hedge Funds
Management fees, on a prospective basis	N/A (A)	\$0.5 million	\$0.3 million
Incentive fees	N/A (B)	\$5.6 million or (\$4.3 million)	N/A (C)
<u>Earnings from equity method investees</u>	\$11.0 million	\$0.2 million	\$0.7 million

(A) Private equity fund management fees would be unchanged as, for investments in non-publicly traded securities, they are not based on the value of the funds, but rather on the amount of capital invested in the funds.

(B) Private equity fund incentive income would be unchanged as it is not recognized until received and all contingencies are resolved. Furthermore, incentive income would be based on the actual price realized in a transaction, not on a valuation.

(C) Hybrid hedge fund incentive income would be unchanged as it is not recognized until received and all contingencies are resolved in the fourth quarter. Incentive income is generally not charged on amounts invested by hybrid hedge funds in funds managed by external managers.

The effects on private equity fees and income assume that a decrease in value does not cause a permanent write-down of investments below their associated invested capital. Our equity, net income, and overall financial condition (as well as results of operations following the deconsolidation of the previously consolidated Fortress Funds on March 31, 2007) are only moderately sensitive to changes in these assumptions and estimates.

Income Taxes

Historically, we operated as a limited liability company which was not subject to U.S. federal and had limited state income taxes. However, certain of our consolidated subsidiaries are subject to UBT on their trade and business activities conducted in New York City. The UBT rates vary significantly between the rate applicable to income from business activities and the rate applicable to income from investment activities. Allocation of income between business activities and investing activities is subject to detailed and complex rules applied to facts and circumstances that generally are not readily

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determinable at the date financial statements are prepared. Accordingly, estimates are made of income allocations in computing our effective tax rate that might be different from actual allocations determined when tax returns are prepared by investee companies and subsidiaries.

As a result of the completion of the transactions resulting from the initial public offering, and the reorganization of our businesses, FIG Corp. is subject to U.S. federal and state income tax on income allocated to it from Fortress Operating Group. FIG Corp.'s carrying value of Fortress Operating Group is higher for income tax purposes than for financial reporting purposes. The net deferred tax asset that has been recognized for this difference is limited to the tax benefit expected to be realized in the foreseeable future. This benefit was estimated based on a number of factors, with an important factor being the amount of unrealized gains in all of the net assets of Fortress Operating Group existing for tax purposes at the date of the reorganization that are expected to be realized for tax purposes in the foreseeable future. If our estimate of the unrealized gains at the date of our initial public offering that actually will be realized in the future increases or decreases, deferred income tax expense or benefit will be recognized.

For the period January 17, 2007, the reorganization date, through June 30, 2007, an estimated annual (January 17, 2007 through December 31, 2007) negative effective tax rate of (16.13%) was used to compute the tax provision on our income subject to U.S. federal, state and local income taxes. We incurred a loss before income taxes for financial reporting purposes, after deducting the compensation expense arising from the principals' forfeiture agreement (Note 7 to Part I, Item 1, "Financial Statements — Equity-Based Compensation"). However, this compensation expense is not deductible for income tax purposes. Also, after the reorganization, a portion of our income is not subject to U.S. federal corporate income tax but is allocated directly to our shareholders.

The actual effective tax rate for the period ended June 30, 2007 is significantly different than the effective tax rate above primarily because (i) all of the income earned by the predecessor prior to January 17, 2007 was earned through partnerships and only subject to the New York City UBT; and (ii) significant income was earned by the predecessor prior to January 17, 2007 as compared to a loss incurred by us for the period from January 17, 2007 through June 30, 2007.

As a result of the foregoing, our effective tax rate for GAAP reporting purposes may be subject to significant variation from period to period. In addition, legislation has been introduced in the United States, which, if enacted in its current or similar form, would cause us to incur a material increase in our tax liability. See "— Factors Affecting Our Business — Income Tax Expense."

Equity-Based Compensation

We currently have seven categories of equity-based compensation which are described in Note 7 to Part I, Item 1, "Financial Statements — Equity-Based Compensation." The aggregate fair value of each of the RSU grants that are subject to service conditions is reduced by an estimated forfeiture factor (that is, the estimated amount of awards which will be forfeited prior to vesting). The estimated forfeiture factor is based upon historic turnover rates within our company adjusted for the expected effects of the grants on turnover and other factors in the best judgment of management. The estimated forfeiture factor is updated at each reporting date. Since our IPO in February 2007, neither our actual forfeiture rate nor any other factors have caused us to change our forfeiture expectations or assumptions.

The volatility assumption used in valuing certain awards, as described below, was based on five-year historical stock price volatilities observed for a group of comparable companies, since we do not have sufficient historical share performance to use our own historical volatility, adjusted for management's judgment regarding our expected volatility. Since our IPO in February 2007, our actual volatility has exceeded the volatility assumption used. To the extent that this trend continues, and management's judgment concerning volatility is changed, we would adjust the volatility assumption used. The risk-free discount rate assumptions used in valuing certain awards were based on the applicable U.S. treasury rate of like term. The dividend yield assumptions used in valuing certain awards were based on our actual dividend rate at the time of the award; the dividend growth rate used with respect to one type of award was based on management's judgment and expectations.

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The following elements of the accounting for equity-based compensation are subject to significant judgment and estimation:

- The estimated forfeiture factor.

- The discount related to RSUs which do not entitle the recipients to dividend equivalents prior to the delivery of Class A shares. This discount was based on the estimated present value of dividends to be paid during the service period, which in turn was based on an estimated initial dividend rate, an estimated dividend growth rate and a risk-free discount rate of like term.
- The discount related to RSUs with no service conditions which are subject to the delayed delivery of Class A shares, which occurs in periods subsequent to the grant date. This discount was based on the estimated value of a put option on such shares over the delayed delivery period since essentially this would be the value of owning, and being able to trade, those shares during the delayed delivery period rather than having to wait for delivery. This estimated value was in turn derived from a binomial option pricing model based on the following assumptions: volatility, term, dividend rate and risk-free discount rate.
- The estimated fair value of the LTIP awards, which was estimated using a Monte Carlo simulation valuation model, with the following assumptions: volatility, term, and risk-free discount rate.

Each of these elements, particularly the forfeiture factor and the volatility assumptions used in valuing certain awards, are subject to significant judgment and variability and the impact of changes in such elements on equity-based compensation expense could be material. Increases in the assumed forfeiture factor would decrease compensation expense. Increases in the volatility assumption would (i) decrease compensation expense related to RSUs with no service conditions since the discount for delayed delivery would have increased, and (ii) increase compensation expense related to the LTIP since the value of the LTIP would have increased. Increases in the assumed risk-free rate would (i) decrease compensation expense related to RSUs which do not entitle recipients to dividend equivalents since the estimated value of the foregone dividends would have increased, thereby increasing the discount related to their non-receipt, (ii) decrease compensation expense related to RSUs with no service conditions since the discount for delayed delivery would have increased, and (iii) increase compensation expense related to the LTIP since the value of the LTIP would have increased. Except for the forfeiture factor, changes in these assumptions will only affect awards made in the future and awards whose accounting is impacted by changes in their fair value (generally those to non-employees, known as “liability awards”).

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 requires companies to recognize the tax benefits of uncertain tax positions only where the position is “more likely than not” to be sustained assuming examination by tax authorities. The tax benefit recognized is the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on our financial condition, liquidity or results of operations.

In February 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 155, “Accounting for Certain Hybrid Financial Instruments,” which amends SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” and SFAS 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” SFAS 155 provides, among other things, that (i) for embedded derivatives which would otherwise be required to be bifurcated from their host contracts and accounted for at fair value in accordance with SFAS 133 an entity may make an irrevocable election, on an instrument-by-instrument basis, to measure the hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings and

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(ii) concentrations of credit risk in the form of subordination are not considered embedded derivatives. SFAS 155 is effective for all financial instruments acquired, issued or subject to remeasurement after the beginning of an entity's first fiscal year that begins after September 15, 2006. Upon adoption, differences between the total carrying amount of the individual components of an existing bifurcated hybrid financial instrument and the fair value of the combined hybrid financial instrument should be recognized as a cumulative effect adjustment to beginning retained earnings. Prior periods are not restated. The adoption of SFAS 155 did not have a material impact on our financial statements.

In June 2007 Statement of Position No. 07-1, "Clarification of the Scope of the Audit and Accounting Guide — Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies" ("SOP 07-1") was issued. SOP 07-1 addresses whether the accounting principles of the Audit and Accounting Guide for Investment Companies may be applied to an entity by clarifying the definition of an investment company and whether those accounting principles may be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1 applies to reporting periods beginning on or after December 15, 2007. We are currently evaluating the potential effect on our financial condition, liquidity and results of operations upon adoption of SOP 07-1.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to reporting periods beginning after November 15, 2007. The adoption of SFAS 157 is not expected to have a material impact on our financial condition, liquidity or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 applies to reporting periods beginning after November 15, 2007. We are currently evaluating the potential effect on our financial condition, liquidity and results of operations upon adoption of SFAS 159.

Market Risks

Our predominant exposure to market risk is related to our role as investment manager for the Fortress Funds and the sensitivities to movements in the fair value of their investments on management fee and incentive income revenue. Our investment in the funds continues to impact our net income in a similar way after the deconsolidation of the Fortress Funds. For a discussion of the impact of market risk factors on our financial instruments refer to Part I, Item 3 "Quantitative and Qualitative Disclosures About Market Risk" and "— Application of Critical Accounting Policies — Valuation of Investments."

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

Our future contractual obligations increased from \$1.1 billion on a pro forma deconsolidated basis as of December 31, 2006 to \$1.4 billion as of June 30, 2007.

As a result of deconsolidation, the contractual obligations of the Fortress Funds were no longer considered obligations of Fortress as of March 31, 2007. These contracts include investment company debt obligations that had a total payable balance of \$3.9 billion at December 31, 2006.

Our debt obligations payable decreased from \$836.1 million as of December 31, 2006 (on a pro forma deconsolidated basis) to \$465.9 million as of June 30, 2007, including estimates for interest

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payments. This decrease was attributable to our completion of an initial public offering on February 8, 2007, of 39,428,900 of our Class A shares, including the underwriters' over allotment option, for net proceeds of \$652.7 million of which \$250.0 million and \$85.0 million were paid on our outstanding term loan facility and revolving credit facility, respectively. In addition to the pay-down of the debt obligations payable, future interest payable on that obligation payable was reduced.

Our capital commitments, including our commitments to our funds, have increased by \$320.9 million from \$137.4 million as of December 31, 2006 (on a pro forma deconsolidated basis) to \$458.3 million as of June 30, 2007. The increase is primarily attributable to our capital commitments to our newly formed funds, Fortress Florida Coinvestment Fund, Fortress Investment Fund V and the Real Assets Fund, in which we had new capital commitments of \$275.0 million, \$60.0 million and \$41.8 million, respectively, as of June 30, 2007. The increased commitments to these funds were partially offset by the draw down of \$66.8 million of the capital commitment to FHIF.

In February 2007, the corporate taxpayers (i.e., FIG Corp.) entered into a tax receivable agreement with each of the principals that provides for the payment to an exchanging or selling principal of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income tax that the corporate taxpayers actually realize (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change of control, as defined) as a result of an increase in the tax basis of the assets owned by Fortress Operating Group at the time of an exchange of a Fortress Operation Group limited partnership unit for one of the Class A shares. Such payments are expected to occur over approximately the next 15 years. In connection with the Nomura transaction and related tax effects, a \$390 million capital decrease and offsetting liability to the principals was recorded with respect to the tax receivable agreement. It is currently anticipated that no payments will be made with respect to the tax receivable agreement in 2007. Starting in 2008 and continuing several years thereafter, it is expected that payments of \$20 to \$25 million per annum will be made pursuant to the tax receivable agreement. This projection is based on several assumptions, including management's expectation that benefits associated with the increase in the tax basis of assets will be realized over the next four years.

The adoption of FIN 48 did not have a material impact on our financial condition, liquidity or results of operations and therefore did not cause us to incur any material contractual obligations.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our predominant exposure to market risk is related to our role as investment manager for the Fortress Funds and the sensitivities to movements in the fair value of their investments on management fee and incentive income revenue.

The fair value of the financial assets and liabilities of the Fortress Funds may fluctuate in response to changes in the value of securities, foreign exchange, commodities and interest rates. Prior to the deconsolidation of the consolidated Fortress Funds, the net effect of these fair value changes impacted the gains (losses) from investments in our consolidated income statements while the majority of these fair value changes were absorbed by the other interest holders in consolidated subsidiaries. As of June 30, 2007 and on a prospective basis, fluctuations in the fair value of the Fortress Funds will continue to directly affect the value of our investments in the Fortress Funds and thereby our earnings from equity method investees, as well as the management fees and incentive income we record, to the extent that they are earned based on fair value or NAV.

Risks are analyzed across funds from the “bottom up” and from the “top down” with a particular focus on asymmetric risk. The company gathers and analyzes data, monitors investments and markets in detail, and constantly strives to better quantify, qualify and circumscribe relevant risks.

Although the Fortress Funds share many common themes, each segment within the investment companies runs their own investment and risk management process subject to the company’s overall risk tolerance and philosophy:

- the investment process of our private equity funds involves a detailed analysis of potential acquisitions, and asset management teams assigned to oversee the strategic development, financing and capital deployment decisions of each portfolio investment;
- our hybrid hedge funds and Castles perform extensive credit and cash-flow analysis of borrowers, tenants and credit-based assets, and have extensive asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers, tenants and other obligors, asset pool performance statistics, tracking of cash payments relating to investments, and ongoing analysis of the credit status of investments; and
- our liquid hedge funds continuously monitor a variety of markets for attractive trading opportunities, applying a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios, as well as fund-wide risks.

Each segment has an institutional risk management process and related infrastructure to address these risks. The following table summarizes our financial assets and liabilities that may be impacted by various market risks such as equity prices, interest rates and exchange rates as of June 30, 2007:

Assets	
Equity method investees	\$ 642,518
Options in affiliates	106,324
	\$ 748,842
Liabilities	
Derivative liabilities, at fair value	\$ 2,652
Other debt obligations payable	350,000
	\$ 352,652

The Fortress Funds are sensitive to changes in market and exchange rate risk factors that impact management fees and incentive income earned by Fortress Operating Group, which are reflected in our historical consolidated financial

statements as an allocation of income from consolidated Fortress Funds. Financial assets and liabilities of Fortress Operating Group that are impacted by changes in the value of securities, foreign exchange, and interest rates are debt obligations payable, options in affiliates and foreign currency forward contracts entered into to economically hedge the risk of fluctuations in foreign currency exchange rates with respect to its foreign investments.

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Fortress Funds' Market Risk Impact on Management Fees

Our management fees are based on either: (i) capital commitments to a Fortress Fund, (ii) capital invested in a Fortress Fund, or (iii) the NAV of a Fortress Fund, as described in our historical combined financial statements. Management fees will only be impacted by changes in market risk factors to the extent they are based on NAV. These management fees will be increased (or reduced) in direct proportion to the impact of changes in market risk factors on our investments in the related funds and would occur only in periods subsequent to the change, as opposed to having an immediate impact. The proportion of our management fees that are based on NAV is dependent on the number and types of Fortress Funds in existence and the current stage of each fund's life cycle. As of June 30, 2007, approximately 61.0% of our management fees earned were based on the NAV of the applicable funds.

- Management fees from our hedge funds are based on their NAV, which in turn is dependent on the estimated fair values of their investments. Assuming that there is no change to the investments held by the hedge funds in the next four quarters after June 30, 2007, a 10% change in the fair values of all of the investments held by our hedge funds as of June 30, 2007 would impact future management fees in the next year from our hedge funds by \$26.0 million.
- For private equity funds, management fees of 1% to 1.5% are charged on committed capital during the investment period of a new fund, and then generally on invested capital after the investment period, with the exception of funds formed after March 2006. For funds formed after March 2006 that are no longer in the investment period, management fees are earned on the NAV of investments in publicly traded entities (to the extent they exceed invested capital), and a 10% change in these fair values would impact management fees in the next year by \$0.1 million.
- For Castles, management fees are not calculated based on NAV but instead a 1.5% fee is charged based on the funds' paid-in equity.

Changes in values of investments could indirectly affect future management fees from private equity funds and Castles by, among other things, reducing the funds' access to capital or liquidity and their ability to currently pay the management fees or for private equity funds if such change resulted in a write-down of investments below their associated invested capital. However, these effects would be under very remote circumstances.

Fortress Funds' Market Risk Impact on Incentive Income

Our incentive income is generally based on a percentage of profits of the various Fortress Funds subject to the achievement of performance criteria. Our incentive income will be impacted by changes in market risk factors. However, several major factors will influence the degree of impact: (i) the performance criteria for each individual fund in relation to how that fund's results of operations are impacted by changes in market risk factors, (ii) whether such performance criteria are annual or over the life of the fund, (iii) to the extent applicable, the previous performance of each fund in relation to its performance criteria, and (iv) whether each fund's incentive income is

subject to contingent repayment. As a result, the impact of changes in market risk factors on incentive income will vary widely from fund to fund, as summarized below, and is heavily dependent on the prior performance of each fund, and is therefore not readily predicted or estimated.

- Incentive income from our hedge funds, which is quantified in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Segment Analysis” section, is directly impacted by changes in the fair value of their investments. Incentive income from certain of our hedge funds is earned based on achieving quarterly or annual performance criteria. For the hedge funds with quarterly performance criteria, a 10% decrease to the NAV of the fund on June 30, 2007 would have created a loss to investors for the quarter. In future quarters, this loss would be a “high water mark” (minimum future return to recover the loss to the investors) for our funds’ performance prior to any incentive

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income being earned by us. This “high water mark” is reset on an annual basis. For the hedge funds with annual performance criteria, a 10% decrease to the NAV of the fund on June 30, 2007, assuming that NAV is constant for the next nine months, would result in no incentive income recorded as revenue at year end (in the fourth quarter of each year).

- Incentive income from our private equity funds is not recorded as revenue but instead is deferred under GAAP until the related clawback contingency is resolved. Deferred incentive income, which is subject to contingencies, will be recognized as revenue to the extent it is received and all the associated contingencies are resolved. Assuming that the deferred incentive income earned to date would be equal to what would be recognized when all contingencies are resolved, a 10% increase or decrease in the fair values of investments held by all of the private equity funds at June 30, 2007 would increase or decrease future incentive income by \$221.6 million or (\$146.9 million), respectively; however, this would have no effect on our current reported financial condition or results of operations.
- Incentive income from the Castles is not impacted by changes in the fair values of their investments since these changes do not impact the measure of current operating results (i.e. FFO in excess of specified returns to the company’s shareholders) upon which the incentive income is calculated. The definition of FFO excludes unrealized changes in the values of the Castles’ investments (primarily real estate, loans and securities), except for minor items (for example, the unrealized gain or loss on non-hedge derivatives which make up only an immaterial portion of their assets).

Market Risk

Our investments in the Fortress Funds accounted for under the equity method, to the extent they are investment companies, are directly affected by the impact of changes in market risk factors on the investments held by our Fortress Funds, which could vary significantly from fund to fund. We estimate that a 10% change in the value of our equity method investments in these Fortress Funds as of June 30, 2007 would increase or decrease earnings from equity method investees by \$62.0 million.

Interest Rate Risk

Fortress Operating Group has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore impact the amount of interest payments, future earnings and cash flows. Based on debt obligations payable

as of June 30, 2007, we estimate that interest expense relating to variable rate debt obligations payable would increase \$3.5 million on an annual basis in the event interest rates were to increase by one percentage point.

Equity Prices and Exchange Rate Risk

We are not materially exposed to foreign exchange risk since foreign investments are economically hedged by foreign currency forward contracts.

Gains (losses) on options granted to us by one of the Castles are affected by movements in (i) the equity price of the underlying shares and (ii) the rate of exchange between the U.S. dollar and the Euro. Analyzed separately, we estimate that a 10% increase (decrease) in the equity price of the underlying shares of the options on June 30, 2007 would affect gains and losses for the six months ended June 30, 2007 by \$23.3 million and (\$21.9 million), respectively. In the event of a 10% change in the applicable foreign exchange rate against the U.S. dollar on June 30, 2007, we estimate the gains and losses for the six months ended June 30, 2007 in relation to the value of the options would increase or decrease by \$10.3 million.

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ITEM 4. CONTROLS AND PROCEDURES

- (a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On September 15, 2005, a lawsuit captioned David T. Atkins et al. v. Apollo Real Estate Advisors, L.P. et al., which we refer to as the Brookdale Action, was brought in the United States District Court for the Eastern District of New York on behalf of current and former limited partners in certain investing partnerships related to the sale of certain facilities to Ventas Realty Limited Partnership, or Ventas, an unaffiliated real estate investment trust. It names as

defendants, among others, Brookdale Senior Living, Inc. (one of our portfolio companies, which we refer to as Brookdale), Brookdale Living Communities, Inc. (a subsidiary of Brookdale, which we refer to as BLC), GFB-AS Investors, LLC (which we refer to as GFB-AS), a subsidiary of BLC, the general partners of 14 investing partnerships which are alleged to be subsidiaries of GFB-AS, Fortress, and the Chief Financial Officer of Brookdale. Fortress was the investment manager of consolidated Fortress Funds which were controlling shareholders of the private equity portfolio company during the relevant time periods. The suit alleges that the defendants improperly obtained certain rights with respect to such facilities from the investing partnerships. The plaintiffs' nine count third amended complaint alleges, among other things, (i) that the defendants converted for their own use the property of the limited partners of 11 partnerships, including through the failure to obtain consents the plaintiffs contend were required for the sale of facilities indirectly owned by those partnerships to Ventas; (ii) that the defendants fraudulently persuaded the limited partners of three partnerships to give up a valuable property right based upon incomplete, false and misleading statements in connection with certain consent solicitations; (iii) that certain defendants, not including the company, committed mail fraud in connection with the sale of facilities indirectly owned by the 14 partnerships at issue in the Brookdale Action to Ventas; (iv) that certain defendants committed wire fraud in connection with certain communications with plaintiffs in the Brookdale Action and another investor in a limited partnership; (v) that the defendants committed substantive violations of the Racketeer Influenced and Corrupt Organizations Act, or RICO; (vi) that the defendants conspired to violate RICO; (vii) that GFB-AS and the general partners violated the partnership agreements of the 14 investing partnerships; (viii) that GFB-AS, the general partners, and Brookdale's Chief Financial Officer breached fiduciary duties to the plaintiffs; and (ix) that the defendants were unjustly enriched. The plaintiffs have asked for damages in excess of \$100 million on each of nine counts, as to which Fortress is a defendant on seven counts, including treble damages with respect to certain counts. Fortress has filed a motion to have itself removed as a named defendant in this case. Brookdale has filed a motion to dismiss the claims and continues to vigorously defend this action. We believe that the resolution of this action will not have a material adverse effect on our financial condition or results of operations.

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our industry is always subject to scrutiny by government regulators, which could result in litigation related to regulatory compliance matters. As a result, we maintain insurance policies in amounts and with the coverage and deductibles we believe are adequate, based on the nature and risks of our business, historical experience and industry standards. We believe that the cost of defending any pending or future litigation or challenging any pending or future regulatory compliance matter will not have a material adverse effect on our business. However, increased regulatory scrutiny of hedge fund trading activities combined with extensive trading in our liquid hedge funds may cause us to re-examine our beliefs regarding the likelihood that potential investigation and defense-related costs could have a material adverse effect on our business.

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Item 1A. Risk Factors

We face a variety of significant and diverse risks, many of which are inherent in our business. Described below are certain risks that we currently believe could materially affect us. Other risks and uncertainties that we do not presently consider to be material or of which we are not presently aware may become important factors that affect us in the future. The occurrence of any of the risks discussed below could materially and adversely affect our business, prospects, financial condition, results of operations or cash flow.

Risks Related To Our Business

We depend on Messrs. Briger, Edens, Kauffman, Nardone and Novogratz, and the loss of any of their services would have a material adverse effect on us.

The success of our business depends on the efforts, judgment and personal reputations of our principals, Peter Briger, Wesley Edens, Robert Kauffman, Randal Nardone and Michael Novogratz. Our principals' reputations, expertise in investing, relationships with our investors and relationships with members of the business community on whom our funds depend for investment opportunities and financing, are each critical elements in operating and expanding our businesses. We believe our performance is strongly correlated to the performance of these individuals. Accordingly, the retention of our principals is crucial to our success. In addition, if any of our principals were to join or form a competitor, some of our investors could choose to invest with that competitor rather than in our funds. The loss of the services of any of our principals would have a material adverse effect on us, including our ability to retain and attract investors and raise new funds, and the performance of our funds. We do not carry any "key man" insurance that would provide us with proceeds in the event of the death or disability of any of our principals.

Each of our principals has entered into an employment agreement with us. The initial term of these agreements is five years, with automatic one-year renewals until a non-renewal notice is given by us or the principal. If a principal terminates his employment voluntarily or we terminate his employment for cause (as defined in the agreement), the principal will be subject to eighteen-month post-employment covenants requiring him not to compete with us. However, if we terminate a principal's employment without cause, the principal will not be subject to the non-competition provisions.

The principals have also entered into an agreement among themselves, which provides that, in the event a principal voluntarily terminates his employment with us for any reason prior to the fifth anniversary of the consummation of our initial public offering, the principal may be required to forfeit a portion of his Fortress Operating Group units (and the corresponding Class B shares) to the other principals who continue to be employed by the Fortress Operating Group. However, this agreement may be amended by the principals who are then employed by the Fortress Operating Group. We, our shareholders and the Fortress Operating Group have no ability to enforce any provision of this agreement or to prevent the principals from amending the agreement or waiving any of its obligations.

There is no guarantee that our principals will not resign, join our competitors or form a competing company, or that the non-competition provisions in the employment agreements would be upheld by a court. If any of these events were to occur, our business, prospects, financial condition and results of operation would be materially adversely affected.

Several of our funds have "key man" provisions pursuant to which the failure of one or more of our principals to be actively involved in the business provides investors with the right to redeem from the funds or otherwise limits our rights to manage the funds. The loss of the services of any one of Messrs. Briger, Edens or Novogratz, or both of Mr. Kauffman and Mr. Nardone, would have a material adverse effect on certain of our funds and on us.

Investors in most of our hedge funds may generally redeem their investment without paying redemption fees if the relevant principal ceases to perform his functions with respect to the fund for 90 consecutive days. In addition, the terms of certain of our hedge funds' financing arrangements

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contain "key man" provisions, which may result, under certain circumstances, in the acceleration of such funds' debt or the inability to continue funding certain investments if the relevant principal ceases to perform his functions with

respect to the fund and a replacement has not been approved.

The loss or inability of Mr. Novogratz to perform his services for 90 days could result in substantial withdrawal requests from investors in our Drawbridge Global Macro funds (which as of June 30, 2007, had AUM of approximately \$7.5 billion) and, in the event that a replacement is not approved, the termination of a substantial portion of the funds' financing arrangements. Such withdrawals and terminations would have a material adverse effect on the Drawbridge Global Macro funds by reducing our management fees from those funds and, since the funds would have fewer assets, such withdrawals would reduce the amount of incentive income potential of those funds. Further, such withdrawals and terminations could lead possibly to the liquidation of the funds and a corresponding elimination of our management fees and potential to earn incentive income from those funds. The loss of Mr. Novogratz could, therefore, ultimately result in a loss of substantially all of our earnings attributable to our liquid hedge fund business segment.

The loss or inability of Mr. Briger to perform his services for 90 days could result in substantial withdrawal requests from investors in our Drawbridge Special Opportunities funds (which as of June 30, 2007, had AUM of approximately \$7.2 billion) and, in the event that a replacement for him is not approved, the termination of a substantial portion of the funds' financing arrangements. Such withdrawals and terminations would have a material adverse effect on the Drawbridge Special Opportunities funds by reducing our management fees from those funds and, since the funds would have fewer assets, such withdrawals would reduce the amount of incentive income potential of those funds. Further, such withdrawals and terminations could lead possibly to the eventual liquidation of the funds and a corresponding elimination of our management fees and potential to earn incentive income from those funds. The loss or inability of Mr. Briger to perform his services or devote an appropriate portion of his business time to the long dated value funds for 90 days would (unless approved by a majority of fund investors) prevent the Drawbridge long dated value funds from making additional investments. This could have a material adverse effect on the long dated value funds, resulting in us receiving reduced management fees and incentive income. The loss of Mr. Briger could, therefore, ultimately result in a loss of substantially all of our earnings attributable to our hybrid hedge fund business segment with respect to the Drawbridge Special Opportunities funds, and a relatively small loss of earnings attributable to our private equity fund business segment with respect to the long dated value funds.

If either Mr. Edens or both of Mr. Kauffman and Mr. Nardone cease to devote certain minimum portions of their business time to the affairs of certain of our private equity funds, the funds will not be permitted to make further investments, and then-existing investments may be liquidated if investors vote to do so. Our ability to earn management fees and realize incentive income from our private equity funds therefore would be adversely affected if we cannot make further investments or if we are required to liquidate fund investments at a time when market conditions result in our obtaining less for investments than could be obtained at later times. In addition, we may be unable to raise additional private equity funds if existing private equity fund key-man provisions are triggered. The loss of either Mr. Edens or both of Mr. Kauffman and Mr. Nardone could, therefore, ultimately result in a loss of substantially all of our earnings attributable to our private equity fund business segment, which as of June 30, 2007, had AUM of approximately \$23.4 billion.

In addition, the decline of more than 20% of its assets under management of a fund following one of such 'key-men' events would result in a default under our credit agreement.

Any such events would have a direct material adverse effect on our revenues and earnings, and would likely harm our ability to maintain or grow assets under management in existing funds or raise additional funds in the future.

Our ability to retain our managing directors is critical to our success and our ability to grow depends on our ability to attract additional key personnel.

Our success depends on our ability to retain our managing directors and the other members of our investment management team and recruit additional qualified personnel. We collectively refer to

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these key employees (other than our principals) as our investment professionals. We anticipate that it will be necessary for us to add investment professionals as we pursue our growth strategy. However, we may not succeed in recruiting additional personnel or retaining current personnel, as the market for qualified investment professionals is extremely competitive. Our investment professionals possess substantial experience and expertise in investing, are responsible for locating and executing our funds' investments, have significant relationships with the institutions which are the source of many of our funds' investment opportunities, and in certain cases have strong relationships with our investors. Therefore, if our investment professionals join competitors or form competing companies it could result in the loss of significant investment opportunities and certain existing investors. As a result, the loss of even a small number of our investment professionals could jeopardize the performance of our funds, which could have a material adverse effect on our results of operations as well as our ability to retain and attract investors and raise new funds. Efforts to retain or attract investment professionals may result in significant additional expenses, which could adversely affect our profitability.

We have experienced rapid growth, which may be difficult to sustain and which may place significant demands on our administrative, operational and financial resources.

Our assets under management have grown from approximately \$1.2 billion as of December 31, 2001 to \$43.3 billion as of June 30, 2007. Our rapid growth has caused, and if it continues will continue to cause, significant demands on our legal, accounting and operational infrastructure, and increased expenses. The complexity of these demands, and the expense required to address them, is a function not simply of the amount by which our assets under management have grown, but of significant differences in the investing strategies of our different funds. In addition, we are required to continuously develop our systems and infrastructure in response to the increasing sophistication of the investment management market and legal, accounting and regulatory developments. Moreover, the strains upon our resources caused by our growth are compounded by the additional demands imposed upon us now that we are a public company with shares listed on the New York Stock Exchange and, thus, subject to an extensive body of regulations that did not apply to us previously.

Our future growth will depend, among other things, on our ability to maintain an operating platform and management system sufficient to address our growth and will require us to incur significant additional expenses and to commit additional senior management and operational resources. As a result, we face significant challenges:

- in maintaining adequate accounting, financial and business controls,
- implementing new or updated information, financial and disclosure systems and procedures, and
- in training, managing and appropriately sizing our work force and other components of our business on a timely and cost-effective basis.

There can be no assurance that we will be able to manage our expanding operations effectively or that we will be able to continue to grow, and any failure to do so could adversely affect our ability to generate revenue and control our expenses.

Operational risks may disrupt our businesses, result in losses or limit our growth.

We face operational risk from errors made in the execution, confirmation or settlement of transactions. We also face

operational risk from transactions not being properly recorded, evaluated or accounted for in our funds. In particular, our liquid and hybrid hedge fund businesses are highly dependent on our ability to process and evaluate, on a daily basis, transactions across markets and geographies in a time-sensitive, efficient and accurate manner. Consequently, we rely heavily on our financial, accounting and other data processing systems. In addition, new investment products we introduce create (and recently introduced products created) a significant risk that our existing systems may not be adequate to identify or control the relevant risks in the investment strategies employed by such new investment products. If any of these systems do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to our funds, regulatory intervention and reputational damage.

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In addition, we operate in an industry that is highly dependent on its information systems and technology. We believe that we have designed, purchased and installed high-quality information systems to support our business. There can be no assurance, however, that our information systems and technology will continue to be able to accommodate our growth, or that the cost of maintaining such systems will not increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on us.

Furthermore, we depend on our headquarters, which is located in New York City, for the operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, may have an adverse impact on our ability to continue to operate our business without interruption which could have a material adverse effect on us. Although we have disaster recovery programs in place, there can be no assurance that these will be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses.

Finally, we rely on third party service providers for certain aspects of our business, including certain financial operations of our hedge funds. Any interruption or deterioration in the performance of these third parties could impair the quality of the funds' operations and could impact our reputation and adversely affect our business and limit our ability to grow.

The historical and unaudited pro forma financial information included in this report is not necessarily indicative of our future performance.

The historical combined financial information included in this report is not necessarily indicative of our future financial results. Our historical combined financial information consolidates a large number of our significant funds, which will not be consolidated in future periods as a result of the consummation of the deconsolidation of such funds on June 30, 2007. In addition, the historical combined financial information included in this report does not reflect the added costs that we will incur as a public company or the impact of changes in our structure that we implemented immediately after the consummation of our initial public offering in February 2007, for periods prior to that date. Moreover, because we operated through limited liability companies prior to our initial public offering, we paid little or no taxes on profits. However, we are now subject to certain taxation on our profits as a result of the changes we made to our structure in connection with our initial public offering.

The results of future periods are likely to be materially different as a result of:

- the impact of transactions occurring in connection with our initial public offering in relation to the size of the company during earlier periods;
- fund performance in the future which differs from the historical performance reflected in our financial information for earlier periods; and
- the pace of growth of our business in the future, including the formation of new funds, which differs from the historical growth reflected in our financial information for earlier periods.

Accordingly, our historical combined financial information is not intended to be, and should not be regarded as, indicative of our future performance.

In addition, we have provided in this report pro forma financial information regarding the impact of the deconsolidation of a number of Fortress Funds, which took place on March 31, 2007, on our historical combined financial information as of December 31, 2006 and for the six months ended June 30, 2007. The pro forma adjustments, which are based on available information and certain assumptions that we believe are reasonable, have been applied to this historical combined financial information. The pro forma financial information is provided for informational purposes only and does not purport to represent or be indicative of the results that actually would have been obtained had the deconsolidation occurred on December 31, 2006 or January 1, 2007, or that may be obtained for any future period. See Note 12 to Part I, Item 1, “Financial Statements — Pro Forma Financial Information (Unaudited).”

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We derive a substantial portion of our revenues from funds managed pursuant to management agreements that may be terminated or fund partnership agreements that permit investors to request liquidation of investments in our funds on short notice.

The terms of our funds generally give either the general partner of the fund or the fund’s board of directors the right to terminate our investment management agreement with the fund. However, insofar as we control the general partner of our funds which are limited partnerships, the risk of termination of investment management agreement for such funds is limited, subject to our fiduciary or contractual duties as general partner. This risk is more significant for our offshore hedge funds where we do not serve as the general partner. As of June 30, 2007, we had \$7.5 billion of assets under management in our offshore hedge funds.

With respect to our private equity funds formed as registered investment companies, each fund’s investment management agreement must be approved annually by the independent members of such fund’s board of directors and, in certain cases, by its members, as required by law. Termination of these agreements would reduce the fees we earn from the relevant funds, which could have a material adverse effect on our results of operations.

In addition, following the deconsolidation, investors in any private equity fund and certain hedge funds have the ability to act, without cause, to accelerate the date on which the fund must be wound down. Our ability to realize incentive income from such funds therefore would be adversely affected if we are required to liquidate fund investments at a time when market conditions result in our obtaining less for investments than could be obtained at later times.

In addition, management agreements of our funds which are registered investment companies under the Investment Company Act of 1940 would terminate if we were to experience a change of control without obtaining investor consent. Such a change of control could be deemed to occur in the event our principals exchange enough of their

interests in the Fortress Operating Group into our Class A shares such that our principals no longer own a controlling interest in us. We cannot be certain that consents required for the assignment of our investment management agreements will be obtained if such a deemed change of control occurs. In addition, the board of directors of certain hedge funds have the right under certain circumstances to terminate the investment management agreements with the applicable fund. Termination of these agreements would affect the fees we earn from the relevant funds, which could have a material adverse effect on our results of operations.

We are subject to third-party litigation risk that could result in significant liabilities and reputational harm, which could materially adversely affect our results of operations, financial condition and liquidity.

In general, we will be exposed to risk of litigation by our investors if our management of any fund is alleged to constitute gross negligence or willful misconduct. Investors could sue us to recover amounts lost by our funds due to our alleged misconduct, up to the entire amount of loss. Further, we may be subject to litigation arising from investor dissatisfaction with the performance of our funds or from allegations that we improperly exercised control or influence over companies in which our funds have large investments. By way of example, we, our funds and certain of our employees, are each exposed to the risks of litigation relating to investment activities in our funds and actions taken by the officers and directors (some of whom may be Fortress employees) of portfolio companies, such as risks relating to a funds' high-yield lending activities and the risk of shareholder litigation by other shareholders of public companies in which our funds have large investments. In addition, we are exposed to risks of litigation or investigation relating to transactions which presented conflicts of interest that were not properly addressed. In such actions we would be obligated to bear legal, settlement and other costs (which may be in excess of available insurance coverage). In addition, although we are indemnified by the funds we manage, our rights to indemnification may be challenged. If we are required to incur all or a portion of the costs arising out of litigation or investigations as a result of inadequate insurance proceeds or failure to obtain indemnification from our funds, our results of operations, financial condition and liquidity could be materially adversely affected.

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In our liquid hedge funds, we are exposed to the risk of litigation if the funds suffer catastrophic losses due to the failure of a particular investment strategy or due to the trading activity of an employee who has violated market rules and regulations. Any litigation arising in such circumstances is likely to be protracted, expensive and surrounded by circumstances which are materially damaging to our reputation and our business. In addition, we face the risk of litigation from investors in our private equity funds and hybrid hedge funds if we violate restrictions in such funds' organizational documents (for example, by failing to seek approval for related party transactions requiring approval or by exceeding the mandate of such funds).

Our liquid hedge funds, our offshore hybrid hedge fund and many of our private equity funds are incorporated or formed under the laws of the Cayman Islands. Cayman Islands laws, particularly with respect to shareholders rights, partner rights and bankruptcy, may differ from the laws of the United States. Cayman Islands laws could change, possibly to the detriment of our funds and investment management subsidiaries.

In addition, with a workforce consisting of many very highly paid investment professionals, we face the risk of lawsuits relating to claims for compensation, which may individually or in the aggregate be significant in amount. The cost of settling such claims could adversely affect our results of operations.

Our reputation, business and operations could be adversely affected by regulatory compliance failures, the potential adverse effect of changes in laws and regulations applicable to our business and effects of negative publicity surrounding the hedge fund industry in general.

Potential regulatory action poses a significant risk to our reputation and thereby to our business. Our business is subject to extensive regulation in the United States and in the other countries in which our investment activities occur. The Securities and Exchange Commission, or SEC, oversees our activities as a registered investment adviser under the Investment Advisers Act of 1940. In addition, we are subject to regulation under the Investment Company Act of 1940, the Securities Exchange Act of 1934, and various other statutes. We are subject to regulation by the Department of Labor under the Employee Retirement Income Security Act of 1974 or ERISA. We and our Castles, as public companies, are subject to applicable stock exchange regulations, and both we and Newcastle are subject to the Sarbanes-Oxley Act of 2002. A number of our investing activities, such as our lending business, are subject to regulation by various U.S. state regulators. In the United Kingdom, we are subject to regulation by the U.K. Financial Services Authority. Our other European operations, and our investment activities around the globe, are subject to a variety of regulatory regimes that vary country by country.

Each of the regulatory bodies with jurisdiction over us has regulatory powers dealing with many aspects of financial services, including the authority to grant, and in specific circumstances to cancel, permissions to carry on particular businesses. A failure to comply with the obligations imposed by the Investment Advisers Act of 1940 on investment advisers, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or by the Investment Company Act of 1940, could result in investigations, sanctions and reputational damage. Our liquid hedge fund business, and, to a lesser degree, our hybrid hedge fund business, are involved regularly in trading activities which implicate a broad number of U.S. and foreign securities law regimes, including laws governing trading on inside information, market manipulation and a broad number of technical trading requirements that implicate fundamental market regulation policies. Violation of such laws could result in severe restrictions on our activities and in damage to our reputation.

Some of our private equity funds currently qualify as venture capital operating companies, or VCOC, and therefore are not subject to the fiduciary requirements of ERISA with respect to their assets. However, it is possible that the U.S. Department of Labor may amend the relevant regulations or the characteristics of our funds may change. If these funds fail to qualify as VCOCs or otherwise satisfy the requirements of ERISA, including the requirement of investment prudence and diversification or the prohibited transaction rules, it could materially interfere with our activities in relation to these funds or expose us to risks related to our failure to comply with such requirements.

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Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or investing activities or other sanctions, including revocation of our registration as an investment adviser. The regulations that our businesses are subject to are designed primarily to protect investors in our funds and to ensure the integrity of the financial markets. They are not designed to protect our Class A shareholders. Even if a sanction imposed against us or our personnel by a regulator is for a small monetary amount, the adverse publicity related to such sanction against us by regulators could harm our reputation, result in redemptions by investors from our hedge funds and impede our ability to raise additional capital or new funds.

As a result of recent highly-publicized financial scandals, investors have exhibited concerns over the integrity of the U.S. financial markets, and the regulatory environment in which we operate is subject to heightened regulation. In

recent years, there has been debate in both the U.S. and foreign governments about new rules or regulations to be applicable to hedge funds or other alternative investment products. For example, certain officials in Germany have called for implementing these types of additional regulations, which, if enacted, could potentially apply to our business activities throughout the European Union. We may be adversely affected if new or revised legislation or regulations are enacted, or by changes in the interpretation or enforcement of existing rules and regulations imposed by the SEC, other U.S. or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. Such changes could place limitations on the type of investor that can invest in alternative asset funds or on the conditions under which such investors may invest. Further, such changes may limit the scope of investing activities that may be undertaken by alternative asset managers. Any such changes could increase our costs of doing business or materially adversely affect our profitability.

Our failure to deal appropriately with conflicts of interest could damage our reputation and adversely affect our business.

As we have expanded the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds' investment activities. Certain of our funds have overlapping investment objectives, including funds which have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. For example, a decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to take any action. In addition, holders of Class A shares may perceive conflicts of interest regarding investment decisions for funds in which our principals, who have and may continue to make significant personal investments in a variety of Fortress Funds, are personally invested. Similarly, conflicts of interest may exist or develop regarding decisions about the allocation of specific investment opportunities between Fortress and the Fortress Funds. In addition, because the Operating Entities are held, in part, by FIG Corp., which is subject to tax, conflicts of interest may exist regarding decisions about which of Fortress's holdings should be held by Operating Entities and which by Principal Holdings.

Pursuant to the terms of our operating agreement, whenever a potential conflict of interest exists or arises between any of the principals, one or more directors or their respective affiliates, on the one hand, and the company, any subsidiary of the company or any member other than a principal, on the other, any resolution or course of action by our board of directors shall be permitted and deemed approved by all shareholders if the resolution or course of action (i) has been specifically approved by a majority of the members of a committee composed entirely of two or more independent directors, or it is deemed approved because it complies with rules or guidelines established by such committee, (ii) has been approved by a majority of the total votes that may be cast in the election of directors that are held by disinterested parties, (iii) is on terms no less favorable to the company or shareholders (other than a principal) than those generally being provided to or available from unrelated third parties or (iv) is fair and reasonable to the company taking into account the totality of the relationships between the parties involved. Notwithstanding the foregoing, it is possible that potential or perceived conflicts could give rise to investor dissatisfaction or litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult and our

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reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest would have a material adverse effect on our reputation, which would materially adversely affect our business in a number of ways, including as a result of redemptions by our investors from our hedge funds, an inability to raise additional funds and a reluctance

of counterparties to do business with us.

Employee misconduct could harm us by impairing our ability to attract and retain investors and by subjecting us to significant legal liability, regulatory scrutiny and reputational harm.

Our reputation is critical to maintaining and developing relationships with the investors in our funds, potential investors and third-parties with whom we do business. In recent years, there have been a number of highly-publicized cases involving fraud, conflicts of interest or other misconduct by individuals in the financial services industry in general and the hedge fund industry in particular. There is a risk that our employees could engage in misconduct that adversely affects our business. For example, if an employee were to engage in illegal or suspicious activities, we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial position, investor relationships and ability to attract future investors. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in all cases. Misconduct by our employees, or even unsubstantiated allegations, could result in a material adverse effect on our reputation and our business.

The investment management business is intensely competitive.

Over the past several years, the size and number of hedge funds and private equity funds has continued to increase. If this trend continues, it is possible that it will become increasingly difficult for our funds to raise capital. More significantly, the allocation of increasing amounts of capital to alternative investment strategies by institutional and individual investors may lead to a reduction in profitable investment opportunities, including by driving prices for investments higher and increasing the difficulty of achieving targeted returns. In addition, if interest rates were to rise or there were to be a prolonged bull market in equities, the attractiveness of our funds relative to investments in other investment products could decrease. Competition is based on a variety of factors, including:

- investment performance;
- investor perception of investment managers' drive, focus and alignment of interest;
- quality of service provided to and duration of relationship with investors;
- business reputation; and
- level of fees and expenses charged for services.

We compete in all aspects of our business with a large number of investment management firms, private equity fund sponsors, hedge fund sponsors and other financial institutions. A number of factors serve to increase our competitive risks:

- investors may develop concerns that we will allow a business to grow to the detriment of its performance;
- some of our competitors have greater capital, lower targeted returns or greater sector or investment strategy specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;
- some of our competitors may perceive risk differently than we do, which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;

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- there are relatively few barriers to entry impeding new private equity and hedge fund management firms, and the successful efforts of new entrants into our various lines of business, including former “star” portfolio managers at large diversified financial institutions as well as such institutions themselves, will continue to result in increased competition; and
- other industry participants continuously seek to recruit our best and brightest investment professionals away from us.

These and other factors could reduce our earnings and revenues and materially adversely affect our business. In addition, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current management and performance fee structures. We have historically competed primarily on the performance of our funds, and not on the level of our fees relative to those of our competitors. However, there is a risk that fees in the alternative investment management industry will decline, without regard to the historical performance of a manager. Fee reductions on existing or future funds, without corresponding decreases in our cost structure, would adversely affect our revenues and profitability.

Our internal control over financial reporting does not currently meet all of the standards contemplated by Section 404 of the Sarbanes-Oxley Act of 2002, and failure to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

Our internal control over financial reporting does not currently meet all of the standards contemplated by Section 404 of the Sarbanes-Oxley Act that we will be required to meet as of December 31, 2007. We are in the process of addressing our internal controls over financial reporting and are establishing formal committees to oversee our policies and processes related to financial reporting and to the identification of key financial reporting risks, assessment of their potential impact and linkage of those risks to specific areas and activities within our organization.

While we do not believe we have any material weaknesses in our internal controls, we do not currently have comprehensive documentation of our system of controls, nor do we yet fully document or test our compliance with this system on a periodic basis in accordance with Section 404 of the Sarbanes-Oxley Act. Furthermore, we have not yet fully tested our internal controls in accordance with Section 404 and, due to our lack of documentation, such a test would not be possible to perform at this time. As a result, we cannot conclude in accordance with Section 404 that we do not have a material weakness, or possibly a combination of significant deficiencies which could result in the conclusion that we have a material weakness in our internal controls in accordance with such rules.

We have begun the process of documenting and testing our internal control procedures to satisfy the requirements of Section 404, which requires annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm assessing the effectiveness of our internal controls. As a public company, we will be required to complete our initial assessment in a timely manner. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent registered public accounting firm may not be able to certify as to the adequacy of our internal control over financial reporting. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules, and result in a breach of the covenants under our credit agreement. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us and lead to a decline in our share price and impair our ability to raise capital. In addition, we will incur incremental costs in order to

improve our internal control over financial reporting and comply with Section 404, including increased accounting, auditing and legal fees and costs associated with hiring additional accounting and administrative staff.

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Our organizational documents do not limit our ability to enter into new lines of businesses, and we may enter into new businesses, make future strategic investments or acquisitions or enter into joint ventures, each of which may result in additional risks and uncertainties in our business.

We intend, to the extent that market conditions warrant, to grow our business by increasing assets under management in existing businesses and creating new investment products. Our organizational documents, however, do not limit us to the investment management business. Accordingly, we may pursue growth through strategic investments, acquisitions or joint ventures, which may include entering into new lines of business, such as the insurance, broker-dealer or financial advisory industries, and which may involve assuming responsibility for the actual operation of assets or entire companies. In addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, enter into joint ventures, or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (i) the required investment of capital and other resources, (ii) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, and (iii) combining or integrating operational and management systems and controls. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk. If a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. In the case of joint ventures, we are subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

Our revenue and profitability fluctuate, particularly inasmuch as we cannot predict the timing of realization events in our private equity business, which may make it difficult for us to achieve steady earnings growth on a quarterly basis and may cause volatility in the price of our Class A shares.

We experience significant variations in revenues and profitability during the year and among years because we are paid incentive income from certain funds only when investments are realized, rather than periodically on the basis of increases in the funds' net asset values. The timing and receipt of incentive income generated by our private equity funds is event driven and thus highly variable, which contributes to the volatility of our segment revenue, and our ability to realize incentive income from our private equity funds may be limited. We cannot predict when, or if, any realization of investments will occur. If we were to have a realization event in a particular quarter, it may have a significant impact on our segment revenues and profits for that particular quarter which may not be replicated in subsequent quarters. In addition, our private equity investments are adjusted for accounting purposes to fair value at the end of each quarter, resulting in revenue attributable to our principal investments, even though we receive no cash distributions from our private equity funds, which could increase the volatility of our quarterly earnings.

With respect to our hedge funds, our incentive income is paid annually or quarterly if the net asset value of a fund has increased for the period. The amount (if any) of the incentive income we earn from our hedge funds depends on the increase in the net asset value of the funds, which is subject to market volatility. Our liquid hedge funds have historically experienced significant fluctuations in net asset value from month to month. Certain of our hedge funds also have "high water marks" whereby we do not earn incentive income for a particular period even though the fund had

positive returns in such period if the fund had greater losses in prior periods. Therefore, if a hedge fund experiences losses in a period, we will not be able to earn incentive income from that fund until it surpasses the previous high water mark. These quarterly fluctuations in our revenues and profits in any of our businesses could lead to significant volatility in the price of our Class A shares.

An increase in our borrowing costs may adversely affect our earnings and liquidity.

On May 10, 2007, we refinanced our existing credit agreement with a new \$1 billion credit agreement. Under the new credit agreement, we have a \$200 million revolving credit facility, a \$350 million term loan facility and a \$450 million delayed term loan facility. As of June 30, 2007, we

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had a \$350 million term loan outstanding, no amounts outstanding under our delayed term loan facility and \$5.9 million of letters of credit outstanding under the letter of credit subfacility of our revolving credit facility. Borrowings under the credit agreement mature on May 10, 2012. As our facilities mature, we will be required to either refinance them by entering into new facilities, which could result in higher borrowing costs, or issuing equity, which would dilute existing shareholders. We could also repay them by using cash on hand or cash from the sale of our assets. No assurance can be given that we will be able to enter into new facilities or issue equity in the future on attractive terms, or at all.

Our credit facilities are LIBOR-based floating-rate obligations and the interest expense we incur will vary with changes in the applicable LIBOR reference rate. As a result, an increase in short-term interest rates will increase our interest costs and will reduce the spread between the returns on our investments and the cost of our borrowings. An increase in interest rates would adversely affect the market value of any fixed-rate debt investments and/or subject them to prepayment or extension risk, which may adversely affect our earnings and liquidity.

There can be no assurance that we will be successful in developing a market for our investment products in Asia or that our relationship with Nomura will yield profitable investment opportunities for the funds we manage.

On December 18, 2006, our principals entered into an agreement with Nomura pursuant to which Nomura acquired a 15% stake in Fortress for \$888.0 million on January 17, 2007. Pursuant to the terms of the agreement, the parties agreed that Nomura will work with us to develop a strategy to market and sell our investment products. We believe that a strategic relationship with Nomura, the largest leading Japanese financial institution, could provide us with access to Nomura's distribution capabilities in Asia. In addition, we believe that our relationship will provide us with potential investment opportunities for the funds we manage. However, there can be no assurance that we will be able to develop a strategy and enter into a mutually satisfactory distribution agreement with Nomura, or that if reached, a market for our investment products will ever develop in Asia.

Risks Related to Our Funds

Our results of operations are dependent on the performance of our funds. Poor fund performance will result in reduced revenues, reduced returns on our principal investments in the funds and reduced earnings. Poor performance of our funds will also make it difficult for us to retain or attract investors to our funds and to grow our business. The performance of each fund we manage is subject to some or all of the following risks.

The historical performance of our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on our Class A shares.

The historical and potential future returns of the funds we manage are not directly linked to returns on our Class A shares. Therefore, readers should not conclude that continued positive performance of the funds we manage will necessarily result in positive returns on our Class A shares. However, poor performance of the funds we manage will cause a decline in our revenue from such funds, and would therefore have a negative effect on our performance and the returns on our Class A shares.

Moreover, with respect to the historical performance of our funds:

- the historical performance of our funds should not be considered indicative of the future results that should be expected from such funds or from any future funds we may raise;
- our private equity funds' performance, which is calculated on the basis of net asset value of the funds' investments, reflect unrealized gains that may never be realized;
- our private equity funds' performance has been positively influenced by a select number of investments that experienced rapid and substantial increases in value following the initial public offerings of the private equity portfolio companies in which those investments were made; and

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- our funds' returns have benefited from investment opportunities and general market conditions that may not repeat themselves, and there can be no assurance that our current or future funds will be able to avail themselves of profitable investment opportunities.

Poor performance of our funds would cause a decline in our revenue and results of operations, may obligate us to repay incentive income previously paid to us, and would adversely affect our ability to raise capital for future funds.

Our revenue from the Fortress Funds is derived principally from three sources: (1) management fees, based on the size of our funds; (2) incentive income, based on the performance of our funds; and (3) investment income from our investments in the funds, which we refer to as our "principal investments." In the event that any of our funds perform poorly, our revenue and results of operations will decline, and it will likely be more difficult for us to raise new capital. In addition, hedge fund investors may withdraw their investments in our funds, while investors in private equity funds may decline to invest in future funds we raise, as a result of poor performance of our funds or otherwise. Furthermore, if, as a result of poor performance of later investments in a private equity fund's life, the fund does not achieve total investment returns that exceed a specified investment return threshold for the life of the fund, we will be obligated to repay the amount by which incentive income that was previously distributed to us exceeds the amounts to which we are ultimately entitled. Our investors and potential investors continually assess our funds' performance and our ability to raise capital.

Difficult market conditions can adversely affect our funds in many ways, including by reducing the value or performance of the investments made by our funds and reducing the ability of our funds to raise or deploy capital, which could materially reduce our revenue and adversely affect results of operations.

If economic conditions are unfavorable, our funds may not perform well and we may not be able to raise money in existing or new funds. Our funds are materially affected by conditions in the global financial markets and economic conditions throughout the world. The global market and economic climate may deteriorate because of many factors beyond our control, including rising interest rates or inflation, terrorism or political uncertainty. In the event of a

market downturn, each of our businesses could be affected in different ways. Our private equity funds may face reduced opportunities to sell and realize value from their existing investments, and a lack of suitable investments for the funds to make. In addition, adverse market or economic conditions as well as a slowdown of activities in a particular sector in which portfolio companies of these funds operate could have an adverse effect on the earnings of those portfolio companies, and therefore, our earnings.

A general market downturn, or a specific market dislocation, may cause our revenue and results of operations to decline by causing:

- the NAV of the AUM to decrease, lowering management fees;
- lower investment returns, reducing incentive income;
 - material reductions in the value of our private equity fund investments in portfolio companies which reduce our “surplus” and, therefore, our ability to realize incentive income from these investments; and
- investor redemptions, resulting in lower fees.

Furthermore, while difficult market conditions may increase opportunities to make certain distressed asset investments, such conditions also increase the risk of default with respect to investments held by our funds with debt investments, such as the hybrid hedge funds and the Castles. Our liquid hedge funds may also be adversely affected by difficult market conditions if they fail to predict the adverse effect of such conditions on particular investments, resulting in a significant reduction in the value of those investments. In addition, the Castles, as well as the publicly traded portfolio companies owned by our private equity funds, currently pay a material amount of dividends. This makes their share prices vulnerable to increases in interest rates, which would, by causing declines in the value of the share prices, in turn result in lower management fees and incentive income for us.

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Investors in our hedge funds may redeem their investments and investors in our private equity funds may elect to dissolve the funds at any time without cause. These events would lead to a decrease in our revenues, which could be substantial and lead, therefore, to a material adverse effect on our business.

Investors in our hedge funds may generally redeem their investments on an annual or quarterly basis, subject to the applicable fund’s specific redemption provisions (e.g., a redeeming Drawbridge Special Opportunities Fund investor is not entitled to cash at the redemption date, but retains instead an interest in the investments as of the redemption date and receives monies from the fund only as and when such investments are realized). Investors may decide to move their capital away from us to other investments for any number of reasons in addition to poor investment performance. Factors which could result in investors leaving our funds include changes in interest rates that make other investments more attractive, the publicly traded nature of our manager, changes in investor perception regarding our focus or alignment of interest, unhappiness with changes in or broadening of a fund’s investment strategy, changes in our reputation, and departures or changes in responsibilities of key investment professionals. In a declining financial market, the pace of redemptions and consequent reduction in our assets under management could accelerate. The decrease in our revenues that would result from significant redemptions in our hedge fund business would have a material adverse effect on our business.

In addition, the investors in our private equity and domestic hedge funds may, subject to certain conditions, act at any time to accelerate the liquidation date of the fund without cause, resulting in a reduction in management fees we earn from such funds, and a significant reduction in the amounts of total incentive income we could earn from those funds. Incentive income could be significantly reduced as a result of our inability to maximize the value of a fund's investments in a liquidation. The occurrence of such an event with respect to any of our funds would, in addition to the significant negative impact on our revenue and earnings, likely result in significant reputational damages as well.

Many of our funds invest in relatively high-risk, illiquid assets that often have significantly leveraged capital structures, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of the principal amount we invest in these activities.

Many of our funds invest in securities that are not publicly traded. In many cases, our funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. Accordingly, our funds may be forced to sell securities at a loss, under certain conditions. The ability of many of our funds, particularly our private equity funds, to dispose of investments is heavily dependent on the public equity markets, inasmuch as our ability to realize any value from an investment may depend upon our ability to sell equity of the portfolio company in the public equity markets through an initial public offering (an "IPO") of the portfolio company in which such investment is held. Furthermore, large holdings even of publicly traded equity securities can often be disposed of only over a substantial period of time, exposing the investment returns to risks of downward movement in market prices during the disposition period.

In addition, many of our funds, particularly our private equity funds, hybrid hedge funds and our Castles, invest in businesses with capital structures that have significant leverage. The large amount of borrowing in the leveraged capital structure of such businesses increases the risk of losses due to factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the investment or its industry. In the event of defaults under borrowings, the assets being financed would be at risk of foreclosure, and the fund could lose its entire investment.

Our hedge funds are subject to risks due to potential illiquidity of assets.

Our hedge funds may make investments or hold trading positions in markets that are volatile and which may become illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the

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ability to transfer positions in highly specialized or structured transactions to which we may be a party, and changes in industry and government regulations. When a fund holds a security or position it is vulnerable to price and value fluctuations and may experience losses to the extent the value of the position decreases and it is unable to timely sell, hedge or transfer the position. Therefore, it may be impossible or costly for our funds to liquidate positions rapidly, particularly if the relevant market is moving against a position or in the event of trading halts or daily price movement limits on the market or otherwise. Alternatively, it may not be possible in certain circumstances for a position to be purchased or sold promptly, particularly if there is insufficient trading activity in the relevant market or otherwise.

The hedge funds we manage may operate with a substantial degree of leverage. They may borrow, invest in derivative instruments and purchase securities using borrowed money, so that the positions held by the funds may in aggregate

value exceed the net asset value of the funds. This leverage creates the potential for higher returns, but also increases the volatility of a fund, including the risk of a total loss of the amount invested.

The risks identified above will be increased if a fund is required to rapidly liquidate positions to meet margin requests, margin calls or other funding requirements on that position or otherwise. The inability to rapidly sell positions due to a lack of liquidity has historically been the cause of substantial losses in the hedge fund industry. The ability of counterparties to force liquidations following losses or a failure to meet a margin call can result in the rapid sale of highly leveraged positions in declining markets, which would likely subject our hedge funds to substantial losses. We may fail to adequately predict the liquidity that our hedge funds require to address counterparty requirements due to falling values of fund investments being financed by such counterparties, which could result not only in losses related to such investments, but in losses related to the need to liquidate unrelated investments in order to meet the fund's obligations. Our hedge funds may incur substantial losses in the event significant capital is invested in highly leveraged investments or investment strategies. Such losses would result in a decline in AUM, lead to investor requests to redeem remaining AUM, and damage our reputation, each of which would materially and adversely impact our earnings.

Valuation methodologies for certain assets in our funds can be subject to significant subjectivity and the values of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.

There are no readily-ascertainable market prices for a very large number of illiquid investments in our private equity and hybrid hedge funds. The value of the investments of our funds is determined periodically by us based on the fair value of such investments. The fair value of investments is determined using a number of methodologies described in the funds' valuation policies. These policies are based on a number of factors, including the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment, the length of time the investment has been held, the trading price of securities (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies. The methodologies we use in valuing individual investments are based on a variety of estimates and assumptions specific to the particular investments, and actual results related to the investment therefore often vary materially as a result of the inaccuracy of such assumptions or estimates. In addition, because many of the illiquid investments held by our funds are in industries or sectors which are unstable, in distress, or undergoing some uncertainty, such investments are subject to rapid changes in value caused by sudden company-specific or industry-wide developments.

Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, the fair values of such investments as reflected in a fund's net asset value do not necessarily reflect the prices that would actually be obtained by us on behalf of the fund when such investments are sold. Realizations at values significantly lower than the values at which investments have been reflected in fund net asset values would result in losses for the applicable fund, a decline in asset management fees and the loss of potential incentive income. Also, a situation where asset values turn out to be materially different than values reflected in fund net asset values will cause investors to

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lose confidence in us which would, in turn, result in redemptions from our hedge funds or difficulties in raising additional private equity funds.

In some cases, the Fortress Funds realize value from an illiquid portfolio company when the portfolio company is able to sell equity in the public markets through an IPO. An IPO of a portfolio company increases the liquidity of the funds' investment in the company and can create significant value when the dividend yield on the company's shares after the IPO is lower than the return being generated by the company's net assets, thereby increasing the value of its equity. Because of the significant uncertainties, both market-driven and regulatory in consummating an IPO, Fortress believes that the theoretical value added to a portfolio company investment by an IPO should not be recorded in the asset value of a fund until the IPO is completed. Therefore, Fortress values illiquid portfolio companies for which an IPO is being contemplated, or is in process, at fair value without regard to the theoretical value which may be created by the IPO, and such theoretical value may never be realized if the IPO is never consummated.

Certain of our funds utilize special situation and distressed debt investment strategies that involve significant risks.

Our private equity and hybrid hedge funds invest in obligors and issuers with weak financial conditions, poor operating results, substantial financial needs, negative net worth, and/or special competitive problems. These funds also invest in obligors and issuers that are involved in bankruptcy or reorganization proceedings. In such situations, it may be difficult to obtain full information as to the exact financial and operating conditions of these obligors and issuers. Additionally, the fair values of such investments are subject to abrupt and erratic market movements and significant price volatility if they are publicly traded securities, and are subject to significant uncertainty in general if they are not publicly traded securities. Furthermore, some of our funds' distressed investments may not be widely traded or may have no recognized market. A fund's exposure to such investments may be substantial in relation to the market for those investments, and the assets are likely to be illiquid and difficult to sell or transfer. As a result, it may take a number of years for the fair value of such investments to ultimately reflect their intrinsic value as perceived by us.

A central feature of our distressed investment strategy is our ability to successfully predict the occurrence of certain corporate events, such as debt and/or equity offerings, restructurings, reorganizations, mergers, takeover offers and other transactions. If the corporate event we predict is delayed, changed or never completed, the market price and value of the applicable fund's investment could decline sharply.

If our risk management systems for our hedge fund business are ineffective, we may be exposed to material unanticipated losses.

In our hedge fund business, we continue to refine our risk management techniques, strategies and assessment methods. However, our risk management techniques and strategies do not fully mitigate the risk exposure of our funds in all economic or market environments, or against all types of risk, including risks that we might fail to identify or anticipate. Some of our strategies for managing risk in our funds are based upon our use of historical market behavior statistics. We apply statistical and other tools to these observations to measure and analyze the risks to which our funds are exposed. Any failures in our risk management techniques and strategies to accurately quantify such risk exposure could limit our ability to manage risks in the funds or to seek adequate risk-adjusted returns. In addition, any risk management failures could cause fund losses to be significantly greater than the historical measures predict. Further, our mathematical modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses.

Some of our funds invest in foreign countries and securities of issuers located outside of the United States, which may involve foreign exchange, political, social and economic uncertainties and risks.

Some of our funds invest a portion of their assets in the equity, debt, loans or other securities of issuers located outside the U.S. In addition to business uncertainties, such investments may be affected

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by changes in exchange values as well as political, social and economic uncertainty affecting a country or region. Many financial markets are not as developed or as efficient as those in the U.S., and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly with respect to bankruptcy and reorganization, and may afford us less protection as a creditor than we may be entitled to under U.S. law. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

Restrictions imposed or actions taken by foreign governments may adversely impact the value of our fund investments. Such restrictions or actions could include exchange controls, seizure or nationalization of foreign deposits and adoption of other governmental restrictions which adversely affect the prices of securities or the ability to repatriate profits on investments or the capital invested itself. Income received by our funds from sources in some countries may be reduced by withholding and other taxes. Any such taxes paid by a fund will reduce the net income or return from such investments. While our funds will take these factors into consideration in making investment decisions, including when hedging positions, no assurance can be given that the funds will be able to fully avoid these risks or generate sufficient risk-adjusted returns.

We are subject to risks in using prime brokers and custodians.

The funds in our liquid hedge funds business depend on the services of prime brokers and custodians to carry out certain securities transactions. In the event of the insolvency of a prime broker and/or custodian, the funds might not be able to recover equivalent assets in full as they will rank among the prime broker and custodian's unsecured creditors in relation to assets which the prime broker or custodian borrows, lends or otherwise uses. In addition, the funds' cash held with a prime broker or custodian will not be segregated from the prime broker's or custodian's own cash, and the funds will therefore rank as unsecured creditors in relation to the cash they have deposited.

Risks Related to Our Organization and Structure

Control by our principals of the combined voting power of our shares and holding their economic interest through Fortress Operating Group may give rise to conflicts of interests.

Our principals control a majority of the combined voting power of our Class A and Class B shares. Accordingly, our principals have the ability to elect all of the members of our board of directors, subject to Nomura's right to nominate one designee, and thereby to control our management and affairs. In addition, they are able to determine the outcome of all matters requiring shareholder approval and are able to cause or prevent a change of control of our company or a change in the composition of our board of directors, and could preclude any unsolicited acquisition of our company. The control of voting power by our principals could deprive Class A shareholders of an opportunity to receive a premium for their Class A shares as part of a sale of our company, and might ultimately affect the market price of the Class A shares.

In addition, the shareholders agreement among us and the principals provides the principals who are then employed by the Fortress Operating Group holding shares greater than 50% of the total combined voting power of all shares held by such principals, so long as the principals and their permitted transferees continue to hold more than 40% of the total combined voting power of our outstanding Class A and Class B shares, with approval rights over a variety of significant corporate actions, including:

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ten percent indebtedness: any incurrence of indebtedness, in one transaction or a series of related transactions, by us or any of our subsidiaries in an amount in excess of approximately 10% of the then existing long-term indebtedness of us and our subsidiaries;

- ten percent share issuance: any issuance by us, in any transaction or series of related transactions, of equity or equity-related securities which would represent, after such issuance, or upon conversion, exchange or exercise, as the case may be, at least 10% of the total

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combined voting power of our outstanding Class A and Class B shares other than (1) pursuant to transactions solely among us and our wholly-owned subsidiaries, or (2) upon conversion of convertible securities or upon exercise of warrants or options, which convertible securities, warrants or options are either outstanding on the date of, or issued in compliance with, the shareholders agreement;

- investment of \$250 million or greater: any equity or debt commitment or investment or series of related equity or debt commitments or investments in an entity or related group of entities in an amount greater than \$250 million;
- new business requiring investment in excess of \$100 million: any entry by us or any of our controlled affiliates into a new line of business that does not involve investment management and that requires a principal investment in excess of \$100 million;
- the adoption of a shareholder rights plan;
- any appointment of a chief executive officer or co-chief executive officer; or
- the termination of the employment of a principal with us or any of our material subsidiaries without cause.

Furthermore, the principals have certain consent rights with respect to structural changes involving our company.

In addition, our principals are entitled to a majority of our economic returns through their holdings of Fortress Operating Group units. Because they hold their economic interest in our business directly through Fortress Operating Group, rather than through the public company, our principals may have conflicting interests with holders of Class A shares. For example, our principals may have different tax positions from us which could influence their decisions regarding whether and when to dispose of assets, and whether and when to incur new or refinance existing indebtedness, especially in light of the existence of the tax receivable agreement. In addition, the structuring of future transactions may take into consideration the principals' tax considerations even where no similar benefit would accrue to us. Moreover, any distribution by the Fortress Operating Group to us to satisfy our tax obligations will result in a corresponding pro rata distribution to our principals.

We intend to pay regular dividends but our ability to do so may be limited by our holding company structure; we are dependent on distributions from the Fortress Operating Group to pay dividends, taxes and other expenses. Our ability to pay dividends is also subject to not defaulting on our credit agreement.

As a holding company, our ability to pay dividends is subject to the ability of our subsidiaries to provide cash to us. We intend to distribute quarterly dividends to our Class A shareholders. Accordingly, we expect to cause the Fortress Operating Group to make distributions to its unitholders, including our wholly-owned subsidiaries, pro rata in an amount sufficient to enable us to pay such dividends to our Class A shareholders; however, no assurance can be given that such distributions will or can be made. Our board can reduce or eliminate our dividend at any time, in its discretion. In addition, Fortress Operating Group is required to make minimum tax distributions to its unitholders. See also “— Risks Related to Taxation — There can be no assurance that amounts paid as dividends on Class A shares will be

sufficient to cover the tax liability arising from ownership of Class A shares.’’ If Fortress Operating Group has insufficient funds, we may have to borrow additional funds or sell assets, which could materially adversely affect our liquidity and financial condition. In addition, Fortress Operating Group’s earnings may be insufficient to enable it to make required minimum tax distributions to unitholders.

We are also subject to certain contingent repayment obligations that may affect our ability to pay dividends. We earn incentive income – generally 20% of the profits – from each of our private equity funds based on a percentage of the profits earned by the fund as a whole, provided that the fund achieves specified performance criteria. We generally receive, however, our percentage share of the profits on each investment in the fund as it is realized, before it is known with certainty that the fund

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as a whole will meet the specified criteria. As a result, the incentive income paid to us as a particular investment made by the funds is realized is subject to contingent repayment (or ‘‘clawback’’) if, upon liquidation of the fund, the aggregate amount paid to us as incentive income exceeds the amount actually due to us based upon the aggregate performance of the fund. If we are required to repay amounts to a fund in order to satisfy a clawback obligation, any such repayment will reduce the amount of cash available to distribute as a dividend to our Class A shareholders. Moreover, we intend to distribute a portion of the incentive income that we receive as quarterly dividend payments to our Class A shareholders. Once we distribute such funds, we have no ability to recall the funds from our Class A shareholders and would, thus, be required to satisfy any subsequent clawback obligation using other sources. While the principals have personally guaranteed, subject to certain limitations, this ‘‘clawback’’ obligation, our shareholders agreement with them contains our agreement to indemnify the principals for all amounts which the principals pay pursuant to any of these personal guaranties in favor of our private equity funds. Consequently, any requirement to satisfy a clawback obligation could impair our ability to pay dividends on our Class A shares.

There may also be circumstances under which we are restricted from paying dividends under applicable law or regulation (for example due to Delaware limited partnership or limited liability company act limitations on making distributions if liabilities of the entity after the distribution would exceed the value of the entity’s assets). In addition, under our credit agreement, we are permitted to make cash distributions subject to the following restrictions: (a) no event of default exists immediately prior to or subsequent to the distribution, (b) the amount of distributions over the prior 12 months do not exceed free cash flow (as defined in our credit agreement as net income plus (i) taxes, depreciation and private equity incentive income presented on an as-received basis less (ii) capital expenditures, permitted tax distributions and certain other adjustments) for the prior 12 month period, and (c) after giving effect to the distribution, we have cash on hand of not less than accrued but unpaid taxes (based on estimated entity level taxes due and payable by the Fortress Operating Group entities, primarily New York City unincorporated business tax) and amortization obligations (including scheduled principal payments) under the credit agreement which are required in the next 90 days. The events of default under the credit agreement are typical of such agreements and include payment defaults, failure to comply with credit agreement covenants, cross-defaults to material indebtedness, bankruptcy and insolvency, change of control, and adverse events with respect to our material funds. Our lenders may also attempt to exercise their security interests over substantially all of the assets of the Fortress Operating Group.

The cash reflected on our historical balance sheets for 2006 and earlier periods, which consolidates many of our funds, is not our cash and is not available to us; we depend on the cash we receive from the Fortress Operating Group.

Our historical combined financial information for 2006 and earlier periods includes significant balances of cash and restricted cash held at consolidated funds as assets on our balance sheet. Although the cash and other assets of certain Fortress Funds have historically been included in our assets on a consolidated basis for financial reporting purposes, such cash is not available to us to pay dividends or for other liquidity needs but rather is property of the relevant fund. Following changes to our fund documents that became effective on March 31, 2007, these funds are no longer consolidated, and such cash amounts are no longer included in our balance sheet assets. We depend on distributions from the Fortress Operating Group for cash. Although the Fortress Operating Group may borrow under our credit facility, it depends primarily on the management fees and incentive income it receives from the Fortress Funds and its portion of the distributions made by the Fortress Funds, if any, for cash.

Tax consequences to the principals may give rise to conflicts of interests.

As a result of unrealized built-in gain attributable to the value of our assets held by the Fortress Operating Group entities at the time of our initial public offering, upon the sale or, refinancing or disposition of the assets owned by the Fortress Operating Group entities, our principals will incur different and significantly greater tax liabilities as a result of the disproportionately greater allocations

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of items of taxable income and gain to the principals upon a realization event. As the principals will not receive a corresponding greater distribution of cash proceeds, they may, subject to applicable fiduciary or contractual duties, have different objectives regarding the appropriate pricing, timing and other material terms of any sale, refinancing, or disposition, or whether to sell such assets at all. Decisions made with respect to an acceleration or deferral of income or the sale or disposition of assets may also influence the timing and amount of payments that are received by an exchanging or selling principal under the tax receivable agreement. All other factors being equal, earlier disposition of assets following a transaction will tend to accelerate such payments and increase the present value of the tax receivable agreement, and disposition of assets before a transaction will increase a principal's tax liability without giving rise to any rights to receive payments under the tax receivable agreement. Decisions made regarding a change of control also could have a material influence on the timing and amount of payments received by the principals pursuant to the tax receivable agreement.

We are required to pay our principals for most of the tax benefits we realize as a result of the tax basis step-up we receive in connection with taxable exchanges by our principals of units held in the Fortress Operating Group entities or our acquisitions of units from our principals.

At any time and from time to time, each principal has the right to exchange his Fortress Operating Group units for our Class A shares in a taxable transaction. These taxable exchanges, as well as our acquisitions of units from our principals, may result in increases in the tax depreciation and amortization deductions, as well as an increase in the tax basis of other assets, of the Fortress Operating Group that otherwise would not have been available. These increases in tax depreciation and amortization deductions, as well as the tax basis of other assets, may reduce the amount of tax that FIG Corp. or FIG Asset Co. LLC and any other corporate taxpayers would otherwise be required to pay in the future, although the IRS may challenge all or part of increased deductions and tax basis increase, and a court could sustain such a challenge.

We have entered into a tax receivable agreement with our principals that provides for the payment by the corporate taxpayers to our principals of 85% of the amount of tax savings, if any, that the corporate taxpayers actually realize (or

are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change of control, as discussed below) as a result of these increases in tax deductions and tax basis of the Fortress Operating Group. The payments that the corporate taxpayers may make to our principals could be material in amount.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, our principals will not reimburse the corporate taxpayers for any payments that have been previously made under the tax receivable agreement. As a result, in certain circumstances, payments could be made to our principals under the tax receivable agreement in excess of the corporate taxpayers' cash tax savings. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under this agreement, will depend upon a number of factors, including the timing and amount of our future income.

In addition, the tax receivable agreement provides that, upon a merger, asset sale or other form of business combination or certain other changes of control, the corporate taxpayers' (or their successors') obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control) would be based on certain assumptions, including that the corporate taxpayers would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement.

If we were deemed an investment company under the Investment Company Act of 1940, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business and the price of our Class A shares.

We do not believe that we are an "investment company" under the Investment Company Act of 1940 because the nature of our assets and the sources of our income exclude us from the definition of an investment company pursuant to Rule 3a-1 under the Investment Company Act of 1940. In

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addition, we believe the company is not an investment company under Section 3(b)(1) of the Investment Company Act because it is primarily engaged in a non-investment company business. If one or more of the Fortress Operating Group entities ceased to be a wholly-owned subsidiary of ours, our interests in those subsidiaries could be deemed an "investment security" for purposes of the Investment Company Act of 1940. Generally, a person is an "investment company" if it owns investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the Investment Company Act of 1940, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and would have a material adverse effect on our business and the price of our Class A shares.

Risks Related To Our Class A Shares

An active market for our Class A shares may not be sustained.

Our Class A shares are listed on the New York Stock Exchange under the symbol "FIG." However, we cannot provide any assurance that a regular trading market of our Class A shares will be sustained on that exchange or elsewhere. Accordingly, we cannot provide any assurance of the liquidity of any trading market, holders' ability to sell their Class

A shares when desired, or at all, or the prices that they may obtain for their Class A shares.

The market price and trading volume of our Class A shares may be volatile, which could result in rapid and substantial losses for our shareholders.

The market price of our Class A shares may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our Class A shares may fluctuate and cause significant price variations to occur, which may limit or prevent investors from readily selling their Class A shares and may otherwise negatively affect the liquidity of our Class A shares. If the market price of our Class A shares declines significantly, holders may be unable to resell their Class A shares at or above their purchase price, if at all. We cannot provide any assurance that the market price of our Class A shares will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our Class A shares or result in fluctuations in the price or trading volume of our Class A shares include:

- variations in our quarterly operating results or dividends;
- failure to meet analysts' earnings estimates or failure to meet, or the lowering of, our own earnings guidance;
- publication of research reports about us or the investment management industry or the failure of securities analysts to cover our Class A shares;
- additions or departures of our principals and other key management personnel;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- actions by shareholders;
- changes in market valuations of similar companies;
- speculation in the press or investment community;
- changes or proposed changes in laws or regulations or differing interpretations thereof affecting our business or enforcement of these laws and regulations, or announcements relating to these matters;
- litigation or governmental investigations;

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- adverse publicity about the asset management industry generally or individual scandals, specifically; and
- general market and economic conditions.

In addition, when the market price of a stock has been volatile in the past, holders of that stock have, at times, instituted securities class action litigation against the issuer of the stock. If any of our shareholders brought a lawsuit against us, we may be required to incur substantial costs defending any such suit, even those without merit. Such a lawsuit could also divert the time and attention of our management from our business and lower our Class A share price.

Our Class A share price may decline due to the large number of shares eligible for future sale and for exchange into Class A shares.

The market price of our Class A shares could decline as a result of sales of a large number of our Class A shares or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. As of

August 10, 2007, we had 406,571,900 outstanding Class A shares on a fully diluted basis, 50,007,436 restricted Class A share units granted to employees (net of forfeitures) and 97,296 restricted Class A shares granted to directors pursuant to our equity incentive plan, and 64,895,268 Class A shares and Fortress Operating Group units that remain available for future grant under our equity incentive plan. Beginning in 2008, the Class A shares reserved under our equity incentive plan will be increased on the first day of each fiscal year during the plan's term by the lesser of (x) the excess of (i) 15% of the number of outstanding Class A and Class B shares of the company on the last day of the immediately preceding fiscal year over (ii) the number of shares reserved and available for issuance under our equity incentive plan as of such date or (y) 60,000,000 shares. We may issue and sell in the future additional Class A shares or any securities issuable upon conversion of, or exchange or exercise for, Class A shares (including Fortress Operating Group units) at any time.

Our principals own an aggregate of 312,071,550 Fortress Operating Group units. Each principal has the right to exchange each of his Fortress Operating Group units for one of our Class A shares at any time, subject to the Principals Agreement. Our principals, executive officers, directors and certain employees who received Class A shares and Fortress Operating Group units in connection with our initial public offering, Nomura and participants in our directed share program agreed with the underwriters not to dispose of or hedge any of our Class A shares, or Fortress Operating Group units, subject to specified exceptions, during the period from February 8, 2007 through June 8, 2007, except with the prior written consent of the representatives of the underwriters. This lock-up period has now expired. As a result, these Class A shares and Fortress Operating Group units will be eligible for resale from time to time, subject to certain contractual restrictions and Securities Act limitations.

Our principals and Nomura are parties to shareholders agreements with us. Because the lock-up period has now expired, the principals currently have the ability to cause us to register the Class A shares they acquire upon exchange for their Fortress Operating Group units. Nomura will have the ability to cause us to register any of its 55,071,450 Class A shares beginning one year after its acquisition of Class A shares and may only transfer its Class A shares prior to such time to its controlled affiliates.

Our principals' beneficial ownership of Class B shares and anti-takeover provisions in our charter documents and Delaware law could delay or prevent a change in control.

Our principals beneficially own all of our Class B shares. The principals' Class B shares will represent a majority of the total combined voting power of our outstanding Class A and Class B shares. As a result, if they vote all of their shares in the same manner, they will be able to exercise control over all matters requiring the approval of shareholders and will be able to prevent a change in control of our company. In addition, provisions in our operating agreement may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial

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to the interests of our shareholders. For example, our operating agreement provides for a staggered board, requires advance notice for proposals by shareholders and nominations, places limitations on convening shareholder meetings, and authorizes the issuance of preferred shares that could be issued by our board of directors to thwart a takeover attempt. In addition, certain provisions of Delaware law may delay or prevent a transaction that could cause a change in our control. The market price of our Class A shares could be adversely affected to the extent that our principals' control over us, as well as provisions of our operating agreement, discourage potential takeover attempts that our shareholders may favor.

There are certain provisions in our operating agreement regarding exculpation and indemnification of our officers and directors that differ from the Delaware General Corporation Law (DGCL) in a manner that may be less protective of the interests of our Class A shareholders.

Our operating agreement provides that to the fullest extent permitted by applicable law our directors or officers will not be liable to us. However, under the DGCL, a director or officer would be liable to us for (i) breach of duty of loyalty to us or our shareholders, (ii) intentional misconduct or knowing violations of the law that are not done in good faith, (iii) improper redemption of shares or declaration of dividend, or (iv) a transaction from which the director or officer derived an improper personal benefit. In addition, our operating agreement provides that we indemnify our directors and officers for acts or omissions to the fullest extent provided by law. However, under the DGCL, a corporation can only indemnify directors and officers for acts or omissions if the director or officer acted in good faith, in a manner he reasonably believed to be in the best interests of the corporation, and, in a criminal action, if the officer or director had no reasonable cause to believe his conduct was unlawful. Accordingly, our operating agreement may be less protective of the interests of our Class A shareholders, when compared to the DGCL, insofar as it relates to the exculpation and indemnification of our officers and directors.

Risks Related to Taxation

Class A shareholders may be subject to U.S. federal income tax on their share of our taxable income, regardless of whether they receive any cash dividends from us.

So long as we are not required to register as an investment company under the Investment Company Act of 1940 and 90% of our gross income for each taxable year constitutes “qualifying income” within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”), on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Class A shareholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on their allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within their taxable year, regardless of whether or not they receive cash dividends from us. They may not receive cash dividends equal to their allocable share of our net taxable income or even the tax liability that results from that income. In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation (“CFC”) and a Passive Foreign Investment Company (“PFIC”), may produce taxable income prior to the receipt of cash relating to such income, and holders of our Class A shares will be required to take such income into account in determining their taxable income. Under our operating agreement, in the event of an inadvertent partnership termination in which the Internal Revenue Service (“IRS”) has granted us limited relief, each holder of our Class A shares also is obligated to make such adjustments as are required by the IRS to maintain our status as a partnership. Such adjustments may require persons who hold our Class A shares to recognize additional amounts in income during the years in which they hold such shares. We may also be required to make payments to the IRS.

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Our intermediate holding company, FIG Corp., is subject to corporate income taxation in the United States, and we may be subject to additional taxation in the future.

A significant portion of our investments and activities may be made or conducted through FIG Corp. Dividends paid by FIG Corp. from time to time will, as is usual in the case of a U.S. corporation, then be included in our income. Income received as a result of investments made or activities conducted through FIG Asset Co. LLC (but excluding through its taxable corporate affiliates) is not subject to corporate income taxation in our structure, but we cannot provide any assurance that it will not become subject to additional taxation in the future, which would negatively impact our results of operations.

There can be no assurance that amounts paid as dividends on Class A shares will be sufficient to cover the tax liability arising from ownership of Class A shares.

Any dividends paid on Class A shares will not take into account a shareholder's particular tax situation (including the possible application of the alternative minimum tax) and, therefore, because of the foregoing as well as other possible reasons, may not be sufficient to pay their full amount of tax based upon their share of our net taxable income. In addition, the actual amount and timing of dividends will always be subject to the discretion of our board of directors and we cannot provide any assurance that we will in fact pay cash dividends as currently intended. In particular, the amount and timing of dividends will depend upon a number of factors, including, among others:

- our actual results of operations and financial condition;
- restrictions imposed by our operating agreement or applicable law;
- restrictions imposed by our credit agreements;
- reinvestment of our capital;
- the timing of the investment of our capital;
- the amount of cash that is generated by our investments or to fund liquidity needs;
- levels of operating and other expenses;
- contingent liabilities; or
- factors that our board of directors deems relevant.

Even if we do not distribute cash in an amount that is sufficient to fund a shareholder's tax liabilities, they will still be required to pay income taxes on their share of our taxable income.

If we are treated as a corporation for U.S. federal income tax purposes, the value of the Class A shares would be adversely affected.

We have not requested, and do not plan to request, a ruling from the IRS on our treatment as a partnership for U.S. federal income tax purposes, or on any other matter affecting us. As of the date of the consummation of our initial public offering, under then current law and assuming full compliance with the terms of our operating agreement (and other relevant documents) and based upon factual statements and representations made by us, our outside counsel opined, as of that date, that we would be treated as a partnership, and not as an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes. However, opinions of counsel are not binding upon the IRS or any court, and the IRS may challenge this conclusion and a court may sustain such a challenge. The factual representations made by us upon which our outside counsel relied related to our organization, operation, assets, activities, income, and present and future conduct of our operations. In general, if an entity that would otherwise be classified as a partnership for U.S. federal income tax purposes is a "publicly traded partnership" (as defined in the Code) it will be nonetheless treated as a corporation for U.S. federal income tax purposes, unless the exception described below, and upon which we intend to rely, applies. A publicly traded partnership will, however, be treated as a partnership, and not as a corporation for U.S. federal income tax purposes,

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so long as 90% or more of its gross income for each taxable year constitutes “qualifying income” within the meaning of the Code and it is not required to register as an investment company under the Investment Company Act of 1940. We refer to this exception as the “qualifying income exception.”

Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We expect that our income generally will consist of interest, dividends, capital gains and other types of qualifying income, including dividends from FIG Corp. and interest on indebtedness from FIG Corp. No assurance can be given as to the types of income that will be earned in any given year. If we fail to satisfy the qualifying income exception described above, items of income and deduction would not pass through to holders of the Class A shares and holders of the Class A shares would be treated for U.S. federal (and certain state and local) income tax purposes as shareholders in a corporation. In such a case, we would be required to pay income tax at regular corporate rates on all of our income. In addition, we would likely be liable for state and local income and/or franchise taxes on all of such income. Dividends to holders of the Class A shares would constitute ordinary dividend income taxable to such holders to the extent of our earnings and profits, and the payment of these dividends would not be deductible by us. Taxation of us as a publicly traded partnership taxable as a corporation could result in a material adverse effect on our cash flow and the after-tax returns for holders of Class A shares and thus could result in a substantial reduction in the value of the Class A shares.

Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. federal income tax treatment of holders of the Class A shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Readers should be aware that the U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the IRS, and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in the Class A shares may be modified by administrative, legislative or judicial interpretation at any time, possibly on a retroactive basis, and any such action may affect investments and commitments previously made. For example, changes to the U.S. federal tax laws and interpretations thereof could make it more difficult or impossible to meet the qualifying income exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation, affect or cause us to change our investments and commitments, change the character or treatment of portions of our income (including, for instance, treating carried interest as ordinary fee income rather than capital gain) affect the tax considerations of an investment in us and adversely affect an investment in our Class A shares.

Our organizational documents and agreements permit the board of directors to modify our operating agreement from time to time, without the consent of the holders of Class A shares, in order to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all of the holders of our Class A shares. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders in a manner that reflects such holders’ beneficial ownership of partnership items, taking into account variation in ownership interests during each taxable year because of trading activity. However, these assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated, or disallowed, in a manner that adversely affects holders of the Class A

shares.

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Legislation has been introduced that would, if enacted, preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis.

On June 14, 2007, legislation was introduced in the Senate that would tax as corporations publicly traded partnerships that directly or indirectly derive income from investment adviser or asset management services. In addition, the Chairman and the Ranking Republican Member of the Senate Committee on Finance concurrently issued a press release stating that they do not believe that proposed public offerings of private equity and hedge fund management firms are consistent with the intent of the existing rules regarding publicly traded partnerships because the majority of their income is from the active provision of services to investment funds and limited partner investors in such funds. As explained in the technical explanation accompanying the proposed legislation:

Under the bill, the exception from corporate treatment for a publicly traded partnership does not apply to any partnership that, directly or indirectly, has any item of income or gain (including capital gains or dividends), the rights to which are derived from services provided by any person as an investment adviser, as defined in the Investment Advisers Act of 1940, or as a person associated with an investment adviser, as defined in that Act. Further, the exception from corporate treatment does not apply to a partnership that, directly or indirectly, has any item of income or gain (including capital gains or dividends), the rights to which are derived from asset management services provided by an investment adviser, a person associated with an investment adviser, or any person related to either, in connection with the management of assets with respect to which investment adviser services were provided.

If enacted in its proposed form, the transition rules of the proposed legislation would delay the application of these rules for five years. Legislation also has been introduced that is substantially similar to the proposed legislation introduced in the Senate that would apply the legislation to us with respect to our 2008 taxable year. In addition, legislation has been introduced in the House that would have the effect of treating income recognized from “carried interests” as ordinary fee income, thereby effectively causing such income to be treated as nonqualifying income under the publicly traded partnership rules, which would preclude us qualifying for treatment as a partnership for U.S. federal income tax purposes. The proposal did not discuss transition relief.

If any version of these legislative proposals were to be enacted into law, or if other similar legislation were to be enacted or any other change in the tax laws, rules, regulations or interpretations were to preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules, holders would be negatively impacted because we would incur a material increase in our tax liability as a public company from the date any such changes became applicable to us, which could result in a reduction in the value of our Class A shares.

FIG Asset Co. LLC may not be able to invest in certain assets, other than through a taxable corporation.

In certain circumstances, FIG Asset Co. LLC or one of its subsidiaries may have an opportunity to invest in certain assets through an entity that is characterized as a partnership for U.S. federal income tax purposes, where the income of such entity may not be “qualifying income” for purposes of the publicly traded partnership rules. In order to manage our affairs so that we will meet the qualifying income exception, we may either refrain from investing in such entities

or, alternatively, we may structure our investment through an entity classified as a corporation for U.S. federal income tax purposes. If the entity were a U.S. corporation, it would be subject to U.S. federal income tax on its operating income, including any gain recognized on its disposal of its interest in the entity in which the opportunistic investment has been made, as the case may be, and such income taxes would reduce the return on that investment.

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Complying with certain tax-related requirements may cause us to forego otherwise attractive business or investment opportunities or enter into acquisitions, borrowings, financings or arrangements we may not have otherwise entered into.

In order for us to be treated as a partnership for U.S. federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation, we must meet the qualifying income exception discussed above on a continuing basis and we must not be required to register as an investment company under the Investment Company Act of 1940. In order to effect such treatment we (or our subsidiaries) may be required to invest through foreign or domestic corporations, forego attractive business or investment opportunities or enter into borrowings or financings we may not have otherwise entered into. This may adversely affect our ability to operate solely to maximize our cash flow. Our structure also may impede our ability to engage in certain corporate acquisitive transactions because we generally intend to hold all of our assets through the Fortress Operating Group. In addition, we may be unable to participate in certain corporate reorganization transactions that would be tax free to our holders if we were a corporation. To the extent we hold assets other than through the Fortress Operating Group, we will make appropriate adjustments to the Fortress Operating Group agreements so that distributions to principals and us would be the same as if such assets were held at that level.

The IRS could assert that we are engaged in a U.S. trade or business, with the result that some portion of our income is properly treated as effectively connected income with respect to non-U.S. holders. Moreover, certain REIT dividends and other stock gains may be treated as effectively connected income with respect to non-U.S. holders.

While we expect that our method of operation will not result in a determination that we are engaged in a U.S. trade or business, there can be no assurance that the IRS will not assert successfully that we are engaged in a U.S. trade or business, with the result that some portion of our income is properly treated as effectively connected income with respect to non-U.S. holders.

Moreover, dividends paid by an investment that we make in a REIT that is attributable to gains from the sale of U.S. real property interests will, and sales of certain investments in the stock of U.S. corporations owning significant U.S. real property may, be treated as effectively connected income with respect to non-U.S. holders. To the extent our income is treated as effectively connected income, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable shares of income effectively connected with such trade or business, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income. Non-U.S. holders may also be subject to a 30% branch profits tax on such income in the hands of non-U.S. holders that are corporations.

An investment in Class A shares will give rise to UBTI to certain tax-exempt holders.

We will not make investments through taxable U.S. corporations solely for the purpose of limiting unrelated business taxable income, or UBTI, from “debt-financed” property and, thus, an investment in Class A shares will give rise to

UBTI to certain tax-exempt holders. For example, FIG Asset Co. LLC will invest in or hold interests in entities that are treated as partnerships, or are otherwise subject to tax on a flow-through basis, that will incur indebtedness. FIG Asset Co. LLC may borrow funds from FIG Corp. or third parties from time to time to make investments. These investments will give rise to UBTI from “debt-financed” property. However, we expect to manage our activities to avoid a determination that we are engaged in a trade or business, thereby limiting the amount of UBTI that is realized by tax-exempt holders of our Class A shares.

We may hold or acquire certain investments through an entity classified as a PFIC or CFC for U.S. federal income tax purposes.

Certain of our investments may be in foreign corporations or may be acquired through a foreign subsidiary that would be classified as a corporation for U.S. federal income tax purposes. Such an entity may be a PFIC or a CFC for U.S. federal income tax purposes. U.S. holders of Class A shares indirectly owning an interest in a PFIC or a CFC may experience adverse U.S. tax consequences.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Use of Proceeds from Initial Public Offering

On February 8, 2007, Fortress Investment Group LLC completed an initial public offering of 39,428,900 of its Class A shares, including those shares sold pursuant to the exercise of the underwriters’ over-allotment option, at a price of \$18.50 per share. Fortress Investment Group LLC sold all of the shares offered, for which it received net proceeds of approximately \$652.7 million, which is net of the underwriters’ discount of approximately \$43.8 million and other expenses. The Class A shares sold in the offering were registered under the Securities Act on a registration statement on Form S-1 (No. 333-138514) that was declared effective by the SEC on February 8, 2007. Public trading on the common stock commenced on February 9, 2007. The managing underwriters for the initial public offering were Goldman, Sachs & Co. and Lehman Brothers Inc.

Upon consummation of the offering, Fortress Investment Group LLC contributed the net proceeds from the offering to Fortress Operating Group in exchange for 39,428,900 limited partnership units. Fortress Operating Group applied these proceeds as follows: (a) to pay \$250 million outstanding under the term loan facility of our 2006 Credit Agreement, as required by that credit agreement, (b) to pay \$85 million currently outstanding under the revolving credit facility of our 2006 Credit Agreement, and intended to use the remaining proceeds (a) to fund \$169 million of commitments to existing and future private equity funds, and (b) to use \$149 million for general business purposes. As of June 30, 2007, \$177.9 million of IPO proceeds remained unused, of which \$67.7 million is intended for private equity capital commitments and \$110.2 million is intended for general business purposes.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

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Item 6. Exhibits

(a) and (c) Financial statements and schedules:

See “Financial Statements”

(b) Exhibits filed with this Form 10-Q:

- 3.1 Certificate of Formation of the Registrant (incorporated by reference to the Registrant’s Registration Statement on Form S-1 (File No. 333-138514), Exhibit 3.1).
- 3.2 Certificate of Amendment to Certificate of Formation of the Registrant (incorporated by reference to the Registrant’s Registration Statement on Form S-1 (File No. 333-138514), Exhibit 3.2).
- 3.3 Second Amended and Restated Limited Liability Agreement of the Registrant (incorporated by reference to the Registrant’s Registration Statement on Form S-1 (File No. 333-138514), Exhibit 3.3).
- 10.1 Second Amended and Restated Credit Agreement, dated as of May 10, 2007, among FIG LLC and certain of its Affiliates, as Borrowers; certain subsidiaries and Affiliates, as Guarantors; Bank of America, N.A., as Administrative Agent; Bank of America, N.A., Citibank, N.A., Deutsche Bank AG, New York Branch, Goldman Sachs Credit Partners L.P., Lehman Commercial Paper Inc., Wells Fargo Bank, National Association, and JPMorgan Chase Bank, N.A., as Lenders (incorporated by reference to the Registrant’s Current Report on Form 8-K, filed with the SEC on May 14, 2007 (File No. 001-33294), Exhibit 10.1).
- 10.2 First Amendment to the Second Amended and Restated Credit Agreement, dated as of May 10, 2007, among FIG LLC and certain of its Affiliates, as Borrowers; certain subsidiaries and Affiliates, as Guarantors; Bank of America, N.A., as Administrative Agent; Bank of America, N.A., Citibank, N.A., Deutsche Bank AG, New York Branch, Goldman Sachs Credit Partners L.P., Lehman Commercial Paper Inc., Wells Fargo Bank, National Association and JPMorgan Chase Bank, N.A., as Lenders.
- 31.1 Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

FORTRESS INVESTMENT GROUP LLC

August 13, 2007

By: /s/ Wesley R. Edens

Wesley R. Edens

Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following person on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Wesley R. Edens

Wesley R. Edens

Chief Executive Officer

August 13, 2007

By: /s/ Daniel N. Bass

Daniel N. Bass

Chief Financial Officer

August 13, 2007

By: /s/ Jonathan R. Brown

Jonathan R. Brown

Chief Accounting Officer

August 13, 2007