

Fortress Investment Group LLC
Form 10-Q
November 02, 2012
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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 September 30, 2012

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)

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Delaware

(State or other jurisdiction of incorporation
or organization)

20-5837959

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

1345 Avenue of the Americas, New York, NY

(Address of principal executive offices)

10105

(Zip Code)

(212) 798-6100

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Class A Shares: 220,367,578 outstanding as of October 30, 2012.

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Class B Shares: 298,723,852 outstanding as of October 30, 2012.

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

Management Fee Paying Assets Under Management, or AUM, refers to the management fee paying assets we manage, including, as applicable, capital we have the right to call from our investors pursuant to their capital commitments to various funds. Our AUM equals the sum of:

- (i) the capital commitments or invested capital (or NAV, if lower) of our private equity funds and credit PE funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with private equity funds raised after March 2006 includes the mark-to-market value of public securities held within the funds,
- (ii) the contributed capital of our publicly traded alternative investment vehicles, which we refer to as our Castles,
- (iii) the net asset value, or NAV, of our hedge funds, including the Value Recovery Funds and certain advisory engagements which pay fees based on realizations (and on certain managed assets and, in some cases, a fixed fee); and
- (iv) the NAV or fair value of our managed accounts, to the extent management fees are charged.

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

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

Fortress, we, us, our, and the company refer, collectively, to Fortress Investment Group LLC and its subsidiaries, including the Fortress Operating Group and all of its subsidiaries.

Fortress Funds and our funds refers to the private investment funds, alternative asset companies and related managed accounts that are managed by the Fortress Operating Group. The Fortress Macro Fund is our flagship liquid hedge fund and the Drawbridge Special Opportunities Fund is our flagship credit hedge fund.

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Fortress Operating Group refers to the combined entities, which are in part owned directly by the principals and one senior employee, and in part owned indirectly by Fortress Investment Group LLC, and whose equity interests are comprised of Fortress Operating Group units (FOGUs).

principals or 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 related transactions directly owned 100% of the Fortress Operating Group units and following completion of our initial public offering and related transactions own a majority of the Fortress Operating Group units and 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 and grants by Fortress and dispositions by the principals.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

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

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

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED BALANCE SHEETS (Unaudited)**

(dollars in thousands)

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and cash equivalents	\$ 253,731	\$ 333,166
Due from affiliates	289,889	298,689
Investments	1,199,622	1,079,777
Deferred tax asset	379,372	400,196
Other assets	102,787	108,858
	\$ 2,225,401	\$ 2,220,686
Liabilities and Equity		
Liabilities		
Accrued compensation and benefits	\$ 222,719	\$ 247,024
Due to affiliates	345,009	354,158
Deferred incentive income	245,957	238,658
Debt obligations payable	180,528	261,250
Other liabilities	81,193	57,204
	1,075,406	1,158,294
Commitments and Contingencies		
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 220,188,973 and 189,824,053 shares issued and outstanding at September 30, 2012 and December 31, 2011 respectively		
Class B shares, no par value, 750,000,000 shares authorized, 298,723,852 and 305,857,751 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively		
Paid-in capital	2,048,874	1,972,711
Retained earnings (accumulated deficit)	(1,508,043)	(1,484,120)
Accumulated other comprehensive income (loss)	(2,175)	(1,160)
Total Fortress shareholders' equity	538,656	487,431
Principals and others' interests in equity of consolidated subsidiaries	611,339	574,961
Total equity	\$ 1,149,995	\$ 1,062,392
	\$ 2,225,401	\$ 2,220,686

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See notes to consolidated financial statements

Table of Contents**FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Management fees: affiliates	\$ 112,806	\$ 118,353	\$ 336,935	\$ 353,269
Management fees: non-affiliates	10,762	18,865	32,534	47,641
Incentive income: affiliates	5,976	14,754	38,994	44,361
Incentive income: non-affiliates	788	266	1,564	1,251
Expense reimbursements from affiliates	49,636	42,350	138,317	130,337
Other revenues (affiliate portion disclosed in Note 6)	1,555	1,071	3,885	5,433
	181,523	195,659	552,229	582,292
Expenses				
Interest expense	3,375	4,583	11,877	13,883
Compensation and benefits	181,421	158,426	537,267	535,259
Principals agreement compensation (expired in 2011)		279,623		751,749
General, administrative and other	31,004	34,165	93,365	109,545
Depreciation and amortization	4,982	23,767	11,718	30,114
	220,782	500,564	654,227	1,440,550
Other Income (Loss)				
Gains (losses) (affiliate portion disclosed in Note 3)	(2,228)	(15,229)	29,542	(26,751)
Tax receivable agreement liability adjustment			(6,935)	(116)
Earnings (losses) from equity method investees	52,034	(64,483)	110,417	26,417
	49,806	(79,712)	133,024	(450)
Income (Loss) Before Income Taxes	10,547	(384,617)	31,026	(858,708)
Income tax benefit (expense)	(3,881)	2,712	(34,251)	(24,493)
Net Income (Loss)	\$ 6,666	\$ (381,905)	\$ (3,225)	\$ (883,201)
Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries				
Net Income (Loss) Attributable to Class A Shareholders	\$ 5,958	\$ (239,847)	\$ 20,698	\$ (543,175)
Dividends declared per Class A share	\$ 0.05	\$	\$ 0.15	\$
Earnings Per Class A share				
Net income (loss) per Class A share, basic	\$ 0.00	\$ (0.76)	\$ (0.12)	\$ (1.85)
Net income (loss) per Class A share, diluted	\$ (0.04)	\$ (0.83)	\$ (0.13)	\$ (1.88)
Weighted average number of Class A shares outstanding, basic	220,641,776	190,006,987	212,297,285	185,373,605
Weighted average number of Class A shares outstanding, diluted	520,039,541	495,864,738	517,431,334	492,396,969

See notes to consolidated financial statements

Table of Contents**FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Comprehensive income (loss) (net of tax)				
Net income (loss)	\$ 6,666	\$ (381,905)	\$ (3,225)	\$ (883,201)
Foreign currency translation	168	815	(884)	917
Comprehensive income (loss) from equity method investees	(1,066)	559	(1,157)	1,397
Total comprehensive income (loss)	\$ 5,768	\$ (380,531)	\$ (5,266)	\$ (880,887)
Comprehensive income (loss) attributable to principals and others interests	\$ 5,331	\$ (239,149)	\$ 19,462	\$ (541,691)
Comprehensive income (loss) attributable to Class A shareholders	\$ 437	\$ (141,382)	\$ (24,728)	\$ (339,196)

Table of Contents**FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders Equity	Principals and Others Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity -								
December 31, 2011	189,824,053	305,857,751	\$ 1,972,711	\$ (1,484,120)	\$ (1,160)	\$ 487,431	\$ 574,961	\$ 1,062,392
Contributions from principals and others interests in equity							24,177	24,177
Distributions to principals and others interests in equity			(189)			(189)	(60,159)	(60,348)
Dividends declared			(31,359)			(31,359)		(31,359)
Dividend equivalents accrued in connection with equity-based compensation			(548)			(548)	(841)	(1,389)
Conversion of Class B shares to Class A shares	17,467,232	(17,467,232)	22,362		(196)	22,166	(22,166)	
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units			9,653			9,653	4	9,657
Director restricted share grant	257,918		344			344	500	844
Capital increase related to equity-based compensation, net	12,639,770	10,333,333	61,604			61,604	89,683	151,287
Dilution impact of Class A share issuance			14,296		(14)	14,282	(14,282)	
Comprehensive income (loss) (net of tax)				(23,923)		(23,923)	20,698	(3,225)
Foreign currency translation					(507)	(507)	(377)	(884)

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Comprehensive income (loss) from equity method investees					(298)	(298)	(859)	(1,157)
Total comprehensive income (loss)						(24,728)	19,462	(5,266)
Equity -								
September 30, 2012	220,188,973	298,723,852	\$ 2,048,874	\$ (1,508,043)	\$ (2,175)	\$ 538,656	\$ 611,339	\$ 1,149,995

See notes to consolidated financial statements

Table of Contents**FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(dollars in thousands)

	Nine Months Ended September 30,	
	2012	2011
Cash Flows From Operating Activities		
Net income (loss)	\$ (3,225)	\$ (883,201)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	11,718	30,114
Other amortization and accretion	1,467	1,119
(Earnings) losses from equity method investees	(110,417)	(26,417)
Distributions of earnings from equity method investees	32,621	19,775
(Gains) losses	(29,542)	26,751
Deferred incentive income	(36,931)	(40,146)
Deferred tax (benefit) expense	32,107	2,924
Reversal of forfeited non-cash compensation	(1,705)	
Options received from affiliates	(21,524)	(12,615)
Tax receivable agreement liability adjustment	6,935	116
Equity-based compensation	162,372	930,869
Options in affiliates granted to employees	3,378	
Allowance for doubtful accounts	485	5,037
Cash flows due to changes in		
Due from affiliates	(66,183)	(55,539)
Other assets	601	20,780
Accrued compensation and benefits	(4,276)	(19,835)
Due to affiliates	1,404	(9,601)
Deferred incentive income	43,382	99,239
Other liabilities	23,061	31,852
Net cash provided by (used in) operating activities	45,728	121,222
Cash Flows From Investing Activities		
Contributions to equity method investees	(52,573)	(69,923)
Distributions of capital from equity method investees	137,015	179,258
Purchase of fixed assets	(7,367)	(13,350)
Net cash provided by (used in) investing activities	77,075	95,985
Cash Flows From Financing Activities		
Repayments of debt obligations	(80,722)	(7,500)
Repurchase of RSUs (Note 8)	(7,522)	
Dividend and dividend equivalents paid	(32,803)	
Principals and others interests in equity of consolidated subsidiaries - contributions	429	13,074
Principals and others interests in equity of consolidated subsidiaries - distributions	(81,620)	(119,675)
Net cash provided by (used in) financing activities	(202,238)	(114,101)
Net Increase (Decrease) in Cash and Cash Equivalents	(79,435)	103,106
Cash and Cash Equivalents, Beginning of Period	333,166	210,632
Cash and Cash Equivalents, End of Period	\$ 253,731	\$ 313,738
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$ 10,198	\$ 12,049
Cash paid during the period for income taxes	\$ 5,623	\$ 7,793

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Supplemental Schedule of Non-cash Investing and Financing Activities

Employee compensation invested directly in subsidiaries	\$	23,598	\$	58,865
Investments of receivable amounts into Fortress Funds	\$	74,636	\$	143,800
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	\$	7,876	\$	2,805

See notes to consolidated financial statements

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2012

(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

Fortress has three primary 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 the following business segments in which Fortress operates:

1) Private equity:

a) Private equity funds, which make significant, control-oriented investments in debt and equity securities of public or privately held entities in North America and Western Europe, with a focus on acquiring and building asset-based businesses with significant cash flows; and

b) Publicly traded alternative investment vehicles, which Fortress refers to as Castles, which are companies that invest primarily in real estate and real estate related debt investments.

2) 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. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments; and a fund that seeks to generate returns by executing a positively convex investment strategy.

3) Credit funds:

a) Credit hedge funds, which make highly diversified investments globally in assets, opportunistic lending situations and securities throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and

b) Credit private equity (PE) funds which are comprised of a family of credit opportunities funds focused on investing in distressed and undervalued assets, a family of long dated value funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of real assets funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based

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global opportunities fund, and a family of real estate opportunities funds.

- 4) Logan Circle Partners, L.P. (Logan Circle), which represents Fortress' s traditional, fixed income asset management business.
- 5) Principal investments in the above described funds.

Financial Statement Guide

Selected Financial Statement Captions	Note Reference	Explanation
<u>Balance Sheet</u>		
Due from Affiliates	6	Generally, management fees, expense reimbursements and incentive income due from Fortress Funds.
Investments	3	Primarily the carrying value of Fortress' s principal investments in the Fortress Funds.
Deferred Tax Asset	5	Relates to potential future tax benefits.
Due to Affiliates	6	Generally, amounts due to the Principals related to their interests in Fortress Operating Group and the tax receivable agreement.
Deferred Incentive Income	2	Incentive income already received from certain Fortress Funds based on past performance, which is subject to contingent repayment based on future performance.

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

SEPTEMBER 30, 2012

(dollars in tables in thousands, except share data)

Selected Financial Statement Captions	Note Reference	Explanation
Debt Obligations Payable	4	The balance outstanding on the credit agreement.
Principals and Others Interests in Equity of Consolidated Subsidiaries	6	The GAAP basis of the Principals and one senior employee's ownership interests in Fortress Operating Group as well as employees' ownership interests in certain subsidiaries.
<u>Statement of Operations</u>		
Management Fees: Affiliates	2	Fees earned for managing Fortress Funds, generally determined based on the size of such funds.
Management Fees: Non-Affiliates	2	Fees earned from managed accounts and our traditional fixed income asset management business, generally determined based on the amount managed.
Incentive Income: Affiliates	2	Income earned from Fortress Funds, based on the performance of such funds.
Incentive Income: Non-Affiliates	2	Income earned from managed accounts, based on the performance of such accounts.
Compensation and Benefits	7	Includes equity-based, profit-sharing and other compensation to employees.
Principals Agreement Compensation	7	As a result of the principals agreement, which expired in December 2011, the January 2007 value of a significant portion of the Principals' equity in Fortress was recorded as an expense over an approximate five year period. Fortress was not a party to this agreement. It was an agreement between the Principals to further incentivize them to remain with Fortress. This GAAP expense had no economic effect on Fortress or its shareholders.
Gains (Losses)	3	The result of asset dispositions or changes in the fair value of investments or other financial instruments which are marked to market (including the Castles and GAGFAH).
Tax Receivable Agreement Liability Adjustment	5	Represents a change in the amount due to the Principals under the tax receivable agreement.
Earnings (Losses) from Equity Method Investees	3	Fortress's share of the net earnings (losses) of the Fortress Funds resulting from its principal investments.
Income Tax Benefit (Expense)	5	The net tax result related to the current period. Certain of Fortress's revenues are not subject to taxes because they do not flow through taxable entities. Furthermore, Fortress has significant permanent differences between its GAAP and tax basis

earnings.

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Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

SEPTEMBER 30, 2012

(dollars in tables in thousands, except share data)

Selected Financial Statement Captions	Note Reference	Explanation
Principals and Others Interests in (Income) Loss of Consolidated Subsidiaries	6	Primarily the Principals and employees share of Fortress's earnings based on their ownership interests in subsidiaries, including Fortress Operating Group.
Earnings Per Share	8	GAAP earnings per Class A share based on Fortress's capital structure, which is comprised of outstanding and unvested equity interests, including interests which participate in Fortress's earnings, at both the Fortress and subsidiary levels.
Other		
Distributions	8	A summary of dividends and distributions, and the related outstanding shares and units, is provided.
Distributable Earnings	10	A presentation of our financial performance by segment (fund type) is provided, on the basis of the operating performance measure used by Fortress's management committee.

In May 2011, the FASB issued new guidance regarding the measurement and disclosure of fair value, which became effective for Fortress on January 1, 2012. This guidance did not have a material direct impact on Fortress's financial position, results of operations or liquidity.

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

The accompanying consolidated financial statements and related notes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under 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 should be read in conjunction with Fortress's consolidated financial statements for the year ended December 31, 2011 and notes thereto included in Fortress's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2012. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's consolidated financial

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statements for the year ended December 31, 2011.

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

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SEPTEMBER 30, 2012

(dollars in tables in thousands, except share data)

2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

Fortress has two principal sources of income from its agreements with the Fortress Funds: contractual management fees, which are generally based on a percentage of fee paying assets under management, and related incentive income, which is generally based on a percentage of profits subject to the achievement of performance criteria. Substantially all of Fortress's net assets, after deducting the portion attributable to principals and others' interests, are a result of principal investments in, or receivables from, these funds. The terms of agreements between Fortress and the Fortress Funds are generally determined in connection with third party fund investors.

The Fortress Funds are divided into segments and Fortress's agreements with each are detailed below.

Management Fees, Incentive Income and Related Profit Sharing Expense

Fortress recognized management fees and incentive income as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Private Equity				
Private Equity Funds				
Management fees - affil.	\$ 29,891	\$ 30,333	\$ 89,148	\$ 101,443
Management fees - non-affil.	112		283	
Incentive income - affil.	708	4,440	1,815	7,906
Castles				
Management fees - affil.	13,744	12,277	38,427	36,312
Management fees, options - affil.	8,298	5,594	21,524	12,615
Management fees - non-affil.	359	1,668	3,563	3,606
Incentive income - affil.				
Liquid Hedge Funds				
Management fees - affil.	14,783	23,715	47,946	70,262
Management fees - non-affil.	3,395	4,223	9,592	13,598
Incentive income - affil.	563	239	1,436	2,299
Incentive income - non-affil.	188		312	985

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Credit Funds				
Credit Hedge Funds				
Management fees - affil.	24,688	26,914	76,005	80,548
Management fees - non-affil.	58	8,004	313	15,573
Incentive income - affil.	466	34	1,749	2,182
Incentive income - non-affil.			130	
Credit PE Funds				
Management fees - affil.	21,402	19,520	63,885	52,089
Management fees - non-affil.	36	30	108	97
Incentive income - affil.	4,239	10,041	33,994	31,974
Incentive income - non-affil.	600	266	1,122	266
Logan Circle				
Management fees - non-affil.	6,802	4,940	18,675	14,767
Total				
Management fees - affil.	\$ 112,806	\$ 118,353	\$ 336,935	\$ 353,269
Management fees - non-affil.	\$ 10,762	\$ 18,865	\$ 32,534	\$ 47,641
Incentive income - affil. (A)	\$ 5,976	\$ 14,754	\$ 38,994	\$ 44,361
Incentive income - non-affil.	\$ 788	\$ 266	\$ 1,564	\$ 1,251

(A) See Deferred Incentive Income below.

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(dollars in tables in thousands, except share data)

Deferred Incentive Income

Incentive income from certain Fortress Funds, primarily private equity funds and credit PE funds, is received when such funds realize profits, based on the related agreements. However, this incentive income is subject to contingent repayment by Fortress to the funds until certain overall fund performance criteria are met. Accordingly, Fortress does not recognize this incentive income as revenue until the related contingencies are resolved. Until such time, this incentive income is recorded on the balance sheet as deferred incentive income and is included as distributed-unrecognized deferred incentive income in the table below. Incentive income from such funds, based on their net asset value, which has not yet been received is not recorded on the balance sheet and is included as undistributed deferred incentive income in the table below.

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the nine months ended September 30, 2012 and 2011. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, \$108.0 million and \$46.1 million of additional incentive income from affiliates would have been recognized during the nine months ended September 30, 2012 and 2011, respectively. Incentive income based on achieving annual performance criteria that has not yet been recognized, if any, is not recorded on the balance sheet and is included as undistributed deferred incentive income in the table below.

During the nine months ended September 30, 2012 and 2011, Fortress recognized \$34.0 million and \$32.0 million, respectively, of incentive income distributions from its credit PE funds which represented tax distributions. These tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

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

	Distributed- Gross	Distributed- Recognized (A)	Distributed- Unrecognized (B)	Undistributed net of intrinsic clawback (C) (D)
Deferred incentive income as of December 31, 2011	\$ 823,097	\$ (584,439)	\$ 238,658	\$ 202,805
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	393,152
Distribution of private equity incentive income	44,230	N/A	44,230	(44,230)

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Recognition of previously deferred incentive income	N/A	(36,931)	(36,931)	N/A
Deferred incentive income as of September 30, 2012	\$ 867,327	\$ (621,370)	\$ 245,957	\$ 551,727

(A) All related contingencies have been resolved.

(B) Reflected on the balance sheet.

(C) At September 30, 2012, the net undistributed incentive income is comprised of \$642.4 million of gross undistributed incentive income, net of \$90.7 million of intrinsic clawback (see next page). The net undistributed incentive income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on September 30, 2012 at their net asset values.

(D) From inception to September 30, 2012, Fortress has paid \$365.1 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income, of which \$27.9 million has not been expensed because management has determined that it is not probable of being incurred as an expense and will be recovered from the related individuals. If the \$642.4 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional \$254.8 million of compensation expense.

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The following tables summarize information with respect to the Fortress Funds, other than the Castles, and their related incentive income thresholds as of September 30, 2012:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Investment (C)	Inception to Date Distributions (C)	Net Asset Value (NAV) (D)	NAV Deficit (D)	Current Preferred Return Threshold (E)	Gain to Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income Subject to Clawback (H)	Distributed Incentive Income (I)	Gross Intrinsic Clawback (J)	Net Intrinsic Clawback (J)
<u>Private Equity Funds</u>												
NIH (1998)	Indefinite	\$ 415,574	\$ (808,344)	\$ 11,418	N/A	\$	\$ N/A	\$ 94,513	\$	\$	\$	\$
Fund I (1999) (K)	Apr-10	1,015,943	(2,784,118)	84,153	52,328		N/A	15,868	\$ 332,907			
Fund II (2002)	Feb-13	1,974,296	(3,260,088)	135,374	21,166		N/A	287,024	43,214	7,374	4,722	
Fund III (2004)	Jan-15	2,762,993	(1,414,198)	2,062,907	14,109	410,045	695,936	66,903	66,903	66,903	66,903	45,108
Fund III Coinvestment (2004)	Jan-15	273,648	(156,926)	124,273	7,551	175,998	168,447					
Fund IV (2006)	Jan-17	3,639,561	(119,598)	3,966,344	46,377	832,624	1,386,247					
Fund IV Coinvestment (2006)	Jan-17	762,696	(12,651)	697,363	52,682	394,664	447,346					
Fund V (2007)	Feb-18	4,103,714	(27,579)	3,709,083	67,048	484,658	1,851,706					
Fund V Coinvestment (2007)	Feb-18	990,477	(140)	587,343	102,992	397,992	800,984					
GAGACQ Fund (2004)	Nov-09	545,663	(595,401)	N/A	N/A	N/A	N/A	N/A	51,476	N/A	N/A	N/A
FRID (2005)	Apr-15	1,220,228	(505,612)	494,114	20,502	678,756	899,258	16,447	16,447	16,447	16,447	10,041
FRIC (2006)	May-16	328,754	(17,460)	202,563	108,731	194,596	303,327					
FICO (2006)	Jan-17	724,525	(5)	(56,897)	81,417	393,565	1,174,982					
FHIF (2006)	Jan-17	1,528,480	(63,169)	2,205,057	39,739	759,927	20,188					
FECI (2007)	Feb-18	982,779	(157)	835,441	147,181	475,678	622,859					
								\$ 15,868	\$ 849,270	\$ 126,564	\$ 90,724	\$ 59,871
<u>Private Equity Funds in Investment Period</u>												
WWTAI (2011)	Jun-24	\$ 65,310	\$ (1,285)	\$ 63,989	\$ (36)	\$ 2,146	\$ 2,182	\$	\$	\$	\$	\$

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Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Investment (C)	Inception to Date Distributions (C)	Net Asset Value (NAV) (D)	NAV Surplus (Deficit) (E)	Current Gain to Cross		Undistributed Incentive Income (F)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)	Gross Intrinsic Value (J)	Net Intrinsic Value (K)
						Preferred Return Threshold (F)	Incentive Income Threshold (G)					
Credit PE Funds												
Long Dated Value Fund I (2005)	Apr-30	\$ 267,325	\$ (64,822)	\$ 275,779	\$ 73,276	\$ 104,345	\$ 31,069	\$	\$	\$	\$	\$
Long Dated Value Fund II (2005)	Nov-30	273,147	(107,074)	202,218	36,145	83,750	47,605		412			
Long Dated Value Fund III (2007)	Feb-32	342,643	(137,043)	293,512	87,912		N/A	12,432	3,452			
LDVF Patent Fund (2007)	Nov-27	43,221	(9,061)	54,776	20,616		N/A	1,372	461			
Real Assets Fund (2007)	Jun-17	358,617	(243,342)	221,100	105,825		N/A	12,898	3,641			
Credit Opportunities Fund (2008)	Oct-20	5,396,168	(5,756,710)	1,633,011	1,993,553		N/A	163,079	228,362	87,080		
SIP Managed Account (2010)	Sep-20	11,000	(21,277)	8,058	18,335		N/A	1,612	2,055			
Assets Overflow Fund (2008)	May-18	90,500	(112,344)		21,844		N/A		2,180	1,298		
Japan Opportunity Fund (2009)	Jun-19	1,306,702	(835,880)	845,004	374,182		N/A	49,490	22,291	3,345		
								\$ 240,883	\$ 262,854	\$ 91,723	\$	\$

Credit PE Funds in Investment Period

Credit Opportunities Fund II (2009)	Jul-22	\$ 2,036,507	\$ (1,143,754)	\$ 1,442,778	550,025	\$	N/A	\$ 85,809	\$ 22,020	\$	\$	\$
Credit Opportunities Fund III (2011)	Mar-24	466,857	(3,343)	531,998	68,484		N/A	13,455				
FCO Managed Account #1 (2008)	Oct-21	1,567,671	(1,302,403)	733,396	468,128		N/A	41,601	51,829	27,571		
FCO Managed Account #2 (2010)	Jun-24	224,504	(72,140)	192,699	40,335		N/A	7,804				
FCO Managed Account #3 (2010)	Jun-22	510,063	(224,548)	419,324	133,809		N/A	21,340	4,062			
FCO Managed Account #4 (2010)	Apr-22	373,396	(81,443)	340,679	48,726		N/A	9,589				
FCO Managed Account #5 (2012)	Sep-25	26,390	(40)	26,607	257	681	424					
	Mar-25	15,834	(11)	15,798	(25)	434	459					

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FCO Managed											
Account #6 (2012)											
FCO Managed											
Account #7 (2012)	Mar-27	57,300		57,845	545	1,418	873				
FCO Managed											
Account #8 (2012)	Mar-24	45,802		45,375	(427)	499	926				
Japan Opportunity											
Fund II (Yen)											
(2011)	Dec-21	320,393	(44,045)	282,088	5,740	8,207	2,467				
Japan Opportunity											
Fund II (Dollar)											
(2011)	Dec-21	178,643	(23,702)	156,709	1,768	5,022	3,254				
Net Lease Fund I											
(2010)	Feb-20	126,166	(20,777)	136,285	30,896		N/A	3,935	98	98	
Global											
Opportunities Fund											
(2010)	Sep-20	223,338	(57,850)	189,431	23,943		N/A	4,685			
Life Settlements											
Fund (2010)											
	Dec-22	318,652	(94,254)	236,621	12,223	33,560	21,337				
Life Settlements											
Fund MA (2010)											
	Dec-22	26,187	(7,696)	19,341	850	2,752	1,902				
Real Estate											
Opportunities Fund											
(2011)	Sep-24	106,083	(42,722)	74,434	11,073		N/A	960			
Real Estate											
Opportunities											
REOC Fund											
(2011)	Oct-24	14,804	(6,804)	9,795	1,795		N/A	198			
								\$ 189,376	\$ 78,009	\$ 27,669	\$ \$

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	Incentive Income Eligible NAV (L)	Gain to Cross Incentive Income Threshold (M)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (N)	Undistributed Incentive Income (O)	Year to date Incentive Income Crystallized (P)
Liquid Hedge Funds					
<u>Macro Funds (O) (T)</u>					
Main fund investments	\$ 1,610,124	\$ 6,171	88.5%	\$ 6,366	\$ 355
Sidepocket investments (R)	26,614	13,950	N/A	438	
Sidepocket investments - redeemers (S)	242,106	114,407	N/A	4,315	
Managed accounts	680,514		100.0%	9,060	312
<u>Asia Macro Funds (T)</u>					
Main fund investments	243,200		100.0%	4,021	1,078
Managed accounts	68,398		100.0%	278	
<u>Fortress Convex Asia Funds</u>					
Main fund Investments	25,192	808	0.0%		
<u>Fortress Partners Funds (T)</u>					
Main fund investments	112,491	42,319	0.1%		
Sidepocket investments (R)	136,612	40,121	N/A	425	
Credit Hedge Funds					
<u>Special Opportunities Funds (T)</u>					
Main fund investments	\$ 3,046,731	\$	100.0%	\$ 82,547	\$
Sidepocket investments (R)	102,159	203	N/A	4,493	
Sidepocket investments - redeemers (S)	251,662	79,945	N/A	3,275	
Main fund investments (liquidating) (U)	1,438,492	106,321	93.6%	83,757	1,492
Managed accounts	15,174	34,782	0.0%		
<u>Worden Funds</u>					
Main fund investments	238,821	490	88.2%	5,763	
<u>Value Recovery Funds (V)</u>					
Managed accounts	24,024	4,983	0.0%		130

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

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

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they have generated incentive income.

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

(D) A NAV deficit represents the gain needed to cross the incentive income threshold (as described in (F) below), excluding the impact of any relevant performance (i.e. preferred return) thresholds (as described in (E) below). As of period end, there is an aggregate NAV surplus within both the private equity funds and credit PE funds.

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

(F) Represents the immediate increase in NAV needed for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see (J) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (I) below).

(G) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV.

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

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

(J) Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. Gross and Net refer to amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. Fortress remains liable to the funds for these amounts even if it is unable to collect the amounts from employees/affiliates. Fortress withheld a portion of the amounts due to employees under these profit sharing arrangements as a reserve against future clawback; as of September 30, 2012, Fortress held \$45.9 million of such amounts on behalf of employees related to all of the private equity funds.

(K) Fund I undistributed and distributed incentive income amounts are presented for the total fund, of which Fortress is entitled to approximately 50%. Distributed incentive income subject to clawback for Fund I is presented with respect to Fortress's portion only.

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(L) Represents the portion of a fund's NAV or trading level that is eligible to earn incentive income.

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

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

(O) Represents the amount of additional incentive income Fortress would earn from the fund if it were liquidated at the end of the period at its NAV. This amount is currently subject to performance contingencies generally until the end of the year or, in the case of sidepocket investments, until such investments are realized. For the Value Recovery Fund managed accounts, Fortress can earn incentive income if aggregate realizations exceed an agreed threshold. Main Fund Investments (Liquidating) pay incentive income only after all capital is returned.

(P) Represents the amount of incentive income Fortress has earned in the current period from the fund which is no longer subject to contingencies.

(Q) The Drawbridge Global Macro SPV (the SPV), which was established in February 2009 to liquidate illiquid investments and distribute the proceeds to then existing investors, is not subject to incentive income and is therefore not presented in the table. However, realized gains or losses within the SPV can decrease or increase, respectively, the gain needed to cross the incentive income threshold for investors with a corresponding investment in the main fund. The unrealized gains and losses within the SPV at September 30, 2012, as if they became realized, would not impact the amounts presented in the table.

(R) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. The performance of these investments may impact Fortress's ability to earn incentive income from main fund investments. For the credit hedge funds and Fortress Partners Funds, realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments. For the Macro Funds, only realized losses from individual sidepockets reduce the incentive income earned from main fund investments. Based on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at September 30, 2012, the undistributed incentive income from the Macro main fund would decrease by \$0.6 million.

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

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- (T) Includes onshore and offshore funds.
- (U) Relates to accounts where investors have provided return of capital notices and are subject to payout as underlying fund investments are realized.
- (V) Excludes the Value Recovery Funds which had a NAV of \$486.8 million at September 30, 2012. Fortress began managing the third party originated Value Recovery Funds in June 2009 and generally does not expect to earn any significant incentive income from the fund investments.

Private Equity Funds and Credit PE Funds

During the nine months ended September 30, 2012, Fortress formed new Private Equity and credit PE funds which had capital commitments as follows as of September 30, 2012:

Fortress	\$	45,050
Fortress's affiliates		16,950
Third party investors		1,720,950
Total capital commitments	\$	1,782,950

In July 2012, Fortress formed a consolidated senior living property management subsidiary and has agreed to manage eleven senior living properties, including eight which are owned by Newcastle and three which are owned by third parties. Fortress will receive management fees equal to 6% of revenues (as defined in the agreements) for the first two years of the agreements and 7% thereafter. In addition, Fortress will receive reimbursement for certain expenses, including all of the compensation expense associated with the approximately 800 on-site employees. Upon the acquisition of the eight properties by Newcastle, which occurred in July 2012, Newcastle reimbursed Fortress for approximately \$6.4 million of pre-acquisition expenditures.

In July 2012, Fortress and Fosun Group formed a joint venture, Shanghai Starcastle Senior Living Services Ltd. (Starcastle), to develop and operate senior living communities in China, in which Fortress has a 50% ownership interest. Starcastle has received approval from the Shanghai government to operate its first senior living community in China. As of September 30, 2012, Fortress's investment in Starcastle was approximately \$0.3 million and was included in the Private Equity Funds segment.

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Liquid Hedge Funds and Credit Hedge Funds

During the nine months ended September 30, 2012, Fortress formed, or became the manager of, hedge funds with net asset values as follows as of September 30, 2012:

		Liquid
Fortress	\$	24,405
Fortress s affiliates		2,635
Third party investors		25,192
Total NAV (A)	\$	52,232

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

3. INVESTMENTS AND FAIR VALUE

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

Investments can be summarized as follows:

	September 30, 2012	December 31, 2011
Equity method investees	\$ 1,102,786	\$ 1,034,721
Equity method investees, held at fair value (A)	66,520	34,530
Total equity method investments	1,169,306	1,069,251
Options in equity method investees	30,316	10,526
Total investments	\$ 1,199,622	\$ 1,079,777

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(A) Includes publicly traded private equity portfolio companies, primarily GAGFAH, as well as the Castles (NCT and ECT).

Gains (losses) can be summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net realized gains (losses)	\$ 57	\$ (478)	\$ 548	\$ (3,597)
Net realized gains (losses) from affiliate investments	(65)	(221)	(106)	(518)
Net unrealized gains (losses)	(498)	1,495	(798)	2,873
Net unrealized gains (losses) from affiliate investments	(1,722)	(16,025)	29,898	(25,509)
Total gains (losses)	\$ (2,228)	\$ (15,229)	\$ 29,542	\$ (26,751)

These gains (losses) were generated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Mark to fair value on publicly traded investments	\$ (1,726)	\$ (16,310)	\$ 29,895	\$ (28,629)
Mark to fair value on derivatives	(498)	1,925	(866)	(194)
Mark to fair value on Logan Circle contingent consideration		291		3,122
Other	(4)	(1,135)	513	(1,050)
Total gains (losses)	\$ (2,228)	\$ (15,229)	\$ 29,542	\$ (26,751)

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Investments in Equity Method Investees

Fortress holds investments in certain Fortress Funds which are recorded based on the equity method of accounting. Fortress's maximum exposure to loss with respect to these entities is generally equal to its investment plus its basis in any options received from such entities, plus any receivables from such entities as described in Note 6. In addition, unconsolidated affiliates also hold ownership interests in certain of these entities. Summary financial information related to these investments is as follows:

	Fortress's Investment		Fortress's Equity in Net Income (Loss)			
	September 30, 2012	December 31, 2011	Three Months Ended September 30,		Nine Months Ended September 30,	
			2012	2011	2012	2011
Private equity funds, excluding						
NIH	\$ 700,582	\$ 626,515	\$ 35,939	\$ (57,160)	\$ 70,644	\$ 12,358
NIH	1,195	1,251	50	43	159	(57)
Publicly traded portfolio						
companies (A)(B)	58,718	29,682	N/A	N/A	N/A	N/A
Newcastle (B)	7,724	4,770	N/A	N/A	N/A	N/A
Eurocastle (B)	78	78	N/A	N/A	N/A	N/A
Total private equity	768,297	662,296	35,989	(57,117)	70,803	12,301
Liquid hedge funds	177,473	204,892	7,295	(4,964)	14,050	3,747
Credit hedge funds	56,180	53,831	3,445	101	8,791	5,132
Credit PE funds	159,861	141,186	5,446	(2,133)	16,532	5,087
Other	7,495	7,046	(141)	(370)	241	150
	\$ 1,169,306	\$ 1,069,251	\$ 52,034	\$ (64,483)	\$ 110,417	\$ 26,417

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

(B) Fortress elected to record these investments at fair value pursuant to the fair value option for financial instruments.

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

Nine Months Ended September 30, 2012

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	Private Equity			Liquid	Credit			Total
	NIH	Other Funds	Private Equity Portfolio Companies and Castles(A)	Hedge Funds	Hedge Funds	PE Funds	Other	
Investment, beginning	\$ 1,251	\$ 626,515	\$ 34,530	\$ 204,892	\$ 53,831	\$ 141,186	\$ 7,046	\$ 1,069,251
Earnings from equity method investees	159	70,644	N/A	14,050	8,791	16,532	241	110,417
Other comprehensive income from equity method investees			N/A			(1,589)		(1,589)
Contributions to equity method investees (C)		4,220	248	26,824	72,907	35,023	219	139,441
Distributions of earnings from equity method investees			N/A	(7,750)	(9,436)	(15,427)	(8)	(32,621)
Distributions of capital from equity method investees (C)	(215)	(2,089)	N/A	(60,543)	(69,913)	(15,846)	(3)	(148,609)
Total distributions from equity method investees	(215)	(2,089)	N/A	(68,293)	(79,349)	(31,273)	(11)	(181,230)
Mark to fair value - during period (B)	N/A		32,274	N/A	N/A	N/A	N/A	32,274
Translation adjustment Dispositions			(532)			(18)		(532)
Reclassification to Due to Affiliates (D)		1,292						1,292
Investment, ending	\$ 1,195	\$ 700,582	\$ 66,520	\$ 177,473	\$ 56,180	\$ 159,861	\$ 7,495	\$ 1,169,306
Ending balance of undistributed earnings	\$	\$ 54,524	N/A	\$ 5,720	\$ 4,196	\$ 5,660	\$ 2,066	\$ 72,166

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(dollars in tables in thousands, except share data)

-
- (A) Fortress elected to record these investments at fair value pursuant to the fair value option for financial instruments.
- (B) Recorded to Gains (Losses).
- (C) The amounts presented above can be reconciled to the amounts presented on the statement of cash flows as follows:

	Nine Months Ended September 30, 2012	
	Contributions	Distributions of Capital
Per Consolidated Statements of Cash Flows	\$ 52,573	\$ 137,015
Investments of receivable amounts into Fortress Funds	74,636	
Change in distributions payable out of Fortress Funds		(389)
Net funded*	11,858	11,858
Other	374	125
Per Above	\$ 139,441	\$ 148,609

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

- (D) Represents a portion of the general partner liability discussed in Note 9.

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

	Private Equity Funds excluding NIH	
	September 30, 2012	December 31, 2011
Assets	\$ 15,785,050	\$ 13,296,783

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Debt				(45,291)
Other liabilities		(302,826)		(263,858)
Equity	\$	15,482,224	\$	12,987,634
Fortress's Investment	\$	700,582	\$	626,515
Ownership (A)		4.5%		4.8%

	Nine Months Ended September 30,	
	2012	2011
Revenues and gains (losses) on investments	\$ 2,763,969	\$ 849,622
Expenses	(140,842)	(195,974)
Net Income (Loss)	\$ 2,623,127	\$ 653,648
Fortress's equity in net income (loss)	\$ 70,644	\$ 12,358

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

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	Liquid Hedge Funds (B)		Credit Hedge Funds		Credit PE Funds (C) (D)	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Assets	\$ 8,211,051	\$ 9,421,582	\$ 8,654,158	\$ 8,944,826	\$ 7,949,091	
Debt		(3,521,834)	(2,910,711)	(163,014)	(57,602)	
Other liabilities		(3,134,491)	(284,963)	(291,850)	(264,761)	(410,125)
Non-controlling interest			(4,517)	(9,794)	(12,036)	(9,182)
Equity	\$ 4,369,332	\$ 5,076,560	\$ 5,610,268	\$ 5,441,803	\$ 8,505,015	\$ 7,472,182
Fortress's Investment	\$ 177,473	\$ 204,892	\$ 56,180	\$ 53,831	\$ 159,861	\$ 141,186
Ownership (A)	4.1%	4.0%	1.0%	1.0%	1.9%	1.9%

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Revenues and gains (losses) on investments	\$	(78,441)	\$ 929,106	\$ 564,429	\$ 1,384,905	\$ 447,707	
Expenses		(163,415)	(171,931)	(195,722)	(213,996)	(170,347)		
Net Income (Loss)	\$ 276,500	\$ (241,856)	\$ 757,175	\$ 368,707	\$ 1,170,909	\$ 277,360		
Fortress's equity in net income (loss)	\$ 14,050	\$ 3,747	\$ 8,791	\$ 5,132	\$ 16,532	\$ 5,087		

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

(B) In interim periods, the liquid hedge funds prepare summary financial information on a one quarter lag. For the nine months ended June 30, 2012, the liquid hedge funds recorded \$127.2 million of revenues and gains (losses) on investments, \$107.8 million of expenses, and \$19.4 million of net income (loss).

(C) Includes one entity which is recorded on a one quarter lag (i.e., the balances reflected for this entity are for the periods ended June 30, 2012 and 2011, respectively) and several entities which are recorded on a one month lag. They are recorded on a lag because they are foreign entities and do not provide financial reports under U.S. GAAP within the reporting timeframe necessary for U.S. public entities.

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

Investments in Variable Interest Entities

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Fortress is not considered the primary beneficiary of, and, therefore, does not consolidate, any of the variable interest entities in which it holds an interest. No reconsideration events occurred during the nine months ended September 30, 2012 which caused a change in Fortress's accounting.

The following tables set forth certain information as of September 30, 2012 regarding variable interest entities in which Fortress holds a variable interest. The amounts presented below are included in, and not in addition to, the equity method investment tables above.

Entities formed during the nine months ended September 30, 2012:

Business Segment	Gross Assets	Fortress is not Primary Beneficiary		Notes
		Financial Obligations (A)	Fortress Investment (B)	
Credit PE Funds	\$ 489,407	\$ 121,123	\$ 2,862	(C)

(A) Represents financial obligations at the fund level, which are not recourse to Fortress. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these funds have additional debt within unconsolidated subsidiaries.

(B) Represents Fortress's maximum exposure to loss with respect to these entities, which includes direct and indirect investments in these funds, plus any receivables due from these funds. In addition to the table above, Fortress is exposed to potential changes in cash flow and revenues attributable to the management fees and/or incentive income Fortress earns from those entities.

(C) Fortress is not the primary beneficiary of these entities, which primarily represent investing vehicles, because the related funds (which are not consolidated) are more closely associated with these entities than Fortress based on both a quantitative and qualitative analysis. The investing vehicles were formed for the sole purpose of acting as investment vehicles for the related funds.

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All variable interest entities:

Business Segment	Gross Assets	Fortress is not Primary Beneficiary			Gross Assets	Fortress Investment (B)	Notes
		September 30, 2012 Financial Obligations (A)	Fortress Investment (B)	December 31, 2011 Financial Obligations (A)			
Private Equity Funds	\$ 11,643	\$	\$ 1,195	\$ 12,871	\$	\$ 1,251	(C) (D)
Castles	7,170,060	5,480,654	46,431	7,374,735	6,568,462	22,384	(C) (D)
Liquid Hedge Funds	8,437,109	6,001,141	1,900	4,208,343	547,044	10,771	(C) (D)
Credit Hedge Funds	1,705,714	378,799	3,657	1,594,736	364,791	35,476	(C) (D)
Credit PE Funds	1,567,161	490,878	5,824	732,419	89,334	5,108	(C) (D)

(A) Represents financial obligations at the fund level, which are not recourse to Fortress. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these funds have additional debt within unconsolidated subsidiaries.

(B) Represents Fortress's maximum exposure to loss with respect to these entities, which includes direct and indirect investments in these funds, plus any receivables due from these funds. In addition to the table above, Fortress is exposed to potential changes in cash flow and revenues attributable to the management fee and/or incentive income Fortress earns from those entities.

(C) Fortress is not the primary beneficiary of the Castles and NIH because it does not absorb a majority of their expected income or loss based on a quantitative analysis. Of the remaining entities represented herein, which primarily represent investing vehicles, intermediate entities and master funds, Fortress is not the primary beneficiary because the related funds, intermediate entities and feeder funds (which are not consolidated) are more closely associated with these entities than Fortress based on both a quantitative and qualitative analysis. The investing vehicles, intermediate entities and master funds were formed for the sole purpose of acting as investment vehicles for the related funds.

(D) Fortress's investment includes management fees receivable, incentive income receivable, expense reimbursements and other receivables from these entities, as applicable.

FCF is an entity which provides operating services to all of Fortress's private equity funds and is reimbursed for related costs by the private equity funds based on a contractual formula. Therefore, FCF by design does not produce net income or have equity. FCF was deemed to be a VIE and Fortress, as a result of directing the operations of FCF through its management contracts with the private equity funds, and providing financial support to FCF, was deemed to be its primary beneficiary. Therefore, Fortress consolidates FCF. As of September 30, 2012, FCF's gross assets were approximately \$76.3 million, primarily comprised of affiliate receivables. Fortress's exposure to loss from FCF is limited to its unreserved outstanding advances, which were approximately \$51.0 million at September 30, 2012, plus any future advances. These advances are

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eliminated in consolidation. FCF's creditors do not have recourse to Fortress's other assets and FCF's assets are not available to other creditors of Fortress.

Fair Value of Financial Instruments

The following table presents information regarding Fortress's financial instruments that are recorded at fair value. Investments denominated in foreign currencies have been translated at the period end exchange rate. Changes in fair value are recorded in Gains (Losses).

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	Fair Value		Valuation Method
	September 30, 2012	December 31, 2011	
Assets (within Investments)			
Newcastle and Eurocastle common shares	\$ 7,802	\$ 4,848	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies, primarily GAGFAH	\$ 58,718	\$ 29,682	Level 1 - Quoted prices in active markets for identical assets
Eurocastle convertible debt (A)	\$	\$	Level 3 - Option valuation models, adjusted for non-option characteristics
Total equity method investments carried at fair value	\$ 66,520	\$ 34,530	
Newcastle and Eurocastle options	\$ 30,316	\$ 10,526	Level 2 - Option valuation models using significant observable inputs
Assets (within Other Assets)			
Derivatives	\$ 280	\$ 1,236	Level 2 - See below
Liabilities (within Accrued Compensation and Benefits)			
Options in affiliates granted to employees	\$ (3,605)	\$	Level 2 - Option valuation models using significant observable inputs.

(A) The debt bears interest at 20% per annum and is perpetual, but Eurocastle may redeem the securities at a premium of 20%. As of September 30, 2012, it had a face amount of 1.2 million (\$1.5 million) and was convertible into Eurocastle common shares at 0.30 per share. The fair value was determined using the market value approach.

See Note 4 regarding the fair value of Fortress's outstanding debt.

In April 2012, Newcastle issued 18,975,000 shares of its common stock in a public offering at a price to the public of \$6.22 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 1,897,500 shares of Newcastle's common stock at the public offering price, which were valued at approximately \$5.6 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

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In May 2012, Newcastle issued 23,000,000 shares of its common stock in a public offering at a price to the public of \$6.71 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 2,300,000 shares of Newcastle's common stock at the public offering price, which were valued at approximately \$7.6 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

In July 2012, Newcastle issued 25,300,000 shares of its common stock in a public offering at a price to the public of \$6.70 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 2,530,000 shares of Newcastle's common stock at the public offering price, which were valued at approximately \$8.3 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

Derivatives

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

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

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

	Balance Sheet Location (A)	Fair Value September 30, 2012	Notional Amount September 30, 2012	Gains/(Losses) Nine Months Ended September 30, 2012 (B)	Maturity Date
Foreign exchange option contract	Other Assets	\$ 315	20,000	\$ (580)	Feb-13
Foreign exchange option contract	Other Assets	(35)	20,000	535	Feb-13

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

(B) In addition, Fortress recorded a loss of \$0.8 million during the nine months ended September 30, 2012 on contracts which expired in 2012.

The counterparty on these derivatives is Citibank N.A.

4. DEBT OBLIGATIONS

Debt Obligation	Face Amount and Carrying Value September 30, 2012	Carrying Value December 31, 2011	Contractual Interest Rate	Final Stated Maturity	Amount Available for Draws	September 30, 2012 Weighted Average Funding Cost (A)	Weighted Average Maturity (Years)
Credit agreement (B)							
Revolving debt (C)	\$	\$	LIBOR + 4.00% (D)	Oct-13	\$ 56,713		
Term loan	180,528	261,250	LIBOR + 4.00% (D)	Oct-15	N/A	6.2%	2.2
Total	\$ 180,528	\$ 261,250			\$ 56,713	6.2%	2.2

(A) The weighted average funding cost is calculated based on the contractual interest rate (utilizing the most recently reset LIBOR rate or the minimum rate, as applicable) plus the amortization of deferred financing costs. The most recently reset LIBOR rate was below the minimum of

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1.75%.

- (B) 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 interests therein.
- (C) The \$60 million revolving debt facility includes a \$25 million letter of credit subfacility of which \$3.3 million was utilized.
- (D) With a minimum LIBOR rate of 1.75% and, in the case of the revolving debt, subject to unused commitment fees of 0.625% per annum.

In April 2012, Fortress made a \$54.5 million Free Cash Flow-based payment on its credit facility. In connection with this payment, \$0.6 million of deferred financing costs were expensed.

Management believes the fair value of this debt was approximately equal to its face amount at September 30, 2012 (based on counterparty inquiries, a level 3 valuation, see Note 4).

Fortress was in compliance with all of its debt covenants as of September 30, 2012. The following table sets forth the financial covenant requirements as of September 30, 2012.

	September 30, 2012			
	(dollars in millions)			
	Requirement	Actual		Notes
AUM, as defined	≥ \$25,000	\$ 37,508		(A)
Consolidated Leverage Ratio	≤ 2.75	0.68		(B)
Minimum Investment Assets Ratio	≥ 2.00	7.40		(C)
Consolidated Fixed Charge Coverage Ratio	≥ 1.75	2.40		(B)

(A) Impacted by capital raised in funds, redemptions from funds, and valuations of fund investments. The AUM presented here is based on the definition in the credit agreement.

(B) Impacted by EBITDA, as defined, which is generally impacted by the same factors as distributable earnings, except EBITDA is not impacted by changes in clawback reserves or gains and losses, including impairment, on investments.

(C) Impacted by capital investments in funds and the valuation of such funds' investments.

In October 2012, Fortress repaid the term loan in full. See Note 11.

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5. INCOME TAXES AND TAX RELATED PAYMENTS

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

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

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

Based on the value of the RSUs and RPU s which vested during the nine months ended September 30, 2012 and 2011, Fortress has estimated tax shortfalls of \$30 million and \$26.8 million, respectively, which have been charged to income tax expense during these periods.

The provision for income taxes consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Current				
Federal income tax expense (benefit)	\$ 2,952	\$ 9,565	\$ (2,634)	\$ 14,398
Foreign income tax expense (benefit)	1,814	1,350	5,094	5,111
State and local income tax expense (benefit)	(275)	(950)	(316)	2,060
	4,491	9,965	2,144	21,569
Deferred				

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Federal income tax expense (benefit)	(520)	(12,436)	28,028	(1,035)
Foreign income tax expense (benefit)	(51)	1	956	239
State and local income tax expense (benefit)	(39)	(242)	3,123	3,720
	(610)	(12,677)	32,107	2,924
Total expense (benefit)	\$ 3,881	\$ (2,712)	\$ 34,251	\$ 24,493

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

	September 30, 2012		December 31, 2011	
Total deferred tax assets	\$	468,549	\$	492,041
Valuation allowance		(89,177)		(91,845)
Net deferred tax assets	\$	379,372	\$	400,196
Total deferred tax liabilities (A)	\$	2,062	\$	199

(A) Included in Other Liabilities

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

Valuation Allowance at December 31, 2011	\$	91,845
Changes due to FIG Corp ownership increases		3,867
Net decreases (A)		(6,535)
Valuation Allowance at September 30, 2012	\$	89,177

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

For the nine months ended September 30, 2012, a net deferred income tax provision of less than \$0.1 million was debited to other comprehensive income, primarily related to the equity method investees. A current income tax benefit of \$0.6 million was credited to paid-in capital, related to (i) dividend equivalent payments on RSUs (Note 8), as applicable, and

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(ii) distributions to Fortress Operating Group restricted partnership unit holders (Note 8), which are currently deductible for income tax purposes. The establishment of these net deferred tax assets also increased additional paid-in capital.

FIG Corp increased its ownership in the underlying Fortress Operating Group entities during the nine months ended September 30, 2012 through the delivery of vested RSUs and RPU's (Note 8). As a result of this increased ownership, the deferred tax asset was increased by \$5.3 million with an offsetting increase of \$1.6 million to the valuation allowance. In addition, the deferred tax asset was increased by \$8.3 million, with an offsetting increase of \$2.3 million to the valuation allowance, related to a step-up in the tax basis due to the share exchange which will result in additional tax deductions. The establishment of these net deferred tax assets also increased additional paid-in capital.

Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the nine months ended September 30, 2012, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be \$17.5 million. During the nine months ended September 30, 2012, \$8.7 million was paid under the tax receivable agreement relating to 2010. In October 2012, the remaining \$8.8 million relating to 2010 was paid. In addition, during the nine months ended September 30, 2012, the realization of certain tax benefits, which were previously offset by a valuation allowance, gave rise to a \$6.9 million increase in the expected tax receivable agreement liability.

6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

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September 30, 2012	Private Equity		Liquid Hedge Funds	Hedge Funds	Credit		Total
	Funds	Castles			PE Funds	Other	
Management fees and incentive income (A)	\$ 144,965	\$ 4,641	\$ 507	\$ 5,170	\$ 17,295	\$	\$ 172,578
Expense reimbursements (A)	16,818	2,675	1,909	4,060	10,132		35,594
Expense reimbursements - FCF (B)	68,565						68,565
Dividends and distributions		226					226
Other	1,768	770			640	9,748	12,926
Total	\$ 232,116	\$ 8,312	\$ 2,416	\$ 9,230	\$ 28,067	\$ 9,748	\$ 289,889

December 31, 2011	Private Equity		Liquid Hedge Funds	Hedge Funds	Credit		Total
	Funds	Castles			PE Funds	Other	
Management fees and incentive income (A)	\$ 95,267	\$ 4,013	\$ 696	\$ 88,794	\$ 15,901	\$	\$ 204,671
Expense reimbursements (A)	9,065	2,174	5,200	5,337	6,315		28,091
Expense reimbursements - FCF (B)	58,146						58,146
Dividends and distributions		154					154
Other	518	669			1,483	4,957	7,627
Total	\$ 162,996	\$ 7,010	\$ 5,896	\$ 94,131	\$ 23,699	\$ 4,957	\$ 298,689

(A) Net of allowances for uncollectable management fees and expense reimbursements of \$12.2 million and \$5.6 million at September 30, 2012, respectively, and of \$12.1 million and \$5.1 million as of December 31, 2011, respectively. Allowances are recorded as General and Administrative expenses.

(B) Represents expense reimbursements due to FCF, a consolidated VIE (Note 3).

As of September 30, 2012, amounts due from Fortress Funds recorded in Due from Affiliates included \$144.8 million of past due management fees, excluding \$12.2 million which has been fully reserved by Fortress, and \$67.4 million of private equity general and administrative expenses advanced on behalf of certain Fortress Funds. Although such funds are currently experiencing liquidity issues, Fortress believes the unreserved portion of these fees and reimbursable expenses will ultimately be collectable. The unreserved amounts are primarily due from five different funds and the amounts represent less than 5% of such funds' NAV, both individually and in the aggregate. See Note 11 regarding the receipt of a significant portion of these amounts subsequent to September 30, 2012.

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Due to affiliates was comprised of the following:

	September 30, 2012	December 31, 2011
Principals - Tax receivable agreement - Note 5	\$ 277,351	\$ 279,039
Principals - Principal Performance Payments - Note 7	13,419	
Distributions payable on Fortress Operating Group units	7,876	29,423
Other	7,423	8,046
General partner liability - Note 9	38,940	37,650
	\$ 345,009	\$ 354,158

Other Related Party Transactions

For the nine months ended September 30, 2012 and 2011, Other Revenues included approximately \$1.3 million and \$2.0 million, respectively, of revenues from affiliates, primarily dividends.

During 2012, Fortress advanced an aggregate of \$3.8 million to 3 of its senior employees who are not officers. These advances bear interest at between LIBOR+4% and LIBOR+ 4.25%. All principal and interest is due and payable no later than February 2017.

Principals and Others Interests in Consolidated Subsidiaries

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

This balance sheet caption was comprised of the following:

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	September 30, 2012	December 31, 2011
Fortress Operating Group units held by the Principals and one senior employee	\$ 550,459	\$ 507,031
Employee interests in majority owned and controlled fund advisor and general partner entities	58,899	66,087
Other	1,981	1,843
Total	\$ 611,339	\$ 574,961

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

	September 30, 2012	December 31, 2011
Fortress Operating Group equity (Note 12)	\$ 1,017,083	\$ 889,642
Less: Others interests in equity of consolidated subsidiaries (Note 12)	(60,880)	(67,930)
Total Fortress shareholders equity in Fortress Operating Group	\$ 956,203	\$ 821,712
Fortress Operating Group units outstanding (A)	298,723,852	305,857,751
Class A shares outstanding	220,188,973	189,824,053
Total	518,912,825	495,681,804
Fortress Operating Group as a percent of total (B)	57.6%	61.7%
Equity of Fortress Operating Group units held by Principals and one senior employee	\$ 550,459	\$ 507,031

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

(B) As a result, the Registrant owned 42.4% and 38.3% of Fortress Operating Group as of September 30, 2012 and December 31, 2011, respectively.

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(dollars in tables in thousands, except share data)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Fortress Operating Group units held by the Principals and one senior employee	\$ 3,845	\$ (239,762)	\$ 15,332	\$ (547,091)
Employee interests in majority owned and controlled fund advisor and general partner entities	2,098	45	5,228	3,876
Other	15	(130)	138	40
Total	\$ 5,958	\$ (239,847)	\$ 20,698	\$ (543,175)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss) attributable to Fortress	\$ 708	\$ (142,058)	\$ (23,923)	\$ (340,026)
Transfers (to) from the Principals and Others				
Interests:				
Increase in Fortress's shareholders' equity for the conversion of Fortress Operating Group units by the Principals and one senior employee	2,929		22,167	3,845
Increase in Fortress's shareholders' equity for the delivery of Class A shares primarily in connection with vested RSUs and RPUs	3,579	5,275	14,280	13,137
Change from net income (loss) attributable to Fortress and transfers (to) from Principals and Others Interests	\$ 7,216	\$ (136,783)	\$ 12,524	\$ (323,044)

7. EQUITY-BASED AND OTHER COMPENSATION

Fortress's total compensation and benefits expense, excluding Principals Agreement compensation, but including Principal Performance Payments (described below), is comprised of the following:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Equity-based compensation, per below	\$ 49,349	\$ 57,051	\$ 162,372	\$ 179,120
Profit-sharing expense, per below	37,018	13,125	97,249	89,027
Discretionary bonuses	46,410	46,458	140,846	141,708
Other payroll, taxes and benefits	48,644	41,792	136,800	125,404
	\$ 181,421	\$ 158,426	\$ 537,267	\$ 535,259

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FORTRESS INVESTMENT GROUP LLC

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(dollars in tables in thousands, except share data)

Equity-Based Compensation

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

	Employees		RSUs		Non-Employees		Restricted Shares Issued to Directors		RPU Employees	
	Number	Value (A)	Number	Value (A)	Number	Value (A)	Number	Value (A)	Number	Value (A)
Outstanding as of December 31, 2011	34,670,464	\$ 10.49	787,046	\$ 11.33	570,293	\$ 6.24	20,666,667	\$ 13.75		
Issued	6,821,847	2.96			257,918	3.18				
Transfers	(1,794,043)	3.09	1,794,043	3.09						
Converted to Class A shares	(13,261,221)	11.68	(1,293,693)	5.62			(4,340,000)	13.75		
Converted to Class B shares							(5,993,333)	13.75		
Forfeited	(4,427,415)	3.68	(40,990)	8.03						
Outstanding as of September 30, 2012 (B)	22,009,632	\$ 9.41	1,246,406	\$ 5.51	828,211	\$ 5.29	10,333,334	\$ 13.75		

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011	
	2012	2011	2012	2011
Expense incurred (B)				
Employee RSUs	\$ 24,839	\$ 29,158	\$ 91,446	\$ 100,396
Non-Employee RSUs	228	(310)	609	113
Principal Performance Payments (C)	1,469		2,351	
Restricted Shares (D)		38	24	327
STIP (E)		5,353		10,590
RPU	22,813	22,812	67,942	67,694
Total equity-based compensation expense	\$ 49,349	\$ 57,051	\$ 162,372	\$ 179,120

(A) Represents the weighted average grant date estimated fair value per share or unit. The weighted average estimated fair value, discounted for the non-entitlement to dividends, per unit as of September 30, 2012 for awards granted to non-employees was \$4.25. The closing trading price per share of Fortress Class A shares on such date was \$4.42 per share.

(B) In future periods, Fortress will further recognize compensation expense on its non-vested equity based awards outstanding as of September 30, 2012 of \$83.1 million, with a weighted average recognition period of 1.3 years. This does not include contingent amounts.

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(C) Described below. Accrued based on year-to-date performance; the actual number of RSUs granted are determined at year end. Based on year-to-date performance, a total of approximately 2.0 million RSUs would be awarded as Principal Performance Payments.

(D) Certain restricted shares granted to directors are recorded in General and Administrative Expense (\$0.5 million and \$0.8 million for the nine months ended September 30, 2012 and 2011, respectively) and therefore are not included above.

(E) STIP stands for Short Term Incentive Plan. In April 2011, one of the Principals entered into an agreement with a senior employee whereby such employee was due 2,857,143 Fortress Operating Group units from such Principal since the employee remained with Fortress until January 2012. As a result of the service requirement, the fair value of these units was charged to compensation expense in 2011. The STIP was settled in 2012.

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

Fortress's management reviewed the estimated forfeiture factor as of March 31, 2012 and, based on the actual forfeiture rate incurred and the remaining vesting period of certain grants, determined that the forfeiture assumptions for certain grants required adjustment. The result of these changes in estimates was an increase to equity-based compensation of \$6.7 million. An additional adjustment was deemed necessary at June 30, 2012, resulting in an increase to equity-based compensation of \$1.0 million.

In April 2010, in connection with the acquisition of Logan Circle, Fortress created the Logan Circle Comp Plan. The Logan Circle Comp Plan provides for annual bonuses to a senior employee which may be paid partially in RSUs, as well as for potential Class A share awards to certain employees, including this senior employee, in the years 2015, 2016 and 2017.

In January 2012, Fortress granted 6.6 million RSUs to its employees and affiliates valued at an aggregate of \$23.4 million on the grant date. These RSUs generally vest over three years.

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In January 2012, Fortress's CEO announced his resignation effective in February 2012. In connection with this resignation, Fortress has recorded \$5.0 million of equity-based compensation expense in 2012, primarily related to 1.8 million RSUs which will vest pursuant to his separation agreement. As a result of this resignation, approximately 4.0 million RSUs were forfeited.

In May 2012, Fortress granted partial rights in 1.7 million of the options it holds in Newcastle (Note 3) to certain of its employees. The value of these rights of \$3.5 million was recorded as accrued profit sharing compensation expense at that time. The related liability will be marked to fair value until such time as the rights are exercised or expire.

In August 2011, Fortress's Principals extended their employment for a new five-year term effective January 1, 2012, on substantially similar terms and conditions as their prior employment agreements. Additionally, under a new compensation plan adopted by Fortress, the Principals receive payments (Principal Performance Payments) based on the performance of the existing AUM (as of December 31, 2011) of Fortress's flagship hedge funds and on their success in raising and investing new funds in all businesses in 2012 and beyond. The Principal Performance Payments are comprised of a mix of cash and equity, with the equity component becoming larger as performance, and the size of the payments, increases.

Specifically, the new compensation plan calls for payments of 20% of the incentive income earned from existing flagship hedge fund AUM and either 10% or 20% (based on the level of involvement of the Principal) of the fund management distributable earnings of new AUM in all businesses. Payments of up to 10% of fund management distributable earnings before Principal Performance Payments, in each of the Principals' respective businesses, are made in cash, and payments in excess of this threshold are made in restricted share units that will vest over three years.

The Principals' new employment agreements contain customary post-employment non-competition and non-solicitation covenants. In order to ensure the Principals' compliance with such covenants, 50% of the after-tax cash portion of any Principal Performance Payments are subject to mandatory investment in Fortress-managed funds, and such invested amounts serve as collateral against any breach of those covenants.

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

Nine Months Ended September 30, 2012

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	Equity-Based Compensation		Profit Sharing Expense		Total
Private equity business	\$		\$	546	\$ 546
Liquid hedge fund business		206		1,579	1,785
Credit business		2,145		8,943	11,088
Total	\$	2,351	\$	11,068	\$ 13,419

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Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Private equity funds	\$ 262	\$ 541	\$ 672	\$ 1,032
Castles	1		3,378	
Liquid hedge funds	4,544	5,057	11,431	16,338
Credit hedge funds	19,710	(620)	46,488	24,001
Credit PE funds	8,347	8,147	24,212	47,656
Principal Performance Payments (A)	4,154		11,068	
Total	\$ 37,018	\$ 13,125	\$ 97,249	\$ 89,027

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

8. EARNINGS PER SHARE AND DISTRIBUTIONS

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

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 2012	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	217,293,696	217,293,696	207,521,553	207,521,553
Fully vested restricted Class A share units with dividend equivalent rights	2,519,869	2,519,869	4,068,945	4,068,945
Fully vested restricted Class A shares	828,211	828,211	706,787	706,787
Fortress Operating Group units and fully vested RPU's exchangeable into Class A shares (1)		299,397,765		305,134,049

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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	220,641,776	520,039,541	212,297,285	517,431,334
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Basic and diluted net income (loss) per Class A share

Net income (loss) attributable to Class A shareholders	\$	708	\$	708	\$	(23,923)	\$	(23,923)
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Dilution in earnings due to RPU's treated as a participating security of Fortress Operating Group and fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4)		(116)		(116)		(327)		(327)
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Dividend equivalents declared on non-vested restricted Class A shares and restricted Class A share units		(108)		(108)		(327)		(327)
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Add back Principals and others interests in loss of Fortress Operating Group, net of assumed corporate income taxes at enacted rates, attributable to Fortress Operating Group units and fully vested RPU's exchangeable into Class A shares (1)				(22,295)				(42,943)
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Net income (loss) available to Class A shareholders	\$	484	\$	(21,811)	\$	(24,577)	\$	(67,520)
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Weighted average shares outstanding	220,641,776	520,039,541	212,297,285	517,431,334
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Basic and diluted net income (loss) per Class A share	\$	0.00	\$	(0.04)	\$	(0.12)	\$	(0.13)
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(dollars in tables in thousands, except share data)

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	186,675,357	186,675,357	179,704,474	179,704,474
Fully vested restricted Class A share units with dividend equivalent rights	2,791,277	2,791,277	5,208,431	5,208,431
Fully vested restricted Class A shares	540,353	540,353	460,700	460,700
Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1)		305,857,751		307,023,364
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	190,006,987	495,864,738	185,373,605	492,396,969
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	\$ (142,058)	\$ (142,058)	\$ (340,026)	\$ (340,026)
Dilution in earnings due to RPUs treated as a participating security of Fortress Operating Group and fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4)	(1,561)	(1,561)	(3,698)	(3,698)
Dividend equivalents declared on non-vested restricted Class A shares and restricted Class A share units				
Add back Principals and others interests in loss of Fortress Operating Group, net of assumed corporate income taxes at enacted rates, attributable to Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1)		(267,989)		(580,511)
Net income (loss) available to Class A shareholders	\$ (143,619)	\$ (411,608)	\$ (343,724)	\$ (924,235)
Weighted average shares outstanding	190,006,987	495,864,738	185,373,605	492,396,969
Basic and diluted net income (loss) per Class A share	\$ (0.76)	\$ (0.83)	\$ (1.85)	\$ (1.88)

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

(2) Restricted Class A shares granted to directors and certain restricted Class A share units granted to employees are eligible to receive dividend or dividend equivalent payments when dividends are declared and paid on Fortress's Class A shares and therefore participate fully in the results of Fortress's operations from the date they are granted. They are included in the computation of both basic and diluted earnings per Class A share using the two-class method for participating securities, except during periods of net losses.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Share Units	16,426,317	21,556,226	19,212,189	24,233,838

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

The Class B shares have no net income (loss) per share as they do not participate in Fortress's earnings (losses) or distributions. The Class B shares have no dividend or liquidation rights. Each Class B share, along with one Fortress Operating Group (FOG) 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.

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

	Weighted Average Three Months Ended September 30,		Weighted Average Nine Months Ended September 30,	
	2012	2011	2012	2011
Class A shares (public shareholders)	217,293,696	186,675,357	207,521,553	179,704,474
Restricted Class A shares (directors)	828,211	570,293	722,413	506,213
Restricted Class A share units (employees) (A)	2,519,869	2,791,277	4,068,945	5,208,431
Restricted Class A share units (employees) (B)	6,434,147	13,820,478	6,667,917	14,104,896
Fortress Operating Group units (Principals and one senior employee)	299,397,765	305,857,751	301,815,314	304,487,344
Fortress Operating Group RPU (one senior employee)	10,333,334	20,666,667	13,652,069	23,202,687
Total	536,807,022	530,381,823	534,448,211	527,214,045

	As of September 30, 2012	As of December 31, 2011
Class A shares (public shareholders)	219,360,762	189,253,760
Restricted Class A shares (directors)	828,211	570,293
Restricted Class A share units (employees) (A)	636,458	691,808
Restricted Class A share units (employees) (B)	6,434,147	13,667,930
Fortress Operating Group units (Principals and one senior employee)	298,723,852	305,857,751
Fortress Operating Group RPU (one senior employee)	10,333,334	20,666,667
Total	536,316,764	530,708,209

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

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

In January 2012, 8.7 million existing RSUs and 10.3 million existing RPUs vested and the related Class A and Class B shares, as applicable, were delivered, or, in certain cases, were delivered within six months of vesting pursuant to the plan documents. In March and August 2012, one senior employee exchanged an aggregate of 15,917,232 and 1,550,000, respectively, FOG units and Class B shares for an equal number of Class A shares. A portion of the vested shares are generally sold to cover withholding tax requirements. In August of 2012, Fortress paid \$7.5 million of withholding tax on behalf of employees and, therefore, issued only 3.5 million Class A shares in satisfaction of 5.4 million RSUs. This payment was treated as a financing activity on the statements of cash flows since it had the same accounting effect as if Class A shares were

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repurchased.

Dividends and distributions during the nine months ended September 30, 2012 are summarized as follows:

	Declared in Prior Year, Paid Current Year	Declared and Paid	Current Year Declared but not yet Paid	Total
Dividends on Class A Shares	\$	\$ 31,359	\$	\$ 31,359
Dividend equivalents on restricted Class A share units (A)		1,444		1,444
Distributions to Fortress Operating Group unit holders (Principals and one senior employee) (B)	27,561	15,550	7,559	23,109
Distributions to Fortress Operating Group RPU holders (Note 7) (B)	1,862	472	317	789
Total distributions	\$ 29,423	\$ 48,825		