

Fortress Investment Group LLC  
Form 10-Q  
May 10, 2010  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2010

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33294

**Fortress Investment Group LLC**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation

or organization)

**1345 Avenue of the Americas, New York, NY**  
(Address of principal executive offices)

**(212) 798-6100**

(Registrant's telephone number, including area code)

**20-5837959**  
(I.R.S. Employer

Identification No.)

**10105**  
(Zip Code)

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

(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: 158,836,075 outstanding as of May 4, 2010.

Class B Shares: 300,273,852 outstanding as of May 4, 2010.

**Table of Contents**

**FORTRESS INVESTMENT GROUP LLC**

**FORM 10-Q**

**INDEX**

	<b>PAGE</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets as of March 31, 2010 (unaudited) and December 31, 2009</u>	1
<u>Consolidated Statements of Operations (unaudited) for the three months ended March 31, 2010 and 2009</u>	2
<u>Consolidated Statement of Equity (unaudited) for the three months ended March 31, 2010</u>	3
<u>Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2010 and 2009</u>	4
<u>Notes to Consolidated Financial Statements (unaudited)</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	59
Item 4. <u>Controls and Procedures</u>	62
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	62
Item 1A. <u>Risk Factors</u>	63
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	92
Item 3. <u>Defaults upon Senior Securities</u>	92
Item 4. <u>Reserved</u>	92
Item 5. <u>Other Information</u>	92
Item 6. <u>Exhibits</u>	93
<u>SIGNATURES</u>	94

## Table of Contents

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 which pay fees based on realizations (and on certain managed assets); and
- (iv) the NAV 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.

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 and alternative asset companies that are managed by the Fortress Operating Group.

Fortress Operating Group refers to the combined entities, which were wholly-owned by the principals prior to January 2007, and in each of which Fortress Investment Group LLC acquired an indirect controlling interest in January 2007.

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.

## **Table of Contents**

### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

### **SPECIAL NOTE REGARDING EXHIBITS**

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

should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

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

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

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

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

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

(dollars in thousands, except share data)

	<b>March 31, 2010 (Unaudited)</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 223,421	\$ 197,099
Due from affiliates	101,130	64,511
Investments	878,467	867,215
Deferred tax asset	443,359	440,639
Other assets	89,150	90,803
	<b>\$ 1,735,527</b>	<b>\$ 1,660,267</b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Accrued compensation and benefits	\$ 64,828	\$ 131,134
Due to affiliates	362,568	345,976
Deferred incentive income	227,303	160,097
Debt obligations payable	369,876	397,825
Other liabilities	58,054	25,921
	<b>1,082,629</b>	<b>1,060,953</b>
<b>Commitments and Contingencies</b>		
<b>Equity</b>		
Class A shares, no par value, 1,000,000,000 shares authorized, 151,070,002 and 145,701,622 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively		
Class B shares, no par value, 750,000,000 shares authorized, 307,773,852 shares issued and outstanding at March 31, 2010		
Paid-in capital	1,130,850	1,029,536
Retained earnings (accumulated deficit)	(852,145)	(767,994)
Accumulated other comprehensive income (loss)	(635)	(325)
Total Fortress shareholders' equity	278,070	261,217
Principals and others' interests in equity of consolidated subsidiaries	374,828	338,097
Total equity	652,898	599,314
	<b>\$ 1,735,527</b>	<b>\$ 1,660,267</b>

See notes to consolidated financial statements



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

(dollars in thousands, except share data)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues</b>		
Management fees from affiliates	\$ 106,536	\$ 105,652
Incentive income from affiliates	17,556	
Expense reimbursements from affiliates	23,067	13,047
Other revenues (affiliate portion disclosed in Note 6)	13,029	3,597
	160,188	122,296
<b>Expenses</b>		
Interest expense	3,796	8,186
Compensation and benefits	179,393	109,236
Principals agreement compensation	234,759	234,759
General, administrative and other	21,108	17,185
Depreciation and amortization	2,682	2,641
	441,738	372,007
<b>Other Income (Loss)</b>		
Gains (losses) from investments	572	(2,473)
Tax receivable agreement liability adjustment	1,317	(55)
Earnings (losses) from equity method investees	19,881	(34,849)
	21,770	(37,377)
<b>Income (Loss) Before Income Taxes</b>	(259,780)	(287,088)
Income tax benefit (expense)	(1,552)	407
<b>Net Income (Loss)</b>	\$ (261,332)	\$ (286,681)
<b>Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries</b>	\$ (177,181)	\$ (219,522)
<b>Net Income (Loss) Attributable to Class A Shareholders</b>	\$ (84,151)	\$ (67,159)
<b>Dividends declared per Class A share</b>	\$	\$
<b>Earnings Per Class A share - Fortress Investment Group</b>		
Net income (loss) per Class A share, basic	\$ (0.56)	\$ (0.71)
Net income (loss) per Class A share, diluted	\$ (0.58)	\$ (0.71)
Weighted average number of Class A shares outstanding, basic	157,821,895	95,202,243
Weighted average number of Class A shares outstanding, diluted	465,595,747	95,202,243



See notes to consolidated financial statements

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

FOR THE THREE MONTHS ENDED MARCH 31, 2010

(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
<b>Equity - December 31, 2009</b>	145,701,622	307,773,852	\$ 1,029,536	\$ (767,994)	\$ (325)	\$ 261,217	\$ 338,097	\$ 599,314
Contributions from principals and others interests in equity							44,880	44,880
Distributions to principals and others interests in equity			(572)			(572)	(28,998)	(29,570)
Net deferred tax effects resulting from acquisition of Fortress Operating Group units			2,261			2,261		2,261
Director restricted share grant	15,991		57			57	119	176
Capital increase related to equity-based compensation, net	5,352,389		96,135			96,135	202,423	298,558
Dilution impact of Class A share issuance			3,433			3,433	(3,433)	
Comprehensive income (loss) (net of tax)								
Net income (loss)				(84,151)		(84,151)	(177,181)	(261,332)
Foreign currency translation					(144)	(144)	(534)	(678)
Comprehensive income (loss) from equity method investees					(166)	(166)	(545)	(711)
Total comprehensive income (loss)								(262,721)
<b>Equity - March 31, 2010</b>	151,070,002	307,773,852	\$ 1,130,850	\$ (852,145)	\$ (635)	\$ 278,070	\$ 374,828	\$ 652,898

See notes to consolidated financial statements

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

(dollars in thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash Flows From Operating Activities</b>		
Net income (loss)	\$ (261,332)	\$ (286,681)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	2,682	2,641
Other amortization and accretion	877	3,414
(Earnings) losses from equity method investees	(19,881)	34,849
Distributions of earnings from equity method investees	2,707	11
(Gains) losses from investments	(572)	2,473
Deferred incentive income	(17,944)	
Deferred tax (benefit) expense	(726)	(3,759)
Tax receivable agreement liability adjustment	(1,317)	55
Equity-based compensation	298,566	287,803
Allowance for doubtful accounts	1,122	
Cash flows due to changes in		
Due from affiliates	(45,653)	(25,932)
Other assets	(1,292)	(1,257)
Accrued compensation and benefits	(21,211)	(108,216)
Due to affiliates	3,128	(1,367)
Deferred incentive income	85,150	
Other liabilities	32,302	32,657
Net cash provided by (used in) operating activities	56,606	(63,309)
<b>Cash Flows From Investing Activities</b>		
Contributions to equity method investees	(28,485)	(31,792)
Distributions of capital from equity method investees	41,616	10,538
Purchase of fixed assets	(388)	(1,110)
Proceeds from disposal of fixed assets		6
Net cash provided by (used in) investing activities	12,743	(22,358)
<b>Cash Flows From Financing Activities</b>		
Repayments of debt obligations	(27,950)	(125,000)
Payment of deferred financing costs		(4,162)
Principals and others interests in equity of consolidated subsidiaries - contributions	37	25
Principals and others interests in equity of consolidated subsidiaries - distributions	(15,114)	(5,225)
Net cash provided by (used in) financing activities	(43,027)	(134,362)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>26,322</b>	<b>(220,029)</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>197,099</b>	<b>263,337</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 223,421</b>	<b>\$ 43,308</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the period for interest	\$ 3,384	\$ 3,730

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

Cash paid during the period for income taxes	\$ 2,464	\$ 3,008
<b>Supplemental Schedule of Non-cash Investing and Financing Activities</b>		
Employee compensation invested directly in subsidiaries	\$ 45,095	\$ 1,701
Investments of receivable amounts into Fortress Funds	\$ 7,652	\$
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	\$ 31,335	\$

See notes to consolidated financial statements

**Table of Contents**

**FORTRESS INVESTMENT GROUP LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2010

(dollars in tables in thousands, except share data)

**1. ORGANIZATION AND BASIS OF PRESENTATION**

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

Fortress has three 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 assets-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.
- 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 in investment funds managed by external managers, and which include 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), and an Asian fund.
- 4) Principal investments in the above described funds.

***Financial Statement Guide***

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

<b>Selected Financial Statement Captions</b>	<b>Note Reference</b>	<b>Explanation</b>
<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.
Debt Obligations Payable	4	The balance outstanding on the credit agreement.
	5	

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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

<b>Selected Financial Statement Captions</b>	<b>Note Reference</b>	<b>Explanation</b>
Principals and Others Interests in Equity of Consolidated Subsidiaries	6	The GAAP basis of the Principals' ownership interests in Fortress Operating Group as well as employees' ownership interests in certain subsidiaries.
<b><u>Statement of Operations</u></b>		
Management Fees from Affiliates	2	Fees earned for managing Fortress Funds, generally determined based on the size of such funds.
Incentive Income from Affiliates	2	Income earned from Fortress Funds, based on the performance of such funds.
Compensation and Benefits	7	Includes equity-based, profit-sharing and other compensation to employees.
Principals Agreement Compensation	N/A	As a result of the principals agreement, the value of a significant portion of the Principals' equity in Fortress prior to the Nomura Transaction is being recorded as an expense over a five year period. Fortress is not a party to this agreement. It is an agreement between the Principals to further incentivize them to remain with Fortress. This GAAP expense has no economic effect on Fortress or its shareholders.
Gains (Losses) from Investments	N/A	The result of asset dispositions or changes in the fair value of assets which are marked to market (primarily 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.
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.





**Table of Contents**

**FORTRESS INVESTMENT GROUP LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2010

(dollars in tables in thousands, except share data)

**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.

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 and combined financial statements for the year ended December 31, 2009 and notes thereto included in Fortress's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's consolidated financial statements for the year ended December 31, 2009.

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

MARCH 31, 2010

(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 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:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Private Equity		
Private Equity Funds		
Management fees - affil.	\$ 33,465	\$ 37,669
Incentive income - affil.		
Castles		
Management fees - affil.	11,780	11,390
Incentive income - affil.		
Management fees - non-affil. (A)	884	646
Liquid Hedge Funds		
Management fees - affil.	17,466	22,604
Incentive income - affil.	(259)	
Management fees - non-affil. (A)	1,336	25
Incentive income - non-affil. (A)		
Credit Funds		
Credit Hedge Funds		
Management fees - affil.	33,668	27,908
Incentive income - affil.	(129)	
Management fees - non-affil. (A)	381	215
Incentive income - non-affil. (A)	7,928	822
Credit PE Funds		
Management fees - affil.	10,157	6,081
Incentive income - affil.	17,944	
Management fees - non-affil. (A)		
Total		
Management fees - affil.	\$ 106,536	\$ 105,652
Incentive income - affil. (B)	\$ 17,556	\$
Management fees - non-affil. (A)	\$ 2,601	\$ 886
Incentive income - non-affil. (A)	\$ 7,928	\$ 822

(A) Included in Other Revenues on the statement of operations.

(B) See Deferred Incentive Income below.

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.

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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

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 three months ended March 31, 2010 and 2009. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, \$6.2 million and \$0.0 million of additional incentive income from affiliates would have been recognized during the three months ended March 31, 2010 and 2009, 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 three months ended March 31, 2010 and 2009, Fortress recognized \$17.9 million and \$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 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, subject to contingent repayment, was comprised of the following, on an inception to date basis:

	Distributed- Gross	Distributed- Recognized (A)	Distributed- Unrecognized (B)	Undistributed net of intrinsic clawback (C) (D)
Deferred incentive income as of December 31, 2009	\$ 480,211	\$ (320,114)	\$ 160,097	\$ 168,686
Share of income (loss) of Fortress Funds				82,732
Distribution of incentive income	85,150		85,150	(85,150)
Recognition of previously deferred incentive income		(17,944)	(17,944)	
Deferred incentive income as of March 31, 2010	\$ 565,361	\$ (338,058)	\$ 227,303	\$ 166,268

(A) All related contingencies have been resolved.

(B) Reflected on the balance sheet.

(C) At March 31, 2010, the net undistributed incentive income is comprised of \$249.6 million of gross undistributed incentive income, net of \$83.3 million of intrinsic clawback (see next page). The net undistributed incentive income amount represents the amount that would be received by Fortress from the related funds if such funds were liquidated on March 31, 2010 at their net asset values.

(D) From inception to March 31, 2010, Fortress has paid \$172.4 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 employees. If the \$249.6 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional \$128.6 million of

compensation expense.

**Table of Contents**

**FORTRESS INVESTMENT GROUP LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2010

(dollars in tables in thousands, except share data)

The following tables summarize information with respect to the Fortress Funds, other than the Castles, and their related incentive income thresholds as of March 31, 2010:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested (C)	Inception to Date Distributions (D)	Net Asset Value (NAV) (E)	NAV Surplus (Deficit) (F)	Current Preferred Return Threshold (G)	Cross Incentive Threshold (H)	Undistributed Incentive Income (I)	Distributed Incentive Income (J)	Distributed Incentive Subject to Clawback (K)	Gross Intrinsic Clawback (L)	Net Intrinsic Clawback (M)
<b>Private Equity Funds</b>												
NIH (1998)	Indefinite	\$ 415,574	\$ (782,065)	\$ 34,957	N/A	\$	N/A	\$	\$ 94,513	\$	\$	\$
<b>Fund I</b>												
(1999) (J)	Apr-10	1,062,177	(2,711,651)	181,010	\$ 1,830,484		N/A	32,054	292,099	1,664		
Fund II (2002)	Feb-13	1,974,296	(2,915,346)	496,763	1,437,813		N/A	32,105	250,811	75,083		
<b>Fund III</b>												
(2004)	Jan-15	2,762,993	(1,307,362)	1,525,504	69,873	803,470	\$ 733,597		66,903	66,903	66,903	\$ 45,108
<b>Fund III Coinvestment</b>												
(2004)	Jan-15	273,648	(90,925)	186,979	4,256	107,874	103,618					
<b>Fund IV</b>												
(2006)	Jan-17	3,639,561	(119,772)	2,619,639	(900,150)	907,683	1,807,833					
<b>Fund IV Coinvestment</b>												
(2006)	Jan-17	762,696	(12,661)	522,522	(227,513)	196,897	424,410					
<b>GAGACQ</b>												
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	(480,604)	452,808	(286,816)	384,577	671,393		16,447	16,447	16,447	10,041
FRIC (2006)	May-16	328,754	(17,460)	187,925	(123,369)	106,010	229,379					
FICO (2006)	Jan-17	724,525		7,189	(717,336)	214,820	932,156					
FHIF (2006)	Jan-17	1,436,386	(63,154)	1,078,430	(294,802)	380,258	675,060					
<b>Mortgage Opportunities</b>												
<b>Fund III</b>												
(2008)	Jun-13	193,861	(29,718)	111,277	(52,866)	N/A	52,866					
								\$ 64,159	\$ 772,249	\$ 160,097	\$ 83,350	\$ 55,149
<b>PE Funds in Investment Period</b>												
<b>Fund V</b>												
(2007)	Feb-18	\$ 3,613,881	\$ (2,521)	\$ 1,904,616	\$ (1,706,744)	\$ 541,910	\$ 2,248,654	\$	\$	\$	\$	\$
<b>Fund V Coinvestment</b>												
(2007)	Feb-18	936,145	(113)	453,003	(483,029)	160,114	643,143					
FECI (2007)	Feb-18	982,779	(139)	729,291	(253,349)	220,516	473,865					
								\$	\$	\$	\$	\$

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

<u>Credit PE Funds</u>										
Long Dated Value Fund I (2005)	Apr-30	\$ 267,325	\$ (45,627)	\$ 255,683	\$ 33,985	\$ 60,228	\$ 26,243	\$	\$	\$
Long Dated Value Fund II (2005)	Nov-30	263,823	(39,575)	244,698	20,450	46,320	25,870		412	
Long Dated Value Fund III (2007)	Feb-32	334,532	(73,453)	309,087	48,008		N/A	8,140	1,219	
LDVF Patent Fund (2007)	Nov-27	38,934	(9,543)	51,679	22,288		N/A	1,567	484	
								\$ 9,707	\$ 2,115	\$ \$

<u>Credit PE Funds in Investment Period</u>										
Real Assets Fund (2007)	Jun-17	\$ 270,349	\$ (89,988)	\$ 213,524	\$ 33,163	\$	N/A	\$ 3,880	\$ 1,316	\$ \$
Assets Overflow Fund (2008)	May-18	90,500	(56,498)	50,299	16,297		N/A	1,536	90	
Credit Opportunities Fund (2008)	Oct-20	3,218,487	(3,076,564)	1,264,338	1,122,415		N/A	143,628	78,916	45,871
FTS SIP L.P. (2008)	Oct-18	610,505	(646,208)	224,599	260,302		N/A	26,013	25,940	21,335
Credit Opportunities Fund II (2009)	Jul-22	101,736	(3,223)	104,553	6,040		N/A	1,421		
Japan Opportunity Fund (2009)	Jun-19	299,799	(62,169)	275,156	37,526		N/A	7,303		
								\$ 183,781	\$ 106,262	\$ 67,206 \$ \$



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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

	Incentive Income Eligible NAV (K)	Gain to Cross Incentive Income Threshold (L)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (M)	Undistributed Incentive Income (N)	Year to date Incentive Income Crystallized (O)
<b>Liquid Hedge Funds</b>					
<b>Macro Funds (P)</b>					
Main fund investments	\$ 2,126,601	\$ 7,969	66.5%	\$ 4,689	\$ 407
Sidepocket investments (Q)	81,602	48,910	7.4%	295	
Sidepocket investments - redeemers (R)	233,299	135,436	7.7%	796	
<b>Fortress Commodities Funds (S)</b>					
Main fund investments	911,701	35,064	0.0%		
<b>Credit Hedge Funds</b>					
<b>Special Opportunities Funds (S)</b>					
Main fund investments (T)	\$ 2,457,868	\$ 34,863	4.8%	\$ 92	\$
Sidepocket investments (Q)	194,642	68,997	0.1%		
Sidepocket investments - redeemers (R)	223,371	62,561	8.4%	580	
Main fund investments (liquidating) (U)	2,152,801	322,847	0.0%		
<b>Fortress Partners Funds (S)</b>					
Main fund investments	291,229	73,668	26.4%	357	
Sidepocket investments (Q)	100,630	24,649	8.0%	43	
<b>Worden Fund</b>					
Main fund investments	76,938		100.0%	74	

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

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

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

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

(E)

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

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 (I) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (H) below).

- (F) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV.
- (G) Represents the amount of incentive income previously received from the fund since inception.
- (H) 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 ).
- (I) 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 March 31, 2010, Fortress held \$37.9 million of such amounts on behalf of employees related to all of the private equity funds.
- (J) 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.
- (K) Represents the portion of a fund's NAV that is eligible to earn incentive income.
- (L) 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.
- (M) 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 varies, and may vary significantly.
- (N) 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. Main Fund Investments (Liquidating) pay incentive income only after all capital is returned.

**Table of Contents**

**FORTRESS INVESTMENT GROUP LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2010

(dollars in tables in thousands, except share data)

- (O) Represents the amount of incentive income Fortress has earned in the current period from the fund which is no longer subject to contingencies.
  
- (P) Represents the Drawbridge Global Macro Funds and Fortress Macro Funds. 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 impact of the unrealized gains and losses within the SPV at March 31, 2010, as if they became realized, was immaterial to the amounts presented in the table for the Macro main fund.
  
- (Q) 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, realized and unrealized losses from individual sidepockets 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. Base on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at March 31, 2010, the undistributed incentive income from the Macro main fund would be reduced by \$0.9 million.
  
- (R) Represents investments held in sidepockets for investors with no corresponding investment in the related main fund investments (other than the SPV, see (P) above).
  
- (S) Includes onshore and offshore funds.
  
- (T) Subsequent to March 31, 2010, these funds recorded earnings which resulted in 100% of the offshore main fund investors exceeding their incentive income thresholds or high water marks and 100% of the onshore main fund investors being approximately 1% from exceeding their incentive income thresholds or high water marks.
  
- (U) Relates to accounts where investors have provided withdrawal notices and are subject to payout as underlying fund investments are realized.

***Private Equity Funds and Credit PE Funds***

During the three months ended March 31, 2010, Fortress formed new private equity funds or credit PE funds which had capital commitments as follows as of March 31, 2010:

Fortress's commitments	\$ 510
Fortress's affiliates' commitments	19,700

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

Third party investors commitments	102,255
Total capital commitments	\$ 122,465

**Liquid Hedge Funds and Credit Hedge Funds**

During the three months ended March 31, 2010, Fortress formed, or became the manager of, hedge funds with net asset values as follows as of March 31, 2010:

	Liquid	Credit
Fortress	\$	\$ 102
Fortress s affiliates		
Third party investors		76,937
Total NAV (A)	\$	\$ 77,039

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

Redemption notices received, and redemption payments which are made in periods after notices are received, including affiliates, have been as follows:

Three Months Ended March 31,	Liquid Hedge Funds		Credit Hedge Funds	
	Redemption Notices Received	Redemptions Paid During the Period	Redemption Notices Received	Redemptions Paid During the Period
2010	\$ 263,180	\$ 715,385	\$ 16,995	\$ 450,847
2009	\$ 582,785	\$ 2,801,035	\$	\$ 141,092

The differences between notices received and redemptions paid are a result of timing (notices received prior to quarter end, paid afterwards) and the contractual agreements regarding redemptions, which in some cases allow for delayed payment.

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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

**3. INVESTMENTS**

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:

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Equity method investees	\$ 820,512	\$ 809,757
Equity method investees, held at fair value	56,652	56,710
<b>Total equity method investments</b>	<b>877,164</b>	<b>866,467</b>
Options in equity method investees	1,303	748
<b>Total investments</b>	<b>\$ 878,467</b>	<b>\$ 867,215</b>

Gains (losses) from investments can be summarized as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net realized gains (losses)	\$ 400	\$ (396)
Net realized gains (losses) from affiliate investments	(329)	(248)
Net unrealized gains (losses)		
Net unrealized gains (losses) from affiliate investments	501	(1,829)
<b>Total gains (losses) from investments</b>	<b>\$ 572</b>	<b>\$ (2,473)</b>

***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 as described below, 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:

<b>Fortress's Investment</b>		<b>Fortress's Equity in Net Income (Loss)</b>
<b>March 31,</b>	<b>December 31,</b>	<b>Three Months Ended March 31,</b>

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

	2010	2009	2010	2009
Private equity funds, excluding NIH (A)	\$ 533,985	\$ 506,383	\$ 9,242	\$ (32,308)
NIH	2,332	2,486	(149)	(279)
Newcastle (B)	3,313	2,144	N/A	N/A
Eurocastle (B)	2,256	2,616	N/A	N/A
Total private equity	541,886	513,629	9,093	(32,587)
Liquid hedge funds	9,902	12,296	266	1,012
Credit hedge funds	212,549	220,511	9,334	(2,149)
Credit PE funds	107,938	115,896	(48)	(1,528)
Other	4,889	4,135	1,236	403
	\$877,164	\$ 866,467	\$ 19,881	\$ (34,849)

(A) Includes Fortress's direct investment in GAGFAH (XETRA:GFJ) common stock (a private equity portfolio company).

(B) Fortress elected to record these investments, as well as its direct investment in GAGFAH, at fair value pursuant to the fair value option for financial instruments.

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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

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

	Three Months Ended March 31, 2010							Total
	NIH	Private Equity		Liquid		Credit		
		Other Funds (A)	Castles (B)	Hedge Funds	Hedge Funds	PE Funds	Other	
Investment, beginning	\$ 2,486	\$ 506,383	\$ 4,760	\$ 12,296	\$ 220,511	\$ 115,896	\$ 4,135	\$ 866,467
Earnings from equity method investees	(149)	9,242	N/A	266	9,334	(48)	1,236	19,881
Other comprehensive income from equity method investees	(5)		N/A			(865)		(870)
Contributions to equity method investees		19,422		6,820	932	12,517	21	39,712
Distributions of earnings from equity method investees			N/A	(91)	(5)	(2,608)	(3)	(2,707)
Distributions of capital from equity method investees		(194)	N/A	(9,389)	(18,223)	(16,954)	(500)	(45,260)
Total distributions from equity method investees		(194)	N/A	(9,480)	(18,228)	(19,562)	(503)	(47,967)
Mark to fair value - during period (C)	N/A	2,128	958	N/A	N/A	N/A	N/A	3,086
Translation adjustment		(2,996)	(149)					(3,145)
Investment, ending	\$ 2,332	\$ 533,985	\$ 5,569	\$ 9,902	\$ 212,549	\$ 107,938	\$ 4,889	\$ 877,164
Ending balance of undistributed earnings	\$	\$ 274	N/A	\$ 9	\$ 2,987	2,240	\$ 1,523	\$ 7,033

(A) Includes Fortress's direct investment in GAGFAH (XETRA:GFJ) common stock (a private equity portfolio company).

(B) Fortress elected to record these investments, as well as its direct investment in GAGFAH, at fair value pursuant to the fair value option for financial instruments.

(C) Recorded to Other Investments - Net Unrealized Gains (Losses) from Affiliate Investments.

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.

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

	<i>Private Equity Funds excluding NIH</i>	
	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Assets	\$ 11,399,417	\$ 10,993,214
Debt	(273,874)	(705,432)
Other liabilities	(254,790)	(275,702)
Equity	\$ 10,870,753	\$ 10,012,080
Fortress s Investment (A)	\$ 533,985	\$ 506,383
Ownership (B)	4.9%	5.1%
	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Revenues and gains (losses) on investments	\$ 301,821	\$ (767,348)
Expenses	(56,796)	(121,035)
Net Income (Loss)	\$ 245,025	\$ (888,383)
Fortress s equity in net income (loss)	\$ 9,242	\$ (32,308)

(A) Includes Fortress s direct investment in GAGFAH (XETRA:GFJ) common stock (a private equity portfolio company). GAGFAH s summary financial information is not included in this table.

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





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

Business Segment	Gross Assets	Fortress is not Primary Beneficiary		Notes
		Financial Obligations (A)	Fortress Investment (B)	
Credit Hedge Funds	\$ 88,597	\$ 2,619	\$ 126	(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 the 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 these entities.
- (C) Fortress is not the primary beneficiary of this entity, which represents a master fund, because the feeder fund (which is not consolidated) is more closely associated with this fund than Fortress based on both a quantitative and qualitative analysis. The master fund was formed for the sole purpose of acting as an investment vehicle for the related feeder fund.

(D) Fortress's investment includes \$24,000 of other receivables from the credit hedge funds. In June 2009, the FASB issued new guidance on consolidation which became effective for Fortress on January 1, 2010. This guidance changes the definition of a variable interest entity ( VIE ) and changes the methodology to determine who is the primary beneficiary of, or in other words who consolidates, a VIE. Generally, the changes are expected to cause more entities to be defined as VIE's and to shift consolidation to those entities that exercise day-to-day control over the VIE's, such as investment managers. In February 2010, the FASB updated this guidance to defer its application to certain managed entities, particularly investment companies and similar entities. As a result, this guidance had no material impact on Fortress's financial position, results of operations or liquidity.

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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

The following table sets forth certain information regarding VIEs in which Fortress held a variable interest. The March 31, 2010 amounts presented below include VIEs formed during the period (as shown in the immediately preceding table) 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.

Business Segment	Fortress is not Primary Beneficiary			Fortress is not Primary Beneficiary			Notes
	March 31, 2010		Fortress Investment (B)	December 31, 2009		Fortress Investment (B)	
	Gross Assets	Financial Obligations (A)		Gross Assets	Financial Obligations (A)		
Private Equity Funds	\$ 346,506	\$ 195,699	\$ 2,518	\$ 352,787	\$ 197,791	\$ 2,740	(C) (D)
Castles	10,392,052	10,824,385	17,993	11,150,750	12,066,365	13,335	(C) (D)
Liquid Hedge Funds	10,249,585	7,254,359	4,659	7,773,895	5,090,344	7,170	(C) (D)
Credit Hedge Funds	2,386,481	452,022	2,368	2,153,220	598,216	3,132	(C) (D)
Credit PE Funds	349,024		3,294	268,919	5,300	3,710	(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. Of the financial obligations represented herein as of March 31, 2010, \$195.7 million, \$10,218.9 million, and \$420.3 million represent financial borrowings which have weighted average maturities of 1.1, 4.2, and 3.0 years for the private equity funds, Castles and credit hedge funds, respectively. Of the financial obligations represented herein as of December 31, 2009, \$197.8 million, \$11,438.7 million, \$551.4 million, and \$5.3 million represent financial borrowings which have weighted average maturities of 1.4, 4.5, 3.2, and 0.5 years for the private equity funds, Castles, credit hedge funds, and credit PE funds, respectively.
- (B) Represents Fortress's maximum exposure to loss with respect to these entities, which includes direct and indirect investments in 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 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 funds 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) As of March 31, 2010, Fortress's investment includes \$7.7 million, \$0.1 million, \$0.5 million, and \$0.2 million of management fees receivable from the Castles, liquid hedge funds, credit hedge funds, and credit PE funds, respectively, as well as \$0.4 million in incentive income receivable from the liquid hedge funds. As of March 31, 2010, Fortress's investment also includes \$0.2 million, \$3.4 million, \$2.2 million, \$0.6 million and \$0.4 million of expense reimbursements and other receivables from the private equity funds, Castles, liquid hedge funds, credit hedge funds and credit PE funds, respectively. As of December 31, 2009, Fortress's investment includes \$4.1 million, \$0.5 million, and \$1.0 million of management fees receivable from the Castles, credit hedge funds, and credit PE funds, respectively, as

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

well as \$3.7 million and \$0.9 million in incentive income receivable from the liquid hedge funds and credit hedge funds, respectively. As of December 31, 2009, Fortress's investment also includes \$0.2 million, \$3.7 million, \$1.5 million, \$0.6 million and \$0.7 million of expense reimbursements and other receivables from the private equity funds, Castles, liquid hedge funds, credit hedge funds and credit PE funds, respectively. In addition, Fortress has remaining capital commitments to certain credit PE funds which are VIEs which aggregated \$2.7 million at March 31, 2010.

In March 2010, Fortress determined that a reconsideration event had occurred with respect to an operating subsidiary ( FCF ) of one of its private equity funds. FCF 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. Historically, Fortress has provided temporary advances to FCF as a result of certain funds having insufficient current liquidity to make their required reimbursements on a timely basis; these advances were deemed fully collectable. In March 2010, Fortress determined it would make advances to FCF related to a fund from which reimbursement was subject to significant uncertainty. Management determined that these advances would represent the provision of financial support to FCF. As a result of this reconsideration event, 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 beginning in March 2010, was deemed to be its primary beneficiary. Therefore, Fortress consolidated FCF beginning in March 2010, which resulted in a gross up of reimbursement revenues, compensation and miscellaneous expenses, receivables, and payables, but had no impact on Fortress's net income or equity. As of March 31, 2010, FCF's gross assets were approximately \$9.6 million, primarily comprised of affiliate receivables. Fortress's exposure to loss from FCF is limited to its outstanding advances, which were approximately \$1.0 million at March 31, 2010, plus any future advances. Subsequent to Fortress's consolidation of FCF, these advances are eliminated in consolidation. FCF's creditors do not have recourse to Fortress's other assets.

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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

***Fair Value of Financial Instruments***

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

	Fair Value		Valuation Method
	March 31, 2010	December 31, 2009	
Assets - Carried at Fair Value			
Newcastle and Eurocastle common shares	\$ 3,761	\$ 2,662	Level 1 - Quoted prices in active markets for identical assets
GAGFAH common shares	\$ 51,082	\$ 51,950	Level 1 - Quoted prices in active markets for identical assets
Eurocastle convertible debt (A)	\$ 1,808	\$ 2,098	Level 3 - Internal model using significant unobservable inputs
Newcastle and Eurocastle options	\$ 1,303	\$ 748	Level 2 - Lattice-based option valuation models using significant observable inputs

(A) The debt bears interest at 20% per annum and is perpetual, but ECT may redeem the securities after June 2011 at a premium of 20%. As of March 31, 2010, it had a face amount of 1.2 million (\$1.6 million) and was convertible into ECT common shares at 0.30 per share. The fair value was determined using the market approach.

Fortress's investments in instruments measured at fair value using Level 3 inputs changed during the three months ended March 31, 2010 as follows:

Balance at December 31, 2009	\$ 2,098
Total gains (losses) included in net income (including foreign currency translation)	(290)
Balance at March 31, 2010	\$ 1,808

**4. DEBT OBLIGATIONS**

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

Debt Obligation	Face Amount and Carrying Value		Contractual Interest Rate	Final Stated Maturity	March 31, 2010	
	March 31, 2010	December 31, 2009			Weighted Average Funding Cost (A)	Weighted Average Maturity (Years)

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

Credit agreement (B)						
Revolving debt (C)	\$	\$	LIBOR + 2.50% (D)	May 2012		
Term loan	350,000	350,000	LIBOR + 2.50%	May 2012	3.55%	1.92
Delayed term loan (C)	19,876	47,825	LIBOR + 2.50%	May 2012	3.18%	0.37
<b>Total</b>	<b>\$ 369,876</b>	<b>\$ 397,825</b>			<b>3.53%</b>	<b>1.84</b>

- (A) The weighted average funding cost is calculated based on the contractual interest rate (utilizing the most recently reset LIBOR rate) plus the amortization of deferred financing costs. The most recently reset LIBOR rate was 0.23%.
- (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) Approximately \$66.5 million was undrawn on the revolving debt facility as of March 31, 2010. The revolving debt facility includes a \$25 million letter of credit subfacility of which \$8.5 million was utilized. Lehman Brothers Commercial Paper, Inc., which is committed to fund \$7.2 million (including \$0.8 million of the outstanding letters of credit) of the \$75 million revolving credit facility, has filed for bankruptcy protection, did not fund its pro rata portion of the last borrowing under this facility, and it is reasonably possible that it will not fund its portion of the commitments. As a result, \$60.1 million of the undrawn amount was available.
- (D) Subject to unused commitment fees of 0.50% per annum.  
To management's knowledge, there have not been any market transactions in Fortress's debt obligations. However, management believes the fair value of this debt was between 95% and 100% of face value at March 31, 2010.

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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

Fortress was in compliance with all of its debt covenants as of March 31, 2010. The following table sets forth the financial covenant requirements as of March 31, 2010 (dollars in millions).

	March 31, 2010 (dollars in millions)		Notes
	Requirement	Actual	
AUM	≥\$ 20,000	\$ 30,237	(A)
Consolidated Leverage Ratio	≤ 3.50	1.29	(B)
Required Investment Assets	≥\$ 381	\$ 894	(C)
Fortress Fund Investments	≥\$ 153	\$ 566	(C)
Total Investments	≥\$ 229	\$ 723	(C)

(A) Impacted by capital raised in funds, redemptions from funds, and valuations of fund investments.

(B) Impacted by EBITDA, as defined, which is 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.

**5. INCOME TAXES AND TAX RELATED PAYMENTS**

For the three months ended March 31, 2010, an estimated annual effective tax rate of (1.88)% was used to compute the tax provision. Fortress incurred a loss before income taxes for financial reporting purposes, after deducting the compensation expense arising from the Principals forfeiture agreement. However, this compensation expense is not deductible for income tax purposes. Also, a portion of Fortress' s income is not subject to U.S. federal income tax, but is allocated directly to Fortress' s shareholders.

The provision for income taxes consists of the following:

	Three Months Ended March 31,	
	2010	2009
	<b><u>Current</u></b>	
Federal income tax expense (benefit)	\$ 81	\$ 814
Foreign income tax expense (benefit)	587	411
State and local income tax expense (benefit)	1,610	2,127
	2,278	3,352

**Deferred**

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

Federal income tax expense (benefit)	(1,069)	(1,518)
Foreign income tax expense (benefit)	3	(96)
State and local income tax expense (benefit)	340	(2,145)
	(726)	(3,759)
<b>Total expense (benefit)</b>	<b>\$ 1,552</b>	<b>\$ (407)</b>

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Total deferred tax assets	\$ 550,192	\$ 545,253
Valuation allowance	(106,833)	(104,614)
<b>Net deferred tax assets</b>	<b>\$ 443,359</b>	<b>\$ 440,639</b>
Total deferred tax liabilities (A)	\$ 470	\$ 456

(A) Included in Other Liabilities

For the three months ended March 31, 2010, a deferred income tax benefit of \$0.2 million was credited to other comprehensive income, primarily related to the equity method investees. A current income tax benefit of \$0.3 million was credited to additional paid in capital, related to (i) dividend equivalent payments on RSUs (Note 8), and (ii) distributions to Fortress Operating Group restricted partnership unit holders (Note 7), which are currently deductible for income tax purposes.



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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

***Tax Receivable Agreement***

Although the tax receivable agreement payments are calculated based on annual tax savings, for the three months ended March 31, 2010, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be \$3.6 million.

**6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES*****Affiliate Receivables and Payables***

Due from affiliates was comprised of the following:

	Private Equity		Liquid Hedge		Credit			
	Funds	Castles	Funds	Hedge	Funds	PE Funds	Other	Total
<b>March 31, 2010</b>								
Management fees and incentive income (A)	\$ 42,799	\$ 7,740	\$ 770	\$ 4,647	\$ 9,870	\$	\$	\$ 65,826
Expense reimbursements	8,648	3,408	3,162	4,753	4,311			24,282
Expense reimbursements - FCF (B)	7,457							7,457
Dividends and distributions	1,539							1,539
Other	20	249				30	1,727	2,026
<b>Total</b>	<b>\$ 60,463</b>	<b>\$ 11,397</b>	<b>\$ 3,932</b>	<b>\$ 9,400</b>	<b>\$ 14,211</b>	<b>\$ 1,727</b>	<b>\$</b>	<b>\$ 101,130</b>

	Private Equity		Liquid Hedge		Credit			
	Funds	Castles	Funds	Hedge	Funds	PE Funds	Other	Total
<b>December 31, 2009</b>								
Management fees and incentive income (C)	\$ 17,116	\$ 4,087	\$ 7,557	\$ 4,038	\$ 11,200	\$	\$	\$ 43,998
Expense reimbursements (C)	5,471	3,750	1,802	4,752	3,010			18,785
Dividends and distributions								
Other	88	179				1	1,460	1,728
<b>Total</b>	<b>\$ 22,675</b>	<b>\$ 8,016</b>	<b>\$ 9,359</b>	<b>\$ 8,790</b>	<b>\$ 14,211</b>	<b>\$ 1,460</b>	<b>\$</b>	<b>\$ 64,511</b>

(A) Net of allowances for uncollectable management fees of \$14.9 million.

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

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

(C) Net of allowances for uncollectable management fees and expense reimbursements of \$13.8 million and \$0.8 million, respectively. Due to affiliates was comprised of the following:

	March 31, 2010	December 31, 2009
<b>Principals</b>		
- Tax receivable agreement - Note 5	\$ 325,193	\$ 326,467
- Distributions payable on Fortress Operating Group units	31,335	16,552
Other	6,040	2,957
	<b>\$ 362,568</b>	<b>\$ 345,976</b>

As of March 31, 2010, amounts due from Fortress Funds recorded in Due from Affiliates included \$42.5 million of past due management fees, excluding \$11.3 million which has been subordinated to other liabilities of the related fund and has been fully reserved by Fortress, and \$8.6 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 fees will ultimately be collectable as the NAV s of the respective funds exceed the amounts owed.

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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

***Other Related Party Transactions***

For the three months ended March 31, 2010 and 2009, Other Revenues included approximately \$2.1 million and \$1.7 million, respectively, of revenues from affiliates, primarily dividends.

Fortress has entered into cost sharing arrangements with the Fortress Funds, including market data services and subleases of certain of its office space. Expenses borne by the Fortress Funds under these agreements are generally paid directly by those entities (i.e. they are generally not paid by Fortress and reimbursed). For the three months ended March 31, 2010 and 2009, these expenses, mainly related to subscriptions to market data services, approximated \$3.6 million and \$2.9 million, respectively.

In February 2010, two employees terminated their employment at Fortress in order to form their own management company. Effective April 1, 2010, a subsidiary of Fortress entered into a sub-advisory agreement with them and their management company for the purpose of continuing to have them advise on an existing portfolio of illiquid investments in emerging markets on which they previously worked while they were employees. Pursuant to the terms of the agreement, the subsidiary will pay their management company an annual advisory fee and pay them a percentage of realized net proceeds from certain of such investments. As part of the agreement, the former employees have agreed to notify Fortress about certain investment opportunities in which they are involved.

In April 2010, Fortress entered into a software sublicensing agreement on an as is basis with a subsidiary of several Fortress Funds. The software is designed to facilitate cash management, legal entity management and data reconciliation. Fortress paid a one-time licensing fee of \$150,000. The license is perpetual and irrevocable and for the non-exclusive use of Fortress's affiliates.

***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:

	March 31, 2010	December 31, 2009
Principals Fortress Operating Group units	\$ 295,100	\$ 301,469
Employee interests in majority owned and controlled fund advisor and general partner entities	78,463	35,789
Other	1,265	839
Total	\$ 374,828	\$ 338,097

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

**Three Months Ended March 31,**  
**2010**                      **2009**

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

Principals	Fortress Operating Group units	\$ (180,123)	\$ (219,623)
Employee interests in majority owned and controlled fund advisor and general partner entities		2,654	28
Other		288	73
Total		\$ (177,181)	\$ (219,522)

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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

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:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net income (loss) attributable to Fortress	\$ (84,151)	\$ (67,159)
Transfers (to) from the Principals and Others Interests:		
Increase in Fortress's paid-in capital for delivery of 5,251,558 and 28,890 restricted Class A shares during the three months ended March 31, 2010 and 2009, respectively	3,433	3
Change from net income (loss) attributable to Fortress and transfers (to) from Principals and Others Interests	\$ (80,718)	\$ (67,156)

**7. EQUITY-BASED AND OTHER COMPENSATION**

Fortress's total compensation and benefits expense, excluding Principals Agreement compensation, is comprised of the following:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Equity-based compensation, per below	\$ 63,806	\$ 53,045
Profit-sharing expense, per below	50,414	3,605
Discretionary bonuses	34,359	22,859
Other payroll, taxes and benefits	30,814	29,727
	\$ 179,393	\$ 109,236

**Equity-Based Compensation**

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

	<b>RSUs</b>				<b>Restricted Shares</b>		<b>RPUs</b>	
	<b>Employees</b>		<b>Non-Employees</b>		<b>Issued to Directors</b>		<b>Employees</b>	
	<b>Number</b>	<b>Value (A)</b>	<b>Number</b>	<b>Value (A)</b>	<b>Number</b>	<b>Value (A)</b>	<b>Number</b>	<b>Value (A)</b>
Outstanding as of December 31, 2009	44,941,811	\$ 14.59	6,689,054	\$ 13.42	216,367	\$ 9.58	31,000,000	\$ 13.75
Issued	7,233,070	4.70	1,004,551	4.70	15,991	5.35		
Converted to Class A shares	(4,412,525)	17.02	(782,226)	14.47				
Transfers (C)	5,374,289	12.51	(5,374,289)	12.51				
Forfeited	(103,544)	14.54	(212,555)	8.42				

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

Outstanding as of March 31, 2010 (B)      53,033,101    \$ 12.83    1,324,535    \$ 10.67    232,358    \$ 9.29    31,000,000    \$ 13.75

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Expense incurred (B)</b>		
Employee RSUs	\$ 38,453	\$ 24,423
Non-Employee RSUs	1,250	4,461
Restricted Shares	90	148
LTIP	1,696	1,696
RPU's	22,317	22,317
<b>Total equity-based compensation expense</b>	<b>\$ 63,806</b>	<b>\$ 53,045</b>

- (A) Represents the weighted average grant date estimated fair value per share or unit. The weighted average estimated fair value per unit as of March 31, 2010 for awards granted to non-employees was \$3.99, which is equal to the closing trading price per share of Fortress's Class A shares on such date.
- (B) In future periods, Fortress will recognize compensation expense on its non-vested equity based awards of \$603.9 million, with a weighted average recognition period of 2.9 years. This does not include amounts related to the Principals Agreement.
- (C) Relates to FCF employees who became employees of Fortress (see Note 3).

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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

When Fortress records equity-based compensation expense, including that related to the Principals Agreement, it records a corresponding increase in capital. When Fortress delivers Class A shares as a result of the vesting of equity-based compensation, to the extent that it pays withholding taxes in cash (rather than through the sale of employee shares upon delivery) it will record a decrease in capital related to these payments.

**Profit Sharing Expense**

Recognized profit sharing compensation expense is summarized as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Private equity funds (A)	\$	\$ (15)
Castles (A)		(137)
Liquid hedge funds	3,026	2,564
Credit hedge funds	4,145	1,193
Credit private equity funds	43,243	
Other		
<b>Total</b>	<b>\$ 50,414</b>	<b>\$ 3,605</b>

(A) Negative amounts reflect the reversal of previously accrued profit sharing expense resulting from the determination that this expense is no longer probable of being incurred.

**8. EARNINGS PER SHARE AND DISTRIBUTIONS**

	<b>Three Months Ended March 31,</b>			
	<b>2010</b>		<b>2009</b>	
	<b>Basic</b>	<b>Diluted</b>	<b>Basic</b>	<b>Diluted</b>
<b>Weighted average shares outstanding</b>				
Class A shares outstanding	146,073,810	146,073,810	94,500,351	94,500,351
Fully vested restricted Class A share units with dividend equivalent rights	11,606,613	11,606,613	631,260	631,260
Fully vested restricted Class A shares	141,472	141,472	70,632	70,632
Fortress Operating Group units exchangeable into Fortress Investment Group LLC Class A shares (1)		307,773,852		
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)				

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

Total weighted average shares outstanding	157,821,895	465,595,747	95,202,243	95,202,243
<b>Basic and diluted net income (loss) per Class A share</b>				
Net income (loss) attributable to Class A shareholders	\$ (84,151)	\$ (84,151)	\$ (67,159)	\$ (67,159)
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)	(4,934)	(4,934)	(359)	(359)
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 exchangeable into Fortress Investment Group LLC Class A shares (1)		(180,051)		
Net income (loss) available to Class A shareholders	\$ (89,085)	\$ (269,136)	\$ (67,518)	\$ (67,518)
Weighted average shares outstanding	157,821,895	465,595,747	95,202,243	95,202,243
Basic and diluted net income (loss) per Class A share	\$ (0.56)	\$ (0.58)	\$ (0.71)	\$ (0.71)

- (1) The Fortress Operating Group units not held by Fortress (that is, those held by the Principals) are exchangeable into Class A shares on a one-to-one basis. These units are not included in the computation of basic earnings per share. These units enter into the computation of diluted net income (loss) per Class A share when the effect is dilutive using the if-converted method. 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.



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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

- (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. As a result of the net loss incurred in the periods presented, the effect of the units on the calculation is anti-dilutive for each of the periods. The weighted average restricted Class A share units which are not entitled to receive dividend or dividend equivalent payments outstanding were:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Share Units	27,632,927	25,347,250

- (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.

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

	<b>Weighted Average</b>	
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
Class A shares (public shareholders)	146,073,810	94,500,351
Restricted Class A shares (directors)	231,292	135,496
Restricted Class A share units (employees) (A)	11,606,613	631,260
Restricted Class A share units (employees) (B)	19,651,275	22,955,132
Fortress Operating Group units (Principals)	307,773,852	312,071,550
Fortress Operating Group RPU's (senior employee)	31,000,000	31,000,000
<b>Total</b>	<b>516,336,842</b>	<b>461,293,789</b>

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

	As of March 31, 2010	As of December 31, 2009
Class A shares (public shareholders)	150,837,644	145,485,255
Restricted Class A shares (directors)	232,358	216,367
Restricted Class A share units (employees) (A)	6,905,998	1,174,117
Restricted Class A share units (employees) (B)	19,651,275	25,218,073
Fortress Operating Group units (Principals)	307,773,852	307,773,852
Fortress Operating Group RPU's (senior employee)	31,000,000	31,000,000
<b>Total</b>	<b>516,401,127</b>	<b>510,867,664</b>

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

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

In January 2010, 11.4 million existing RSUs vested and the related Class A shares will be delivered within six months of vesting pursuant to the plan documents. A portion of these shares was delivered in March 2010.

Dividends and distributions during the three months ended March 31, 2010 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	\$	\$	\$	\$
Dividend equivalents on restricted Class A share units (A)				
Distributions to Fortress Operating Group unit holders (Principals) (B)	9,442		28,468	28,468
Distributions to Fortress Operating Group RPU holders (Note 7) (B)	951		2,867	2,867
<b>Total distributions</b>	<b>\$ 10,393</b>	<b>\$</b>	<b>\$ 31,335</b>	<b>\$ 31,335</b>

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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

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

(B) Fortress Operating Group made tax-related distributions to the Principals and RPU holders. In the fourth quarter of 2009, Fortress declared \$16.6 million of such distributions of which \$10.4 million were paid, as reflected in the table, and \$6.2 million were not paid as a result of a change in tax estimates.

The following table summarizes our comprehensive income (loss) (net of taxes) for the three months ended March 31, 2009:

	<b>Impact to Total Fortress Shareholders Equity</b>	<b>Impact to Principals and Others Interests in Equity of Consolidated Subsidiaries</b>	<b>Impact to Total Equity</b>
Net income (loss)	\$ (67,159)	\$ (219,522)	\$ (286,681)
Foreign currency translation	(2)	(244)	(246)
Comprehensive income (loss) from equity method investees	(71)	(355)	(426)
Total comprehensive income (loss)	\$ (67,232)	\$ (220,121)	\$ (287,353)

**9. COMMITMENTS AND CONTINGENCIES**

Other than as described below, Fortress's commitments and contingencies remain materially unchanged from December 31, 2009.

**Private Equity Fund and Credit PE Fund Capital Commitments** Fortress has remaining capital commitments to certain of the Fortress Funds which aggregated \$114.8 million as of March 31, 2010. These commitments can be drawn by the funds on demand.

**Minimum Future Rentals** Fortress is a lessee under a number of operating leases for office space.

Minimum future rent payments under these leases are as follows:

April 1 to December 31, 2010	\$ 13,640
2011	12,239
2012	11,726
2013	11,532
2014	10,923
2015	10,458
Thereafter	11,613
Total	\$ 82,131

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

Rent expense recognized on a straight-line basis during the three months ended March 31, 2010 and 2009 was \$5.0 million and \$4.9 million, respectively, and was included in General, Administrative and Other Expense.

**Litigation** Fortress is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions that existed as of March 31, 2010, if any, will not materially affect Fortress's results of operations, liquidity or financial position.

---

**Table of Contents**

**FORTRESS INVESTMENT GROUP LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2010

(dollars in tables in thousands, except share data)

**10. SEGMENT REPORTING**

Fortress conducts its management and investment business through the following six primary segments: (i) private equity funds, (ii) Castles, (iii) liquid hedge funds, (iv) credit hedge funds, (v) credit private equity ( PE ) funds, and (vi) principal investments in these funds as well as cash that is available to be invested.

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

Incentive Income

- (i) a. for Fortress Funds which are private equity funds and credit PE funds, adding (a) incentive income paid (or declared as a distribution) to Fortress, less an applicable reserve for potential future clawbacks if the likelihood of a clawback is deemed greater than remote by Fortress's chief operating decision maker as described below (net of the reversal of any prior such reserves that are no longer deemed necessary), minus (b) incentive income recorded in accordance with GAAP,
- b. for other Fortress Funds, at interim periods, adding (a) incentive income on an accrual basis as if the incentive income from these funds were payable on a quarterly basis, minus (b) incentive income recorded in accordance with GAAP,

Other Income

- (ii) with respect to income from certain principal investments and certain other interests that cannot be readily transferred or redeemed:
  - a. for equity method investments in the private equity funds and credit PE funds as well as indirect equity method investments in hedge fund special investment accounts (which generally have investment profiles similar to private equity funds), treating these investments as cost basis investments by adding (a) realizations of income, primarily dividends, from these funds, minus (b) impairment with respect to these funds, if necessary, minus (c) equity method earnings (or losses) recorded in accordance with GAAP,
  - b. subtracting gains (or adding losses) on stock options held in the Castles,
  - c. subtracting unrealized gains (or adding unrealized losses) on direct investments in publicly traded portfolio companies and in the Castles,

(iii)

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

adding (a) proceeds from the sale of shares received pursuant to the exercise of stock options in certain of the Castles, in excess of their strike price, minus (b) management fee income recorded in accordance with GAAP in connection with the receipt of these options,

### Expenses

- (iv) adding or subtracting, as necessary, the employee profit sharing in incentive income described in (i) above to match the timing of the expense with the revenue,
- (v) adding back equity-based compensation expense (including Castle options assigned to employees, RSUs and RPU's (including the portion of related dividend and distribution equivalents recorded as compensation expense), restricted shares and the LTIP),
- (vi) adding or subtracting, as necessary, any changes in the fair value of contingent consideration payable with respect to the acquisition of a business, to the extent management intends to pay it in equity and it is recorded on the statement of operations under GAAP,
- (vii) adding back the amortization of intangible assets and any impairment of goodwill recorded under GAAP,
- (viii) adding back compensation expense recorded in connection with the forfeiture arrangements entered into among the principals,
- (ix) adding the income (or subtracting the loss) allocable to the interests in consolidated subsidiaries attributable to Fortress Operating Group units, and
- (x) adding back income tax benefit or expense and any income or expense recorded in connection with the tax receivable agreement (Note 5).

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

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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

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

- (i) the difference between the GAAP carrying amount of equity method investments and their carrying amount for segment reporting purposes, which is generally fair value for publicly traded investments and cost for nonpublic investments,
- (ii) employee portions of investments, which are reported gross for GAAP purposes (as assets offset by Principals' and others' interests in equity of consolidated subsidiaries) but net for segment reporting purposes,
- (iii) the difference between the GAAP carrying amount for options owned in certain of the Castles and their carrying amount for segment reporting purposes, which is intrinsic value, and
- (iv) the difference, if any, between the GAAP carrying amount of intangible assets and goodwill and their carrying amount for segment reporting purposes resulting from the distributable earnings adjustments listed above.

*Distributable Earnings Impairment***Investment Impairment for DE purposes**

During the three months ended March 31, 2010, Fortress recorded \$4.3 million of impairment on its direct and indirect investments in private equity funds and credit PE funds for segment reporting purposes. This impairment primarily related to declines in the value of investments that were previously impaired. As of March 31, 2010, Fortress had \$0.3 million of unrealized losses on certain indirect investments in hedge fund special investment accounts that have not been recorded as impairment. As of March 31, 2010, Fortress's share of the net asset value of its direct and indirect investments in private equity funds and credit PE funds exceeded its segment cost basis by \$165.7 million, representing unrealized gains.

**Clawback Reserve on Incentive Income for DE Purposes**

Fortress had recognized incentive income for DE purposes from the following private equity funds, which are subject to contingent clawback, as of March 31, 2010:

<b>Fund</b>	<b>Net Intrinsic Clawback (A)</b>	<b>Periods in Intrinsic Clawback</b>	<b>Prior Year-End Inception-to-Date Net DE Reserve</b>	<b>Current Year-to-Date Gross DE Reserve</b>	<b>Current Year-to-Date Net DE Reserve</b>	<b>Inception-to-Date Net DE Reserve</b>	<b>Notes</b>
Fund I	N/A	N/A	\$	\$	\$	\$	(B)
Fund II - A	N/A	N/A					(B)
Fund II - B	\$ 6,029	6 Quarters	8,520			8,520	(C)

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

Fund III	45,108	9 Quarters	45,108	45,108	(D)
FRID	10,041	11 Quarters	10,041	10,041	(D)
Credit Opportunities Fund	N/A	N/A			(B)
FTS SIP L.P.	N/A	N/A			(B)
Total	\$ 61,178		\$ 63,669	\$ 63,669	

(A) See Note 2.

(B) This fund had significant unrealized gains at March 31, 2010. As a result, the CODM determined that no reserve for clawback was required.

(C) The net intrinsic clawback in this fund, after the employee portion, is less than previously recorded reserves. As a result, no further reserve was deemed necessary.

(D) The potential clawback on these funds has been fully reserved in prior periods.

### Impairment Determination

Fortress has recorded a total of approximately \$4.3 million of impairment and net reserves for DE purposes on certain private equity funds and credit PE funds as described above during the three months ended March 31, 2010. Fortress expects aggregate returns on its other private equity funds and credit PE funds that are in an unrealized investment loss or intrinsic clawback position to ultimately exceed their carrying amount or breakeven point, as applicable. If such funds were liquidated at their March 31, 2010 NAV (although Fortress has no current intention of doing so), the result would be additional impairment losses and reserves for DE purposes of approximately \$0.3 million.



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

MARCH 31, 2010

(dollars in tables in thousands, except share data)

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

**March 31, 2010 and the Three Months Then Ended**

	Private Equity		Liquid	Credit		Principal	Unallocated	Fortress
	Funds	Castles	Hedge	Hedge	PE	Investments		Subtotal
			Funds	Funds	Funds			
Segment revenues								
Management fees	\$ 33,252	\$ 12,539	\$ 18,802	\$ 33,102	\$ 10,157	\$	\$	\$ 107,852
Incentive income			5,502	8,321	85,150			98,973
Segment revenues - total	\$ 33,252	\$ 12,539	\$ 24,304	\$ 41,423	\$ 95,307	\$	\$	\$ 206,825
Fund management distributable earnings	\$ 24,562	\$ 4,437	\$ 7,812	\$ 10,762	\$ 45,801	\$	\$ (1,230)	\$ 92,144
Pre-tax distributable earnings	\$ 24,562	\$ 4,437	\$ 7,812	\$ 10,762	\$ 45,801	\$ 4,249	\$ (1,230)	\$ 96,393
Total segment assets	\$ 58,906	\$ 13,599	\$ 5,104	\$ 9,428	\$ 12,006	\$ 947,202	\$ 526,300	\$ 1,572,545

(A)

(A) Unallocated assets include deferred tax assets of \$443.4 million.

**March 31, 2009 and the Three Months Then Ended**

	Private Equity		Liquid	Credit		Principal	Unallocated	Fortress
	Funds	Castles	Hedge	Hedge	PE	Investments		Subtotal
			Funds	Funds	Funds			
Segment revenues								
Management fees	\$ 37,631	\$ 11,911	\$ 22,629	\$ 28,123	\$ 6,081	\$	\$	\$ 106,375
Incentive income								