Fortress Investment Group LLC
Form 10-Q
November 03, 2011
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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 September 30, 2011

or

o 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)	**20-5837959** (I.R.S. Employer Identification No.)
1345 Avenue of the Americas, New York, NY (Address of principal executive offices)	**10105** (Zip Code)

(212) 798-6100

(Registrant s telephone number, including area code)

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

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

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). x Yes No o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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: 189,706,571 outstanding as of November 3, 2011.

Class B Shares: 305,857,751 outstanding as of November 3, 2011.

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PART II. OTHER INFORMATION

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

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

(i) the capital commitments or invested capital (or NAV, if lower) of our private equity funds and credit PE funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with private equity funds raised after March 2006 includes the mark-to-market value of public securities held within the funds,

(ii) the contributed capital of our publicly traded alternative investment vehicles, which we refer to as our Castles,

(iii) the net asset value, or NAV, of our hedge funds, including the Value Recovery Funds and certain advisory engagements which pay fees based on realizations (and on certain managed assets and, in some cases, a fixed fee); and

(iv) the NAV or fair value of our managed accounts, to the extent management fees are charged.

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

Our calculation of AUM may differ from the calculations of other asset managers and, as a result, this measure may not be comparable to similar measures presented by other asset managers. Our definition of AUM is not based on any definition of assets under management contained in our operating agreement or in any of our Fortress Fund management agreements.

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

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

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.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

SPECIAL NOTE REGARDING EXHIBITS

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

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and cash equivalents	$ 313,738	$ 210,632
Due from affiliates	215,823	303,043
Investments	1,061,460	1,012,883
Deferred tax asset	421,510	415,990
Other assets	96,776	134,147
	$ 2,109,307	$ 2,076,695
Liabilities and Equity		
Liabilities		
Accrued compensation and benefits	$ 183,305	$ 260,790
Due to affiliates	329,927	342,397
Deferred incentive income	260,673	198,363
Debt obligations payable	270,000	277,500
Other liabilities	97,620	68,230
	1,141,525	1,147,280
Commitments and Contingencies		
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 189,706,571 and 169,536,968 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively		
Class B shares, no par value, 750,000,000 shares authorized, 305,857,751 and 300,273,852 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively		
Paid-in capital	1,837,651	1,465,358
Retained earnings (accumulated deficit)	(1,392,631)	(1,052,605)
Accumulated other comprehensive income (loss)	(581)	(1,289)
Total Fortress shareholders equity	444,439	411,464
Principals and others interests in equity of consolidated subsidiaries	523,343	517,951
Total equity	967,782	929,415
	$ 2,109,307	$ 2,076,695

See notes to consolidated financial statements

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(dollars in thousands)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues				
Management fees: affiliates	$ 118,353	$ 107,752	$ 353,269	$ 327,182
Management fees: non-affiliates	18,865	8,628	47,641	17,513
Incentive income: affiliates	14,754	7,487	44,361	53,892
Incentive income: non-affiliates	266	371	1,251	5,759
Expense reimbursements from affiliates	42,350	36,745	130,337	100,606
Other revenues (affiliate portion disclosed in Note 6)	1,071	1,242	5,433	8,791
	195,659	162,225	582,292	513,743
Expenses				
Interest expense	4,583	3,549	13,883	11,043
Compensation and benefits	158,426	184,107	535,259	523,029
Principals agreement compensation	279,623	239,975	751,749	712,101
General, administrative and other	34,165	26,620	109,545	71,970
Depreciation and amortization (including impairment - Note 2)	23,767	3,361	30,114	9,337
	500,564	457,612	1,440,550	1,327,480
Other Income (Loss)				
Gains (losses) (affiliate portion disclosed in Note 3)	(15,229)	2,025	(26,751)	(10,360)
Tax receivable agreement liability adjustment			(116)	1,317
Earnings (losses) from equity method investees	(64,483)	16,941	26,417	42,972
	(79,712)	18,966	(450)	33,929
Income (Loss) Before Income Taxes	(384,617)	(276,421)	(858,708)	(779,808)
Income tax benefit (expense)	2,712	4,545	(24,493)	(4,641)
Net Income (Loss)	$ (381,905)	$ (271,876)	$ (883,201)	$ (784,449)
Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries	$ (239,847)	$ (177,221)	$ (543,175)	$ (513,259)
Net Income (Loss) Attributable to Class A Shareholders	$ (142,058)	$ (94,655)	$ (340,026)	$ (271,190)
Dividends declared per Class A share	$	$	$	$
Earnings Per Class A share				
Net income (loss) per Class A share, basic	$ (0.76)	$ (0.57)	$ (1.85)	$ (1.70)
Net income (loss) per Class A share, diluted	$ (0.83)	$ (0.62)	$ (1.88)	$ (1.75)
Weighted average number of Class A shares outstanding, basic	190,006,987	168,907,106	185,373,605	163,920,012
Weighted average number of Class A shares outstanding, diluted	495,864,738	469,180,958	492,396,969	466,666,392

See notes to consolidated financial statements

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENT OF EQUITY (Unaudited)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders Equity	Principals and Others Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity - December 31, 2010	169,536,968	300,273,852	$ 1,465,358	$ (1,052,605)	$ (1,289)	$ 411,464	$ 517,951	$ 929,415
Contributions from principals and others interests in equity							71,902	71,902
Distributions to principals and others interests in equity			(397)			(397)	(92,973)	(93,370)
Conversion of Class B shares to Class A shares	4,749,434	(4,749,434)	3,878		(33)	3,845	(3,845)	
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units			9,093			9,093		9,093
Director restricted share grant	143,624		398			398	681	1,079
Capital increase related to equity-based compensation, net	15,276,545	10,333,333	346,095			346,095	584,455	930,550
Dilution impact of Class A share issuance			13,226		(89)	13,137	(13,137)	
Comprehensive income (loss) (net of tax)								
Net income (loss)				(340,026)		(340,026)	(543,175)	(883,201)
Foreign currency translation					465	465	452	917
Comprehensive income (loss) from equity method investees					365	365	1,032	1,397
Total comprehensive income (loss)								(880,887)
Equity - September 30, 2011	189,706,571	305,857,751	$ 1,837,651	$ (1,392,631)	$ (581)	$ 444,439	$ 523,343	$ 967,782

See notes to consolidated financial statements

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands)

	Nine Months Ended September 30, 2011		2010	
Cash Flows From Operating Activities				
Net income (loss)	$	(883,201)	$	(784,449)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization		30,114		9,337
Other amortization and accretion		1,119		2,423
(Earnings) losses from equity method investees		(26,417)		(42,972)
Distributions of earnings from equity method investees		19,775		5,630
(Gains) losses		26,751		10,360
Deferred incentive income		(40,146)		(53,493)
Deferred tax (benefit) expense		2,924		391
Options received from affiliates		(12,615)		
Tax receivable agreement liability adjustment		116		(1,317)
Equity-based compensation, including Principals Agreement		930,869		881,200
Allowance for doubtful accounts		5,037		(2,303)
Other				(46)
Cash flows due to changes in				
Due from affiliates		(55,539)		(85,937)
Other assets		20,780		(5,076)
Accrued compensation and benefits		(19,835)		111,229
Due to affiliates		(9,601)		(9,009)
Deferred incentive income		99,239		146,281
Other liabilities		31,852		36,200
Net cash provided by (used in) operating activities		121,222		218,449
Cash Flows From Investing Activities				
Contributions to equity method investees		(69,923)		(48,857)
Distributions of capital from equity method investees		179,258		45,955
Purchase of fixed assets		(13,350)		(1,574)
Acquisitions, net of cash received				(13,474)
Net cash provided by (used in) investing activities		95,985		(17,950)
Cash Flows From Financing Activities				
Repayments of debt obligations		(7,500)		(41,925)
Principals and others interests in equity of consolidated subsidiaries - contributions		13,074		653
Principals and others interests in equity of consolidated subsidiaries - distributions		(119,675)		(122,602)
Net cash provided by (used in) financing activities		(114,101)		(163,874)
Net Increase (Decrease) in Cash and Cash Equivalents		103,106		36,625
Cash and Cash Equivalents, Beginning of Period		210,632		197,099
Cash and Cash Equivalents, End of Period	$	313,738	$	233,724
Supplemental Disclosure of Cash Flow Information				
Cash paid during the period for interest	$	12,049	$	9,228
Cash paid during the period for income taxes	$	7,793	$	7,833
Supplemental Schedule of Non-cash Investing and Financing Activities				
Employee compensation invested directly in subsidiaries	$	58,865	$	70,124

Investments of receivable amounts into Fortress Funds	$	143,800	$	8,127
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	$	2,805	$	11,821
Distributions declared but not yet paid on other non-controlling interests	$		$	4,898
Contingent consideration in purchase of Logan Circle Partners L.P.	$		$	4,000

See notes to consolidated financial statements

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2011

(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

1) Private equity:

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

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

2) Liquid hedge funds, which invest globally in fixed income, currency, equity and commodity markets, and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes a fund-of-funds business, which invests in Fortress Funds, funds managed by external managers, and direct investments.

3) Credit funds:

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

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

4) Principal investments in the above described funds.

Financial Statement Guide

Selected Financial Statement Captions	**Note Reference**	**Explanation**
Balance Sheet		
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.

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2011

(dollars in tables in thousands, except share data)

Selected Financial Statement Captions	**Note Reference**	**Explanation**
Debt Obligations Payable	4	The balance outstanding on the credit agreement.
Principals and Others Interests in Equity of Consolidated Subsidiaries	6	The GAAP basis of the Principals and one senior employee s ownership interests in Fortress Operating Group as well as employees ownership interests in certain subsidiaries.
Statement of Operations		
Management Fees: Affiliates	2	Fees earned for managing Fortress Funds, generally determined based on the size of such funds.
Management Fees: Non-Affiliates	2	Fees earned from managed accounts and our traditional fixed income asset management business, generally determined based on the amount managed.
Incentive Income: Affiliates	2	Income earned from Fortress Funds, based on the performance of such funds.
Incentive Income: Non- Affiliates	2	Income earned from managed accounts, based on the performance of such accounts.
Compensation and Benefits	7	Includes equity-based, profit-sharing and other compensation to employees.
Principals Agreement Compensation	7	As a result of the principals agreement, the January 2007 value of a significant portion of the Principals equity in Fortress is being recorded as an expense over an approximate 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)	3	The result of asset dispositions or changes in the fair value of investments or other financial instruments which are marked to market (including the Castles and GAGFAH).
Tax Receivable Agreement Liability Adjustment	5	Represents a change in the amount due to the Principals under the tax receivable agreement.
Earnings (Losses) from Equity Method Investees	3	Fortress s share of the net earnings (losses) of the Fortress Funds resulting from its principal investments.
Income Tax Benefit (Expense)	5	

	The net tax result related to the current period. Certain of Fortress s revenues are not subject to taxes because they do not flow through taxable entities. Furthermore, Fortress has significant permanent differences between its GAAP and tax basis earnings.

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2011

(dollars in tables in thousands, except share data)

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

In May 2011, the FASB issued new guidance regarding the measurement and disclosure of fair value, which will become effective for Fortress on January 1, 2012. Fortress does not expect this guidance to have a material direct impact on its financial position, results of operations or liquidity. Fortress has not yet completed its assessment of the potential impact of this guidance on the fair values reported by its funds.

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

The accompanying consolidated financial statements and related notes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Fortress s financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Fortress s consolidated and combined financial statements for the year ended December 31, 2010 and notes thereto included in Fortress s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2011, as amended in Fortress s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2011. Capitalized terms used herein, and not otherwise defined, are defined in Fortress s consolidated financial statements for the year ended December 31, 2010.

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

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2011

(dollars in tables in thousands, except share data)

2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

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

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

Management Fees, Incentive Income and Related Profit Sharing Expense

Fortress recognized management fees and incentive income as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Private Equity				
Private Equity Funds				
Management fees - affil.	$ 30,333	$ 36,341	$ 101,443	$ 103,313
Incentive income - affil.	4,440	5,436	7,906	32,862
Castles				
Management fees - affil.	12,277	11,425	36,312	34,279
Management fees, options - affil.	5,594		12,615	
Management fees - non-affil.	1,668	579	3,606	1,953
Incentive income - affil.				
Liquid Hedge Funds				
Management fees - affil.	23,715	21,615	70,262	66,602
Management fees - non-affil.	4,223	2,879	13,598	5,883
Incentive income - affil.	239	671	2,299	399

Incentive income - non-affil.				371		985		371
Credit Funds								
Credit Hedge Funds								
Management fees - affil.		26,914		27,514		80,548		90,817
Management fees - non-affil.		8,004		262		15,573		1,074
Incentive income - affil.		34				2,182		
Incentive income - non-affil.								5,388
Credit PE Funds								
Management fees - affil.		19,520		10,857		52,089		32,171
Management fees - non-affil.		30				97		
Incentive income - affil.		10,041		1,380		31,974		20,631
Incentive income - non-affil.		266				266		
Other (A)								
Management fees - non-affil.		4,940		4,908		14,767		8,603
Total								
Management fees - affil.	$	118,353	$	107,752	$	353,269	$	327,182
Management fees - non-affil.	$	18,865	$	8,628	$	47,641	$	17,513
Incentive income - affil. (B)	$	14,754	$	7,487	$	44,361	$	53,892
Incentive income - non-affil.	$	266	$	371	$	1,251	$	5,759

(A) Related to Logan Circle.

(B) See Deferred Incentive Income below.

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2011

(dollars in tables in thousands, except share data)

Deferred Incentive Income

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

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the nine months ended September 30, 2011 and 2010. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, $46.1 million and $69.4 million of additional incentive income from affiliates would have been recognized during the nine months ended September 30, 2011 and 2010, respectively. Incentive income based on achieving annual performance criteria that has not yet been recognized, if any, is not recorded on the balance sheet and is included as undistributed deferred incentive income in the table below.

During the nine months ended September 30, 2011 and 2010, Fortress recognized $32.0 million and $20.6 million, respectively, of incentive income distributions from its credit PE funds which represented tax distributions. These tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

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

	Distributed-Gross	Distributed-Recognized (A)	Distributed-Unrecognized (B)	Undistributed net of intrinsic clawback (C) (D)
Deferred incentive income as of December 31, 2010	$ 702,709	$ (504,346)	$ 198,363	$ 200,066

Share of income (loss) of Fortress Funds	N/A	N/A	N/A	119,026
Distribution of incentive income	102,456	N/A	102,456	(102,456)
Recognition of previously deferred incentive income	N/A	(40,146)	(40,146)	N/A
Deferred incentive income as of September 30, 2011	$ 805,165	$ (544,492)	$ 260,673	$ 216,636

(A) All related contingencies have been resolved.

(B) Reflected on the balance sheet.

(C) At September 30, 2011, the net undistributed incentive income is comprised of $317.0 million of gross undistributed incentive income, net of $100.4 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 September 30, 2011 at their net asset values.

(D) From inception to September 30, 2011, Fortress has paid $331.7 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income, of which $27.9 million has not been expensed because management has determined that it is not probable of being incurred as an expense and will be recovered from the related individuals. If the $317.0 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional $121.2 million of compensation expense.

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The following tables summarize information with respect to the Fortress Funds, other than the Castles, and their related incentive income thresholds as of September 30, 2011:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions (C)	Net Asset Value (NAV)	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Gross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)	Gross Intrinsic Clawback (J)	Net Intrinsic Clawback (J)
Private Equity Funds												
NIH (1998)	Indefinite	$ 415,574	$ (801,926)	$ 16,950	$ N/A	$ N/A	$ N/A	$	$ 94,513	$	$	$
Fund I (1999) (K)	Apr-10	1,027,871	(2,775,545)	94,595	1,842,269		N/A	17,837	329,042			
Fund II (2002)	Feb-13	1,974,296	(3,260,088)	86,502	1,372,294		N/A		287,024	43,184	17,003	10,886
Fund III (2004)	Jan-15	2,762,993	(1,317,108)	1,448,826	2,941	1,143,459	1,140,518		66,903	66,903	66,903	45,108
Fund III Coinvestment (2004)	Jan-15	273,648	(115,936)	153,399	(4,313)	146,571	150,884					
Fund IV (2006)	Jan-17	3,639,561	(126,308)	2,866,036	(647,217)	1,435,615	2,082,832					
Fund IV Coinvestment (2006)	Jan-17	762,696	(12,651)	575,014	(175,031)	309,766	484,797					
Fund V (2007)	Feb-18	4,103,714	(7,102)	3,459,467	(637,145)	1,070,597	1,707,742					
Fund V Coinvestment (2007)	Feb-18	990,477	(129)	541,923	(448,425)	295,095	743,520					
GAGACQ Fund (2004)	Nov-09	545,663	(595,401)	N/A	N/A	N/A	N/A	N/A	51,476	N/A	N/A	N/A
FRID (2005)	Apr-15	1,220,228	(505,612)	311,018	(403,598)	550,296	953,894		16,447	16,447	16,447	10,041
FRIC (2006)	May-16	328,754	(17,460)	111,314	(199,980)	157,084	357,064					
FICO (2006)	Jan-17	724,525	(5)	(53,926)	(778,446)	325,914	1,104,360					
FHIF (2006)	Jan-17	1,508,484	(63,169)	1,999,959	554,644	595,558	40,914					
FECI (2007)	Feb-18	982,779	(146)	841,560	(141,073)	367,625	508,698					
								$ 17,837	$ 845,405	$ 126,534	$ 100,353	$ 66,035
Private Equity Funds in Investment Period												
WWTAI (2011)	Jun-24	12,600		10,471	(2,129)	213	2,342	$	$	$	$	$
Credit PE Funds												
Long Dated Value Fund I (2005)	Apr-30	$ 267,325	$ (46,931)	$ 273,668	$ 53,274	$ 85,929	$ 32,655	$	$	$	$	$
Long Dated Value Fund II (2005)	Nov-30	271,554	(100,966)	215,525	44,937	69,430	24,493		412			
Long Dated Value Fund III (2007)	Feb-32	340,740	(132,619)	290,849	82,728		N/A	12,353	2,998			
	Nov-27	38,591	(9,459)	51,612	22,480		N/A	1,571	461			

LDVF Patent Fund (2007)												
Real Assets Fund (2007)	Jun-17	358,460	(215,819)	220,225	77,584		N/A	9,741	2,360			
								$ 23,665	$ 6,231	$	$	$
<u>Credit PE Funds in Investment Period</u>												
Credit Opportunities Fund (2008)	Oct-20	$ 4,855,787	$ (4,751,916)	$ 1,662,288	$ 1,558,417	$	$ N/A	$ 97,509	$ 208,487	$ 102,854	$	$
Credit Opportunities Fund II (2009)	Jul-22	1,532,549	(514,333)	1,242,016	223,800		N/A	37,733	6,089	278		
Credit Opportunities Fund III (2011)	Mar-24	63,090		62,192	(898)		898					
FTS SIP L.P. (2008)	Oct-18	1,173,389	(982,360)	514,922	323,893		N/A	17,430	47,213	29,709		
SIP Managed Account (2010)	Sep-20	11,000	(12,065)	7,336	8,401		N/A	1,834	266			
FCO MA LSS (2010)	Jun-24	151,157	(26,224)	131,340	6,407		N/A	338				
FCO MA II (2010)	Jun-22	345,628	(80,804)	311,589	46,765		N/A	7,499	1,376			
FCO MA Maple Leaf (2010)	Oct-20	192,152	(11,364)	176,402	(4,386)	7,198	11,584					
Assets Overflow Fund (2008)	May-18	90,500	(112,344)	1	21,845		N/A		2,180	1,298		
Japan Opportunity Fund (2009)	Jun-19	1,086,540	(491,760)	795,269	200,489		N/A	30,113	8,674			
Net Lease Fund I (2010)	Feb-20	83,038	(6,545)	85,696	9,203		N/A	1,195				
Global Opportunities Fund (2010)	Sep-20	127,317	(14)	119,821	(7,482)	3,097	10,579					
Life Settlements Fund (2010)	Dec-22	285,441	(94,254)	168,367	(22,820)	14,937	37,757					
Life Settlements Fund MA (2010)	Dec-22	23,394	(7,696)	13,778	(1,920)	1,224	3,144					
Real Estate Opportunities Fund (2011)	Sep-24	15,238		14,712	(526)		526					
								$ 193,651	$ 274,285	$ 134,139	$	$

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	Incentive Income Eligible NAV (L)	Gain to Cross Incentive Income Threshold (M)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (N)	Undistributed Incentive Income (O)	Year to date Incentive Income Crystallized (P)
Liquid Hedge Funds					
Macro Funds (Q) (T)					
Main fund investments	$ 2,266,722	$ 174,041	0.4%	$ 65	$ 720
Sidepocket investments (R)	49,798	31,765	N/A	780	
Sidepocket investments - redeemers (S)	254,909	154,256	N/A	3,982	
Managed accounts	559,874	40,313	0.0%		8
Asia Macro Funds (T)					
Main fund investments	188,434	8,737	0.0%		
Fortress Commodities Funds					
Main fund investments	874,614	6,206	59.1%	1,241	1,265
Managed accounts	150,000	2,505	0.0%		889
Fortress Partners Funds (T)					
Main fund investments	149,372	53,107	0.1%		
Sidepocket investments (R)	97,274	27,632	N/A	267	
Credit Hedge Funds					
Special Opportunities Funds (T)					
Main fund investments	$ 3,021,516	$ 330	97.9%	$ 42,881	$ 35
Sidepocket investments (R)	128,962	7,945	N/A	4,344	
Sidepocket investments - redeemers (S)	214,543	80,769	N/A	1,175	
Main fund investments (liquidating) (U)	1,481,502	163,451	88.9%	34,306	1,847
Managed accounts	28,823	20,342	0.0%		
Worden Funds					
Main fund investments	210,729	570	92.4%	1,981	
Value Recovery Funds (V)					
Managed accounts	77,556	5,606	68.0%	273	

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

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

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

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

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

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

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

(J) Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. Gross and Net refer to amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. Fortress remains liable to the funds for these amounts even if it is unable to collect the amounts from employees/affiliates. Fortress withheld a portion of the amounts due to employees under these profit sharing arrangements as a reserve against future clawback; as of September 30, 2011, Fortress held $44.6 million of such amounts on behalf of employees related to all of the private equity funds.

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

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

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

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

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

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

(Q) 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 September 30, 2011, as if they became realized, was immaterial to the amounts presented in the table for the Macro main fund.

(R) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. The performance of these investments may impact Fortress s ability to earn incentive income from main fund investments. For the credit hedge funds and Fortress Partners Funds, realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments. For the Macro Funds, only realized losses from individual sidepockets reduce the incentive income earned from main fund investments. Based on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at September 30, 2011, the undistributed incentive income from the Macro main fund would not be impacted.

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

(T) Includes onshore and offshore funds.

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

(V) Excludes the Value Recovery Funds which had a NAV of $664.7 million at September 30, 2011. Fortress began managing the third party originated Value Recovery Funds in June 2009 and does not expect to earn any incentive income from the fund investments.

Private Equity Funds and Credit PE Funds

During the nine months ended September 30, 2011, the capital commitment period of Fund V, Fund V Coinvestment and FECI expired. At such time, the AUM for these funds were reduced in aggregate by approximately $2.0 billion and, beginning in July 2011, these funds generate lower management fees.

During the nine months ended September 30, 2011, Fortress formed new private equity funds or credit PE funds which had capital commitments as follows as of September 30, 2011:

Fortress	$	9,000
Fortress s affiliates		11,500
Third party investors		365,700
Total capital commitments	$	386,200

Liquid Hedge Funds and Credit Hedge Funds

During the nine months ended September 30, 2011, Fortress formed, or became the manager of, hedge funds with net asset values as follows as of September 30, 2011:

		Liquid
Fortress	$	19,520
Fortress s affiliates		9,760
Third party investors		188,434
Total NAV (A)	$	217,714

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

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

	Liquid Hedge Funds		Credit Hedge Funds	
Nine Months Ended September 30,	**Redemption Notices Received**	**Redemptions Paid During the Period**	**Redemption Notices Received**	**Redemptions Paid During the Period**
2011	$ 1,256,317(A)	$ 930,888	$ 613,055(B)	$ 752,023
2010	$ 975,144	$ 1,540,777	$ 507,205(B)	$ 964,783

(A) Consists of $416.7 million related to funds subject to annual redemption and $839.6 million subject to monthly or quarterly redemption, of which an aggregate of $454.2 million was paid as of September 30, 2011.

(B) In October 2011 and 2010, Fortress s credit hedge funds received $190.9 million and $198.3 million of additional redemption requests, respectively.

The differences between notices received and redemptions paid are a result of timing (such as notices received prior to quarter end, paid afterwards), performance between the notice date and the payment date, and the contractual agreements regarding redemptions, which, in some cases, including all of the credit hedge funds, allow for delayed payment.

Traditional Asset Management

Logan Circle Partners, L.P. (Logan Circle) is a fixed income asset manager with approximately $12.9 billion in assets under management as of September 30, 2011, which Fortress acquired in April 2010. Logan Circle is initially being reported in the unallocated section of Fortress s segments until such time as it becomes material to Fortress s operations.

Part of the acquisition price was paid with contingent consideration, which is contingent on the growth and performance of Logan Circle s business (but not contingent on the continued employment of any employees). The contingent consideration is payable in cash or Class A shares, at Fortress s option, and had an estimated fair value of approximately $4.0 million at closing (the actual payment will either be zero or between

$5.3 million and $28.0 million). The contingent consideration is measured at fair value (currently zero) with changes in fair value being recorded as a gain (loss). This fair value is measured based on the expected performance of Logan Circle in 2011 and a discount rate, and therefore is considered a Level 3 valuation (Note 3).

The assets acquired primarily included goodwill and other intangible assets, which have been recorded in Other Assets. The intangible assets are being amortized over their estimated useful lives, which range from 1 to 8 years. Fortress tests the Logan Circle goodwill and other intangible assets for impairment annually in the fourth quarter of each calendar year, or whenever events or circumstances indicate that it is more likely than not that Logan Circle s fair value has declined below its carrying value. Logan Circle s fair value is estimated based on the following key assumptions (and therefore is considered a Level 3 valuation): expected retention rate of existing investors, growth expectations, estimated future fee rates, estimated operating margin, and market discount rates. These assumptions are determined primarily based on Logan Circle s past experience, Logan Circle s historical and recent investment performance, Logan Circle s business plans, current industry trends, and general economic expectations. These assumptions, particularly those relating to investor retention and growth expectations, as well as discount rates, are highly subjective and are subject to significant uncertainty with respect to future events. In the third quarter of 2011, Fortress determined that Logan Circle had not met certain growth targets in its business plan and therefore performed an intangible asset impairment test. As a result of this test, $20.1 million of goodwill and other intangible assets was written off through Depreciation and Amortization.

During the nine months ended September 30, 2011, Logan Circle generated approximately $14.8 million of revenues (primarily management fees from non-affiliates) and $(14.0) million of net (loss). This net (loss) does not include the change in fair value of the contingent consideration or the write-off of goodwill and other intangible assets, but does include approximately $4.2 million of allocated corporate overhead. In connection with the acquisition of Logan Circle, Fortress established a compensation plan for former Logan Circle employees who became employees of Fortress (the Logan Circle Comp Plan see Note 7).

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3. INVESTMENTS AND FAIR VALUE

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

Investments can be summarized as follows:

	September 30, 2011	December 31, 2010
Equity method investees	$ 1,013,601	$ 949,410
Equity method investees, held at fair value	39,382	60,324
Total equity method investments	1,052,983	1,009,734
Options in equity method investees	8,477	3,149
Total investments	$ 1,061,460	$ 1,012,883

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net realized gains (losses)	$ (478)	$ (637)	$ (3,597)	$ (292)
Net realized gains (losses) from affiliate investments	(221)	581	(518)	(601)
Net unrealized gains (losses)	1,495	(3,116)	2,873	(3,753)
Net unrealized gains (losses) from affiliate investments	(16,025)	5,197	(25,509)	(5,714)
Total gains (losses)	$ (15,229)	$ 2,025	$ (26,751)	$ (10,360)

Investments in Equity Method Investees

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

	Fortress s Investment		Fortress s Equity in Net Income (Loss)			
			Three Months Ended September 30,		Nine Months Ended September 30,	
	September 30, 2011	December 31, 2010	2011	2010	2011	2010
Private equity funds, excluding NIH (A)	$ 651,844	$ 611,794	$ (57,160)	$ 4,326	$ 12,358	$ 21,012
NIH	1,460	1,664	43	388	(57)	207
Newcastle (B)	4,175	6,872	N/A	N/A	N/A	N/A
Eurocastle (B)	81	2,184	N/A	N/A	N/A	N/A
Total private equity	657,560	622,514	(57,117)	4,714	12,301	21,219
Liquid hedge funds	203,409	197,792	(4,964)	6,159	3,747	12,500
Credit hedge funds	53,763	57,661	101	3,689	5,132	8,724
Credit PE funds	130,988	125,265	(2,133)	2,399	5,087	(1,537)
Other	7,263	6,502	(370)	(20)	150	2,066
	$ 1,052,983	$ 1,009,734	$ (64,483)	$ 16,941	$ 26,417	$ 42,972

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

(B) Fortress elected to record these investments, as well as its direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH, at fair value pursuant to the fair value option for financial instruments.

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

	Nine Months Ended September 30, 2011							
	NIH	Private Equity Other Funds (A)	Castles (B)	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Other	Total
Investment, beginning	$ 1,664	$ 611,794	$ 9,056	$ 197,792	$ 57,661	$ 125,265	$ 6,502	$ 1,009,734
Earnings from equity method investees	(57)	12,358	N/A	3,747	5,132	5,087	150	26,417
Other comprehensive income from equity method investees	(4)		N/A			2,299		2,295
Contributions to equity method investees		7,821		82,508	93,791	41,390	641	226,151
Distributions of earnings from equity method investees			N/A	(894)	(10,234)	(8,622)	(25)	(19,775)
Distributions of capital from equity method investees	(143)	(832)	N/A	(67,064)	(92,587)	(21,930)	(5)	(182,561)
Total distributions from equity method investees	(143)	(832)	N/A	(67,958)	(102,821)	(30,552)	(30)	(202,336)
Mark to fair value - during period (C)	N/A	(18,222)	(4,865)	N/A	N/A	N/A	N/A	(23,087)
Translation adjustment		1,856	65					1,921
Dispositions						(1,836)		(1,836)
Deconsolidation (D)				(12,680)		(10,665)		(23,345)
Reclassification to Due to Affiliates (E)		37,069						37,069
Investment, ending	$ 1,460	$ 651,844	$ 4,256	$ 203,409	$ 53,763	$ 130,988	$ 7,263	$ 1,052,983
Ending balance of undistributed earnings	$	$ 25,435	N/A	$ 110	$ 4,774	$ 2,637	$ 2,054	$ 35,010

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

(B) Fortress elected to record these investments, as well as its direct investment in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH, at fair value pursuant to the fair value option for financial instruments.

(C) Recorded to Gains (Losses).

(D) Represents the deconsolidation of two funds discussed under Investments in Variable Interest Entities below.

(E) Represents the general partner liability discussed in Note 9.

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

	Private Equity Funds excluding NIH	
	September 30, 2011	December 31, 2010
Assets	$ 13,025,455	$ 12,490,411
Debt	(43,377)	(145,043)
Other liabilities	(239,266)	(197,587)
Equity	$ 12,742,812	$ 12,147,781
Fortress s Investment (A)	$ 651,844	$ 611,794
Ownership (B)	5.1%	5.0%

	Nine Months Ended September 30,	
	2011	2010
Revenues and gains (losses) on investments	$ 849,622	$ 705,106
Expenses	(195,974)	(172,722)
Net Income (Loss)	$ 653,648	$ 532,384
Fortress s equity in net income (loss)	$ 12,358	$ 21,012

(A) Includes Fortress s direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH. These companies summary financial information is not included in this table.

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

	Liquid Hedge Funds		Credit Hedge Funds		Credit PE Funds (B) (C)	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Assets	$ 8,345,349	$ 7,418,362	$ 8,822,057	$ 9,579,405	$ 6,990,532	$ 6,593,935
Debt		(11,898)	(3,144,624)	(3,475,675)	(82,083)	(358,095)
Other liabilities	(2,196,770)	(1,299,246)	(158,244)	(590,845)	(491,869)	(573,000)
Non-controlling interest			(8,647)	(15,647)	(1,721)	(4,945)
Equity	$ 6,148,579	$ 6,107,218	$ 5,510,542	$ 5,497,238	$ 6,414,859	$ 5,657,895
Fortress s Investment	$ 203,409	$ 197,792	$ 53,763	$ 57,661	$ 130,988	$ 125,265
Ownership (A)	3.3%	3.2%	1.0%	1.0%	2.0%	2.2%

	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010	2011	2010
Revenues and gains (losses) on investments	$ (78,441)	$ 425,212	$ 564,429	$ 988,362	$ 447,707	$ 871,615
Expenses	(163,415)	(129,613)	(195,722)	(198,613)	(170,347)	(214,131)
Net Income (Loss)	$ (241,856)	$ 295,599	$ 368,707	$ 789,749	$ 277,360	$ 657,484
Fortress s equity in net income (loss)	$ 3,747	$ 12,500	$ 5,132	$ 8,724	$ 5,087	$ (1,537)

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

(B) Includes one entity which is recorded on a one quarter lag (i.e., the balances reflected for this entity are for the periods ended March 31, 2011 and 2010, respectively) and several entities which are recorded on a one month lag. They are recorded on a lag because they are foreign entities and do not provide financial reports under U.S. GAAP within the reporting timeframe necessary for U.S. public entities.

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

Investments in Variable Interest Entities

Fortress is not considered the primary beneficiary of, and, therefore, does not consolidate, any of the variable interest entities in which it holds an interest, except as described below. No reconsideration events occurred during the nine months ended September 30, 2011 which caused a change in Fortress s accounting, except as described below.

The following tables set forth certain information as of September 30, 2011 regarding variable interest entities in which Fortress holds a variable interest. The amounts presented below are included in, and not in addition to, the equity method investment tables above.

Entities formed during the nine months ended September 30, 2011:

		Fortress is not Primary Beneficiary		
Business Segment	**Gross Assets**	**Financial Obligations (A)**	**Fortress Investment (B)**	**Notes**
Credit PE Funds	$ 229,111	$	$ 2,426	(C)

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

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

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

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All variable interest entities:

	Fortress is not Primary Beneficiary						
	September 30, 2011			December 31, 2010			
Business Segment	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Notes
Private Equity Funds	$ 17,168	$	$ 1,460	$ 329,999	$ 189,738	$ 1,974	(C) (D)
Castles	7,595,706	6,759,687	19,061	10,183,554	9,944,424	19,122	(C) (D)
Liquid Hedge Funds	5,923,743	1,623,092	13,105	4,217,992	722,194	43,948	(C) (D)
Credit Hedge Funds	1,531,785	346,671	17,823	1,404,971	378,768	38,461	(C) (D)
Credit PE Funds	560,847	58,581	4,462	930,513	450,530	1,962	(C) (D)

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

(B) Represents Fortress s maximum exposure to loss with respect to these entities, which includes direct and indirect investments in these funds. 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 entities than Fortress based on both a quantitative and qualitative analysis. The investing vehicles, intermediate entities and master funds were formed for the sole purpose of acting as investment vehicles for the related funds.

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

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. 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, was deemed to be its primary beneficiary. Therefore, Fortress consolidated FCF beginning in March 2010. As of September 30, 2011, FCF s gross assets were approximately $56.1 million, primarily comprised of affiliate receivables. Fortress s exposure to loss from FCF is limited to its unreserved outstanding advances, which were approximately $30.7 million at September 30, 2011, 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 and FCF s assets are not available to other creditors of Fortress.

In March 2011, Fortress launched a liquid hedge fund and a related onshore feeder fund, which is a VIE. The onshore feeder fund invests substantially all of its equity directly into the liquid hedge fund. Based on a quantitative and qualitative analysis, management determined that Fortress was originally the entity that was most closely associated with the onshore feeder fund. Therefore, Fortress was the onshore feeder fund s primary beneficiary and consolidated it. On July 1, 2011, additional investors made cash contributions to the onshore feeder fund causing Fortress to reconsider whether Fortress remained the entity that is most closely associated with the onshore feeder fund. Based on a qualitative and quantitative analysis, management has determined that Fortress ceased to be the entity most closely associated with the onshore feeder fund. Therefore, Fortress derecognized the onshore feeder fund s gross assets and non-controlling interests therein and recognized a corresponding equity investment representing Fortress s proportionate share of the onshore feeder fund. Fortress did not recognize any gain or loss as the result of its deconsolidation of the onshore feeder fund, but Fortress has begun to recognize management fees and incentive income, if any, earned from the onshore feeder fund in its consolidated statement of operations.

In June 2011, Fortress launched a credit PE fund, which is a VIE. Based on a quantitative and qualitative analysis, management has determined that Fortress was originally the entity that was most closely associated with the fund. Therefore, Fortress was the fund s primary beneficiary and consolidated it. In September 2011, additional investors made cash contributions to this fund causing Fortress to reconsider whether Fortress remained the entity that is most closely associated with this fund. Based on a qualitative and quantitative analysis, management determined that Fortress ceased to be the entity most closely associated with this fund. Therefore, Fortress derecognized this fund s gross assets and non-controlling interests therein and recognized a corresponding equity investment representing Fortress s proportionate share

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of this fund. Fortress didn t recognize any gain or loss as the result of its deconsolidation of this fund, but Fortress has begun to recognize management fees and incentive income, if any, earned from this fund.

Fair Value of Financial Instruments

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

	Fair Value				
	September 30, 2011		**December 31, 2010**		**Valuation Method**
Assets (within Investments)					
Newcastle and Eurocastle common shares	$	4,256	$	7,222	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies, primarily GAGFAH	$	35,127	$	51,267	Level 1 - Quoted prices in active markets for identical assets
Eurocastle convertible debt (A)	$		$	1,834	Level 3 - Binomial lattice-based option valuation models, adjusted for non-option characteristics
Newcastle and Eurocastle options	$	8,477	$	3,149	Level 2 - Lattice-based option valuation models using significant observable inputs
Assets (within Other Assets)					
Derivatives	$	1,040	$	(2,732)	Level 2 - See below
Liabilities (within Other Liabilities)					
Logan Circle Contingent Consideration	$		$	(3,122)	Level 3 - Internal model using significant unobservable inputs

(A) The debt bears interest at 20% per annum and is perpetual, but Eurocastle may redeem the securities after June 2011 at a premium of 20%. As of September 30, 2011, it had a face amount of 1.2 million ($1.6 million) and was convertible into Eurocastle common shares at 0.30 per share. The fair value was determined using the market value approach.

Fortress s interests in instruments measured at fair value using Level 3 inputs changed during the nine months ended September 30, 2011 as follows:

	Assets		Liabilities	
Balance at December 31, 2010	$	1,834	$	(3,122)
Total gains (losses) included in net income (including foreign currency translation)		(1,834)		3,122
Balance at September 30, 2011	$		$	

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

In March 2011, Newcastle issued 17.3 million shares of its common stock in a public offering at a price to the public of $6.00 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 1,725,000 shares of Newcastle s common stock at the public offering price, which were valued at approximately $7.0 million. The options were fully vested upon issuance, become exercisable over thirty months and have a 10-year term.

In September 2011, Newcastle issued 25.9 million shares of its common stock in a public offering at a price to the public of $4.55 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 2,587,500 shares of Newcastle s common stock at the public offering price, which were valued at approximately $5.6 million. The options were fully vested upon issuance, become exercisable over thirty months and have a 10-year term.

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Derivatives

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

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

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

	Balance Sheet Location (A)	Fair Value September 30, 2011	Notional Amount September 30, 2011	Gains/(Losses) Nine Months Ended September 30, 2011	Maturity Date
Foreign exchange option contract	Other Assets	$ 1,457	30,000	$ (57)	Feb-12
Foreign exchange option contract	Other Assets	$ (417)	30,000	$ 655	Feb-12

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

The counterparty on these derivatives is Citibank N.A.

4. DEBT OBLIGATIONS

Debt Obligation	Face Amount and Carrying Value September 30, 2011	December 31, 2010	Contractual Interest Rate	Final Stated Maturity	September 30, 2011 Weighted Average Funding Cost (A)	Weighted Average Maturity (Years)
Credit agreement (B)						
Revolving debt (C)	$	$	LIBOR + 4.00% (D)	Oct-13		
Term loan	270,000	277,500	LIBOR + 4.00% (D)	Oct-15	6.09%	3.04
Total	$ 270,000	$ 277,500			6.09%	3.04

(A) The weighted average funding cost is calculated based on the contractual interest rate (utilizing the most recently reset LIBOR rate or the minimum rate, as applicable) plus the amortization of deferred financing costs. The most recently reset LIBOR rate was below the minimum of 1.75%.

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

(C) Approximately $53.9 million was undrawn on the revolving debt facility as of September 30, 2011. The revolving debt facility includes a $25 million letter of credit subfacility of which $6.1 million was utilized.

(D) With a minimum LIBOR rate of 1.75% and, in the case of the revolving debt, subject to unused commitment fees of 0.625% per annum.

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 its face amount at September 30, 2011.

Fortress was in compliance with all of its debt covenants as of September 30, 2011. The following table sets forth the financial covenant requirements as of September 30, 2011.

	September 30, 2011 (dollars in millions) Requirement	Actual	Notes
AUM, as defined	≥ $25,000	$ 35,010	(A)
Consolidated Leverage Ratio	≤ 2.75	0.69	(B)
Minimum Investment Assets Ratio	≥ 2.00	4.35	(C)
Consolidated Fixed Charge Coverage Ratio	≥ 1.75	4.63	(B)

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

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

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5. INCOME TAXES AND TAX RELATED PAYMENTS

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.

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

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

Based on the value of the RSUs and RPUs which vested during the nine months ended September 30, 2011, Fortress has estimated a $26.8 million tax shortfall which was charged to income tax expense during this period.

The provision for income taxes consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Current	**2011**	**2010**	**2011**	**2010**
Federal income tax expense (benefit)	$ 9,565	$ (3,134)	$ 14,398	$ (505)
Foreign income tax expense (benefit)	1,350	631	5,111	1,723
State and local income tax expense (benefit)	(950)	6	2,060	3,032

		9,965		(2,497)		21,569		4,250
Deferred								
Federal income tax expense (benefit)		(12,436)		(3,047)		(1,035)		(2,518)
Foreign income tax expense (benefit)		1		14		239		45
State and local income tax expense (benefit)		(242)		985		3,720		2,864
		(12,677)		(2,048)		2,924		391
Total expense (benefit)	$	(2,712)	$	(4,545)	$	24,493	$	4,641

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

		September 30, 2011		December 31, 2010
Total deferred tax assets	$	528,762	$	512,201
Valuation allowance		(107,252)		(96,211)
Net deferred tax assets	$	421,510	$	415,990
Total deferred tax liabilities (A)	$	495	$	495

(A) Included in Other Liabilities

For the nine months ended September 30, 2011, a deferred income tax expense of $0.3 million was debited to other comprehensive income, primarily related to the equity method investees. A current income tax benefit of $0.7 million was credited to paid-in capital, related to (i) dividend equivalent payments on RSUs and RPUs (Note 8), as applicable, and (ii) distributions to Fortress Operating Group restricted partnership unit holders (Note 8), which are currently deductible for income tax purposes.

FIG Corp increased its ownership in the underlying Fortress Operating Group entities during the nine months ended September 30, 2011 through (i) the exchanges by one senior employee of Fortress Operating Group units and Class B

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shares for Class A shares (as described in Note 8), and (ii) the delivery of vested RSUs and RPUs (Note 8). As a result of this increased ownership, the deferred tax asset was increased by $7.1 million with an offsetting increase of $2.7 million to the valuation allowance. In addition, the deferred tax asset was increased by $5.6 million with an offsetting increase of $1.1 million to the valuation allowance related to a step-up in tax basis due to the share exchange which will result in additional tax deductions. The establishment of these net deferred tax assets also increased additional paid-in capital.

Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the nine months ended September 30, 2011, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be $12.3 million. During the nine months ended September 30, 2011, $13.5 million was paid under the tax receivable agreement relating to 2009.

6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

	Private Equity			Credit			
September 30, 2011	**Funds**	**Castles**	**Liquid Hedge Funds**	**Hedge Funds**	**PE Funds**	**Other**	**Total**
Management fees and incentive income (A)	$ 95,233	$ 3,887	$ 217	$ 19,302	$ 17,205	$	$ 135,844
Expense reimbursements (A)	5,101	2,441	6,830	4,620	4,696		23,688
Expense reimbursements - FCF (A) (B)	49,220						49,220
Dividends and distributions		154					154
Other	31	655			1,960	4,271	6,917

Total	$ 149,585	$ 7,137	$ 7,047	$ 23,922	$ 23,861	$ 4,271	$ 215,823

	Private Equity			Credit			
December 31, 2010	**Funds**	**Castles**	**Liquid Hedge Funds**	**Hedge Funds**	**PE Funds**	**Other**	**Total**
Management fees and incentive income (A)	$ 53,282	$ 3,836	$ 47,920	$ 108,623	$ 15,508	$	$ 229,169
Expense reimbursements (A)	1,170	3,081	2,296	3,790	3,949	4	14,290
Expense reimbursements - FCF (B)	42,385						42,385
Dividends and distributions	762						762
Other	3	521	13,219		1	2,693	16,437
Total	$ 97,602	$ 7,438	$ 63,435	$ 112,413	$ 19,458	$ 2,697	$ 303,043

(A) Net of allowances for uncollectable management fees and expense reimbursements of $12.0 million and $5.0 million at September 30, 2011, respectively, and of $11.6 million and $1.5 million as of December 31, 2010, respectively. Allowances are recorded as General and Administrative expenses.

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

As of September 30, 2011, amounts due from Fortress Funds recorded in Due from Affiliates included $95.2 million of past due management fees, excluding $12.0 million which has been fully reserved by Fortress, and $34.0 million of private equity general and administrative expenses advanced on behalf of certain Fortress Funds. Although such funds are currently experiencing liquidity issues, Fortress believes the unreserved portion of these fees will ultimately be collectable since the NAV s of the respective funds exceed the amounts owed.

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Due to affiliates was comprised of the following:

	September 30, 2011		December 31, 2010	
Principals - Tax receivable agreement - Note 5	$	282,198	$	295,541
Distributions payable on Fortress Operating Group units		2,805		42,900
Other		7,855		3,956
General partner liability - Note 9		37,069		
	$	329,927	$	342,397

Other Related Party Transactions

For the nine months ended September 30, 2011 and 2010, Other Revenues included approximately $2.0 million and $5.1 million, respectively, of revenues from affiliates, primarily dividends.

Fortress has entered into cost sharing arrangements with certain Fortress Funds, including market data services and subleases of certain of its office space. Expenses borne by these 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 nine months ended September 30, 2011 and 2010, these expenses approximated $0.9 million and $12.6 million, respectively.

In February 2011, Fortress made $1.3 million of advances to senior employees (not officers) in connection with their investments in one of the Fortress Funds. These advances bear interest generally at LIBOR+4.25% and are due upon the maturity of the fund or, at Fortress s option, upon the termination of employment.

In February 2011, Fortress made a $9.5 million advance to a senior employee (not an officer) in connection with his investments in Fortress Funds. This advance bore interest generally at LIBOR+4% and was repaid in March 2011.

In July 2011, Fortress committed to an aggregate of $2.6 million of advances to senior employees (not officers) in connection with their investments in one of the Fortress Funds. These advances bear interest generally at LIBOR+4.25% and are due upon the maturity of the fund or upon certain events as defined in the related agreements.

In September 2011, Fortress contracted to sell a residential property that it had purchased in December 2010 from a senior employee. Fortress recorded a related loss of approximately $0.4 million. The closing is expected to occur in the fourth quarter of 2011.

Principals and Others Interests in Consolidated Subsidiaries

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

This balance sheet caption was comprised of the following:

	September 30, 2011	December 31, 2010
Fortress Operating Group units held by the Principals and one senior employee	$ 460,572	$ 458,842
Employee interests in majority owned and controlled fund advisor and general partner entities	60,874	57,609
Other	1,897	1,500
Total	$ 523,343	$ 517,951

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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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Fortress Operating Group units held by the Principals and one senior employee	$ (239,762)	$ (179,768)	$ (547,091)	$ (520,543)
Employee interests in majority owned and controlled fund advisor and general partner entities	45	2,554	3,876	6,800
Other	(130)	(7)	40	484
Total	$ (239,847)	$ (177,221)	$ (543,175)	$ (513,259)

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income (loss) attributable to Fortress	$ (142,058)	$ (94,655)	$ (340,026)	$ (271,190)
Transfers (to) from the Principals and Others Interests:				
Increase in Fortress s shareholders equity for the conversion of Fortress Operating Group units by the Principals and one senior employee			3,845	7,188
Increase in Fortress s shareholders equity for the delivery of Class A shares primarily in connection with vested RSUs and RPUs	5,275	2,795	13,137	10,328
Decrease in Fortress s shareholders equity for the purchase of Fortress Operating Group units in connection with an equity offering				
Change from net income (loss) attributable to Fortress and transfers (to) from Principals and Others Interests	$ (136,783)	$ (91,860)	$ (323,044)	$ (253,674)

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7. EQUITY-BASED AND OTHER COMPENSATION

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months September 30, 2011	Nine Months September 30, 2010
Equity-based compensation, per below	$ 57,051	$ 57,070	$ 179,120	$ 169,100
Profit-sharing expense, per below	13,125	32,286	89,027	111,720
Discretionary bonuses	46,458	54,932	141,708	133,611
Other payroll, taxes and benefits	41,792	39,819	125,404	108,598
	$ 158,426	$ 184,107	$ 535,259	$ 523,029

Equity-Based Compensation

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

	RSUs				Restricted Shares		RPUs	
	Employees		Non-Employees		Issued to Directors		Employees	
	Number	Value (A)	Number	Value (A)	Number	Value (A)	Number	Value (A)
Outstanding as of December 31, 2010	44,289,586	$ 11.63	1,196,943	$ 11.11	426,669	$ 6.58	31,000,000	$ 13.75
Issued	6,324,792	5.54			143,624	5.23		
Converted to Class A shares	(14,902,391)	11.58	(389,677)	11.13			(4,749,434)	13.75
Converted to Class B shares							(5,583,899)	13.75
Forfeited	(739,478)	12.04						
Outstanding as of September 30, 2011 (B)	34,972,509	$ 10.54	807,266	$ 11.11	570,293	$ 6.24	20,666,667	$ 13.75

Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010

Expense incurred (B)				
Employee RSUs	$ 29,052	$ 32,137	$ 100,006	$ 93,766
Non-Employee RSUs	(310)	119	113	1,934
Restricted Shares (C)	38	164	327	325
LTIP		1,733		5,143
STIP (D)	5,353		10,590	
RPUs	22,812	22,813	67,694	67,694
Logan Circle Comp Plan	106	104	390	238
Total equity-based compensation expense	$ 57,051	$ 57,070	$ 179,120	$ 169,100

(A) Represents the weighted average grant date estimated fair value per share or unit. The weighted average estimated fair value per unit as of September 30, 2011 for awards granted to non-employees was $2.85.

(B) In future periods, Fortress will recognize compensation expense on its non-vested equity based awards outstanding as of September 30, 2011 of $297 million, with a weighted average recognition period of 1.76 years. This does not include contingent amounts or amounts related to the Principals Agreement.

(C) Certain restricted shares granted to directors are recorded in General and Administrative Expense ($0.8 million and $0.2 million for the nine months ended September 30, 2011 and 2010, respectively) and therefore are not included above.

(D) STIP stands for Short Term Incentive Plan. In April 2011, one of the Principals entered into an agreement with a senior employee whereby such employee will receive 2,857,143 Fortress Operating Group units from such Principal if the employee remains with Fortress until January 2012. As a result of the service requirement, the fair value of these units is being charged to compensation expense in 2011.

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When Fortress records equity-based compensation expense, including that related to the Principals Agreement, it records a corresponding increase in capital.

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

In January 2011, Fortress granted 5.2 million RSUs to its employees and affiliates valued at an aggregate of $29.2 million on the grant date. These RSUs generally vest over two and a half years.

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

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

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

The Principals are currently party to the Principals Agreement under which they are obligated to forfeit a percentage of their Fortress equity in the event that they voluntarily resign from Fortress prior to the fifth anniversary of Fortress s IPO (i.e., February 8, 2012). In order to align the termination of the Principals Agreement with the effective date of their new employment agreements, the Principals have amended the expiration date of the Principals Agreement to December 31, 2011. As a result, all of the remaining expense related to this agreement, including $99.1 million that would otherwise have been recognized in 2012, is being recorded as Principals Agreement Compensation in the Statement of Operations from the date of the amendment through December 31, 2011.

Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Private equity funds	$ 541	$ 2,010	$ 1,032	$ 2,010
Castles				
Liquid hedge funds	5,057	6,395	16,338	12,577
Credit hedge funds (A)	(620)	18,832	24,001	24,690
Credit PE funds	8,147	5,049	47,656	72,443
Total	$ 13,125	$ 32,286	$ 89,027	$ 111,720

(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.

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8. EARNINGS PER SHARE AND DISTRIBUTIONS

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

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	186,675,357	186,675,357	179,704,474	179,704,474
Fully vested restricted Class A share units with dividend equivalent rights	2,791,277	2,791,277	5,208,431	5,208,431
Fully vested restricted Class A shares	540,353	540,353	460,700	460,700
Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1)		305,857,751		307,023,364
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)				
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)				
Total weighted average shares outstanding	190,006,987	495,864,738	185,373,605	492,396,969
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	$ (142,058)	$ (142,058)	$ (340,026)	$ (340,026)
Dilution in earnings due to RPUs treated as a participating security of Fortress Operating Group and fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4)	(1,561)	(1,561)	(3,698)	(3,698)
Dividend equivalents declared on non-vested restricted Class A shares and restricted Class A share units				

Add back Principals and others interests in loss of Fortress Operating Group, net of assumed corporate income taxes at enacted rates, attributable to Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1)				(267,989)				(580,511)
Net income (loss) available to Class A shareholders	$	(143,619)	$	(411,608)	$	(343,724)	$	(924,235)
Weighted average shares outstanding		190,006,987		495,864,738		185,373,605		492,396,969
Basic and diluted net income (loss) per Class A share	$	(0.76)	$	(0.83)	$	(1.85)	$	(1.88)

	Three Months Ended September 30, 2010				Nine Months Ended September 30, 2010			
		Basic		Diluted		Basic		Diluted
Weighted average shares outstanding								
Class A shares outstanding		166,657,562		166,657,562		158,130,022		158,130,022
Fully vested restricted Class A share units with dividend equivalent rights		2,024,800		2,024,800		5,632,820		5,632,820
Fully vested restricted Class A shares		224,744		224,744		157,170		157,170
Fortress Operating Group units exchangeable into Class A shares (1)				300,273,852				302,746,380
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)								
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)								
Total weighted average shares outstanding		168,907,106		469,180,958		163,920,012		466,666,392
Basic and diluted net income (loss) per Class A share								
Net income (loss) attributable to Class A shareholders	$	(94,655)	$	(94,655)	$	(271,190)	$	(271,190)
Dilution in earnings due to RPUs treated as a participating security of Fortress Operating Group and fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4)		(1,487)		(1,487)		(8,195)		(8,195)
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 Class A shares (1)				(193,716)				(537,696)
Net income (loss) available to Class A shareholders	$	(96,142)	$	(289,858)	$	(279,385)	$	(817,081)
Weighted average shares outstanding		168,907,106		469,180,958		163,920,012		466,666,392
Basic and diluted net income (loss) per Class A share	$	(0.57)	$	(0.62)	$	(1.70)	$	(1.75)

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(1) The Fortress Operating Group units and fully vested RPUs not held by Fortress (that is, those held by the Principals and one senior employee) are exchangeable into Class A shares on a one-to-one basis. These units and fully vested RPUs are not included in the computation of basic earnings per share. These units and fully vested RPUs 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.

(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 losses 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Share Units	21,556,226	24,528,522	24,233,838	26,554,051

(4) Fortress Operating Group RPUs are eligible to receive partnership distribution equivalent payments when distributions are declared and paid on Fortress Operating Group units. The RPUs 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:

	Weighted Average Three Months Ended September 30, 2011	2010	Weighted Average Nine Months Ended September 30, 2011	2010
Class A shares (public shareholders)	186,675,357	166,657,562	179,704,474	158,130,022
Restricted Class A shares (directors)	570,293	426,669	506,213	310,168
Restricted Class A share units (employees) (A)	2,791,277	2,024,800	5,208,431	5,632,820
Restricted Class A share units (employees) (B)	13,820,478	18,992,319	14,104,896	19,474,536
Fortress Operating Group units (Principals and one senior employee)	305,857,751	300,273,852	304,487,344	302,746,380
Fortress Operating Group RPUs (one senior employee)	20,666,667	31,000,000	23,202,687	31,000,000
Total	530,381,823	519,375,202	527,214,045	517,293,926

	As of September 30, 2011	As of December 31, 2010
Class A shares (public shareholders)	189,136,278	169,110,299
Restricted Class A shares (directors)	570,293	426,669
Restricted Class A share units (employees) (A)	696,977	1,058,331
Restricted Class A share units (employees) (B)	13,667,930	19,257,978
Fortress Operating Group units (Principals and one senior employee)	305,857,751	300,273,852
Fortress Operating Group RPUs (one senior employee)	20,666,667	31,000,000
Total	530,595,896	521,127,129

(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 2011, 10.0 million existing RSUs and 10.3 million existing RPUs vested and the related Class A and Class B shares, as applicable, were delivered, or, in the case of certain RSUs, are expected to be delivered within six months of vesting pursuant to the plan documents. In March 2011, one senior employee exchanged an aggregate of 4,749,434 FOG units and Class B shares for an equal number of Class A shares. A portion of the vested shares are being sold to cover withholding tax requirements.

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Dividends and distributions during the nine months ended September 30, 2011 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 and one senior employee) (B)	38,886	17,274	2,627	19,901
Distributions to Fortress Operating Group RPU holders (Note 7) (B)	4,014	1,279	178	1,457
Total distributions	$ 42,900	$ 18,553	$ 2,805	$ 21,358

(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 FOGU holders (the Principals and one senior employee) and the RPU holder (one senior employee).

Fortress s board of directors has approved a dividend of $0.05 per Class A share related to the fourth quarter of 2011. The dividend has not yet been declared.

The following table summarizes our comprehensive income (loss) (net of taxes) for the nine months ended September 30, 2010:

	Impact to Total Fortress Shareholders Equity	Impact to Principals and Others Interests in Equity of Consolidated Subsidiaries	Impact to Total Equity
Nine Months Ended September 30, 2010			
Net income (loss)	$ (271,190)	$ (513,259)	$ (784,449)

Foreign currency translation	239	23	262
Comprehensive income (loss) from equity method investees	(1,056)	(3,524)	(4,580)
Total comprehensive income (loss)	$ (272,007)	$ (516,760)	$ (788,767)

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9. COMMITMENTS AND CONTINGENCIES

Other than as described below, Fortress s commitments and contingencies remain materially unchanged from December 31, 2010.

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

In March 2011, one private equity fund fell into a negative equity position, after considering all of Fortress s interests in such fund and its reserves related thereto. As described above, the amount of the negative equity was recorded, through earnings (losses) from equity method investees, by the general partner entity and is therefore included in the consolidated financial statements of Fortress. When the fund matures and is liquidated, Fortress will record a gain in the event and to the extent it does not fund this negative equity. The amount of negative equity recorded at September 30, 2011 was $37.1 million.

Litigation Fortress is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions that existed as of September 30, 2011, if any, will not materially affect Fortress s results of operations, liquidity or financial position.

Private Equity Fund and Credit PE Fund Capital Commitments Fortress has remaining capital commitments to certain of the Fortress Funds which aggregated $91.7 million as of September 30, 2011. 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:

October 1 to December 31, 2011	$	5,311
2012		21,620
2013		21,357
2014		20,475
2015		18,877
2016		17,027
Thereafter		1,942
Total	$	106,609

Rent expense, including operating escalations, during the nine months ended September 30, 2011 and 2010 was $20.8 million and $16.7 million, respectively, and was included in General, Administrative and Other Expense.

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10. SEGMENT REPORTING

Fortress conducts its management and investment business through the following 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. Logan Circle (Note 2) is initially being reported in the unallocated section of Fortress s segments until such time as it becomes material to Fortress s operations.

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 (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) 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 RPUs (including the portion of related dividend and distribution equivalents recorded as compensation expense), and restricted shares),

(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 or intangible assets 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).

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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.

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

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

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

(iii) the difference, if any, between the GAAP carrying amount of intangible assets and goodwill and their carrying amount for segment reporting purposes resulting from the distributable earnings adjustments listed above, and

(iv) at interim periods, the accrued incentive income recorded for distributable earnings purposes in relation to the incentive income reconciling item in (i)(b) above.

In 2011, Fortress s management changed the method by which segment investments in funds are reported from cost basis to Fortress s share of the fund s net asset value. Fortress also changed the method by which segment investments in options are reported from intrinsic value to estimated fair value.

In the second quarter of 2011, Fortress reorganized its segments by moving two of its funds, Fortress Partners Fund LP and Fortress Partners Offshore Fund LP, from its Credit Hedge Fund segment to its Liquid Hedge Fund segment. The funds were moved to reflect a change in the way the business is reviewed and assessed by its chief operating decision maker. All of Fortress s internal reports have been changed to reflect this reorganization and Fortress s allocable expenses are now allocated amongst the segments based on this reorganization. Furthermore, responsibility for these funds has been transferred to management of the Liquid Hedge Fund segment.

As required, the segment reorganization described above has been reflected on a retrospective basis for all periods presented.

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Distributable Earnings Impairment

Clawback Reserve on Incentive Income for DE Purposes

Fortress had recognized incentive income for DE purposes from certain private equity funds and credit PE funds, which are subject to contingent clawback, as of September 30, 2011:

Fund	Net Intrinsic Clawback (A)	Periods in Intrinsic Clawback	Prior Year-End Inception-to-Date Net DE Reserve	Current Year-to-Date Gross DE Reserve	Current Year-to-Date Net DE Reserve	Inception-to-Date Net DE Reserve	Notes
Fund I	N/A	N/A	N/A	N/A	N/A	N/A	(B)
Fund II	$ 10,886	12 Quarters	$ 8,520	$ 4,538	$ 2,915	$ 11,435	(C)
Fund III	45,108	15 Quarters	45,108			45,108	(D)
FRID	10,041	17 Quarters	10,041			10,041	(D)
Credit Opportunities Fund	N/A	N/A	N/A	N/A	N/A	N/A	(E)
Credit Opportunities Fund II	N/A	N/A	N/A	N/A	N/A	N/A	(E)
FTS SIP L.P.	N/A	N/A	N/A	N/A	N/A	N/A	(E)
Assets Overflow Fund	N/A	N/A	N/A	N/A	N/A	N/A	(F)
Total	$ 66,035		$ 63,669	$ 4,538	$ 2,915	$ 66,584	

(A) See Note 2.

(B) The incentive income from this fund is no longer subject to contingent clawback.

(C) The net intrinsic clawback in this fund, after the employee portion, in excess of previously recorded reserves was approximately $2.4 million immediately prior to September 30, 2011. Based on the criteria determined by the CODM, management determined that an additional reserve of $2.9 million was required.

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

(E) These funds had significant undistributed gains at September 30, 2011. As a result, the CODM determined that no reserve for clawback was required.

(F) This fund had resolved all of its investments and had a NAV close to zero and no intrinsic clawback at September 30, 2011. As a result, the CODM determined that no reserve for clawback was required.

Impairment Determination

During the nine months ended September 30, 2011, Fortress recorded $2.9 million of impairment on its direct and indirect investments in its funds for segment reporting purposes. As of September 30, 2011, Fortress had $1.0 million of unrealized losses on certain investments that have not been recorded as impairment. As of September 30, 2011, Fortress s share of the net asset value of its direct and indirect investments exceeded its segment cost basis by $280.3 million, representing unrealized gains.

During the nine months ended September 30, 2011, Fortress recorded a $2.9 million net clawback reserve for DE purposes, as shown above.

Fortress expects aggregate returns on its private equity funds and credit PE funds that are in an unrealized investment loss or intrinsic clawback position, after taking reserves into account, to ultimately exceed their carrying amount or breakeven point, as applicable. If such funds were liquidated at their September 30, 2011 NAV (although Fortress has no current intention of doing so), the result would be additional impairment losses and reserves for DE purposes of approximately $1.0 million.

Segment Results of Operations

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

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2011

(dollars in tables in thousands, except share data)

September 30, 2011 and the Nine Months Then Ended

	Private Equity		Liquid	Credit				
	Funds	Castles	Hedge Funds	Hedge Funds	PE Funds	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues								
Management fees	$ 101,443	$ 39,542	$ 83,859	$ 96,122	$ 52,187	$	$ 14,767	$ 387,920
Incentive income	(1,748)		4,526	49,923	99,666			152,367
Segment revenues - total	$ 99,695	$ 39,542	$ 88,385	$ 146,045	$ 151,853	$	$ 14,767	$ 540,287
Fund management distributable earnings (loss)	$ 69,878	$ 19,375	$ 14,291	$ 27,628	$ 80,776	$	$ (12,197)	$ 199,751
Pre-tax distributable earnings (loss)	$ 69,878	$ 19,375	$ 14,291	$ 27,628	$ 80,776	$ (7,473)	$ (12,197)	$ 192,278
Total segment assets	$ 150,456	$ 6,328	$ 9,803	$ 68,470	$ 23,325	$ 1,367,963	$ 538,981 (A)	$ 2,165,326

(A) Unallocated assets include deferred tax assets of $421.5 million.

Three Months Ended September 30, 2011

	Private Equity		Liquid	Credit				
	Funds	Castles	Hedge Funds	Hedge Funds	PE Funds	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues								
Management fees	$ 30,333	$ 13,819	$ 27,937	$ 34,919	$ 19,551	$	$ 4,940	$ 131,499
Incentive income	(3,077)		1,354	(4,274)	19,813			13,816
Segment revenues - total	$ 27,256	$ 13,819	$ 29,291	$ 30,645	$ 39,364	$	$ 4,940	$ 145,315
Fund management distributable earnings (loss)	$ 19,952	$ 7,630	$ 5,601	$ (1,788)	$ 23,595	$	$ (4,156)	$ 50,834
Pre-tax distributable earnings (loss)	$ 19,952	$ 7,630	$ 5,601	$ (1,788)	$ 23,595	$ (7,944)	$ (4,156)	$ 42,890

Nine Months Ended September 30, 2010

	Private Equity Funds	Private Equity Castles	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues								
Management fees	$ 102,705	$ 35,856	$ 72,485	$ 94,691	$ 32,171	$	$ 8,603	$ 346,511
Incentive income	5,436		26,119	52,397	140,845			224,797
Segment revenues - total	$ 108,141	$ 35,856	$ 98,604	$ 147,088	$ 173,016	$	$ 8,603	$ 571,308
Fund management distributable earnings (loss)	$ 79,670	$ 13,338	$ 32,171	$ 41,149	$ 82,067	$	$ (12,148)	$ 236,247
Pre-tax distributable earnings (loss)	$ 79,670	$ 13,338	$ 32,171	$ 41,149	$ 82,067	$ 10,860	$ (12,148)	$ 247,107

Three Months Ended September 30, 2010

	Private Equity Funds	Private Equity Castles	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues								
Management fees	$ 36,160	$ 11,878	$ 24,494	$ 27,778	$ 10,857	$	$ 4,908	$ 116,075
Incentive income	5,436		21,292	39,457	9,299			75,484
Segment revenues - total	$ 41,596	$ 11,878	$ 45,786	$ 67,235	$ 20,156	$	$ 4,908	$ 191,559
Fund management distributable earnings (loss)	$ 30,239	$ 4,181	$ 19,331	$ 15,551	$ 7,277	$	$ (5,443)	$ 71,136
Pre-tax distributable earnings (loss)	$ 30,239	$ 4,181	$ 19,331	$ 15,551	$ 7,277	$ 6,540	$ (5,443)	$ 77,676

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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(dollars in tables in thousands, except share data)

Reconciling items between segment measures and GAAP measures:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
Fund management distributable earnings	$ 50,834	$ 71,136	$ 199,751	$ 236,247
Investment income (loss)	(3,415)	10,036	6,288	21,730
Interest expense	(4,529)	(3,496)	(13,761)	(10,870)
Pre-tax distributable earnings	42,890	77,676	192,278	247,107
Adjust incentive income				
Incentive income received from private equity funds and credit PE fund, subject to contingent repayment	$ (19,813)	$ (9,299)	$ (99,666)	$ (140,845)
Incentive income received from third parties, subject to contingent repayment			(988)	
Incentive income accrued from private equity funds and credit PE funds, not subject to contingent repayment	14,747	6,816	40,146	53,493
Incentive income received from private equity funds and credit PE funds, not subject to contingent repayment	(1,461)	(5,436)	(2,790)	(5,436)
Incentive income from hedge funds, subject to annual performance achievement	3,193	(59,707)	(46,106)	(69,438)
Incentive income received from the sale of shares related to options				
Reserve for clawback, gross (see discussion above)	4,538		4,538	
	1,204	(67,626)	(104,866)	(162,226)
Adjust other income				
Distributions of earnings from equity method investees**	(1,564)	(1,945)	(9,843)	(10,922)
Earnings (losses) from equity method investees**	(61,759)	7,013	21,527	24,263
Gains (losses) on options in equity method investees	(5,724)	95	(7,287)	199
Gains (losses) on other investments	(8,717)	1,950	(18,392)	(9,702)
Impairment of investments (see discussion above)	2,157	332	2,865	4,973
Adjust income from the receipt of options	5,594		12,615	
	(70,013)	7,445	1,485	8,811

Adjust employee and director compensation				
Adjust employee and director equity-based compensation expense	(57,078)	(56,019)	(179,788)	(169,054)
Adjust employee portion of incentive income from private equity funds accrued prior to the realization of incentive income	(1,623)		(1,623)	
	(58,701)	(56,019)	(181,411)	(169,054)
Adjust mark-to-market of contingent consideration in business combination	291	28	3,122	28
Adjust amortization of intangible assets and impairment of goodwill and intangible assets	(20,535)	(441)	(21,388)	(800)
Adjust Principals equity-based compensation expense	(279,623)	(239,975)	(751,749)	(712,101)
Adjust non-controlling interests related to Fortress Operating Group units	239,762	179,768	547,091	520,543
Adjust tax receivable agreement liability			(116)	1,317
Adjust income taxes	2,667	4,489	(24,472)	(4,815)
Total adjustments	(184,948)	(172,331)	(532,304)	(518,297)
Net Income (Loss) Attributable to Class A Shareholders	(142,058)	(94,655)	(340,026)	(271,190)
Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries	(239,847)	(177,221)	(543,175)	(513,259)
Net Income (Loss)	$ (381,905)	$ (271,876)	$ (883,201)	$ (784,449)

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

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FORTRESS INVESTMENT GROUP LLC

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(dollars in tables in thousands, except share data)

		September 30, 2011
Total segment assets	$	2,165,326
Adjust equity investments from segment carrying amount		(28,893)
Adjust investments gross of employees and others portion		41,608
Adjust goodwill and intangible assets to cost		(22,629)
Accrued incentive income subject to annual performance achievement		(46,105)
Total assets (GAAP)	$	2,109,307

	Three Months Ended September 30,				Nine Months Ended September 30,			
		2011		2010		2011		2010
Segment revenues	$	145,315	$	191,559	$	540,287	$	571,308
Adjust management fees		125		305		375		(1,816)
Adjust incentive income		1,204		(67,626)		(106,755)		(165,146)
Adjust income from the receipt of options		5,594				12,615		
Adjust other revenues (including expense reimbursements)*		43,421		37,987		135,770		109,397
Total revenues (GAAP)	$	195,659	$	162,225	$	582,292	$	513,743

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

Fortress s depreciation and amortization expense by segment was as follows. Amortization expense, related to intangible assets, is not a component of distributable earnings.

	Private Equity				Liquid		Credit							
		Funds		Castles		Hedge Funds		Hedge Funds		PE Funds		Unallocated		Total
Three Months Ended September 30, 2011														
Depreciation	$	437	$	102	$	454	$	1,203	$	74	$	962	$	3,232
Amortization (including impairment - Note 2)												20,535		20,535
Total	$	437	$	102	$	454	$	1,203	$	74	$	21,497	$	23,767

2010														
Depreciation	$	450	$	92	$	401	$	752	$	217	$	1,008	$	2,920
Amortization												441		441
Total	$	450	$	92	$	401	$	752	$	217	$	1,449	$	3,361
Nine Months Ended September 30,														
2011														
Depreciation	$	1,241	$	292	$	1,268	$	2,917	$	312	$	2,696	$	8,726
Amortization (including impairment - Note 2)												21,388		21,388
Total	$	1,241	$	292	$	1,268	$	2,917	$	312	$	24,084	$	30,114
2010														
Depreciation	$	1,214	$	307	$	1,243	$	2,306	$	637	$	2,830	$	8,537
Amortization												800		800
Total	$	1,214	$	307	$	1,243	$	2,306	$	637	$	3,630	$	9,337

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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(dollars in tables in thousands, except share data)

11. SUBSEQUENT EVENTS

These financial statements include a discussion of material events, if any, which have occurred subsequent to September 30, 2011 (referred to as subsequent events) through the issuance of these consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

12. CONSOLIDATING FINANCIAL INFORMATION

The consolidating financial information presents the balance sheet, statement of operations and statement of cash flows for Fortress Operating Group (on a combined basis) and Fortress Investment Group LLC (including its consolidated subsidiaries other than those within Fortress Operating Group) on a deconsolidated basis, as well as the related eliminating entries for intercompany balances and transactions, which sum to Fortress Investment Group s consolidated financial statements as of, and for the nine months ended September 30, 2011.

Fortress Operating Group includes all of Fortress s operating and investing entities. The upper tier Fortress Operating Group entities are the obligors on Fortress s credit agreement (Note 4). Segregating the financial results of this group of entities provides a more transparent view of the capital deployed in Fortress s businesses and the relevant ratios for borrowing entities.

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2011

(dollars in tables in thousands, except share data)

The consolidating balance sheet information is as follows:

	As of September 30, 2011			
	Fortress Operating Group Combined	Fortress Investment Group LLC Consolidated (A)	Intercompany Eliminations	Fortress Investment Group LLC Consolidated
Assets				
Cash and cash equivalents	$ 280,641	$ 33,097	$	$ 313,738
Due from affiliates	215,823	1,640	(1,640)	215,823
Investments	1,061,460	285,668	(285,668)	1,061,460
Deferred tax asset	3,627	417,883		421,510
Other assets	96,776			96,776
	$ 1,658,327	$ 738,288	$ (287,308)	$ 2,109,307
Liabilities and Equity				
Liabilities				
Accrued compensation and benefits	$ 183,305	$	$	$ 183,305
Due to affiliates	49,369	282,198	(1,640)	329,927
Deferred incentive income	260,673			260,673
Debt obligations payable	270,000			270,000
Other liabilities	85,969	11,651		97,620
	849,316	293,849	(1,640)	1,141,525
Commitments and Contingencies				
Equity				
Paid-in capital	5,124,185	1,837,651	(5,124,185)	1,837,651
Retained earnings (accumulated deficit)	(4,374,199)	(1,392,631)	4,374,199	(1,392,631)
Accumulated other comprehensive income (loss)	(3,745)	(581)	3,745	(581)
Total Fortress shareholders equity (B)	746,241	444,439	(746,241)	444,439
Principals and others interests in equity of consolidated subsidiaries	62,770		460,573	523,343
Total Equity	809,011	444,439	(285,668)	967,782
	$ 1,658,327	$ 738,288	$ (287,308)	$ 2,109,307

(A) Other than Fortress Operating Group.

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

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2011

(dollars in tables in thousands, except share data)

The consolidating statement of operations information is as follows:

	Nine Months Ended September 30, 2011			
	Fortress Operating Group Consolidated	**Fortress Investment Group LLC Consolidated (A)**	**Intercompany Eliminations**	**Fortress Investment Group LLC Consolidated**
Revenues				
Management fees: affiliates	$ 353,269	$	$	$ 353,269
Management fees: non-affiliates	47,641			47,641
Incentive income: affiliates	44,361			44,361
Incentive income: non-affiliates	1,251			1,251
Expense reimbursements from affiliates	130,337			130,337
Other revenues	5,406	32	(5)	5,433
	582,265	32	(5)	582,292
Expenses				
Interest expense	13,749	139	(5)	13,883
Compensation and benefits	535,259			535,259
Principals agreement compensation	751,749			751,749
General, administrative and other	109,545			109,545
Depreciation and amortization (including impairment)	30,114			30,114
	1,440,416	139	(5)	1,440,550
Other Income (Loss)				
Gains (losses)	(26,751)			(26,751)
Tax receivable agreement liabilty adjustment		(116)		(116)
Earnings (losses) from equity method investees	26,417	(325,351)	325,351	26,417
	(334)	(325,467)	325,351	(450)
Income (Loss) Before Income Taxes	(858,485)	(325,574)	325,351	(858,708)
Income tax benefit (expense)	(10,041)	(14,452)		(24,493)
Net Income (Loss)	$ (868,526)	$ (340,026)	$ 325,351	$ (883,201)
Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries	$ 3,917	$	$ (547,092)	$ (543,175)
Net Income (Loss) Attributable to Class A Shareholders (B)	$ (872,443)	$ (340,026)	$ 872,443	$ (340,026)

(A) Other than Fortress Operating Group.

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

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2011

(dollars in tables in thousands, except share data)

The consolidating statement of cash flows information is as follows:

	Nine Months Ended September 30, 2011			
	Fortress Operating Group Consolidated	**Fortress Investment Group LLC Consolidated (A)**	**Intercompany Eliminations**	**Fortress Investment Group LLC Consolidated**
Cash Flows From Operating Activities				
Net income (loss)	$ (868,526)	$ (340,026)	$ 325,351	$ (883,201)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	30,114			30,114
Other amortization and accretion	1,119			1,119
(Earnings) losses from equity method investees	(26,417)	325,351	(325,351)	(26,417)
Distributions of earnings from equity method investees	19,775			19,775
(Gains) losses	26,751			26,751
Deferred incentive income	(40,146)			(40,146)
Deferred tax (benefit) expense	4,017	(1,093)		2,924
Options received from affiliates	(12,615)			(12,615)
Tax receivable agreement liability adjustment		116		116
Equity-based compensation, including Principals Agreement	930,869			930,869
Allowance for doubtful accounts	5,037			5,037
Cash flows due to changes in				
Due from affiliates	(55,539)	9,129	(9,129)	(55,539)
Other assets	9,707	11,073		20,780
Accrued compensation and benefits	(19,835)			(19,835)
Due to affiliates	(5,269)	(13,461)	9,129	(9,601)
Deferred incentive income	99,239			99,239
Other liabilities	23,404	8,448		31,852
Net cash provided by (used in) operating activities	121,685	(463)		121,222
Cash Flows From Investing Activities				
Contributions to equity method investees	(69,923)	(77,035)	77,035	(69,923)
Distributions of capital from equity method investees	179,258	32,145	(32,145)	179,258
Purchase of fixed assets	(13,350)			(13,350)
Net cash provided by (used in) investing activities	95,985	(44,890)	44,890	95,985
Cash Flows From Financing Activities				
Repayments of debt obligations	(7,500)			(7,500)
	(77,035)	77,035		

Issuance (purchase) of Class A shares (RSU settlements)				
Capital contributions (distributions)	77,035		(77,035)	
Dividends and dividend equivalents paid	(32,145)		32,145	
Principals and others interests in equity of consolidated subsidiaries - contributions	13,074			13,074
Principals and others interests in equity of consolidated subsidiaries - distributions	(119,675)			(119,675)
Net cash provided by (used in) financing activities	(146,246)	77,035	(44,890)	(114,101)
Net Increase (Decrease) in Cash and Cash Equivalents	71,424	31,682		103,106
Cash and Cash Equivalents, Beginning of Period	209,217	1,415		210,632
Cash and Cash Equivalents, End of Period	$ 280,641	$ 33,097	$	$ 313,738

(A) Other than Fortress Operating Group.

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

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

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

Overview

Our Business

Fortress is a leading, highly diversified global investment management firm with approximately $43.6 billion in AUM as of September 30, 2011. Fortress applies its deep experience and specialized expertise across a range of investment strategies private equity, credit, liquid markets and traditional fixed income on behalf of over 1,000 institutional clients and private investors worldwide. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our alternative investment funds, and investment income (loss) from our principal investments. We invest capital in each of our alternative investment businesses.

As of September 30, 2011, we managed alternative assets in three core businesses:

Private Equity a business that manages approximately $12.7 billion of AUM comprised of two business segments: (i) private equity funds that primarily make significant, control-oriented investments in debt and equity securities of public or privately held entities in North America and Western Europe, with a focus on acquiring and building asset-based businesses with significant cash flows; and (ii) publicly traded alternative investment vehicles, which we refer to as Castles, that invest primarily in real estate and real estate related debt investments.

Liquid Hedge Funds a business that manages approximately $6.2 billion of AUM. These funds invest globally in fixed income, currency, equity and commodity markets and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes a fund-of-funds business, which invests in Fortress Funds, funds managed by external managers, and direct investments.

Credit Funds a business that manages approximately $11.8 billion of AUM comprised of two business segments: (i) credit hedge funds which make highly diversified investments in assets, opportunistic lending situations and securities on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and (ii) credit private equity (PE) funds which are comprised of a family of credit opportunities funds focused on investing in distressed and undervalued assets, a family of long dated value funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of real assets funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), two Asia funds, a Japan real estate fund and an Asian investor based global opportunities fund, and a real estate opportunities fund.

In addition, we treat our principal investments in these funds as a distinct business segment and we will not treat our traditional asset management business, which has $12.9 billion of AUM, as a separate segment until such time as its operations become significant.

Understanding the Asset Management Business

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

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

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

In addition, Fortress acquired a traditional asset management business during 2010. Although not yet significant to our operations, the traditional asset management business works similarly to the hedge fund business, except that generally there is no provision for incentive income and management fee rates are lower.

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

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

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

- Increasing the amount of capital we manage for fund investors, also known as our assets under management.
- Earning attractive returns on the investments we make.
- Effectively managing our liquidity, including our debt, and expenses.

Each of these objectives is discussed below.

Assets Under Management

Assets under management, or AUM, fluctuate based on four primary factors:

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

- *Realization of private equity investments*: In closed-end funds, AUM decreases when we return capital to fund investors as investments are realized. Investments are realized when they are sold or otherwise converted to cash by the manager.

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

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

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

We disclose the changes in our assets under management below, under Results of Operations Assets Under Management.

Performance

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

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

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

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Incentive income is calculated differently for the hedge funds and private equity funds, as described below.

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

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

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

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

PE Style Fund Status			**Key Disclosures**
	In a liquidation of the fund s assets at their estimated fair value as of the reporting date:		
Has the fund made incentive income payments to us?	**Would the fund owe us incentive income?**	**Would we owe a clawback of incentive income to the fund?**	**(Refer to Note 2 to our consolidated financial statements)**
Yes	Yes	No	• The amount of previously distributed incentive income. • The amount of undistributed incentive income, which is the amount of incentive income that would be due to us upon a liquidation of the fund s remaining assets at their current estimated fair value.
Yes	No	Yes	• The amount of previously distributed incentive income. • The intrinsic clawback, which is the amount of incentive income that we would have to return to the fund upon a liquidation of its remaining assets at their current estimated fair value. • The amount by which the total current fund value would have to increase as of the reporting date in order to reduce the intrinsic clawback to zero such that we would be in a position to earn additional incentive income from the fund in the future.
No	Yes	N/A	• The amount of undistributed incentive income, which is the amount of incentive income that would be due to us upon a

			liquidation of the fund s remaining assets at their current estimated fair value.
No	No	N/A	• The amount by which the total current fund value would have to increase as of the reporting date such that we would be in a position to earn incentive income from the fund in the future.

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We disclose each of these performance measures, as applicable, for all of our funds in Note 2 to our consolidated financial statements contained herein.

Liquidity, Debt and Expense Management

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

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

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

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

- Equity-based compensation simply means that employees are paid in equity of Fortress rather than in cash. This form of compensation has the advantage of never requiring a cash expenditure, while aligning employees interests with those of Fortress.

Our liquidity is discussed below, under Liquidity and Capital Resources. Our compensation expenses, including profit sharing and equity-based, are discussed in Note 7 to our consolidated financial statements contained herein. Our segment operating margin, which we define as the ratio of our fund management distributable earnings to our segment revenues, and which is a measure of our profitability, is discussed in Note 10 to our consolidated financial statements contained herein.

Understanding our Financial Statements

Balance Sheet

Our assets consist primarily of the following:

1) Investments in our funds, recorded generally based on our share of the funds underlying net asset value, which in turn is based on the estimated fair value of the funds investments.

2) Cash.

3) Amounts due from our funds for fees and expense reimbursements.

4) Deferred tax assets, which relate to potential future tax benefits. This asset is not tangible it was not paid for and does not represent a receivable or other claim on assets.

Our liabilities consist primarily of the following:

1) Debt owed under our credit facility.

2) Accrued compensation, generally payable to employees shortly after year-end.

3) Amounts due to our Principals under the tax receivable agreement. These amounts partially offset the deferred tax assets and do not become payable to the Principals until the related future tax benefits are realized.

4) Deferred incentive income, which is incentive income that we have already received in cash but is subject to contingencies and may have to be returned (clawed back) to the respective funds if certain performance hurdles are not met.

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

1) Expected cash flows from funds, including the potential for incentive income.

2) Cash on hand.

3) Collectability of receivables.

4) Current amounts due under our credit facility.

5) Other current liabilities, primarily accrued compensation.

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6) Debt covenants.

7) Likelihood of clawback of incentive income.

Income Statement

Our revenues and other income consist primarily of the following:

1) Fees and expense reimbursements from our funds, including management fees, which are based on the size of the funds, and incentive income, which is based on the funds performance.

2) Returns on our investments in the funds.

Our expenses consist primarily of the following:

1) Employee compensation paid in cash.

2) Equity-based compensation, which is not paid in cash but has a dilutive effect when it vests because it results in additional shares being issued. (This amount is broken out from total compensation in the compensation footnote in our consolidated financial statements.)

3) Principals agreement compensation, which has no economic effect on us and is not considered by management in assessing our performance.

4) Other general and administrative expenses and interest.

5) Taxes.

The primary measure of operating performance used by management is Distributable Earnings, which is further discussed in the Results of Operations Segment Analysis section herein.

Essentially, the key components of our income are the fees we are earning from our funds in comparison to the compensation and other corporate expenses we are paying in cash, and the resulting operating margin. Other significant components include (i) the unrealized changes in value of our funds, reported as unrealized gains (losses) and earnings (losses) from equity method investees, as this is indicative of changes in potential future cash flows, (ii) taxes, and (iii) equity-based compensation (not including principals agreement compensation), because it will eventually have a dilutive effect when the related shares are issued to employees.

Managing Business Performance

We conduct our management and investment business through the following 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 those funds, as well as cash that is available to be invested. These segments are differentiated based on the varying strategies of the funds we manage in each segment.

The amounts not allocated to a segment consist primarily of certain general and administrative expenses. Where applicable, portions of the general and administrative expenses have been allocated between the segments. Our traditional asset management business, Logan Circle Partners, L.P. (Logan Circle or Logan Circle Partners) is initially being reported in the unallocated section of our segments until such time as it becomes material to our operations.

Management assesses our segments on a Fortress Operating Group and pre-tax basis, and therefore adds back the interests in consolidated subsidiaries related to Fortress Operating Group units (held by the principals and one senior employee) and income tax expense.

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

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

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Market Considerations

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

The strength and liquidity of U.S. and global financial institutions and the financial system.

While market conditions in the United States and abroad have improved meaningfully over the last two years, it is not clear whether a sustained recovery will occur or, if so, for how long it will last. Many market participants remain concerned about the long-term health of the financial markets and the financial institutions and countries that participate in these markets. We and other market participants face continued challenges in addressing the issues created by the recent challenging credit and liquidity conditions and financial institution failures. If market conditions remain challenging or deteriorate in the future particularly if there is another failure of one or more major financial institutions, a default or serious deterioration in the financial condition of one or more sovereign nations, or another severe contraction of available debt or equity capital, this development would negatively impact Fortress and our funds and may counteract the progress we have made over the last couple of years.

The strength and liquidity of the U.S. and global equity and debt markets.

Strong equity market conditions enable our private equity funds to increase the value, and effect realizations, of their portfolio company investments. In addition, strong equity markets make it generally easier for our funds that invest in equities to generate positive investment returns. The condition of debt markets also has a meaningful impact on our business. Several of our funds make investments in debt instruments, which are assisted by a strong and liquid debt market. In addition, our funds borrow money to make investments. Our funds utilize leverage in order to increase investment returns, which ultimately drive the performance of our funds. Furthermore, we utilize debt to finance our investments in our funds and for working capital purposes.

Beginning in mid-2007, the equity and debt markets experienced a significant deterioration. The deterioration of the debt markets in the United States was triggered by considerable turbulence in the housing and sub-prime mortgage markets, which negatively affected other fixed income markets. The difficult conditions in the fixed income markets prompted lenders to cease committing to new senior loans and other debt, which, in turn, made it extremely difficult to finance new and pending private equity acquisitions or to refinance existing debt. In particular, the securitization markets, which in years prior to 2007 had represented an important outlet for the placing of acquisition debt, have been impaired since that time, although securitization activity has increased in 2011. Private equity-led acquisitions announced since mid-2007 have generally been smaller, less levered, and subject to more restrictive debt covenants than acquisitions done prior to the disruption. As the turbulence in the debt markets continued and its intensity increased, equity market conditions also began to deteriorate in the latter part of 2007 as concerns of an economic slowdown began to affect equity valuations. The resulting reduction in liquidity and increase in volatility caused several commercial and investment banks, hedge funds and other financial institutions to reduce the carrying value of a significant amount of their fixed income holdings, which further reduced the liquidity of debt and, to a lesser extent, equity instruments.

Equity market conditions began to stabilize in the second quarter of 2009, and debt market conditions improved significantly in 2010. During 2009 and 2010, we were able to access the equity markets in the United States and abroad, including, for example, the IPOs of Rail America, Seacube Container Leasing Ltd. and Whistler Blackcomb Holdings Inc. as well as realizations of significant other positions in publicly traded securities of our portfolio companies. The improvement in the debt markets has enabled us and other market participants to refinance existing debt obligations and otherwise obtain debt financing with respect to our existing investments. However, while the debt market conditions have remained strong thus far in 2011, equity market conditions remain volatile and have been adversely affected by various factors, such as unrest in the Middle East, the earthquake in Japan, continuing weakness in the U.S. job market, the credit rating downgrading of U.S. government debt and the European debt crisis. We cannot predict future conditions of these markets or the impact of such conditions on our business.

The recent market conditions have negatively impacted our business in several ways:

- While conditions in the U.S. capital markets have improved meaningfully over the last two years, there currently is less debt and equity capital available in the market relative to the levels available from the early 2000s to 2008, which, coupled with additional margin collateral requirements imposed by lenders on some types of investments, debt and derivatives, has increased the importance of maintaining sufficient liquidity without relying upon additional infusions

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of capital from the debt and equity markets. Based on cash balances, committed financing and short-term operating cash flows, in the judgment of management we have sufficient liquidity in the current market environment. The maintenance of increased liquidity may limit our ability to make investments distributions, or engage in other strategic transactions. The dislocation of values and associated decreased liquidity in the global equity and debt markets have caused a material depreciation in equity and fixed income asset values in comparison to years prior to 2008, greater price volatility and weaker economic conditions around the globe. This has resulted in a significant reduction in the value of certain of our investments in comparison to years prior to 2008, which, in turn, has impacted our management fees, incentive income and investment income. Recently, such values have rebounded (significantly in many cases), but have not increased to their historical levels for all investments.

• The market prices of the investments held by our private equity funds in public companies decreased substantially from their high values, rebounded meaningfully in 2009 and the first quarter of 2010, but have experienced volatility since then. A decrease in these prices hinders our ability to realize gains within these funds and therefore our ability to earn incentive income, as well as impacting the value of our principal investments in such funds.

As a result of the above factors:

• We have not paid a dividend on our Class A shares since the second quarter of 2008. However, our board of directors has approved a revised dividend policy under which it will reinstate a $0.05 per share quarterly dividend beginning in the fourth quarter of 2011. The decision to pay a dividend, as well as the amount of any dividends paid, is subject to change at the discretion of our board of directors based upon a number of factors, including actual and projected distributable earnings.

• Changes in the value of our funds investments have impacted our future management fees, at an annual rate of up to 3% of the decline in aggregate fund NAV. See Fee Paying Assets Under Management below for a table summarizing our AUM.

• Changes in the value of our funds investments have also impacted the relationship between the NAVs of our investors in our main credit and liquid hedge funds and their incentive income thresholds (high water marks). As a result of recent performance, the incentive income outlook for these funds has substantially improved from recent years. See Note 2 to the consolidated financial statements included herein for more information. Returns earned on capital from new investors continue to be incentive income eligible. Unrealized losses, or returns below threshold returns, in a significant portion of our private equity funds have resulted in higher future returns being required before we earn incentive income from such funds, and, in some cases, the possibility that we will be liable for so-called clawback payments relating to incentive payments previously collected. The returns required are subject to a number of variables, such as: the amount of loss incurred, the amount of outstanding capital in the fund, the amount and timing of future capital draws and distributions, and the rate of preferential return earned by investors.

• Despite the volatile economic conditions, our funds continue to make investments on an opportunistic basis, and we continue to raise new funds as illustrated in the AUM table below.

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

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

First, the strength of the alternative asset management industry is dependent upon the investment returns alternative asset managers can provide relative to other investment options. This factor depends, in part, on the interest rates and credit spreads (which represent the yield demanded on financial instruments by the market in comparison to a benchmark rate, such as the relevant U.S. treasury rate or LIBOR) available on other investment products. This is because as interest rates rise and/or spreads widen, returns available on such investments would tend to increase and, therefore, become more attractive relative to the returns offered on investment products offered by alternative asset managers. We have benefited in past years from relatively tight spreads, which have allowed us and the funds we manage to obtain financing for investments at attractive rates and made our investment products attractive relative to many other products. Although spreads over the past several years have been volatile, they have widened significantly from levels prior to the challenging market conditions. In addition to potentially reducing the relative attractiveness of our investment products, this widening will typically increase our costs when financing our investments using debt, which, in turn, reduces the net return we can earn on those investments. Furthermore, wider spreads reduce the value of investments currently owned by our funds. A reduction in the value of our funds investments directly impacts our management fees and incentive income from such funds. As a result, this dynamic could slow capital flow to the alternative investment sector.

A second and related factor is the amount of capital invested with such managers. Over the several years prior to 2009, institutions, high net worth individuals and other investors (including sovereign wealth funds) increased their allocations of

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capital to the alternative investment sector. That said, university endowments, pension funds and other traditionally significant investors in the alternative investment sector have, in some cases, reduced the amount of capital they are investing in this sector since the onset of the recession. This decrease appears to be due to a variety of factors, including, but not limited to, the generally negative investment performance in the sector during 2008 as well as their own liquidity constraints resulting from the negative performance of their investment portfolios and near-term capital requirements. The improved performance in 2009 through the first three quarters of 2011 relative to 2008 appears to have modestly improved the trend of capital invested in the alternative asset investment sector. The amount of capital being invested into the alternative investment sector appears to have stabilized or even slightly increased and redemption requests appear to have decreased relative to the conditions experienced during 2008, but they are still weaker than the conditions experienced prior to the onset of the global credit and liquidity crisis that began in 2007. Rather than focusing on reducing the amount invested in the alternative investment sector, investors in alternative investment vehicles that primarily invest in liquid investments appear to have become increasingly focused on the liquidity and redemption terms of alternative investment funds and have expressed a desire to have the ability to redeem or otherwise liquidate their investments in a more rapid timeframe than what is permitted under the terms of many funds created prior to the onset of the crisis. In a similar vein, investors in long-term, locked-up (i.e. private equity style) funds have responded to the recession by engaging in longer, more intensive and detailed due diligence procedures prior to making commitments to invest in such funds, which has led to the general perception across the alternatives industry that capital raising for long-term capital will require longer time periods, a greater commitment of capital raising resources and will generally be more difficult overall than it was prior to the recession.

The third factor, which most directly impacts our results, is our investment performance relative to our competitors, including products offered by other alternative asset managers. As a historical leader in the alternative asset management sector based on the size, diversity and historical performance of our funds, we have been able to attract a significant amount of new capital both at the public company and within our funds, even during the recent challenging market conditions. For example, in April 2009, the public company successfully raised approximately $220 million in net proceeds from an offering of its Class A shares. Moreover, during 2009 through the first three quarters of 2011, we have been able to raise meaningful additional capital in various funds, including newly formed funds. However, our ongoing ability to raise capital for new and existing funds will be a function of investors perception about our investment performance relative to that of our competition in the post-recession environment, as well as other factors.

The strength of the sectors in which our funds have concentrated investments

Our private equity funds, as well as certain of our managed accounts, currently have significant investments in companies whose assets are concentrated in the following industries and sectors: transportation, financial services (particularly loan servicing), leisure and gaming, real estate (including Florida commercial real estate and German residential real estate), and senior living facilities. If any of these industries or sectors were adversely affected by market conditions, sector-specific trends or other factors, in a systematic or uniform manner, it could have a disproportionately negative impact on those funds. For example, if the commercial real estate operating environment in Florida remains challenging or deteriorates further, our fund investments in Flagler Development Group could decline in value and potentially have a material adverse effect on the performance of the funds that are invested in Flagler.

Market Considerations Summary

While disruptions in the markets, with respect to equity prices, interest rates, credit spreads or other market factors, including market liquidity, may adversely affect our existing positions, we believe such disruptions generally present significant new opportunities for investment, particularly in distressed asset classes. Our ability to take advantage of these opportunities will depend on our ability to access debt and equity capital, both at Fortress and within the funds. No assurance can be given that future trends will not be disadvantageous to us, particularly if challenging conditions persist or intensify, or if generally improving conditions in our market reverse.

We do not currently know the full extent to which continued market uncertainty will affect us or the markets in which we operate. If the challenging conditions continue, or result in a permanent, fundamental change in the credit markets, we and the funds we manage may experience further tightening of liquidity, reduced earnings and cash flow, impairment charges, increased margin requirements, as well as challenges in maintaining our reputation, raising additional capital, maintaining compliance with debt covenants, obtaining investment financing and making investments on attractive terms. However, to date we have been able to continue raising capital, both through new and existing funds, which helps to increase our AUM and to give us a significant amount of capital available to be invested at a time when we believe attractive returns are available.

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Results of Operations

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

	Nine Months Ended September 30, 2011 (Unaudited)	Nine Months Ended September 30, 2010 (Unaudited)	Variance $	Three Months Ended September 30, 2011 (Unaudited)	Three Months Ended September 30, 2010 (Unaudited)	Variance $
Revenues						
Management fees: affiliates	$ 353,269	$ 327,182	$ 26,087	$ 118,353	$ 107,752	$ 10,601
Management fees: non-affiliates	47,641	17,513	30,128	18,865	8,628	10,237
Incentive income: affiliates	44,361	53,892	(9,531)	14,754	7,487	7,267
Incentive income: non-affiliates	1,251	5,759	(4,508)	266	371	(105)
Expense reimbursements from affiliates	130,337	100,606	29,731	42,350	36,745	5,605
Other revenues	5,433	8,791	(3,358)	1,071	1,242	(171)
	582,292	513,743	68,549	195,659	162,225	33,434
Expenses						
Interest expense	13,883	11,043	2,840	4,583	3,549	1,034
Compensation and benefits	535,259	523,029	12,230	158,426	184,107	(25,681)
Principals agreement compensation	751,749	712,101	39,648	279,623	239,975	39,648
General, administrative and other expense (including depreciation, amortization and impairment)	139,659	81,307	58,352	57,932	29,981	27,951
	1,440,550	1,327,480	113,070	500,564	457,612	42,952
Other Income (Loss)						
Gains (losses)	(26,751)	(10,360)	(16,391)	(15,229)	2,025	(17,254)
Tax receivable agreement liability adjustment	(116)	1,317	(1,433)			
Earnings (losses) from equity method investees	26,417	42,972	(16,555)	(64,483)	16,941	(81,424)
	(450)	33,929	(34,379)	(79,712)	18,966	(98,678)
Income (Loss) Before Income Taxes	(858,708)	(779,808)	(78,900)	(384,617)	(276,421)	(108,196)
Income tax benefit (expense)	(24,493)	(4,641)	(19,852)	2,712	4,545	(1,833)
Net Income (Loss)	$ (883,201)	$ (784,449)	$ (98,752)	$ (381,905)	$ (271,876)	$ (110,029)

Factors Affecting Our Business

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

• changes in our AUM;

- level of performance of our funds; and

- changes in the size of our fund management and investment platform and our related compensation structure.

Each of these factors is described below.

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Assets Under Management

We measure AUM by reference to the fee paying assets we manage. Our AUM has changed as a result of raising new funds, capital acquisitions, and increases in the NAVs of certain funds from new investor capital and retained profits, offset by lower performance in certain funds coupled with redemptions in our hedge funds.

Our AUM has changed for the nine months ended September 30, 2011 as follows (in millions):

	Private Equity		Liquid Hedge	Credit		Logan Circle	
	Funds	Castles	Funds	Hedge Funds	PE Funds (J)	Partners, L.P.	Total
2011							
AUM December 31, 2010	$ 11,923	$ 3,037	$ 6,355	$ 6,773	$ 4,817	$ 11,708	$ 44,613
Capital raised (A)		220	1,141	288	190		1,839
Increase in invested capital	224		11	107	2,090		2,432
Capital acquisitions							
Redemptions (B)			(986)	(145)			(1,131)
SPV distributions (C)							
RCA distributions (D)				(968)			(968)
Return of capital distributions (E)	(313)			(119)	(1,495)		(1,927)
Adjustment for reset date (F)	(1,997)						(1,997)
Crystallized incentive income (G)			(69)	(91)			(160)
Equity buyback (H)		(19)					(19)
Net client flows (traditional)						476	476
Income (loss) and foreign exchange (I)	(366)	(1)	(287)	369	17	729	461
AUM September 30, 2011	$ 9,471	$ 3,237	$ 6,165	$ 6,214	$ 5,619	$ 12,913	$ 43,619

(A) Includes offerings of shares by the Castles, if any.

(B) Excludes redemptions which reduced AUM subsequent to September 30, 2011.

(C) Mainly represents distributions from the Drawbridge Global Macro Fund SPV, which was established to hold the illiquid assets pertaining to investors who gave redemption notices in the fourth quarter of 2008.

(D) Represents distributions from (i) assets held within redeeming capital accounts (or RCA) in our Drawbridge Special Opportunities Funds, which represent accounts where investors have provided withdrawal notices and are subject to payout as underlying fund investments are realized, and (ii) the Value Recovery Funds.

(E) Return of capital distributions are based on realization events for private equity and credit PE funds. Such distributions include, in the case of private equity and credit PE funds that are in their capital commitment periods, recallable capital distributions.

(F) The reset date of certain private equity or credit PE funds is an event determined by the earliest occurrence of (i) the first day following the expiration of the capital commitment period of a fund, (ii) a successor fund or entity draws capital contributions or charges management fees or (iii) the date on which all unpaid capital obligations have been cancelled. For the period commencing with the initial closing of or contribution to the fund and ending on the last day of the semi-annual or quarterly period ending on or after the reset date, certain funds generate management fees as a percentage of the fund s capital commitments and certain funds generate management fees as a percentage of the fund s aggregate capital contributions. Thereafter, such funds generally generate management fees as a percentage of the aggregate capital contributed adjusted for the fair value of each investment that is below the associated investment s contributed capital.

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

(H) Represents buybacks of equity interests by the Castles.

(I) Represents the change in fee-paying NAV resulting from realized and unrealized changes in the reported value of the fund.

(J) As of September 30, 2011, the credit PE funds had approximately $3.0 billion of uncalled capital that will become assets under management when deployed/ called.

Average Fee Paying AUM

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

Management Fees

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

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Performance of Our Funds

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

Name of Fund	Inception Date	Maturity Date (A)	AUM September 30, 2011	AUM September 30, 2010	Returns (B) Inception to September 30, 2011
Private Equity					
Private Equity Funds that Report IRR s					
Fund I	Nov-99	(A)	$	$	25.7%
Fund II	Jul-02	Feb-13		200	35.5%
Fund III	Sep-04	Jan-15	1,286	1,315	0.4%
Fund III Coinvestment	Nov-04	Jan-15	88	119	(0.4)%
Fund IV	Mar-06	Jan-17	2,417	2,330	(4.5)%
Fund IV Coinvestment	Apr-06	Jan-17	560	548	(5.8)%
Fund V	May-07	Feb-18	2,627	3,964	(5.8)%
Fund V Coinvestment	Jul-07	Feb-18	547	935	(16.8)%
GAGACQ Coinvestment Fund	Sep-04	Permanent			15.8%
FRID	Mar-05	Apr-15	349	434	(12.5)%
FRIC	Mar-06	May-16	75	98	(17.5)%
FICO	Aug-06	Jan-17		36	(100.0)%
FHIF	Dec-06	Jan-17	1,055	994	7.5%
FECI	Jun-07	Feb-18	458	532	(3.7)%
WWTAI	Jul-11	Jun-24	9		(C)

					Inception to Date (D)	Returns (B) Nine Months Ended September 30, 2011	2010
Private Equity Funds that Report Annual Returns							
Mortgage Opportunities Fund III	Jun-08	Jun-11		115	(6.1)%	0.3%	9.7%
Private Equity - Castles							
Newcastle Investment Corp.	Jun-98	Permanent	1,294	1,102	N/A	N/A	N/A
Eurocastle Investment Limited (E)	Oct-03	Permanent	1,943	1,971	N/A	N/A	(3.4)%
Liquid Hedge Funds							
Drawbridge Global Macro Funds	Jun-02	Redeemable	386	408	8.2%	(8.3)%	5.3%
Fortress Macro Funds	May-09	Redeemable	2,400	2,216	5.0%	(7.3)%	5.8%
Fortress Commodities Funds	Jan-08	Redeemable	810	803	4.4%	0.9%	(3.1)%
Fortress Commodities Fund MA1 Ltd	Nov-09	Redeemable	104	97	1.9%	1.1%	(C)
Fortress Partners Fund LP	Jul-06	Redeemable	770	840	1.4%	0.2%	6.0%
Fortress Partners Offshore Fund LP	Nov-06	Redeemable	670	764	1.7%	(1.6)%	6.7%
Fortress Asia Macro Funds	Mar-11	Redeemable	189		(C)	(C)	N/A
Credit Hedge Funds							
Drawbridge Special Opp s Fund LP (F)	Aug-02	PE style redemption	4,117	4,361	10.2%	6.4%	18.7%
Drawbridge Special Opp s Fund LTD (F)	Aug-02	PE style redemption	853	625	10.7%	9.1%	20.0%
Worden Fund	Jan-10	PE style redemption	191	130	10.9%	4.7%	(C)

Worden Fund II	Aug-10	PE style redemption	20	10	10.3%	6.3%	(C)
Value Recovery Funds and related assets	(G)	Non-redeemable	987	1,786	(G)	(G)	(G)

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