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Fortress Investment Group LLC
Form 10-Q
August 01, 2013

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

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from _____ to _____

Commission File Number: 001-33294

Fortress Investment Group LLC

(Exact name of registrant as specified in its charter)

Delaware

20-5837959

(State or other jurisdiction of incorporation

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

or organization)

1345 Avenue of the Americas, New York, NY

10105

(Address of principal executive offices)

(Zip Code)

(212) 798-6100

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Class A Shares: 236,986,614 outstanding as of July 26, 2013.

Class B Shares: 249,534,372 outstanding as of July 26, 2013.

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

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

- (i) the capital commitments or invested capital (or net asset value, "NAV," if lower) of our private equity funds 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 NAV of our hedge funds, including the Value Recovery Funds and certain advisory engagements which pay fees based on realizations (and on certain managed assets and, in some cases, a fixed fee); and
- (iv) the NAV or fair value of our managed accounts, to the extent management fees are charged.

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

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

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

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

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

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

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

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

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

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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" or the version of those words or other comparable words. Any forward-looking statements contained in this report are based upon the historical performance of us and our subsidiaries and on our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these statements. Accordingly, you should not place undue reliance on any forward-looking statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

SPECIAL NOTE REGARDING EXHIBITS

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	\$292,592	\$104,242
Due from affiliates	141,537	280,557
Investments	1,215,469	1,211,684
Investments in options	98,298	38,077
Deferred tax asset	377,285	402,135
Other assets	143,196	124,798
	\$2,268,377	\$2,161,493
Liabilities and Equity		
Liabilities		
Accrued compensation and benefits	\$231,168	\$146,911
Due to affiliates	361,753	357,407
Deferred incentive income	286,089	231,846
Debt obligations payable	89,453	149,453
Other liabilities	68,272	59,226
	1,036,735	944,843
Commitments and Contingencies		
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 236,963,748 and 218,286,342 shares issued and outstanding at June 30, 2013 and December 31, 2012 respectively	—	—
Class B shares, no par value, 750,000,000 shares authorized, 249,534,372 and 249,534,372 shares issued and outstanding at June 30, 2013 and December 31, 2012 respectively	—	—
Paid-in capital	2,129,188	2,119,102
Retained earnings (accumulated deficit)	(1,474,325)	(1,486,578)
Treasury shares (2,082,684 Class A shares held by subsidiary at December 31, 2012)	—	(3,419)
Accumulated other comprehensive income (loss)	(1,897)	(2,634)
Total Fortress shareholders' equity	652,966	626,471
Principals' and others' interests in equity of consolidated subsidiaries	578,676	590,179
Total equity	1,231,642	1,216,650
	\$2,268,377	\$2,161,493

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Management fees: affiliates	\$ 123,762	\$ 117,834	\$ 267,364	\$ 224,129
Management fees: non-affiliates	15,355	10,383	30,170	21,772
Incentive income: affiliates	30,885	24,216	62,242	33,018
Incentive income: non-affiliates	1,434	469	2,863	776
Expense reimbursements: affiliates	49,341	44,449	100,007	87,400
Expense reimbursements: non-affiliates	1,477	937	2,848	1,886
Other revenues (affiliate portion disclosed in Note 6)	820	760	1,935	1,725
	223,074	199,048	467,429	370,706
Expenses				
Interest expense	1,783	4,135	4,078	8,502
Compensation and benefits	212,055	172,467	393,134	355,846
General, administrative and other	32,657	32,695	66,655	62,361
Depreciation and amortization	3,354	3,258	6,593	6,736
	249,849	212,555	470,460	433,445
Other Income (Loss)				
Gains (losses) (affiliate portion disclosed in Note 3)	(3,200	) 7,148	38,075	31,770
Tax receivable agreement liability adjustment	—	—	(7,739	) (6,935
Earnings (losses) from equity method investees	28,705	23,143	65,007	58,383
	25,505	30,291	95,343	83,218
Income (Loss) Before Income Taxes	(1,270	) 16,784	92,312	20,479
Income tax benefit (expense)	(1,166	) (2,528	) (27,442	) (30,370
Net Income (Loss)	\$ (2,436	) \$ 14,256	\$ 64,870	\$ (9,891
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	\$ (360	) \$ 9,347	\$ 52,617	\$ 14,740
Net Income (Loss) Attributable to Class A Shareholders	\$ (2,076	) \$ 4,909	\$ 12,253	\$ (24,631
Dividends declared per Class A share	\$ 0.06	\$ 0.05	\$ 0.12	\$ 0.10
Earnings (Loss) Per Class A share				
Net income (loss) per Class A share, basic	\$ (0.01	) \$ 0.02	\$ 0.05	\$ (0.12
Net income (loss) per Class A share, diluted	\$ (0.01	) \$ (0.12	) \$ 0.04	\$ (0.13
Weighted average number of Class A shares outstanding, basic	237,426,903	216,145,015	232,385,013	208,077,683
Weighted average number of Class A shares outstanding, diluted	237,426,903	516,418,867	498,277,165	516,111,391

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Comprehensive income (loss) (net of tax)				
Net income (loss)	\$ (2,436)	\$ 14,256	\$ 64,870	\$ (9,891)
Foreign currency translation	1,040	(135)	(1,816)	(1,052)
Comprehensive income (loss) from equity method investees	(89)	577	4,136	(91)
Total comprehensive income (loss)	\$ (1,485)	\$ 14,698	\$ 67,190	\$ (11,034)
Comprehensive income (loss) attributable to principals' and others' interests	\$ 236	\$ 9,650	\$ 54,070	\$ 14,131
Comprehensive income (loss) attributable to Class A shareholders	\$ (1,721)	\$ 5,048	\$ 13,120	\$ (25,165)

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

FOR THE SIX MONTHS ENDED JUNE 30, 2013

(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Principals' and Others' Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity -									
December 31, 2012	218,286,342	249,534,372	\$2,119,102	\$(1,486,578)	\$(3,419)	\$(2,634)	\$626,471	\$590,179	\$1,216,650
Contributions from principals' and others' interests in equity	—	—	—	—	—	—	—	47,003	47,003
Distributions to principals' and others' interests in equity (net of tax)	—	—	(112)	—	—	—	(112)	(104,504)	(104,616)
Dividends declared	—	—	(27,578)	—	—	—	(27,578)	66	(27,512)
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(298)	—	—	—	(298)	(481)	(779)
Conversion of Class B shares to Class A shares	10,333,334	(10,333,334)	10,143	—	—	—	10,143	(10,143)	—
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	11,790	—	—	—	11,790	(30)	11,760
Director restricted share	104,667	—	298	—	—	—	298	322	620

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grant Capital increase related to equity-based compensation, net	6,156,721	10,333,334	10,651	—	—	—	10,651	11,680	22,331
Dilution impact of Class A share issuance	—	—	9,631	—	(15)	(130)	9,486	(9,486)	—
Reissuance of treasury stock	2,082,684	—	(4,439)	—	3,434	—	(1,005)	—	(1,005
Comprehensive income (loss) (net of tax)									
Net income (loss)	—	—	—	12,253	—	—	12,253	52,617	64,870
Foreign currency translation	—	—	—	—	—	(630)	(630)	(1,186)	(1,816
Comprehensive income (loss) from equity method investees	—	—	—	—	—	1,497	1,497	2,639	4,136
Total comprehensive income (loss)							13,120	54,070	67,190
Equity - June 30, 2013	236,963,748	249,534,372	\$2,129,188	\$(1,474,325)	\$—	\$(1,897)	\$652,966	\$578,676	\$1,231,642

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands)

	Six Months Ended June 30,	
	2013	2012
Cash Flows From Operating Activities		
Net income (loss)	\$64,870	\$(9,891)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	6,593	6,736
Other amortization and accretion (included in interest expense)	483	1,206
(Earnings) losses from equity method investees	(65,007)	(58,383)
Distributions of earnings from equity method investees	39,526	21,145
(Gains) losses	(38,075)	(31,770)
Deferred incentive income	(34,379)	(31,384)
Deferred tax (benefit) expense	45,154	32,717
Adjustment of estimated forfeited non-cash compensation	20	(1,725)
Options received from affiliates	(36,470)	(13,226)
Tax receivable agreement liability adjustment	7,739	6,935
Equity-based compensation	19,975	113,022
Options in affiliates granted to employees	8,217	3,377
Allowance for doubtful accounts	315	254
Cash flows due to changes in		
Due from affiliates	(43,051)	(45,044)
Other assets	2,844	3,673
Accrued compensation and benefits	120,151	(86,585)
Due to affiliates	1,990	(3,647)
Deferred incentive income	89,715	26,492
Other liabilities	1,459	(7,435)
Net cash provided by (used in) operating activities	192,069	(73,533)
Cash Flows From Investing Activities		
Contributions to equity method investees	(18,763)	(36,618)
Distributions of capital from equity method investees	236,173	136,141
Purchase of equity securities	(16,936)	—
Purchase of fixed assets	(5,032)	(5,898)
Net cash provided by (used in) investing activities	195,442	93,625
Cash Flows From Financing Activities		
Repayments of debt obligations	(60,000)	(71,972)
Payment of deferred financing costs	(2,054)	—
Dividends and dividend equivalents paid	(28,449)	(21,445)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	\$45	37
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(109,003)	(75,704)
Net cash provided by (used in) financing activities	(199,161)	(169,084)
Net Increase (Decrease) in Cash and Cash Equivalents	188,350	(148,992)
Cash and Cash Equivalents, Beginning of Period	104,242	333,166
Cash and Cash Equivalents, End of Period	\$292,592	\$184,174

Continued on next page.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2013	2012
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$2,602	\$7,352
Cash paid during the period for income taxes	\$1,982	\$3,385
Supplemental Schedule of Non-cash Investing and Financing Activities		
Employee compensation invested directly in subsidiaries	\$44,110	\$15,130
Investments of receivable amounts into Fortress Funds	\$182,059	\$71,991
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	\$28,026	\$—

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2013
(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) General buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America, Western Europe and Asia; and
- b) Publicly traded permanent capital vehicles, which Fortress refers to as “Castles,” that invest in a wide variety of real estate related assets including securities, loans, real estate properties and mortgage servicing rights.

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

3) Credit funds:

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

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

5)Principal investments in the above described funds.

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FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2013
 (dollars in tables in thousands, except share data)

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 and Investments in Options	3	Primarily the carrying value of Fortress's principal investments in the Fortress Funds.
Deferred Tax Asset	5	Relates to potential future tax benefits.
Due to Affiliates	6	Generally, amounts due to the Principals related to their interests in Fortress Operating Group and the tax receivable agreement.
Deferred Incentive Income	2	Incentive income already received from certain Fortress Funds based on past performance, which is subject to contingent repayment based on future performance.
Debt Obligations Payable	4	The balance outstanding on the credit agreement and promissory note.
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.
Gains (Losses)	3	

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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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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.

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

The accompanying consolidated financial statements and related notes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Fortress's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Fortress's consolidated financial statements for the year ended December 31, 2012 and notes thereto included in Fortress's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2013. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's consolidated financial statements for the year ended December 31, 2012.

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

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 returns, or 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.

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Management Fees, Incentive Income and Related Profit Sharing Expense

Fortress recognized management fees and incentive income as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Private Equity				
Private Equity Funds				
Management fees: affil.	\$33,716	\$29,670	\$66,500	\$59,257
Management fees: non-affil.	118	100	222	171
Incentive income: affil.	4,854	—	15,309	1,107
Castles				
Management fees: affil.	12,063	12,534	28,751	24,683
Management fees, options: affil.	10,096	13,226	36,470	13,226
Management fees: non-affil.	1,046	651	2,316	3,203
Incentive income: affil.	1,200	—	1,200	—
Liquid Hedge Funds				
Management fees: affil.	19,538	15,951	37,060	33,163
Management fees: non-affil.	6,183	3,243	11,684	6,198
Incentive income: affil.	4,677	811	6,464	873
Incentive income: non-affil.	1,434	77	2,487	125
Credit Funds				
Credit Hedge Funds				
Management fees: affil.	25,299	25,812	49,829	51,317
Management fees: non-affil.	94	130	125	255
Incentive income: affil.	17,423	1,026	20,574	1,283
Incentive income: non-affil.	—	130	—	130
Credit PE Funds				
Management fees: affil.	22,326	20,641	47,482	42,483
Management fees: non-affil.	34	36	69	72
Incentive income: affil.	2,731	22,379	18,695	29,755
Incentive income: non-affil.	—	262	376	521
Logan Circle				
Management fees: affil.	724	—	1,272	—
Management fees: non-affil.	7,880	6,223	15,754	11,873
Total				
Management fees: affil.	\$123,762	\$117,834	\$267,364	\$224,129

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Management fees: non-affil.	\$15,355	\$10,383	\$30,170	\$21,772
Incentive income: affil. (A)	\$30,885	\$24,216	\$62,242	\$33,018
Incentive income: non-affil.	\$1,434	\$469	\$2,863	\$776

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

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Deferred Incentive Income

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

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the six months ended June 30, 2013 and 2012. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, \$191.8 million and \$61.9 million of additional incentive income from affiliates would have been recognized during the six months ended June 30, 2013 and 2012, 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 six months ended June 30, 2013 and 2012, Fortress recognized \$18.7 million and \$29.8 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	Distributed-Unrecognized	Undistributed net of intrinsic clawback
	(A)	(B)	(C)	(D)
Deferred incentive income as of December 31, 2012	\$ 894,278	\$ (662,432)	\$ 231,846	\$ 527,432
Fortress Funds which matured (no longer subject to clawback)	(2,180)	2,180	N/A	N/A
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	336,807
Distribution of private equity incentive income	90,173	N/A	90,173	(90,173)
Recognition of previously deferred incentive income	N/A	(34,379)	(34,379)	N/A
Changes in foreign exchange rates	(1,551)	—	(1,551)	N/A

Deferred incentive income as of June 30, 2013	\$ 980,720	\$ (694,631)	\$ 286,089	\$ 774,066
Deferred incentive income including Fortress Funds which matured	\$ 1,034,376	\$ (748,287)		

(A) All related contingencies have been resolved.

(B) Reflected on the balance sheet.

(C) At June 30, 2013, the net undistributed incentive income is comprised of \$860.7 million of gross undistributed incentive income, net of \$86.6 million of intrinsic clawback (see next page). The net undistributed incentive income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on June 30, 2013 at their net asset values.

(D) From inception to June 30, 2013, Fortress has paid \$424.2 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 \$860.7 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional \$345.1 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 June 30, 2013:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Investment	Inception to Date Distributions	Net Asset Value ("NAV")	NAV Surplus (Deficit)	Gain to Current Cross Preferred Return Incentive Threshold (D)	Undistributed Incentive Income (E)	Distributed Incentive Income (G)	Distributed Incentive Income Subject to Clawback (I)	Gross Intrinsic Value (J)	
Private Equity Funds											
NIH (1998)	In Liquidation	\$415,574	\$(823,588)	\$—	\$ N/A	\$—	\$—	\$94,513	\$—	\$—	
Fund I (1999) (K)	Closed May-13	1,015,943	(2,847,928)	—	N/A	—	—	344,939	—	—	
Fund II (2002)	Feb-13	1,974,298	(3,266,588)	154,466	1,446,756	—	—	287,985	33,720	3,28	
Fund III (2004)	Jan-15	2,762,993	(1,501,427)	2,249,991	988,425	1,662,739	—	66,903	66,903	66,9	
Fund III Coinvestment (2004)	Jan-15	273,649	(173,269)	121,387	21,007	191,760	—	—	—	—	
Fund IV (2006)	Jan-17	3,639,561	(586,995)	3,860,445	807,879	2,123,171	—	—	—	—	
Fund IV Coinvestment (2006)	Jan-17	762,696	(138,625)	606,020	(18,051)	454,728	—	—	—	—	
Fund V (2007)	Feb-18	4,103,713	(143,667)	4,103,833	143,787	1,811,652	—	—	—	—	
Fund V Coinvestment (2007)	Feb-18	990,480	(148)	631,856	(358,476)	480,381	—	—	—	—	
GAGACQ Fund (2004) (GAGFAH)	Closed Nov-09	545,663	(595,401)	N/A	N/A	N/A	N/A	51,476	N/A	N/A	
FRID (2005) (GAGFAH)	Apr-15	1,220,229	(505,614)	587,171	(127,444)	789,008	—	16,447	16,447	16,4	
FRIC (2006) (Brookdale)	May-16	328,754	(17,462)	228,703	(82,589)	224,062	—	—	—	—	
FICO (2006) (Intrawest)	Jan-17	724,525	(5)	(58,889)	(783,409)	460,283	—	—	—	—	
FHIF (2006) (Holiday)	Jan-17	1,543,463	(63,169)	2,255,706	775,412	892,166	—	—	—	—	
FECI (2007) (Florida East Coast / Flagler)	Feb-18	982,779	(165)	930,487	(52,127)	566,728	—	—	—	—	
								\$—	\$862,263	\$117,070	\$86
Private Equity Funds in Investment Period											

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WWTAI (2011)	Jun-24	\$ 155,472	\$(12,334)	\$ 155,135	\$ 11,997	\$-N/A	\$ 1,128	\$—	\$—	\$—
MSR Opportunities Fund IA (2012)	Aug-22	208,499	(6,843)	214,852	13,196	—N/A	1,274	—	—	—
MSR Opportunities Fund IB (2012)	Aug-22	50,500	(1,657)	51,981	3,138	—N/A	314	—	—	—
							\$2,716	\$—	\$—	\$—

Continued on next page.

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Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions	Net Asset Value ("NAV") (C)	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income to Class (I)
Credit PE Funds										
Long Dated Value Fund I (2005)	Apr-30	\$267,325	\$(65,011)	\$286,184	\$83,870	\$117,813	\$33,943	\$—	\$—	\$—
Long Dated Value Fund II (2005)	Nov-30	274,280	(112,785)	201,328	39,833	94,838	55,005	—	412	—
Long Dated Value Fund III (2007)	Feb-32	343,156	(237,977)	223,034	117,855	—	N/A	17,415	4,287	—
LDVF Patent Fund (2007)	Nov-27	43,727	(9,167)	70,263	35,703	—	N/A	2,757	461	—
Real Assets Fund (2007)	Jun-17	359,024	(274,995)	188,706	104,677	—	N/A	11,877	4,439	—
Credit										
Opportunities Fund (2008)	Oct-20	5,471,831	(6,275,405)	1,448,137	2,251,711	—	N/A	188,014	254,145	95
SIP Managed Account (2010)	Sep-20	11,000	(24,924)	10,497	24,421	—	N/A	2,099	2,785	—
Japan Opportunity Fund (2009)	Jun-19	1,050,650	(892,413)	570,560	412,323	—	N/A	41,003	45,542	15
								\$263,165	\$312,071	\$1
Credit PE Funds in Investment Period										
Credit										
Opportunities Fund II (2009)	Jul-22	\$2,162,162	\$(1,766,177)	\$1,195,939	\$799,954	\$—	\$ N/A	\$111,367	\$45,490	\$1
Credit										
Opportunities Fund III (2011)	Mar-24	1,099,673	(366,422)	973,562	240,311	—	N/A	38,899	8,108	8,1
FCO Managed Accounts (2008-2012)	Oct-21 to Mar-27	3,299,844	(2,391,561)	1,942,466	1,034,183	—	N/A	127,021	76,223	39
Japan Opportunity Fund II (Yen) (2011)	Dec-21	278,639	(54,594)	266,596	42,551	—	N/A	6,903	1,653	—
Japan Opportunity Fund II (Dollar)	Dec-21	247,629	(27,361)	258,570	38,302	—	N/A	4,755	2,585	—

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(2011) Net Lease Fund I (2010) Global	Feb-20	149,595	(62,173) 138,938	51,516	—	N/A	5,848	886	88
Opportunities Fund (2010)	Sep-20	221,709	(68,641	) 195,314	42,246	—	N/A	8,242	—	—
Life Settlements Fund (2010)	Dec-22	318,652	(94,254	) 220,935	(3,463	) 48,953	52,416	—	—	—
Life Settlements Fund MA (2010)	Dec-22	26,187	(7,696	) 18,048	(443	) 4,025	4,468	—	—	—
Real Estate Opportunities Fund (2011)	Sep-24	228,454	(72,205	) 183,822	27,573	—	N/A	1,778	629	17
Real Estate Opportunities REOC Fund (2011)	Oct-23	23,020	(7,677) 19,700	4,357	—	N/A	867	—	—
								\$305,680	\$135,574	\$5

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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	\$2,183,363	\$754	96.4	% \$53,998	\$5,930
Sidepocket investments (R)	20,732	11,504	N/A	292	—
Sidepocket investments - redeemers (S)	213,510	106,970	N/A	2,887	—
Managed accounts	1,195,630	—	100.0	% 33,125	2,584
Asia Macro Funds (T)					
Main fund investments	1,250,192	—	100.0	% 25,372	373
Managed accounts	140,213	—	100.0	% 3,457	—
Fortress Convex Asia Funds (T)					
Main fund Investments	84,915	1,160	59.0	% 68	—
Fortress Partners Funds (T)					
Main fund investments	64,365	28,581	0.1	% 1	—
Sidepocket investments (R)	135,004	26,271	N/A	2,127	—
Credit Hedge Funds					
Special Opportunities Funds (T)					
Main fund investments	\$3,436,788	\$—	100.0	% \$70,360	\$—
Sidepocket investments (R)	94,699	1,767	N/A	4,604	—
Sidepocket investments - redeemers (S)	226,264	72,828	N/A	3,612	—
Main fund investments (liquidating) (U)	1,184,447	123,454	93.7	% 83,526	18,520
Managed accounts	6,204	45,995	0.0	% —	—
Worden Funds					
Main fund investments	218,856	—	100.0	% 5,712	1,883
Value Recovery Funds (V)					
Managed accounts	23,022	4,623	0.0	% —	—

(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 (F) below), excluding the impact of any relevant performance (i.e. preferred return) thresholds (as described in (E) below).

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- (E) Represents the gain needed to achieve the current relevant performance thresholds, assuming the gain described in (D) above is already achieved.
- (F) Represents the immediate increase in NAV needed for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see (J) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (I) below).
- (G) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV. The incentive income amounts presented in this table are based on the estimated results of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.
- (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 June 30, 2013, Fortress held \$41.5 million of such amounts on behalf of employees related to all of the private equity funds.
- (K) The Fund I distributed incentive income amount is presented for the total fund, of which Fortress was entitled to approximately 50%.
- (L) Represents the portion of a fund’s NAV or trading level that is eligible to earn incentive income.
- (M) Represents, for those fund investors whose NAV is below the performance threshold Fortress needs to obtain before it can earn incentive income from such investors (their “incentive income threshold” or “high water mark”), the amount by which their aggregate incentive income thresholds exceed their aggregate NAVs. The amount by which the NAV of each investor within this category is below their respective incentive income threshold varies and, therefore, Fortress may begin earning incentive income from certain investors before this entire amount is earned back. Fortress earns incentive income whenever the assets of new investors, as well as of investors whose NAV exceeds their incentive income threshold, increase in value.
- (N) Represents the percentage which is computed by dividing (i) the aggregate NAV of all investors who are at or above their respective incentive income thresholds, by (ii) the total incentive income eligible NAV of the fund. The amount by which the NAV of each fund investor who is not in this category is below their respective incentive income threshold may vary, and may vary significantly. This percentage represents the performance of only the main fund investments and managed accounts relative to their respective incentive income thresholds. It does not incorporate the impact of unrealized losses on sidepocket investments that can reduce the amount of incentive income earned from certain funds. See footnote (R) below.
- (O) Represents the amount of additional incentive income Fortress would earn from the fund if it were liquidated at the end of the period at its NAV. This amount is currently subject to performance contingencies generally until the end of the year or, in the case of sidepocket investments, until such investments are realized. For the Value

Recovery Fund managed accounts, Fortress can earn incentive income if aggregate realizations exceed an agreed threshold. Main Fund Investments (Liquidating) pay incentive income only after all capital is returned. The incentive income amounts presented in this table are based on the estimated results of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

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

(Q) The Drawbridge Global Macro SPV (the "SPV"), which was established in February 2009 to liquidate illiquid investments and distribute the proceeds to then existing investors, is not subject to incentive income and is therefore not presented in the table. However, realized gains or losses within the SPV can decrease or increase, respectively, the gain needed to cross the incentive income threshold for investors with a corresponding investment in the main fund. The unrealized gains and losses within the SPV at June 30, 2013, as if they became realized, would not materially impact the amounts presented in the table.

(R) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. The performance of these investments may impact Fortress's ability to earn incentive income from main fund investments. For the credit hedge funds and Fortress Partners Funds, realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments. For the Macro Funds, only realized losses from individual sidepockets reduce the incentive income earned from main fund investments. Based on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at June 30, 2013, the undistributed incentive income from the Macro main fund would decrease by \$1.0 million.

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

(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.

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Excludes the Value Recovery Funds which had a NAV of \$435.6 million at June 30, 2013. Fortress began (V)managing the third party originated Value Recovery Funds in June 2009 and generally does not expect to earn any significant incentive income from the fund investments.

During the six months ended June 30, 2013, Fortress formed a new fixed income fund which had a net asset value of \$230.5 million as of June 30, 2013.

In addition, Fortress raised equity within Newcastle and Eurocastle as described in Note 3.

In April 2013, Eurocastle (Note 3) completed a restructuring process that resulted in the conversion of its outstanding convertible debt. As part of that restructuring, Fortress entered into an amended management agreement with Eurocastle that reduced the AUM used to compute Eurocastle's management fees from €1.5 billion to €0.3 billion as of April 1, 2013, and in doing so also reduced the earnings threshold required for Fortress to earn incentive income from Eurocastle. Following the conversion of its outstanding convertible debt, Eurocastle effected a one for two hundred reverse split of its common stock.

In May 2013, Fund I was substantially liquidated. In connection with this liquidation: (i) Fortress received its share of the incentive income of \$4.9 million from Fund I in the form of cash and equity interests in three liquidating entities, (ii) Fortress acquired NIH's equity interests in these entities, related to its share of the Fund I incentive income, for \$1.3 million, (iii) Fortress sold substantially all of its interests in two of these entities to Eurocastle and a Fortress credit hedge fund for \$2.2 million and \$0.5 million, respectively, (iv) Eurocastle and the Fortress credit hedge fund acquired additional equity interests in these two entities from the former Fund I investors such that they own approximately 81% of these entities, (v) Fortress acquired additional equity interests in the third liquidating entity from the former Fund I investors for \$8.0 million such that it owns approximately 81% of this entity, and (vi) Fortress made profit sharing payments of approximately \$1.8 million in connection with its realization of incentive income. The sale described in (iii) did not qualify for sale accounting treatment under GAAP. As a result, Fortress has recorded an investment and a liability each in the amount of \$2.7 million; this treatment did not and is not expected to have an impact on equity or net income. The acquisition described in (v) resulted in the consolidation of this liquidating entity by Fortress. Furthermore, NIH monetized substantially all of its remaining assets (primarily its interests in Fund I as described above) and was substantially liquidated in June 2013. Fortress received \$0.6 million of proceeds from NIH's liquidating distribution. These liquidations did not have an impact on Fortress's management fees.

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:

	June 30, 2013	December 31, 2012
Equity method investees	\$1,129,329	\$1,135,329

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Equity method investees, held at fair value (A)	86,140	76,355
Total equity method investments	\$1,215,469	\$1,211,684
Options in equity method investees	\$98,298	\$38,077

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

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Gains (losses) can be summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net realized gains (losses)	\$225	\$(190)	\$(371)	\$490
Net realized gains (losses) from affiliate investments	66	(50)	(117)	(41)
Net unrealized gains (losses)	2,104	749	5,602	(300)
Net unrealized gains (losses) from affiliate investments	(5,595)	6,639	32,961	31,621
Total gains (losses)	\$(3,200)	\$7,148	\$38,075	\$31,770

These gains (losses) were generated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Mark to fair value on investments and options	\$(5,599)	\$6,639	\$32,964	\$31,622
Mark to fair value on derivatives	2,104	749	5,277	(368)
Other	295	(240)	(166)	516
Total gains (losses)	\$(3,200)	\$7,148	\$38,075	\$31,770

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)			
	June 30, 2013	December 31, 2012	Three Months Ended June 30,		Six Months Ended June 30,	
			2013	2012	2013	2012
Private equity funds, excluding NIH	\$763,333	\$720,817	\$12,493	\$14,886	\$35,378	\$34,705
NIH	—	1,177	(640)	9	(554)	108
Publicly traded portfolio companies (A)(B)	71,395	67,313	N/A	N/A	N/A	N/A
Newcastle (B)	5,424	9,002	N/A	N/A	N/A	N/A
New Residential (B)	6,990	—	N/A	N/A	N/A	N/A
Eurocastle (B)	2,331	40	N/A	N/A	N/A	N/A
Total private equity	849,473	798,349	11,853	14,895	34,824	34,813
Liquid hedge funds	163,934	180,664	1,266	1,506	6,613	6,755
Credit hedge funds	58,010	58,507	3,237	2,490	5,665	5,346
Credit PE funds	136,233	166,482	12,200	4,251	17,850	11,087
Other	7,819	7,682	149	1	55	382
	\$1,215,469	\$1,211,684	\$28,705	\$23,143	\$65,007	\$58,383

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

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

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Per Consolidated Statements of Cash Flows	\$18,763	\$236,173
Investments of receivable amounts into Fortress Funds	182,059	—
Change in distributions payable out of Fortress Funds	—	54
Net funded*	5,996	5,996
Consolidation of private equity liquidating entity	2,553	—
Other	315	206
Per Above	\$209,686	\$242,429

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

(C) Recorded to Gains (Losses).

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

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	Private Equity Funds excluding NIH (B)			
	June 30, 2013		December 31, 2012	
Assets	\$16,716,272		\$15,944,821	
Debt	—		—	
Other liabilities	(229,351	)	(143,951)
Equity	\$16,486,921		\$15,800,870	
Fortress's Investment Ownership (A)	\$763,333		\$720,817	
	4.6	%	4.6	%
	Six Months Ended June 30,			
	2013		2012	
Revenues and gains (losses) on investments	\$1,094,028		\$1,407,232	
Expenses	(97,586	)	(92,894)
Net Income (Loss)	\$996,442		\$1,314,338	
Fortress's equity in net income (loss)	\$35,378		\$34,705	

	Liquid Hedge Funds (C)		Credit Hedge Funds		Credit PE Funds (B) (D)		
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	
Assets		\$9,293,405	\$9,994,722	\$9,431,681	\$8,853,281	\$9,536,328	
Debt		—	(3,724,405	)	(3,329,686	)	(98,973
Other liabilities		(4,682,311	)	(457,965	)	(447,127)
Non-controlling interest		—	(3,715	)	(4,289	)	(9,786
Equity	\$5,783,481	\$4,611,094	\$5,808,637	\$5,650,579	\$8,468,705	\$9,132,358	
Fortress's Investment Ownership (A)	\$163,934	\$180,664	\$58,010	\$58,507	\$136,233	\$166,482	
	2.8	% 3.9	% 1.0	% 1.0	% 1.6	% 1.8	%
	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012		Six Months Ended June 30, 2013		2012
Revenues and gains (losses) on investments		\$210,701	\$681,939	\$584,805	\$888,338	\$816,013	
Expenses		(70,176	)	(155,380	)	(112,952)
Net Income (Loss)	\$504,940	\$140,525	\$526,559	\$471,853	\$725,047	\$689,139	
Fortress's equity in net income (loss)	\$6,613	\$6,755	\$5,665	\$5,346	\$17,850	\$11,087	

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

(B)

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For Private Equity Funds, includes three entities which are recorded on a one quarter lag (i.e. balances reflected for these entities are for the period ended March 31, 2013). For Credit PE Funds, 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, 2013 and 2012, respectively) and several entities which are recorded on a one month lag. They are recorded on a lag because they are foreign entities, or they have substantial operations in foreign countries, and do not provide financial reports under U.S. GAAP within the reporting time frame necessary for U.S. public entities.

In interim periods, the liquid hedge funds prepare summary financial information on a one quarter lag. For the six (C) months ended March 31, 2013, the liquid hedge funds recorded \$415.7 million of revenues and gains (losses) on investments, \$67.2 million of expenses, and \$348.5 million of net income (loss).

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

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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 six months ended June 30, 2013 which caused a change in Fortress's accounting.

The following tables set forth certain information as of June 30, 2013 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 six months ended June 30, 2013:

Business Segment	Fortress is not Primary Beneficiary			Fortress Investment (A)	Notes
	Gross Assets	Financial Obligations			
Castles	\$2,657,318	\$1,452,175		\$ 59,628	(B)
Credit PE Funds	39,774	26,932		139	(B)
Logan Circle	233,162	—		142	(B)

(A) 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 Fortress earns from those entities.

(B) Fortress is not the primary beneficiary of this entity, because it does not absorb a majority of the entity's expected income or loss based on a quantitative analysis.

All variable interest entities:

Business Segment	Fortress is not Primary Beneficiary			December 31, 2012			Notes
	June 30, 2013		Fortress	Gross	Financial	Fortress	
	Gross Assets	Financial Obligations (A)	Investment (B)	Assets	Obligations (A)	Investment (B)	
Private Equity Funds	\$ 1,091	\$ —	\$ 232	\$9,087	\$ —	\$ 1,176	(C) (D)
Castles	8,930,147	6,153,112	122,362	7,421,269	5,798,143	56,294	(C) (D)
Liquid Hedge Funds	3,402,400	586,431	5,745	4,905,876	2,271,914	27,817	(C) (D)
Credit Hedge Funds	1,893,260	355,073	3,237	1,771,900	365,135	46,193	(C) (D)
Credit PE Funds	1,085,563	417,186	4,455	1,536,067	418,208	4,483	(C) (D)
Logan Circle	233,162	—	142	—	—	—	(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.

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

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

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

(D) FCF is an entity which provides operating services to all of Fortress's private equity funds and is reimbursed for related costs by the private equity funds based on a contractual formula. Therefore, FCF by design does not produce net income or have equity.

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FCF was deemed to be a VIE and Fortress, as a result of directing the operations of FCF through its management contracts with the private equity funds, and providing financial support to FCF, was deemed to be its primary beneficiary. Therefore, Fortress consolidates FCF. As of June 30, 2013, FCF's gross assets were approximately \$35.7 million, primarily comprised of affiliate receivables. Fortress's exposure to loss from FCF is limited to its unreserved outstanding advances, which were approximately \$14.8 million at June 30, 2013, plus any future advances. 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.

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 June 30, 2013	December 31, 2012	Valuation Method
Assets (within Investments)			
Newcastle, New Residential and Eurocastle common shares	\$ 14,745	\$ 9,042	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies, primarily GAGFAH	71,395	67,313	Level 1 - Quoted prices in active markets for identical assets
Total equity method investments carried at fair value	\$ 86,140	\$ 76,355	
Newcastle, New Residential and Eurocastle options	\$ 98,298	\$ 38,077	Level 2 - Option valuation models using significant observable inputs
Assets (within Other Assets)			
Derivatives	\$ 6,410	\$ 1,101	Level 2 - See below
Equity Securities (A)	\$ 16,933	\$—	Level 1 - Quoted prices in active markets for identical assets
Liabilities (within Accrued Compensation and Benefits)			
Options in affiliates granted to employees	\$(18,336	) \$(10,120	) Level 2 - Option valuation models using significant observable inputs

In June 2013, Fortress made a direct investment in accounts managed by Logan Circle's growth equities business. (A) The equity investments in these accounts are owned on Fortress's behalf and are held at fair value. As of June 30, 2013, Fortress's investment was comprised of approximately \$16.9 million of equity securities, classified as trading, and \$3.1 million of cash and cash equivalents.

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

In January 2013, Newcastle issued 57.5 million shares of its common stock in a public offering at a price to the public of \$9.35 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 5,750,000 shares of Newcastle's common stock at the public offering price, which were valued at approximately \$18.0 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term. In connection with this offering, two of the Principals each purchased 106,950 shares of Newcastle at the public offering price.

In February 2013, Newcastle issued 23.0 million shares of its common stock in a public offering at a price to the underwriters of \$10.34 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 2,300,000 shares of Newcastle's common stock with a strike price of \$10.48 per share, which were valued at approximately \$8.4 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term. In connection with this offering, two of the Principals each purchased 95,500 shares of Newcastle at a price of \$10.48 per share.

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In May 2013, Newcastle distributed all of the common shares of its subsidiary, New Residential Investment Corp. ("New Residential," NYSE: NRZ) to its shareholders. In connection with this transaction, Fortress's options in Newcastle were exchanged for options in both Newcastle and New Residential; this resulted in no change to their aggregate strike price. As a result, Fortress owns an investment and options in New Residential, which it has elected to record at fair value. Fortress entered into a management agreement with New Residential on substantially the same terms as Newcastle.

In May 2013, Eurocastle issued 15.0 million shares of its common stock in a public offering at a price to the public of €7.25 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Eurocastle, in connection with this offering, Eurocastle granted options to Fortress to purchase 1,500,000 shares of Eurocastle's common stock at the public offering price, which were valued at approximately \$6.2 million. The options were fully vested upon issuance, become exercisable from October 2013 and have a ten-year term.

In June 2013, Newcastle issued 40.3 million shares of its common stock in a public offering at a price to the public of \$4.97 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 4,025,000 shares of Newcastle's common stock at the public offering price, which were valued at approximately \$3.8 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term. In connection with this offering, two of the Principals purchased an aggregate of 750,000 shares of Newcastle at the public offering price.

Derivatives

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

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

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

	Balance Sheet	Fair Value	Notional Amount	Gains/(Losses) (B)	Maturity
	Location (A)	June 30, 2013	June 30, 2013	Six Months Ended June 30, 2013	Date
Foreign exchange option contract	Other Assets	\$1,063	€50,000	\$(300	) Mar-14
Foreign exchange option contract	Other Assets	\$(1,041) €50,000	\$250	Mar-14
	Other Assets	\$1,584	¥877,506	\$1,049	Dec-13

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Foreign exchange option contract					
Foreign exchange option contract	Other Assets	\$(29) ¥877,506	\$171	Dec-13
Foreign exchange option contract	Other Assets	\$4,396	¥2,403,500	\$2,552	Dec-14
Foreign exchange option contract	Other Assets	\$(448	) ¥2,403,500	\$648	Dec-14
Foreign exchange option contract	Other Assets	\$2,157	¥1,865,000	\$417	Jun-16
Foreign exchange option contract	Other Assets	\$(1,691	) ¥1,865,000	\$49	Jun-16
Foreign exchange option contract	Other Assets	\$375	¥550,000	\$101	Jun-14
Foreign exchange option contract	Other Assets	\$(227	) ¥550,000	\$47	Jun-14
Foreign exchange option contract	Other Assets	\$500	¥550,000	\$109	Jun-15
Foreign exchange option contract	Other Assets	\$(366	) ¥550,000	\$25	Jun-15
Foreign exchange option contract	Other Assets	\$636	¥550,000	\$123	Jun-16
Foreign exchange option contract	Other Assets	\$(499	) ¥550,000	\$14	Jun-16

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

(B) Reflects unrealized gains (losses) related to contracts existing at period end. Total net foreign exchange gains (losses) from derivatives were \$5.3 million during the six months ended June 30, 2013.

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

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4. DEBT OBLIGATIONS

Debt Obligation	Face Amount and Carrying Value		Contractual Interest Rate	Final Stated Maturity	June 30, 2013 Amount Available for Draws
	June 30, 2013	December 31, 2012			
Revolving credit agreement (A)(B)	\$—	\$—	LIBOR + 2.50% (C)	Feb 2016	\$147,332
Promissory note (D)	89,453	149,453	5.00%	Feb 2014	N/A
Total	\$89,453	\$149,453			

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

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

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

(D) Issued to a former Principal in exchange for his equity interests in Fortress.

Management believes the fair value of the outstanding promissory note was approximately \$91.1 million at June 30, 2013 (based on internal models, a level 3 valuation, see Note 3).

Fortress was in compliance with all of its debt covenants as of June 30, 2013. The following table sets forth the financial covenant requirements as of June 30, 2013.

	June 30, 2013 (dollars in millions)		
	Requirement	Actual	Notes
AUM, as defined	≥ \$25,000	\$40,100	(A)
Consolidated Leverage Ratio	≤ 2.00	0.10	(B)
Consolidated Interest Coverage Ratio	≥ 4.00	36.64	(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.

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

In February 2013, Fortress terminated its existing \$60.0 million revolving credit facility and entered into a new \$150.0 million revolving credit facility (the "2013 Credit Agreement"). The 2013 Credit Agreement generally bears interest at an annual rate equal to LIBOR plus an applicable rate that fluctuates depending upon our credit rating and a commitment fee on undrawn amounts that fluctuates depending upon our credit rating, as well as other customary fees. In connection with the closing of the 2013 Credit Agreement, approximately \$2.3 million of fees and expenses

were incurred. The 2013 Credit Agreement contains customary representations and warranties, events of default, and affirmative and negative covenants, including restrictions on liens and indebtedness and requirements for minimum AUM (as defined), a maximum leverage ratio (as defined) and a minimum interest coverage ratio (as defined).

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5. INCOME TAXES AND TAX RELATED PAYMENTS

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

Fortress recognizes compensation expense from the issuance of RSUs and RPUs (Note 7) 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 six months ended June 30, 2013 and 2012, Fortress has estimated tax shortfalls of \$26.3 million and \$29.6 million, respectively, which have been charged to income tax expense during these periods.

The provision for income taxes consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Current				
Federal income tax expense (benefit)	\$(9,101	) \$1,817	\$(19,516	) \$(5,586
Foreign income tax expense (benefit)	1,787	1,557	2,904	3,280
State and local income tax expense (benefit)	(467	) 1,091	(1,100	) (41
	(7,781	) 4,465	(17,712	) (2,347
Deferred				
Federal income tax expense (benefit)	8,432	(1,644	) 38,550	28,548
Foreign income tax expense (benefit)	(559	) (296	) 40	1,007
State and local income tax expense (benefit)	1,074	3	6,564	3,162
	8,947	(1,937	) 45,154	32,717
Total expense (benefit)	\$1,166	\$2,528	\$27,442	\$30,370

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

	June 30, 2013	December 31, 2012
Total deferred tax assets	\$443,275	\$485,160

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Valuation allowance	(65,990) (83,025)
Net deferred tax assets	\$377,285	\$402,135	
Total deferred tax liabilities (A)	\$14,864	\$5,815	

(A) Included in Other Liabilities. The deferred tax liabilities primarily relate to timing differences in the recognition of income from compensatory options received from Newcastle (Note 3).

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

Valuation Allowance at December 31, 2012	\$83,025	
Changes due to FIG Corp ownership increases	(1,606)
Net decreases (A)	(15,429)
Valuation Allowance at June 30, 2013	\$65,990	

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

For the six months ended June 30, 2013, a net deferred income tax provision of \$0.5 million was debited to other comprehensive income, primarily related to the equity method investees. A current income tax benefit of \$0.2 million was credited to paid-in capital, related to (i) dividend equivalent payments on RSUs (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. In addition, a current income tax expense of \$1.0 million was debited to paid-in capital related to the tax gain on treasury shares issued to employees in connection with equity-based compensation deliveries.

FIG Corp increased its ownership in the underlying Fortress Operating Group entities during the six months ended June 30, 2013 through the delivery of vested RSUs and RPU's (Note 7). As a result of this change in ownership and other factors, the deferred tax asset decreased by \$1.2 million with an offsetting decrease of \$1.9 million to the valuation allowance. In addition, the deferred tax asset was increased by \$11.4 million related to a step-up in tax basis due to the share exchanges which will result in additional tax deductions, with an offsetting increase of \$0.2 million to the valuation allowance. 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 six months ended June 30, 2013, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be \$14.1 million. In addition, during the six months ended June 30, 2013, the realization of certain tax benefits, which were previously offset by a valuation allowance, gave rise to a \$7.7 million increase in the expected tax receivable agreement liability.

6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

Private Equity			Credit				
		Liquid	Hedge				
Funds	Castles	Funds	Funds	PE Funds	Other		Total

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June 30, 2013

Management fees and incentive income (A)	\$41,977	\$5,363	\$4,538	\$3,985	\$15,085	\$793	\$71,741
Expense reimbursements (A)	1,438	3,764	8,244	5,615	13,115	54	32,230
Expense reimbursements - FCF (B)	27,073	—	—	—	—	—	27,073
Dividends and distributions	—	249	—	—	—	—	249
Other	551	—	—	—	12	9,681	10,244
Total	\$71,039	\$9,376	\$12,782	\$9,600	\$28,212	\$10,528	\$141,537

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	Private Equity		Liquid Hedge Funds	Credit Hedge		Other	Total
	Funds	Castles		Funds	PE Funds		
December 31, 2012							
Management fees and incentive income (A)	\$31,909	\$4,726	\$40,929	\$122,902	\$26,937	\$—	\$227,403
Expense reimbursements (A)	1,338	3,651	5,376	3,621	10,405	—	24,391
Expense reimbursements - FCF (B)	14,557	—	—	—	—	—	14,557
Dividends and distributions	—	228	—	—	—	—	228
Other	1,584	654	—	—	650	11,090	13,978
Total	\$49,388	\$9,259	\$46,305	\$126,523	\$37,992	\$11,090	\$280,557

Net of allowances for uncollectible management fees and expense reimbursements of \$12.2 million and \$6.1 (A) million at June 30, 2013, respectively, and of \$12.2 million and \$5.8 million as of December 31, 2012, respectively. Allowances are recorded as General and Administrative expenses.
 (B) Represents expense reimbursements due to FCF, a consolidated VIE (Note 3).

As of June 30, 2013, amounts due from Fortress Funds recorded in Due from Affiliates included \$39.9 million of past due management fees, excluding \$12.2 million which has been fully reserved by Fortress, and \$15.6 million of private equity general and administrative expenses advanced on behalf of certain Fortress Funds, excluding \$6.1 million which has been fully reserved by Fortress. Although such funds are currently experiencing liquidity issues, Fortress believes the unreserved portion of these fees and reimbursable expenses will ultimately be collectible. The unreserved amounts are primarily due from three different funds and the amounts represent less than 5% of such funds' NAV, both individually and in the aggregate.

Due to affiliates was comprised of the following:

	June 30, 2013	December 31, 2012
Principals - tax receivable agreement - Note 5	\$261,609	\$253,787
Principals - Principal Performance Payments - Note 7	24,566	25,573
Distributions payable on Fortress Operating Group units	28,026	31,997
Other	6,743	6,450
General partner liability - Note 9	40,809	39,600
	\$361,753	\$357,407

Other Related Party Transactions

For the six months ended June 30, 2013 and 2012, Other Revenues included approximately \$1.0 million and \$0.7 million, respectively, of revenues from affiliates, primarily interest and dividends.

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During 2013, Fortress advanced \$1.0 million to one of its senior employees who is not an officer. This advance bears interest at LIBOR+4.00%. All principal and interest is due and payable no later than February 2017. In addition, two senior employees repaid advances aggregating \$1.6 million.

Principals' and Others' Interests in Consolidated Subsidiaries

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

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This balance sheet caption was comprised of the following:

	June 30, 2013	December 31, 2012
Fortress Operating Group units held by the Principals and one senior employee	\$ 523,186	\$ 530,739
Employee interests in majority owned and controlled fund advisor and general partner entities	53,386	57,411
Other	2,104	2,029
Total	\$ 578,676	\$ 590,179

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

	June 30, 2013		December 31, 2012	
Fortress Operating Group equity (Note 12)	\$ 1,075,505		\$ 1,058,886	
Less: Others' interests in equity of consolidated subsidiaries (Note 12)	(55,490	)	(59,440)
Total Fortress shareholders' equity in Fortress Operating Group	\$ 1,020,015		\$ 999,446	
Fortress Operating Group units outstanding (A)	249,534,372		249,534,372	
Class A shares outstanding (C)	236,963,748		220,369,026	
Total	486,498,120		469,903,398	
Fortress Operating Group as a percent of total (B)	51.3	%	53.1	%
Equity of Fortress Operating Group units held by Principals and one senior employee	\$ 523,186		\$ 530,739	

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

(B) As a result, the Registrant owned 48.7% and 46.9% of Fortress Operating Group as of June 30, 2013 and December 31, 2012, respectively.

(C) As of December 31, 2012, this includes 2,082,684 treasury shares held by Fortress Operating Group.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Fortress Operating Group units held by the Principals and one senior employee	\$ (3,352	)	\$ 7,864	\$ 47,433
Employee interests in majority owned and controlled fund advisor and general partner entities	2,939		1,485	5,109
Other	53	(2)	75
Total	\$ (360)	\$ 9,347	\$ 52,617
			\$ 11,487	\$ 3,154
			99	\$ 14,740

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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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income (loss) attributable to Fortress	\$ (2,076)	\$ 4,909	\$ 12,253	\$ (24,631)
Transfers (to) from the Principals' and Others' Interests:				
Increase in Fortress's shareholders' equity for the conversion of Fortress Operating Group units by the Principals and one senior employee	—	—	10,143	19,238
Increase in Fortress's shareholders' equity for the delivery of Class A shares primarily in connection with vested RSUs and RPUs	323	1,052	9,486	10,701
Change from net income (loss) attributable to Fortress and transfers (to) from Principals' and Others' Interests	\$ (1,753)	\$ 5,961	\$ 31,882	\$ 5,308

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7. EQUITY-BASED AND OTHER COMPENSATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Equity-based compensation, per below	\$ 10,380	\$ 51,987	\$ 19,975	\$ 113,022
Profit-sharing expense, per below	96,407	29,717	164,553	60,230
Discretionary bonuses	51,776	45,971	103,088	94,436
Other payroll, taxes and benefits	53,492	44,792	105,518	88,158
	\$ 212,055	\$ 172,467	\$ 393,134	\$ 355,846

Equity-Based Compensation

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

	RSUs		Non-Employees		Restricted Shares Issued to Directors		RPU Employees	
	Number	Value (A)	Number	Value (A)	Number	Value (A)	Number	Value (A)
Outstanding at December 31, 2012	21,754,544	\$ 9.44	1,246,406	\$ 5.51	828,211	\$ 5.29	10,333,334	\$ 13.75
Issued	8,765,448	5.05	—	—	104,667	5.99	—	—
Transfers	—	—	—	—	—	—	—	—
Converted to Class A shares	(7,915,946)	15.07	(323,459)	11.30	—	—	(10,333,334)	13.75
Forfeited	(562,466)	3.77	—	—	—	—	—	—
Outstanding at June 30, 2013 (B)	22,041,580	\$ 5.82	922,947	\$ 3.47	932,878	\$ 5.37	—	\$—

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Expense incurred (B)				
Employee RSUs	\$ 6,187	\$ 28,653	\$ 13,287	\$ 66,607
Non-Employee RSUs	—	145	1	381
Principal Performance Payments (C)	4,193	624	6,687	881
Restricted Shares (D)	—	—	—	24
RPU	—	22,565	—	45,129
Total equity-based compensation expense	\$ 10,380	\$ 51,987	\$ 19,975	\$ 113,022

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

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In future periods, Fortress will further recognize compensation expense on its non-vested equity based awards (B) outstanding as of June 30, 2013 of \$55.3 million, with a weighted average recognition period of 2.5 years. This does not include contingent amounts.

Accrued based on year-to-date performance; the actual number of RSUs granted are determined at year end. Based (C) on year-to-date performance, a total of approximately 2.5 million RSUs would be awarded as Principal Performance Payments.

Certain restricted shares granted to directors are recorded in General and Administrative Expense (\$0.3 million (D) and \$0.4 million for the six months ended June 30, 2013 and 2012, respectively) and therefore are not included above.

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

Fortress's management reviewed the estimated forfeiture factor as of June 30, 2013 and, based on the actual forfeiture rate incurred and the remaining vesting period of certain grants, determined that the forfeiture assumptions for certain grants required adjustment. The result of these changes in estimates did not materially impact equity-based compensation.

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In January 2013, Fortress granted 4.8 million RSUs to its employees valued at an aggregate of \$20.5 million on the grant date. These RSUs generally vest over three years.

During the three months ended June 30, 2013, Fortress granted 1.1 million RSUs to its employees valued at an aggregate of \$7.2 million on the grant date. These RSUs generally vest over three years.

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

	Six Months Ended June 30, 2013		Total
	Equity-Based Compensation	Profit Sharing Expense	
Private equity business	\$—	\$—	\$—
Liquid hedge fund business	2,564	9,847	12,411
Credit business	4,123	10,525	14,648
Total	\$6,687	\$20,372	\$27,059

Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Private equity funds	\$1,796	\$—	\$2,135	\$410
Castles	1,861	3,377	8,217	3,377
Liquid hedge funds	28,813	3,320	39,036	6,887
Credit hedge funds	32,028	12,249	50,703	26,779
Credit PE funds	18,907	7,680	44,090	15,864
Principal Performance Payments (A)	13,002	3,091	20,372	6,913
Total	\$96,407	\$29,717	\$164,553	\$60,230

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

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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 June 30, 2013		Six Months Ended June 30, 2013	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	235,941,595	235,941,595	227,741,269	227,741,269
Fully vested restricted Class A share units with dividend equivalent rights	584,851	584,851	3,755,642	3,755,642
Fully vested restricted Class A shares	900,457	900,457	888,102	888,102
Fortress Operating Group units and fully vested RPU's exchangeable into Class A shares (1)	—	—	—	254,444,133
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)	—	—	—	1,710,597
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	—	—	9,737,422
Total weighted average shares outstanding	237,426,903	237,426,903	232,385,013	498,277,165
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	\$(2,076)	\$(2,076)	\$12,253	\$12,253
Dilution in earnings due to RPU's treated as a participating security of Fortress Operating Group and fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4)				
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(115)	(115)	(226)	(226)
Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates, attributable to Fortress Operating Group units and fully vested RPU's exchangeable into Class A shares (1)	—	—	—	8,621
Net income (loss) available to Class A shareholders	\$(2,191)	\$(2,191)	\$12,027	\$20,648

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Weighted average shares outstanding	237,426,903	237,426,903	232,385,013	498,277,165
Basic and diluted net income (loss) per Class A share	\$(0.01)	\$(0.01)	\$0.05	\$0.04

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	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	213,983,892	213,983,892	202,581,788	202,581,788
Fully vested restricted Class A share units with dividend equivalent rights	1,473,028	1,473,028	4,850,487	4,850,487
Fully vested restricted Class A shares	688,095	688,095	645,408	645,408
Fortress Operating Group units and fully vested RPU's exchangeable into Class A shares (1)	—	300,273,852	—	308,033,708
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	216,145,015	516,418,867	208,077,683	516,111,391
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	\$4,909	\$4,909	\$(24,631)	\$(24,631)
Dilution in earnings due to RPU's treated as a participating security of Fortress Operating Group and fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4)	(88)	(88)	(258)	(258)
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(116)	(116)	(220)	(220)
Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates, attributable to Fortress Operating Group units and fully vested RPU's exchangeable into Class A shares (1)	—	(65,147)	—	(44,548)
Net income (loss) available to Class A shareholders	\$4,705	\$(60,442)	\$(25,109)	\$(69,657)

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Weighted average shares outstanding	216,145,015	516,418,867	208,077,683	516,111,391
Basic and diluted net income (loss) per Class A share	\$0.02	\$(0.12	) \$(0.12	) \$(0.13

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 (fully vested RPUs would first have to be exchanged for Fortress Operating Group units and Class B shares). 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 (1) the computation of diluted net income (loss) per Class A share when the effect is dilutive using the if-converted method, which includes the income tax effects of nondiscretionary adjustments to the net income (loss) attributable to Class A shareholders from assumed conversion of these units and fully vested RPUs. 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.

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

Certain restricted Class A share units granted to employees are not entitled to dividend or dividend equivalent payments until they are vested and are therefore non-participating securities. These units are not included in the computation of basic earnings per share. They are included in the computation of diluted earnings per share when (3) the effect is dilutive using the treasury stock method. The effect of the units on the calculation is generally anti-dilutive during periods of net losses. The weighted average restricted Class A share units which are not entitled to receive dividend or dividend equivalent payments outstanding were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Share Units	16,786,047	21,193,102	16,266,780	20,621,941

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

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

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

	Weighted Average Three Months Ended June 30,		Weighted Average Six Months Ended June 30,	
	2013	2012	2013	2012
Class A shares (public shareholders)	235,941,595	213,983,892	227,741,269	202,581,788
Restricted Class A shares (directors)	900,457	705,204	888,102	668,932
Restricted Class A share units (employees) (A)	584,851	1,473,028	3,755,642	4,850,487
Restricted Class A share units (employees) (B)	4,970,562	6,434,147	4,259,267	6,786,086
Fortress Operating Group units (Principals and one senior employee)	249,534,372	300,273,852	249,534,372	303,037,371
Fortress Operating Group RPU's (one senior employee)	—	10,333,334	4,909,761	15,329,671
Total	491,931,837	533,203,457	491,088,413	533,254,335

	As of June 30, 2013	As of December 31, 2012
Class A shares (public shareholders)	236,030,870	217,458,131
Restricted Class A shares (directors)	932,878	828,211
Restricted Class A share units (employees) (A)	692,324	555,646
Restricted Class A share units (employees) (B)	5,744,629	6,434,147
Fortress Operating Group units (Principals and one senior employee)	249,534,372	249,534,372
Fortress Operating Group RPU's (one senior employee)	—	10,333,334
Total	492,935,073	485,143,841

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

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

In January 2013, 8.0 million existing RSUs and 10.3 million existing RPU's vested and the related Class A and Class B shares, as applicable, were delivered within six months of vesting pursuant to the plan documents. All of the treasury shares held at December 31, 2012 were issued to employees in connection with these deliveries. In March 2013, one

senior employee exchanged an aggregate of 10.3 million FOG units and Class B shares for an equal number of Class A shares. A portion of the vested shares are generally sold to cover withholding tax requirements. In June 2013, one of the Principals contributed 300,000 Class A shares to a charitable organization.

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Dividends and distributions during the six months ended June 30, 2013 are summarized as follows:

	Declared in Prior Year, Paid in Current Year	Declared in Current Year		Total
		Declared and Paid	Declared but not yet Paid	
Dividends on Class A Shares	\$—	\$27,512	\$—	\$27,512
Dividend equivalents on restricted Class A share units (A)	—	936	—	936
Distributions to Fortress Operating Group unit holders (Principals and one senior employee) (B)	30,725	20,134	28,026	48,160
Distributions to Fortress Operating Group RPU holders (Note 7) (B)	1,272	401	—	401
Total distributions	\$31,997	\$48,983	\$28,026	\$77,009

- A portion of these dividend equivalents, if any, related to RSUs expected to be forfeited, is included as
- (A) compensation expense in the consolidated statement of operations and is therefore considered an operating cash flow.
- (B) Fortress Operating Group made tax-related distributions to the FOG unit holders (the Principals and one senior employee) and the RPU holder (one senior employee).

On May 1, 2013, Fortress declared a first quarter cash dividend of \$0.06 per Class A share. The dividend was payable on May 17, 2013 to holders of record of Class A shares on May 14, 2013. The aggregate amount of this dividend payment was approximately \$14.2 million. In connection with this dividend, dividend equivalent payments of approximately \$0.3 million were paid to holders of restricted Class A share units.

On July 31, 2013, Fortress declared a second quarter cash dividend of \$0.06 per Class A share. The dividend is payable on August 16, 2013 to holders of record of Class A shares on August 13, 2013. The aggregate amount of this dividend payment is approximately \$14.2 million. In connection with this dividend, dividend equivalent payments of approximately \$0.5 million will be paid to holders of restricted Class A share units.

9. COMMITMENTS AND CONTINGENCIES

Other than as described below, Fortress's commitments and contingencies remain materially unchanged from December 31, 2012.

General Partner Liability — Certain of Fortress's consolidated subsidiaries act as the general partner of various Fortress Funds and accordingly have potentially unlimited liability for the obligations of the funds under applicable partnership law principles. In the event that any such fund was to fall into a negative net equity position (Note 2), 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 June 30, 2013 was \$40.8 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 June 30, 2013, individually and in the aggregate, will not materially affect Fortress's results of operations, liquidity or financial position.

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In some cases, Fortress is named as a defendant in legal actions pertaining to one of the Fortress Funds and/or their portfolio companies. In such cases, Fortress is generally indemnified by the fund against potential losses arising from Fortress’s role as investment manager.

Private Equity Fund and Credit PE Fund Capital Commitments — Fortress has remaining capital commitments, which aggregated \$163.0 million as of June 30, 2013, primarily to certain of the Fortress Funds. These commitments can be drawn by the funds on demand.

Minimum Future Rentals — Fortress is a lessee under operating leases for office space located in a number of locations worldwide.

Minimum future rental payments (excluding expense escalations) under these leases are as follows:

July 1 to December 31, 2013	\$ 12,538
2014	23,423
2015	20,882
2016	19,401
2017	2,540
2018	251
Thereafter	—
Total	\$ 79,035

Rent expense, including operating expense escalations, during the six months ended June 30, 2013 and 2012 was \$12.2 million and \$11.4 million, respectively, and was included in General, Administrative and Other Expense.

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 PE funds, (vi) Logan Circle and (vii) principal investments in these funds as well as cash that is available to be invested.

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

Incentive Income

- (i) 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,
- a.

for other Fortress Funds, at interim periods, adding (a) incentive income on an accrual basis as if the incentive
b. income from these funds were payable on a quarterly basis, minus (b) incentive income recorded in accordance with
GAAP,

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Other Income

- (ii) with respect to income from certain principal investments and certain other interests that cannot be readily transferred or redeemed:
- a. 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,
 - adding (a) proceeds from the sale of shares received pursuant to the exercise of stock options in certain of the
- (iii) 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,
 - adding back equity-based compensation expense (including Castle options assigned to employees, RSUs and RPU's
- (v) (including the portion of related dividend and distribution equivalents recorded as compensation expense), and restricted shares),
 - adding or subtracting, as necessary, any changes in the fair value of contingent consideration payable with respect
- (vi) 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, which expired in December 2011,
- (ix) adding the income (or subtracting the loss) allocable to the interests in consolidated subsidiaries attributable to Fortress Operating Group units, and
- (x) adding back income tax benefit or expense and any income or expense recorded in connection with the tax receivable agreement (Note 5).

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

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

- any difference between the GAAP carrying amount of equity method investments and their carrying amount for (i) 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.

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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 June 30, 2013:

Fund (A)	Net Intrinsic Clawback (B)	Periods in Intrinsic Clawback	Prior Year End Inception-to-Date Net DE Reserve	Current Year-to-Date Gross DE Reserve	Current Year-to-Date Net DE Reserve	Inception-to-Date Net DE Reserve	Notes
Fund II	2,104	19 Quarters	\$6,070	\$(1,823)	\$(1,167)	\$4,903	(C)
Fund III	45,108	22 Quarters	45,108	—	—	45,108	(D)
FRID	10,041	24 Quarters	10,041	—	—	10,041	(D)
Total	\$57,253		\$61,219	\$(1,823)	\$(1,167)	\$60,052	

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

(B) See Note 2.

The previously recorded reserves with respect to this fund exceeded its net intrinsic clawback by approximately \$2.8 million immediately prior to June 30, 2013. Based on the criteria determined by the CODM, management determined that no reversal of reserve was appropriate. In the aggregate, \$1.2 million of net reserve has been reversed in 2013.

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

Impairment Determination and Embedded Gain/Loss

During the six months ended June 30, 2013, Fortress recorded \$0.7 million of impairment on its direct and indirect investments in its funds for segment reporting purposes. As of June 30, 2013, Fortress had \$3.1 million of unrealized losses on certain investments that have not been recorded as impairment. As of June 30, 2013, Fortress's share of the net asset value of its direct and indirect investments exceeded its segment cost basis by \$544.1 million, representing unrealized gains.

During the six months ended June 30, 2013, Fortress recorded an aggregate net reversal of \$1.2 million of clawback reserve for DE purposes.

Fortress expects aggregate returns on its private equity funds and credit PE funds that are in an unrealized investment loss or intrinsic clawback position, after taking reserves into account, to ultimately exceed their carrying amount or breakeven point, as applicable. If such funds were liquidated at their June 30, 2013 NAV (although Fortress has no current intention of doing so), the result would be additional impairment losses and reserves for DE purposes of approximately \$3.1 million.

Embedded Incentive Income

As of June 30, 2013, Fortress had \$860.7 million of gross undistributed incentive income (Note 2), or \$774.1 million net of intrinsic clawback. Of the \$860.7 million, \$191.8 million has been recognized in distributable earnings. This amount represents hedge fund incentive income recorded during the six months ended June 30, 2013.

In addition, if Fortress had exercised all of its in-the-money Newcastle, New Residential, and Eurocastle options (Note 3) and sold all of the resulting shares at their June 30, 2013 closing price, it would have recorded \$84.6 million of gross additional distributable earnings, or \$66.3 million net of employee interests.

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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.

June 30, 2013 and the Six Months Then Ended

	Private Equity Funds	Private Equity Castles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues									
Management fees	\$66,722	\$30,817	\$48,744	\$49,954	\$47,551	\$17,026	\$—	\$—	\$260,814
Incentive income	7,637	1,200	124,712	96,646	84,358	—	—	—	314,553
Segment revenues - total	\$74,359	\$32,017	\$173,456	\$146,600	\$131,909	\$17,026	\$—	\$—	\$575,367
Fund management distributable earnings (loss) before Principal Performance Payments (B)									
Fund management distributable earnings (loss)	\$46,939	\$14,653	\$98,468	\$67,832	\$37,419	\$(4,285)	\$—	\$—	\$261,026
Pre-tax distributable earnings (loss)	\$46,939	\$14,653	\$88,622	\$57,903	\$36,821	\$(4,285)	\$7,480	\$—	\$248,133
Total segment assets	\$71,415	\$9,302	\$133,839	\$85,878	\$29,709	\$33,775	\$1,630,908	\$487,017	\$2,481,843

(A)

(A) Unallocated assets include deferred tax assets of \$377.3 million.

Three Months Ended June 30, 2013

	Private Equity Funds	Private Equity Castles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues									
Management fees	\$33,834	\$12,985	\$25,721	\$25,393	\$22,360	\$8,604	\$—	\$—	\$128,897
Incentive income	4,854	1,200	92,460	63,489	36,954	—	—	—	198,957
Segment revenues - total	\$38,688	\$14,185	\$118,181	\$88,882	\$59,314	\$8,604	\$—	\$—	\$327,854

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Fund management distributable earnings (loss) before Principal	\$25,376	\$4,211	\$71,099	\$42,533	\$16,391	\$(3,236)	\$—	\$156,374
Performance Payments (B)								
Fund management distributable earnings (loss)	\$25,376	\$4,211	\$63,989	\$36,609	\$16,422	\$(3,236)	\$—	\$143,371
Pre-tax distributable earnings (loss)	\$25,376	\$4,211	\$63,989	\$36,609	\$16,422	\$(3,236)	\$4,270	\$147,641

(B) See Note 7. Fund management distributable earnings (loss) is only reduced for the profit sharing component of the Principal Performance Payments.

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Six Months Ended June 30, 2012

	Private Equity		Liquid	Credit	PE	Logan	Principal		Fortress
	Funds	Castles	Hedge	Hedge	Funds	Circle	Investments	Unallocated	Subtotal
Segment revenues									
Management fees	\$59,406	\$27,636	\$39,361	\$51,572	\$42,554	\$11,873	\$—	\$—	\$232,402
Incentive income	7,543	—	9,730	56,345	25,430	—	—	—	99,048
Segment revenues - total	\$66,949	\$27,636	\$49,091	\$107,917	\$67,984	\$11,873	\$—	\$—	\$331,450
Fund management distributable earnings (loss) before Principal Performance Payments (B)									
Fund management distributable earnings (loss)	\$43,009	\$13,200	\$7,889	\$49,485	\$7,098	\$(4,536)	\$—	\$131	\$116,276
Pre-tax distributable earnings (loss)	\$43,009	\$12,735	\$7,100	\$43,837	\$7,089	\$(4,536)	\$(2,082)	\$131	\$107,283

Three Months Ended June 30, 2012

	Private Equity		Liquid	Credit	PE	Logan	Principal		Fortress
	Funds	Castles	Hedge	Hedge	Funds	Circle	Investments	Unallocated	Subtotal
Segment revenues									
Management fees	\$29,748	\$13,060	\$19,194	\$25,942	\$20,676	\$6,223	\$—	\$—	\$114,843
Incentive income	2,848	—	3,438	26,103	14,196	—	—	—	46,585
Segment revenues - total	\$32,596	\$13,060	\$22,632	\$52,045	\$34,872	\$6,223	\$—	\$—	\$161,428
Fund management distributable earnings (loss) before Principal Performance Payments (B)									
Fund management distributable earnings (loss)	\$20,714	\$5,924	\$3,121	\$23,381	\$4,423	\$(2,018)	\$—	\$697	\$56,242
Pre-tax distributable earnings (loss)	\$20,715	\$5,924	\$2,809	\$20,611	\$4,414	\$(2,018)	\$—	\$697	\$53,152

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(loss)

Pre-tax distributable earnings (loss)	\$20,715	\$5,924	\$2,809	\$20,611	\$4,414	\$(2,018)	\$(2,986)	\$697	\$50,166
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Reconciling items between segment measures and GAAP measures:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Fund management distributable earnings	\$143,371	\$53,152	\$240,653	\$109,365
Investment income (loss)	5,970	1,061	11,459	6,267
Interest expense	(1,700)	(4,047)	(3,979)	(8,349)
Pre-tax distributable earnings	147,641	50,166	248,133	107,283
Adjust incentive income				
Incentive income received from private equity funds and credit PE funds, subject to contingent repayment	(36,955)	(14,195)	(85,319)	\$(25,430)
Incentive income received from third parties, subject to contingent repayment	—	(1,401)	—	(1,401)
Incentive income accrued from private equity funds and credit PE funds, not subject to contingent repayment	7,584	22,641	34,379	31,384
Incentive income received from private equity funds and credit PE funds, not subject to contingent repayment	(4,854)	—	(4,854)	(1,107)
Incentive income from hedge funds, subject to annual performance achievement	(132,413)	(26,089)	(191,832)	(61,944)
Incentive income received from the sale of shares related to options	—	—	—	—
Reserve for clawback, gross (see discussion above)	—	(2,847)	(1,823)	(6,436)
	(166,638)	(21,891)	(249,449)	(64,934)
Adjust other income				
Distributions of earnings from equity method investees**	(4,290)	(490)	(8,844)	(2,007)
Earnings (losses) from equity method investees**	25,329	21,215	59,216	51,943
Gains (losses) on options in equity method investees	(5,695)	185	23,745	4,257
Gains (losses) on other investments	1,055	7,206	12,540	27,063
Impairment of investments (see discussion above)	514	71	727	155
Adjust income from the receipt of options	10,096	13,226	36,470	13,226
	27,009	41,413	123,854	94,637
Adjust employee, Principal and director compensation				
Adjust employee, Principal and director equity-based compensation expense (including Castle options assigned)	(12,265)	(55,278)	(28,354)	(114,925)
Adjust employee portion of incentive income from private equity funds, accrued prior to the realization of incentive income	—	1,025	655	2,316
	(12,265)	(54,253)	(27,699)	(112,609)
Adjust amortization of intangible assets and impairment of goodwill and intangible assets	(11)	(12)	(22)	(23)
	3,352	(7,864)	(47,433)	(11,487)

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Adjust non-controlling interests related to Fortress Operating
Group units

Adjust tax receivable agreement liability	—	—	(7,739	) (6,935)
Adjust income taxes	(1,164	) (2,650	) (27,392	) (30,563)
Total adjustments	(149,717	) (45,257	) (235,880	) (131,914)
Net Income (Loss) Attributable to Class A Shareholders	(2,076	) 4,909	12,253	(24,631)
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	(360	) 9,347	52,617	14,740	
Net Income (Loss) (GAAP)	\$(2,436	) \$14,256	\$64,870	\$(9,891)

** 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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					June 30, 2013
Total segment assets					\$2,481,843
Adjust equity investments from segment carrying amount					(40,002)
Adjust investments gross of employees' and others' portion					41,100
Adjust goodwill and intangible assets to cost					(22,732)
Accrued incentive income subject to annual performance achievement					(191,832)
Total assets (GAAP)					\$2,268,377
	Three Months Ended June 30,		Six Months Ended June 30,		
	2013	2012	2013	2012	
Segment revenues	\$327,854	\$161,428	\$575,367	\$331,450	
Adjust management fees	125	148	250	273	
Adjust incentive income	(166,638)	(21,900)	(249,449)	(65,254)	
Adjust income from the receipt of options	10,096	13,226	36,470	13,226	
Adjust other revenues (including expense reimbursements)*	51,637	46,146	104,791	91,011	
Total revenues (GAAP)	\$223,074	\$199,048	\$467,429	\$370,706	

* 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.

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	Private Equity Funds	Castles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Unallocated	Total
Three Months Ended June 30, 2013								
Depreciation	\$385	\$147	\$510	\$1,415	\$46	\$65	\$775	\$3,343
Amortization	—	—	—	—	—	11	—	11
Total	\$385	\$147	\$510	\$1,415	\$46	\$76	\$775	\$3,354
2012								
Depreciation	\$407	\$101	\$503	\$1,276	\$104	\$101	\$754	\$3,246
Amortization	—	—	—	—	—	12	—	12
Total	\$407	\$101	\$503	\$1,276	\$104	\$113	\$754	\$3,258
Six Months Ended June 30, 2013								
Depreciation	\$739	\$272	\$979	\$2,758	\$149	\$124	\$1,550	\$6,571
Amortization	—	—	—	—	—	22	—	22
Total	\$739	\$272	\$979	\$2,758	\$149	\$146	\$1,550	\$6,593
2012								
Depreciation	\$829	\$210	\$1,009	\$2,596	\$201	\$201	\$1,667	\$6,713
Amortization	—	—	—	—	—	23	—	23
Total	\$829	\$210	\$1,009	\$2,596	\$201	\$224	\$1,667	\$6,736

11. SUBSEQUENT EVENTS

These financial statements include a discussion of material events, if any, which have occurred subsequent to June 30, 2013 (referred to as “subsequent events”) through the issuance of these consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

In July 2013, Fortress sold 862,383 shares of GAGFAH (Note 3) and realized a gain of \$5.5 million. From inception through June 30, 2013, Fortress recorded a cumulative unrealized gain of \$6.2 million in its investment income, resulting in a \$0.7 million loss in the third quarter of 2013.

In July 2013, Fortress repaid the remaining \$89.5 million, plus accrued interest, on its promissory note (Note 4) due to a former Principal. As such, this note is no longer outstanding.

For an additional subsequent event, see Note 8.

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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), FOE II (New) LP 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 six months ended June 30, 2013.

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

The consolidating balance sheet information is as follows:

	As of June 30, 2013					
	Fortress Operating Group Combined, Excluding FOE II (New) LP	FOE II (New) LP	Fortress Operating Group Eliminations	Fortress Investment Group LLC Consolidated (A)	Elimination Adjustments	Fortress Investment Group LLC Consolidated
Assets						
Cash and cash equivalents	\$291,000	\$438	\$—	\$1,154	\$—	\$292,592
Due from affiliates	142,000	1,462	(1,925)	116,695	(116,695)	141,537
Investments	1,215,469	175	(175)	496,829	(496,829)	1,215,469
Investments in options	98,298	—	—	—	—	98,298
Deferred tax asset	3,514	—	—	373,771	—	377,285
Other assets	113,471	442	—	29,283	—	143,196
	\$1,863,752	\$2,517	\$(2,100)	\$1,017,732	\$(613,524)	\$2,268,377
Liabilities and Equity						
Liabilities						
Accrued compensation and benefits	\$229,368	\$1,800	\$—	\$—	\$—	\$231,168
Due to affiliates	216,320	2,444	(1,925)	261,609	(116,695)	361,753
Deferred incentive income	286,089	—	—	—	—	286,089
Debt obligations payable	—	—	—	89,453	—	89,453
Other liabilities	54,436	132	—	13,704	—	68,272
	786,213	4,376	(1,925)	364,766	(116,695)	1,036,735
Commitments and Contingencies						
Equity						
Paid-in capital	5,693,996	175	(175)	2,129,188	(5,693,996)	2,129,188

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Retained earnings (accumulated deficit)	(4,666,101)	(2,034)	—	(1,474,325)	4,668,135	(1,474,325)
Accumulated other comprehensive income (loss)	(5,846)	—	—	(1,897)	5,846	(1,897)
Total Fortress shareholders' equity (B)	1,022,049	(1,859)	(175)	652,966	(1,020,015)	652,966
Principals' and others' interests in equity of consolidated subsidiaries	55,490	—	—	—	523,186	578,676
Total Equity	1,077,539	(1,859)	(175)	652,966	(496,829)	1,231,642
	\$1,863,752	\$2,517	\$(2,100)	\$1,017,732	\$(613,524)	\$2,268,377

(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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The consolidating statement of operations information is as follows:

	Six Months Ended June 30, 2013					
	Fortress Operating Group Combined, Excluding FOE II (New) LP	FOE II (New) LP	Fortress Operating Group Eliminations	Fortress Investment Group LLC Consolidated (A)	Elimination Adjustments	Fortress Investment Group LLC Consolidated
Revenues						
Management fees: affiliates	\$265,787	\$1,577	\$—	\$—	\$—	\$ 267,364
Management fees: non-affiliates	29,886	284	—	—	—	30,170
Incentive income: affiliates	62,242	—	—	—	—	62,242
Incentive income: non-affiliates	2,863	—	—	—	—	2,863
Expense reimbursements: affiliates	87,793	12,214	—	—	—	100,007
Expense reimbursements: non-affiliates	2,848	—	—	—	—	2,848
Other revenues	2,127	2	—	3,067	(3,261)	1,935
	453,546	14,077	—	3,067	(3,261)	467,429
Expenses						
Interest expense	3,973	22	—	3,344	(3,261)	4,078
Compensation and benefits General, administrative and other	379,357	13,777	—	—	—	393,134
Depreciation and amortization	6,564	29	—	—	—	6,593
	455,731	14,646	—	3,344	(3,261)	470,460
Other Income (Loss)						
Gains (losses) Tax receivable agreement liability adjustment	38,080	(5)	—	—	—	38,075
Earnings (losses) from equity method investees	—	—	—	(7,739)	—	(7,739)
	103,087	(5)	—	34,271	(42,010)	95,343
Income (Loss) Before Income Taxes	100,902	(574)	—	33,994	(42,010)	92,312
Income tax benefit (expense)	(5,701)	—	—	(21,741)	—	(27,442)
Net Income (Loss)	\$95,201	\$(574)	\$—	\$12,253	\$(42,010)	\$ 64,870
Principals' and Others' Interests in	\$5,184	\$—	\$—	\$—	\$ 47,433	\$ 52,617

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Income (Loss) of Consolidated Subsidiaries Net Income (Loss) Attributable to Class A Shareholders (B)	\$90,017	\$(574)	\$ —	\$12,253	\$(89,443)	\$ 12,253
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(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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The consolidating statement of cash flows information is as follows:

	Six Months Ended June 30, 2013					
	Fortress Operating Group Combined, Excluding FOE II (New) LP	FOE II (New) LP	Fortress Operating Group Eliminations	Fortress Investment Group LLC Consolidated (A)	Elimination Adjustments	Fortress Investment Group LLC Consolidated
Cash Flows From Operating Activities						
Net income (loss)	\$95,201	\$(574)	\$ —	\$12,253	\$(42,010)	\$ 64,870
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities						
Depreciation and amortization	6,564	29	—	—	—	6,593
Other amortization and accretion	483	—	—	—	—	483
(Earnings) losses from equity method investees	(65,007)	—	—	(42,010)	42,010	(65,007)
Distributions of earnings from equity method investees	39,526	—	—	—	—	39,526
(Gains) losses	(38,080)	5	—	—	—	(38,075)
Deferred incentive income	(34,379)	—	—	—	—	(34,379)
Deferred tax (benefit) expense	669	—	—	44,485	—	45,154
Adjustment of estimated forfeited non-cash compensation	20	—	—	—	—	20
Options received from affiliates	(36,470)	—	—	—	—	(36,470)
Tax receivable agreement liability adjustment	—	—	—	7,739	—	7,739
Equity-based compensation	19,975	—	—	—	—	19,975
Options in affiliates granted to employees	8,217	—	—	—	—	8,217
Allowance for doubtful accounts	315	—	—	—	—	315
Cash flows due to changes in						
Due from affiliates	(26,382)	(28)	—	60,349	(76,990)	(43,051)
Other assets	25,745	184	—	(23,085)	—	2,844
Accrued compensation and benefits	120,061	90	—	—	—	120,151
Due to affiliates	(57,550)	(80)	—	(17,370)	76,990	1,990
Deferred incentive income	89,715	—	—	—	—	89,715

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Other liabilities	785	25	—	649	—	1,459
Net cash provided by (used in) operating activities	149,408	(349)	—	43,010	—	192,069
Cash Flows From Investing Activities						
Contributions to equity method investees	(18,763)	—	—	(40,787)	40,787	(18,763)
Distributions of capital from equity method investees	236,173	—	—	45,688	(45,688)	236,173
Purchase of equity securities	(16,936)	—	—	—	—	(16,936)
Purchase of fixed assets	(5,032)	—	—	—	—	(5,032)
Net cash provided by (used in) investing activities	195,442	—	—	4,901	(4,901)	195,442

Continued on next page.

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FORTRESS INVESTMENT GROUP LLC
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
 JUNE 30, 2013
 (dollars in tables in thousands, except share data)

	Six Months Ended June 30, 2013					
	Fortress Operating Group Combined, Excluding FOE II (New) LP	FOE II (New) LP	Fortress Operating Group Eliminations	Fortress Investment Group LLC Consolidated (A)	Elimination Adjustments	Fortress Investment Group LLC Consolidated
Cash Flows From Financing Activities						
Repayments of debt obligations	—	—	—	(60,000)	—	(60,000)
Payment of deferred financing costs	(2,054)	—	—	—	—	(2,054)
Issuance (purchase) of Class A shares (RSU settlements)	(40,787)	—	—	40,787	—	—
Capital contributions (distributions)	40,787	—	—	—	(40,787)	—
Dividends and dividend equivalents paid	(46,500)	—	—	(27,637)	45,688	(28,449)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	345	—	—	—	—	345
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(109,003)	—	—	—	—	(109,003)
Net cash provided by (used in) financing activities	(157,212)	—	—	(46,850)	4,901	(199,161)
Net Increase (Decrease) in Cash and Cash Equivalents	187,638	(349)	—	1,061	—	188,350
Cash and Cash Equivalents, Beginning of Period	103,362	787	—	93	—	104,242
Cash and Cash Equivalents, End of Period	\$291,000	\$438	\$ —	\$1,154	\$ —	\$ 292,592

(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 \$54.6 billion in AUM as of June 30, 2013. 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 our over 1,500 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.

The performance of our funds was strong in the second quarter of 2013, which led to an improvement in our operating results in comparison with the second quarter of 2012. In addition, we have continued significant capital raising within our funds and we have continued to improve our financial position. For more information about these topics, please refer to "— Performance of our Funds," "— Assets Under Management," and "— Liquidity and Capital Resources" below.

As of June 30, 2013, we managed the following businesses:

Private Equity — a business that manages approximately \$14.3 billion of AUM comprised of two business segments: (i) general buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America, Western Europe and Asia; and (ii) publicly traded permanent capital vehicles, which Fortress refers to as "Castles," that invest in a wide variety of real estate related assets including securities, loans, real estate properties and mortgage servicing rights.

Liquid Hedge Funds — a business that manages approximately \$6.5 billion of AUM. These funds invest globally in fixed income, currency, equity and commodity markets and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments; and a fund that seeks to generate returns by executing a positively convex investment strategy.

Credit Funds — a business that manages approximately \$12.5 billion of AUM comprised of two business segments: (i) credit hedge funds which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and (ii) credit private equity ("PE") funds which are comprised of a family of "credit opportunities" funds focused on investing in distressed and undervalued assets, a family of "long dated value" funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of

“real assets” funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based global opportunities fund, and a family of real estate opportunities funds, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector.

Logan Circle — our traditional asset management business, which has approximately \$21.4 billion of AUM, provides institutional clients actively managed investment solutions across a broad spectrum of fixed income and growth equity strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt. In April 2013, Logan Circle launched a growth equities investment business focused on investing and managing concentrated portfolios of publicly traded U.S. equities.

In addition, we treat our principal investments in these funds as a distinct business segment.

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.

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

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

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

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

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

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

Each of these objectives is discussed below.

Assets Under Management

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

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

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

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

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

Performance

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

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

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

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

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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
Has the fund made incentive income payments to us?	In a liquidation of the fund's assets at their estimated fair value as of the reporting date:		(Refer to Note 2 to our consolidated financial statements)
	Would the fund owe us incentive income?	Would we owe a clawback of incentive income to the fund?	
Yes	Yes	No	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - The amount by which the total current fund value would have to increase as of the reporting date such that we would be in a position to earn incentive income from the fund in the future.

We disclose each of these performance measures, as applicable, for all of our funds in Note 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 manner which causes undue stress on performance, either through required payments or restrictions placed on Fortress.

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

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

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

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

Our liquidity is discussed below, under “— Liquidity and Capital Resources.” Our compensation expenses, including profit sharing and equity-based compensation, are discussed in Note 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 or other debt obligations (if any).
- 2) Accrued compensation, generally payable to employees shortly after year-end.
- 3) Amounts due to our Principals under the tax receivable agreement. These amounts partially offset the deferred tax assets and do not become payable to the Principals until the related future tax benefits are realized.
Deferred incentive income, which is incentive income that we have already received in cash but is subject to
- 4) 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) Collectibility of receivables.
- 4) Current amounts due under our credit facility or other debt obligations (if any).
- 5) Other current liabilities, primarily accrued compensation.
- 6) Financial covenants under our debt obligations.
- 7) Likelihood of clawback of incentive income.

Income Statement

Our revenues and other income consist primarily of the following:

- 1)

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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, including profit sharing compensation.

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

3)Other general and administrative expenses and interest expense.

4)Taxes.

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

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 PE funds, (vi) Logan Circle, and (vii) principal investments in those funds, as well as cash that is available to be invested. These segments are differentiated based on their varying strategies and, secondarily, on fund investor terms.

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.

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.

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 the U.S. and global equity and debt markets and financial institutions.

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 are directly and indirectly exposed to debt instruments, which are generally assisted by a strong and liquid debt market. We invest in debt instruments, our funds borrow money to make investments and our

funds utilize leverage in order to increase investment returns, which ultimately drive the performance of our funds. Furthermore, from time to time, we utilize debt to finance our investments in our funds and for working capital purposes.

Beginning in mid-2007 through mid-2009, 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. The securitization markets, in particular, were significantly impaired and continue to be limited. As the turbulence in the debt markets continued and its intensity increased, equity market conditions also deteriorated as concerns of an economic slowdown affected equity valuations. Furthermore, the resulting reduction in the availability of capital caused increased correlation in the values of a wide variety of potential investments, which generally declined substantially. 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 holdings, which further reduced the liquidity of debt and, to a lesser extent, equity instruments. We refer to these conditions, as they existed during this period, as the “2008 Recession.”

Equity market conditions began to stabilize in the second quarter of 2009, and debt market conditions improved significantly in 2010. As a result, in our private equity business we were able to access the equity markets in the United States and abroad and to realize significant positions in publicly traded securities of our portfolio companies. The improvement in the debt markets enabled us and our portfolio companies to refinance existing debt obligations and otherwise obtain debt financing with respect to our existing investments. However, debt and equity market conditions remain volatile and have been adversely affected by various factors, such as the European debt crisis, continuing weakness in the U.S. labor and real estate markets, and unrest in the Middle East.

Our hedge funds hold actively traded long and short positions, with frequently changing levels of exposure, in the debt of several European sovereignties. Based on the positions held by our funds as of June 30, 2013, there was not a material risk to the performance of the company under typical market stress scenarios. However, the investments held by certain of our funds could be material to the individual performance of those funds and, therefore, our reputation. In addition, the potential for defaults on European sovereign debt may have negative impacts on the markets, which could have a material adverse impact on Fortress.

Market conditions have impacted our business in several ways:

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

Conditions during the 2008 Recession resulted in significant declines in the values of our funds' investments. Our credit funds and liquid hedge funds have recovered these losses in aggregate in subsequent periods. Our private equity funds have also recovered these losses, but must satisfy minimum return requirements prior to generating incentive income. This has resulted in increased challenges to our ability to generate incentive income from our existing traditional private equity funds and, in some cases, the possibility that we will be liable for “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 preferred return earned by investors. See Note 2 to the consolidated financial statements included herein for more information.

Based on the above described improvements in the markets, our board of directors approved a revised dividend policy under which it reinstated a quarterly dividend beginning in the fourth quarter of 2011, which was increased in the fourth quarter of 2012. 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.

Conditions during the 2008 Recession also resulted in what we refer to as the “Great Deleveraging.” As the financing of existing assets throughout the markets matures over time, it must be refinanced. The general reduction in the value of assets, coupled with the reduction in capital availability described above, led to refinancing at a significantly lower level of leverage, which requires either a contribution of equity or, in many cases, the sale of the assets. These circumstances resulted in significant opportunities for investors with sufficient capital to acquire assets at reduced prices. However, since the first wave of the Great Deleveraging, near-term investment opportunities have become

more sporadic in nature given pricing and market dynamics.

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.

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

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

The strength of the alternative asset management industry is dependent upon the investment returns alternative asset managers can provide relative to other investment options. This factor depends, in part, on returns available from traditional investment products, and to a lesser extent on 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 of investment products offered by alternative asset managers.

Solving for funding gaps, historically low interest rates, as well as the reductions in asset values described above, have caused pension plans and other institutional investors to look to alternative investments in order to increase the yield on their investments. As a result, the amount of capital being invested into the alternative investment sector appears to have stabilized or even slightly increased - and redemption requests appear to have decreased - relative to the conditions experienced during the 2008 Recession. However, certain investors appear to have become increasingly focused on the liquidity and redemption terms of alternative investment funds and have expressed a desire to have the ability to redeem or otherwise liquidate their investments in a more rapid timeframe than what is permitted under the terms of many existing funds. Investors in long-term, locked-up (i.e. "private equity style") funds have engaged in longer, more intensive and detailed due diligence procedures prior to making commitments to invest in such funds, which has led to the general perception across the alternative asset management industry that capital raising for long-term capital will require longer time periods, a greater commitment of capital raising resources and will generally be more difficult overall than it was previously. Moreover, some investors are increasingly shifting to managed accounts with fee structures that are less favorable to us.

The factor which most directly impacts our results is our investment performance relative to our competitors, including products offered by other alternative asset managers. As a historical leader in the alternative asset management industry based on the size, diversity and historical performance of our funds, we were able to attract a significant amount of new capital even during challenging market conditions. As illustrated in "- Performance of Our Funds" below, we have generated strong returns across most of our funds, and the performance of our more recent vintage private equity funds has rebounded significantly since the 2008 Recession. As a result, as illustrated in "- Assets Under Management" below, we have been able to raise meaningful additional capital in various funds, including newly formed funds and permanent capital vehicles. However, our ongoing ability to raise capital for new and existing funds will be a function of investors' assessment of our investment performance relative to that of our competition in the post-recession environment, as well as other factors.

The strength of the industries or 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 and infrastructure, 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 systemic or uniform manner, it could have a disproportionately negative impact on those funds.

Our liquid hedge funds engage in active trading. Performance in the first half of 2013 has been very favorable across the liquid hedge fund business led by positions profiting from the weakening in the Japanese Yen and rising global equity markets. However, towards the end of May and June, as global equity markets pulled back from their earlier highs and emerging market rates moved appreciably higher, profits were reduced in equities and emerging market interest rates. See “- Performance of Our Funds.” The positive impact of these trends may not continue as these trends may change, or the positions held by the funds may be changed.

We believe that unfolding developments in the U.S. residential housing market are generating significant, compelling investment opportunities. The U.S. residential market is vast and, in the aftermath of the 2008 Recession, the residential mortgage industry is undergoing major structural changes that are transforming the way mortgages are originated, owned and serviced. In particular, we believe that excess mortgage servicing rights (MSRs) present an opportunity due to a supply-demand imbalance, attractive pricing, and significant barriers to entry. New Residential Investment Corp. ("New Residential") and the MSR Opportunities Funds have recently made significant investments in excess MSRs.

Market Considerations Summary

While market conditions in the United States and abroad have improved meaningfully over the last several 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, financial institutions and countries that participate in these markets. Deterioration of market conditions in the future, particularly 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, would negatively impact Fortress and our funds.

Although 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 also present significant new opportunities for investment, particularly in distressed asset classes. Our ability to take advantage of these opportunities will depend on our access to debt and equity capital, both at Fortress and within the funds. However, no assurance can be given that future trends will not be disadvantageous to us, particularly if conditions deteriorate, or if generally improving conditions in our markets reverse.

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. However, we do not currently know the full extent to which market uncertainty will affect us or the markets in which we operate. If conditions deteriorate, or result in a permanent, fundamental change in the markets, we and the funds we manage may experience reduced 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 covenants under our debt obligations, obtaining investment financing and making investments on attractive terms.

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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 the factors set forth in the table below (in millions):

	Private Equity		Liquid	Credit	PE Funds (J)	Logan	Total
	Funds (J)	Castles	Hedge Funds	Hedge Funds		Circle	
2013							
AUM December 31, 2012	\$10,611	\$3,660	\$5,060	\$5,665	\$7,749	\$20,685	\$53,430
Capital raised (A)	—	1,097	1,393	242	—	—	2,732
Increase in invested capital	307	—	—	—	549	—	856
Redemptions (B)	—	—	(518)	(48)	—	—	(566)
SPV distributions (C)	—	—	—	—	—	—	—
RCA distributions (D)	—	—	—	(421)	—	—	(421)
Return of capital distributions (E)	(296)	—	(40)	(8)	(1,383)	—	(1,727)
Adjustment for capital reset (F) (K)	—	(1,492)	—	—	—	—	(1,492)
Crystallized incentive income (G)	—	—	(69)	(140)	—	—	(209)
Net client flows (traditional)	—	—	—	—	—	1,277	1,277
Income (loss) and foreign exchange (H)	446	(49)	635	470	(207)	(565)	730
AUM June 30, 2013 (I)	\$11,068	\$3,216	\$6,461	\$5,760	\$6,708	\$21,397	\$54,610

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

(B) Excludes redemptions which reduced AUM subsequent to June 30, 2013. Redemptions are further detailed below.

(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.

Represents distributions from (i) assets held within redeeming capital accounts (or "RCA") in our Drawbridge

(D) 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.

For private equity and credit PE funds, return of capital distributions are based on realization events. Such

(E) distributions include, in the case of private equity and credit PE funds that are in their capital commitment periods, recallable capital distributions.

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

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

(I)

AUM is presented mainly in reference to Fortress's ability to generate management fees. Note 2 to our consolidated financial statements, contained herein, provides further information regarding incentive income, and Note 3 provides further information regarding Fortress's investments in the funds, including gains and losses thereon. The percentage of capital invested by Fortress across different funds varies.

(J) As of June 30, 2013, the private equity funds and credit PE funds had approximately \$0.7 billion and \$5.9 billion of uncalled and callable capital, respectively, that will become assets under management if deployed/called, of which an aggregate of \$1.4 billion is only available for follow-on investments, management fees and other fund expenses.

(K) In April 2013, Eurocastle completed a restructuring process that resulted in the conversion of its outstanding convertible debt. As part of that restructuring, Fortress entered into an amended management agreement with Eurocastle that reduced the AUM used to compute Eurocastle's management fees from €1.5 billion to €0.3 billion as of April 1, 2013, and in doing so also reduced the earnings threshold required for Fortress to earn incentive income from Eurocastle. Following the conversion of its outstanding convertible debt, Eurocastle effected a one for two hundred reverse split of its common stock.

Redemptions

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

Certain of Fortress's liquid managed accounts provide for management fees based on a leverage factor (which cannot go below 1.0) that is applied to net asset value, meaning that increasing or decreasing the leverage factor impacts management fees. Investors in these accounts may redeem their capital on a periodic basis similarly to the liquid hedge fund investors, and may also elect on a monthly basis to increase or decrease the leverage factor in their accounts. An election to decrease the leverage factor is treated similarly to a redemption request in the tables set forth below due to its impact on AUM.

The Fortress Partners Funds provide for annual redemption terms. Redemption notices must be received at least 180 days prior to a calendar year end, and related payments are made subsequent to year end. For instance, the 2013 redemption notice date is July 5, 2013 for redemptions to be paid in the first quarter of 2014.

The credit hedge funds generally provide for annual return of capital terms. Return of capital requests must be received at least 90 days prior to a calendar year end, and related payments are made subsequent to year end. For instance, the 2013 return of capital request notice date is October 3, 2013 for capital to be returned after December 31, 2013. Such returns of capital may be paid over time as the underlying fund investments are realized, in accordance with the governing terms of the applicable funds. During the period prior to the return of capital for which a return request has been submitted, such amounts continue to be subject to management fees and, as applicable, incentive income. In particular, return of capital requests within the flagship credit hedge fund (onshore only) in 2008, 2009, 2010, 2011 and 2012 are being paid over time as the underlying fund investments are realized. In such a case, pending payment, this capital is referred to as a redeeming capital account or "RCA."

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

Redemption notices and return of capital requests received from fee-paying investors, and related payments which are made in periods after notices are received, have been as follows:

Redemption Notices / Return of Capital Requests Received and Outstanding through June 30, 2013:

Notice Receipt Period	Liquid Hedge Fund Redemption Notices Received	Payments Made with Respect to those Notices - Inception to Date	Liquid Hedge Fund Remaining Outstanding Notices	Credit Hedge Fund Return of Capital Requests Received	Payments Made with Respect to those Requests - Inception to Date (C)	Credit Hedge Fund Remaining Outstanding Notices
2013	\$573,421	\$132,520	\$441,291	\$41,125	\$—	\$41,125
2012	1,482,907	1,483,319	—	248,402	100,315	167,775
2011	2,382,209	2,291,242	—	785,831	466,834	428,848
Prior			— (A)			504,876 (A)
			\$441,291 (B)			\$1,142,624 (B)

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

(B)

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For liquid hedge funds, reflects \$171.3 million to be paid primarily within one quarter and \$270.0 million to be paid in the first quarter of 2014 and thereafter. For credit hedge funds, reflects \$1,101.5 million in RCAs to be paid as the underlying investments are realized, \$36.2 million to be paid within one quarter and \$4.9 million to be paid in the first quarter of 2014 and thereafter. Excludes any notices received from investors whose status has changed from fee-paying to non-fee-paying subsequent to notice receipt.

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

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

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		Returns (B)	
			June 30, 2013	2012	Inception to June 30, 2013	
Private Equity						
Private Equity Funds that Report IRR's						
Fund I	Nov-99	Closed - May-13	\$—	\$—	25.7	%
Fund II	Jul-02	(A)	—	—	35.5	%
Fund III	Sep-04	Jan-15	1,225	1,287	7.0	%
Fund III Coinvestment	Nov-04	Jan-15	101	112	1.5	%
Fund IV	Mar-06	Jan-17	2,983	2,900	3.4	%
Fund IV Coinvestment	Apr-06	Jan-17	473	619	(0.4))%
Fund V	May-07	Feb-18	2,774	2,741	0.4	%
Fund V Coinvestment	Jul-07	Feb-18	601	577	(8.5))%
GAGACQ Coinvestment Fund (GAGFAH)	Sep-04	Permanent	—	—	18.9	%
FRID (GAGFAH)	Mar-05	Apr-15	786	507	(2.5))%
FRIC (Brookdale)	Mar-06	May-16	160	107	(4.3))%
FICO (Intrawest)	Aug-06	Jan-17	—	—	(100.0))%
FHIF (Holiday)	Dec-06	Jan-17	1,083	1,067	7.1	%
FECI (Florida East Coast/Flagler)	Jun-07	Feb-18	437	443	(0.9))%
WWTAI	Jul-11	Jun-24	148	27	(C)	
MSR Opportunities Fund IA	Aug-12	Aug-22	195	—	(C)	
MSR Opportunities Fund IB	Aug-12	Aug-22	49	—	(C)	

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Name of Fund	Inception Date	Maturity Date (A)	AUM		Returns (B)		Six Months Ended		
			June 30, 2013	2012	Inception to Date (D)	June 30, 2013	2012		
Private Equity - Castles									
Newcastle Investment Corp.	Jun-98	Permanent	\$1,486	\$1,561	N/A	7.7	%	11.9	%
New Residential Investment Corp.	May-13	Permanent	1,204	—	N/A	8.3	%	N/A	
Eurocastle Investment Limited	Oct-03	Permanent	526	1,829	N/A	N/A		N/A	
Liquid Hedge Funds									
Drawbridge Global Macro Funds (A)	Jun-02	Redeemable	340	410	9.3	%	12.8	%	7.3
Fortress Macro Funds	May-09	Redeemable	1,856	1,683	9.7	%	13.2	%	8.0
Fortress Macro MA1	Nov-11	Redeemable	299	62	19.2	%	13.8	%	(C)
Fortress Partners Fund LP (A)	Jul-06	Redeemable	547	644	2.2	%	0.1	%	1.7
Fortress Partners Offshore Fund LP (A)	Nov-06	Redeemable	644	666	2.6	%	2.2	%	2.1
Fortress Asia Macro Funds	Mar-11	Redeemable	1,258	235	16.0	%	12.9	%	6.8
Fortress Convex Asia Funds	May-12	Redeemable	85	26	(3.7)	)%	0.7	%	(C)
Credit Hedge Funds									
Drawbridge Special Opp's Fund LP (E)	Aug-02	PE style redemption	3,844	4,008	11.5	%	9.4	%	7.6
Drawbridge Special Opp's Fund LTD (E)	Aug-02	PE style redemption	1,195	929	11.7	%	10.5	%	7.9
Worden Fund	Jan-10	PE style redemption	223	191	13.5	%	9.1	%	9.0
Worden Fund II	Aug-10	PE style redemption	34	19	11.9	%	8.4	%	7.0
Value Recovery Funds and related assets	(F)	Non-redeemable	458	691	(F)		(F)		(F)

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Name of Fund	Inception Date	Maturity Date (A)	AUM		Returns (B)	
			June 30, 2013	2012	Inception to June 30, 2013	
Credit PE Funds						
Credit Opportunities Fund	Jan-08	Oct-20	\$722	\$972	26.2	%
Credit Opportunities Fund II	Jul-09	Jul-22	737	929	18.7	%
Credit Opportunities Fund III	Sep-11	Mar-24	785	459	(C)	
FCO Managed Accounts	Sep-08 to Jun-10	Oct-21 to Jun-24	805	905	22.5	%(G)
FCO Managed Accounts (C)	Oct-10 to Jun-12	Apr-22 to Mar-27	566	295	(C)	
Long Dated Value Fund I	Apr-05	Apr-30	185	186	4.4	%
Long Dated Value Fund II	Nov-05	Nov-30	153	157	2.7	%
Long Dated Value Fund III	Feb-07	Feb-32	104	197	8.0	%
LDVF Patent Fund	Nov-07	Nov-27	16	16	13.4	%
Real Assets Fund	Jun-07	Jun-17	86	92	8.6	%
Japan Opportunity Fund	Jun-09	Jun-19	425	600	20.7	%
Japan Opportunity Fund II (Dollar)	Dec-11	Dec-21	713	75	(C)	
Japan Opportunity Fund II (Yen)	Dec-11	Dec-21	739	25	(C)	
Net Lease Fund I	Jan-10	Feb-20	74	65	18.7	%
Global Opportunities Fund	Sep-10	Sep-20	271	337	(C)	
Life Settlements Fund	Dec-10	Dec-22	210	197	(C)	
Life Settlements Fund MA	Dec-10	Dec-22	18	17	(C)	
Real Estate Opportunities Fund	May-11	Sep-24	76	48	(C)	
Real Estate Opportunities REOC Fund	Oct-11	Oct-23	17	14	(C)	
Subtotal - all funds			31,716	28,927		
Managed accounts			1,497	749		
Total - Alternative Investments			33,213	29,676		
Logan Circle			21,397	18,112		
Total (H)			\$54,610	\$47,788		

(A) For funds with a contractual maturity date, maturity date represents the final contractual maturity date including the assumed exercise of extension options, which in some cases require the approval of the applicable fund advisory board. Fund II has passed its contractual maturity date and is in the process of an orderly wind down. The Castles are considered to have permanent equity as they have an indefinite life and no redemption terms. Investor capital in the liquid hedge funds and the Fortress Partners Funds is generally redeemable at the option of the fund investors; however, a substantial portion of the Drawbridge Global Macro Funds' and Fortress Partner Funds' investor capital is not redeemable by its investors and such capital will only be distributed as underlying assets are realized, in accordance with their governing documents. The Drawbridge Special Opportunities Funds and Worden Funds may pay redemptions over time, as the underlying investments are realized, in accordance with their governing documents ("PE style redemption"). The Value Recovery Funds generally do not allow for redemptions, but are in the process of realizing their remaining investments in an orderly liquidation. Management notes that funds which had a term of three years or longer at inception, funds which have permanent equity, funds which have a PE style redemption and funds which do not allow for redemptions aggregated approximately 80.0% of our alternative investment AUM as of June 30, 2013.

(B) Represents the following:

For private equity funds and credit PE funds, returns represent net annualized internal rates of return to limited partners after management fees and incentive allocations, and are computed on an inception to date basis consistent

with industry standards. Incentive allocations are computed based on a hypothetical liquidation of the net assets of each fund as of the balance sheet date. Returns are calculated for the investors as a whole. The computation of such returns for an individual investor may vary from these returns based on different management fee and incentive arrangements, and the timing of capital transactions.

For Castles, returns represent the current dividend yield which is calculated by annualizing the most recently declared dividend and dividing the result by the closing stock price for the period. Eurocastle did not declare a dividend during the six months ended June 30, 2013 and 2012.

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

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

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

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

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

(G) Accounts which fall within the description of Note (C) above for certain of the periods presented are excluded from the computations of returns for those periods.

In addition to the funds listed, Fortress manages NIH, FPRF and Mortgage Opportunities Funds I and II. Such (H) funds are excluded from the table because they did not include any fee paying assets under management at the end of the periods presented. Fund I, Fund II, GAGACQ Coinvestment Fund and FICO had zero AUM as of June 30, 2013 and 2012, but for purposes of continuity of presentation, the returns of these funds have been left in the table.

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.

	Six Months Ended June 30,		Variance	Three Months Ended June 30,		Variance
	2013	2012	\$	2013	2012	\$
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
Revenues						
Management fees: affiliates	\$267,364	\$224,129	\$43,235	\$123,762	\$117,834	\$5,928
Management fees: non-affiliates	30,170	21,772	8,398	15,355	10,383	4,972
Incentive income: affiliates	62,242	33,018	29,224	30,885	24,216	6,669
Incentive income: non-affiliates	2,863	776	2,087	1,434	469	965
Expense reimbursements: affiliates	100,007	87,400	12,607	49,341	44,449	4,892
Expense reimbursements: non-affiliates	2,848	1,886	962	1,477	937	540
Other revenues	1,935	1,725	210	820	760	60
	467,429	370,706	96,723	223,074	199,048	24,026
Expenses						
Interest expense	4,078	8,502	(4,424)	1,783	4,135	(2,352)
Compensation and benefits	393,134	355,846	37,288	212,055	172,467	39,588
General, administrative and other expense (including depreciation and amortization)	73,248	69,097	4,151	36,011	35,953	58
	470,460	433,445	37,015	249,849	212,555	37,294
Other Income (Loss)						
Gains (losses)	38,075	31,770	6,305	(3,200)	7,148	(10,348)
Tax receivable agreement liability adjustment	(7,739)	(6,935)	(804)	—	—	—
Earnings (losses) from equity method investees	65,007	58,383	6,624	28,705	23,143	5,562
	95,343	83,218	12,125	25,505	30,291	(4,786)
Income (Loss) Before Income Taxes	92,312	20,479	71,833	(1,270)	16,784	(18,054)

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Income tax benefit (expense)	(27,442)	(30,370)	2,928	(1,166)	(2,528)	1,362
Net Income (Loss)	\$64,870	\$(9,891)	\$74,761	\$(2,436)	\$14,256	\$(16,692)
Principals' and Others' Interests in						
Income	\$52,617	\$14,740	\$37,877	\$(360)	\$9,347	\$(9,707)
(Loss) of Consolidated Subsidiaries						
Net Income (Loss) Attributable to Class						
A	\$12,253	\$(24,631)	\$36,884	\$(2,076)	\$4,909	\$(6,985)
Shareholders						

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.

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).

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

Six Months Ended	Private Equity		Liquid Hedge	Credit Hedge			Total
	Funds	Castles	Funds	Funds	PE Funds	Logan Circle	
June 30, 2013	\$10,935	\$3,251	\$5,670	\$5,682	\$7,166	\$21,340	\$54,044
June 30, 2012	\$9,917	\$3,260	\$4,918	\$5,942	\$6,041	\$15,907	\$45,985

Three Months Ended	Private Equity		Liquid Hedge	Credit Hedge			Total
	Funds	Castles	Funds	Funds	PE Funds	Logan Circle	
June 30, 2013	\$11,097	\$3,047	\$5,976	\$5,690	\$6,874	\$21,667	\$54,351
June 30, 2012	\$10,233	\$3,300	\$4,619	\$5,925	\$5,946	\$17,098	\$47,121

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

Management Fees

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

In July 2012, Fortress formed a consolidated senior living property management subsidiary and has agreements to manage certain senior living properties, most of which are owned by Newcastle. For these services, Fortress will

receive management fees based on a percentage of revenues from the properties.

Incentive Income

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

In determining our segment measure of operations, distributable earnings, we generally recognize private equity style incentive income when gains are realized and hedge fund incentive income based on current returns, and we recognize our employees' share of this

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

Fund Management and Investment Platform

In order to accommodate the demands of our funds' investment portfolios, we have created investment platforms, which are comprised primarily of our people, financial and operating systems and supporting infrastructure. Expansion of our investment platform historically required increases in headcount, consisting of newly hired investment professionals and support staff, as well as leases and associated improvements to corporate offices to house the increasing number of employees, and related augmentation of systems and infrastructure. Our headcount changed from 967 asset management employees as of June 30, 2012, to 1,035 asset management employees as of June 30, 2013. Additionally, we have 986 employees at the senior living properties that we manage (whose compensation expense is reimbursed to us by the owners of the facilities).

Revenues

Six months ended June 30

Total revenues were \$467.4 million for the six months ended June 30, 2013, a net increase of \$96.7 million, compared to \$370.7 million for the six months ended June 30, 2012. The increase in revenues was attributable to (i) increases of \$43.2 million and \$8.4 million in management fees from affiliates and non-affiliates, respectively, (ii) increases of \$29.2 million and \$2.1 million in incentive income from affiliates and non-affiliates, respectively, (iii) increases of \$12.6 million and \$1.0 million in expense reimbursements from affiliates and non-affiliates, respectively, and (iv) an increase of \$0.2 million in other revenues.

The increase in management fees from affiliates of \$43.2 million was primarily due to increases in average fee paying AUM, based on a simple quarterly average, in our private equity funds and credit PE funds of \$1.0 billion and \$1.1 billion, respectively, and an increase of \$23.2 million in management fees resulting from Newcastle and Eurocastle options granted to Fortress during the six months ended June 30, 2013 as compared to the prior period.

The increase in management fees from non-affiliates of \$8.4 million was primarily related to an increase in average fee paying AUM, based on a simple quarterly average, of \$0.6 billion and \$5.4 billion in our liquid hedge fund managed accounts and Logan Circle, respectively. This increase was partially offset by a decrease of \$1.3 million in management fees from non-affiliates due to certain investments within the Castles concluding in the first quarter of 2012.

The increase in incentive income from affiliates of \$29.2 million was primarily attributable to (i) an increase of \$17.4 million in incentive income primarily earned from the Drawbridge Special Opportunities Funds as a result of an increase in incentive earned on distributions from redeeming capital accounts ("RCA"), which represent accounts where investors have provided withdrawal notices and receive payout as underlying fund investments are realized, (ii) an increase of \$10.5 million of incentive income recognized from Fund II as a result of a realization event and the fund reaching its maturity date during the six months ended June 30, 2013, which resulted in the recognition of income as certain contingencies for repayment were resolved, (iii) an increase of \$1.2 million in crystallized incentive income recognized from our Castles, (iv) a net increase of \$5.6 million in incentive income recognized from our liquid hedge funds primarily as a result of redemptions and an increase in the average capital eligible for incentive income

primarily attributable to higher returns during the six months ended June 30, 2013, and (v) an increase of \$3.7 million of incentive income recognized primarily from the liquidation of Fund I in May 2013. These increases were partially offset by a net decrease of \$11.1 million in incentive income from our credit PE funds due to a decrease in deemed tax distributions, which are no longer subject to clawback, for the six months ended June 30, 2013, as compared with the prior period.

The \$2.1 million increase in incentive income from non-affiliates was primarily related to an increase in crystallized incentive income from our liquid managed accounts.

The increase in expense reimbursements from affiliates of \$12.6 million is primarily related to an increase in operating expenses eligible for reimbursement from our funds, the most significant of which related to our senior living property manager, for the six months ended June 30, 2013 as compared to the prior comparative period.

Expenses

Six months ended June 30

Expenses were \$470.5 million for the six months ended June 30, 2013, a net increase of \$37.0 million, compared to \$433.4 million for the six months ended June 30, 2012. The increase was attributable to an increase of \$37.3 million in compensation and benefits, and an increase of \$4.2 million in general, administrative and other expenses. These increases were partially offset by a decrease of \$4.4 million in interest expense.

Total compensation and benefits increased primarily due to (i) a \$104.3 million increase in profit-sharing expenses primarily related to our liquid hedge funds, credit PE funds, credit hedge funds, Principal Performance Payments, and Castles, (ii) a \$17.4 million increase in other payroll, taxes, and benefits (including wages), and (iii) an \$8.7 million increase in discretionary bonus accruals. These increases were partially offset by a decrease of \$93.0 million in equity-based compensation expense. Changes in profit sharing expense are a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective periods. The \$17.4 million increase in other payroll, taxes and benefits was the result of an increase in headcount and the formation of a senior living property management business in July 2012. The increase of \$8.7 million in discretionary bonuses is primarily related to increased headcount and changes in the performance of the Company. The \$93.0 million decrease in equity-based compensation is primarily due to the final vesting of RSUs issued in connection with our IPO and RPU's in January 2013.

The increase in general, administrative and other expenses was primarily due to (i) an increase of \$2.3 million in placement fees related to a private equity fund, (ii) an increase in recruitment fees of \$0.8 million, and (iii) an increase of \$1.1 million in other general and administrative expenses.

The decrease in interest expense of \$4.4 million primarily relates to a decrease in the average outstanding debt balance and average interest rate for the six months ended June 30, 2013, as compared to the prior period.

Revenues

Three months ended June 30

Total revenues were \$223.1 million for the three months ended June 30, 2013, a net increase of \$24.0 million, compared to \$199.0 million for the three months ended June 30, 2012. The increase in revenues was attributable to (i) increases of \$5.9 million and \$5.0 million in management fees from affiliates and non-affiliates, respectively, (ii) increases of \$6.7 million and \$1.0 million in incentive income from affiliates and non-affiliates, respectively, (iii) increases of \$4.9 million and \$0.5 million in expense reimbursements from affiliates and non-affiliates, respectively, and (iv) an increase of \$0.1 million in other revenues.

The increase in management fees from affiliates of \$5.9 million was primarily due to increases in average fee paying AUM, based on a simple quarterly average, in our private equity funds, liquid hedge funds and credit PE funds of \$0.9 billion, \$0.7 billion, and \$0.9 billion, respectively. These increases were partially offset by a net decrease of \$3.1 million in management fees due to Newcastle and Eurocastle options granted to Fortress during the three months ended June 30, 2013 as compared to the prior comparative period.

The increase in management fees from non-affiliates of \$5.0 million was primarily related to an increase in average fee paying AUM, based on a simple quarterly average, of \$0.7 billion and \$4.6 billion in our liquid hedge fund managed accounts and Logan Circle, respectively.

The increase in incentive income from affiliates of \$6.7 million was primarily attributable to (i) an increase of \$14.5 million in incentive income primarily earned from the Drawbridge Special Opportunities Funds as a result of an increase in incentive earned on distributions from redeeming capital accounts (“RCA”), which represent accounts where investors have provided withdrawal notices and receive payout as underlying fund investments are realized, (ii) an increase of \$1.2 million in crystallized incentive income recognized from our Castles, (iii) a net increase of \$3.9 million related to crystallized incentive from our liquid hedge funds primarily as a result of redemptions and an increase in the average capital eligible for incentive income primarily attributable to higher returns during the three months ended June 30, 2013, and (iv) an increase of \$4.9 million of incentive income recognized from the liquidation of Fund I in May 2013. This increase was partially offset by a net decrease of \$19.6 million of incentive income recognized from our credit PE funds due to a decrease in deemed tax distributions, which are no longer subject to clawback, for the three months ended June 30, 2013, as compared with the prior period.

The \$1.0 million increase in incentive income from non-affiliates was primarily related to an increase in crystallized incentive income from our liquid managed accounts.

The increase in expense reimbursements from affiliates of \$4.9 million is primarily related to an increase in operating expenses eligible for reimbursement from our funds, the most significant of which related to our senior living property manager, for the three months ended June 30, 2013 as compared to the prior comparative period.

Expenses

Three months ended June 30

Expenses were \$249.8 million for the three months ended June 30, 2013, a net increase of \$37.3 million, compared to \$212.6 million for the three months ended June 30, 2012. This increase was attributable to an increase in compensation and benefits of \$39.6 million, partially offset by a decrease in interest expense of \$2.4 million.

Total compensation and benefits increased primarily due to (i) a \$66.7 million net increase in profit-sharing expenses primarily related to our liquid hedge funds, credit hedge funds, credit PE funds, and Principal Performance Payments, (ii) an \$8.7 million increase in other payroll, taxes, and benefits (including wages), and (iii) a \$5.8 million increase in discretionary bonus accruals. These increases were partially offset by a decrease of \$41.6 million in equity-based compensation expense. Changes in profit sharing expense are a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective periods. The \$8.7 million increase in other payroll, taxes and benefits was the result of an increase in headcount and the formation of a senior living property management business in July 2012. The \$41.6 million decrease in equity-based compensation is primarily due to the final vesting of RSUs issued in connection with our IPO and RPU's in January 2013.

The decrease in interest expense of \$2.4 million primarily relates to a decrease in the average outstanding debt balance and average interest rate for the three months ended June 30, 2013, as compared to the prior period.

Current and Future Compensation Expense

We seek to compensate our employees in a manner that aligns their compensation with the creation of long-term value for our shareholders. We aim to reward sustained financial and operational performance for all of our businesses and to motivate key employees to remain with us for long and productive careers. We must achieve our goals of alignment, motivation, and retention within the confines of current performance and liquidity. Aside from base salary, there are three significant components in our compensation structure.

Discretionary bonuses are awarded annually based on performance and on our estimation of market compensation. We note that while the payment of discretionary bonuses is optional, it is important for us to maintain a certain level of discretionary bonuses, based on the level of market compensation, even in periods of weaker performance, in order to retain and motivate employees.

Equity-based compensation awards, primarily RSUs, which are typically subject to service-based vesting conditions, are a key component of this compensation as they achieve all three goals. We set the level of our equity-based compensation each year based on performance (firm and individual) and our liquidity, as well as the number of shares available under our equity incentive plan and the dilutive impact they would have upon vesting.

In future periods, we will further recognize non-cash compensation expense on our non-vested equity-based awards outstanding as of June 30, 2013 of \$55.3 million with a weighted average recognition period of 2.5 years.

Profit-sharing compensation is awarded, generally upon fund formation and, in certain cases, subject to vesting, based on certain employees' roles within the fund businesses, and serves to motivate these employees and align their interests with both our and our funds' investors. Private equity and credit PE profit-sharing expense is generally based

on a percentage of realized fund incentive income. Liquid and credit hedge fund profit sharing expense may be based on a percentage of fund incentive income, a percentage of fund “net management fees” (management fees less related expenses), or a percentage of the incentive income generated by an individual trader (regardless of overall fund performance). The actual expense is based on actual performance within the funds and is detailed by segment in Note 7 to our consolidated financial statements contained herein. We note the following with respect to profit-sharing expense:

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

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

Other Income (Loss)

Six months ended June 30

Other Income (Loss) was \$95.3 million for the six months ended June 30, 2013, a net increase of \$12.1 million, compared to \$83.2 million for the six months ended June 30, 2012. This increase was primarily attributable to (i) an increase of \$5.6 million in the fair value of the derivatives held, primarily Japanese Yen foreign exchange contracts, for the six months ended June 30, 2013 as compared to the prior comparative period, (ii) a net increase of \$6.6 million in earnings from equity method investees primarily related to the performance of our credit PE funds and credit hedge funds for the six months ended June 30, 2013 relative to the prior comparative period, (iii) a net increase in unrealized gains of \$22.2 million related to our direct investments in options and common stock in our Castles. These increases were partially offset by (i) a decrease in unrealized gains (including the effects of foreign exchange) of \$21.3 million related to our direct investment in GAGFAH common stock, and (ii) an increase of \$0.8 million in the expense associated with the tax receivable agreement liability.

Three months ended June 30

Other Income (Loss) was \$25.5 million for the three months ended June 30, 2013, a net decrease of \$4.8 million, compared to \$30.3 million for the three months ended June 30, 2012. This decrease is primarily related to (i) a net decrease of \$5.0 million in the unrealized gains related to our direct investments in options and common stock in our Castles, and (ii) a decrease of \$5.7 million in the unrealized gains (including the effects of foreign exchange) related to our direct investment in GAGFAH common stock. These decreases were partially offset by a net increase of \$5.6 million in earnings from equity method investees with respect to our investments in our credit PE funds and credit hedge funds, partially offset by a decrease in earnings from equity method investees with respect to our liquid hedge and private equity funds for the three months ended June 30, 2013 relative to the prior comparative period.

Income Tax Benefit (Expense)

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

For the six months ended June 30, 2013 and 2012, Fortress recognized income tax expense (benefit) of \$27.4 million and \$30.4 million, respectively. The primary reasons for changes in income tax expense (benefit) are (i) changes in annual taxable income and related foreign and state income taxes (and forecasts thereof which are used to calculate the tax provision during interim periods), (ii) changes in the mix of businesses producing income, which may be subject to tax at different rates, and related changes in our structure, and (iii) the tax impact of RSUs and RPU that vested and were delivered at a value substantially less than their original value.

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

	Comparative Periods Six Months Ended June 30, 2013 vs. 2012	
Change in pre-tax income applicable to Class A Shareholders (A)	\$12,916	
Change in foreign and state income taxes	1,001	
Change in mix of business (B)	(2,471)
Change in deferred tax asset-impact of equity compensation vesting (C)	(1,029)

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Change in deferred tax asset valuation allowance and related adjustments	(13,355)
Other	10)
Total change (D)	\$(2,928)

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

From the first six months of 2012 to the first six months of 2013, a lesser proportion of our total income was subject to corporate tax. In 2013, we generated more unrealized gains and certain other income, which income is (B) passed directly to shareholders, increasing the proportion of our total income which was not subject to corporate tax and thereby reducing the proportion which was subject to corporate income tax.

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

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

Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries

Six Months Ended June 30

Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries increased from \$14.7 million to \$52.6 million, an increase of \$37.9 million, primarily attributable to (i) an increase of \$41.0 million resulting from a \$70.1 million increase in Fortress Operating Group consolidated net income during the six months ended June 30, 2013 as compared to the six months ended June 30, 2012, (ii) a decrease of \$5.0 million resulting from the dilution of noncontrolling interests in Fortress Operating Group caused by the delivery of restricted stock and restricted partnership awards, and (iii) an increase of \$1.9 million resulting from Others' interests in the net income of consolidated subsidiaries of Fortress Operating Group.

Three Months Ended June 30

Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries decreased from \$9.3 million to \$(0.4) million, a decrease of \$9.7 million, primarily attributable to (i) a decrease of \$11.6 million resulting from a \$20.0 million decrease in Fortress Operating Group consolidated net income during the three months ended June 30, 2013 as compared to the three months ended June 30, 2012, (ii) an increase of \$0.4 million resulting from the accretion to noncontrolling interests in Fortress Operating Group caused by the delivery of restricted stock and restricted partnership awards, and (iii) an increase of \$1.5 million resulting from Others' interests in the net income of consolidated subsidiaries of Fortress Operating Group.

Segment Analysis

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 PE funds, (vi) Logan Circle and (vii) principal investments in these funds as well as cash that is available to be invested. These segments are differentiated based on their varying strategies and, secondarily, on fund investor terms.

Discussed below are our results of operations for each of our reportable segments. They represent the separate segment information available and utilized by our management committee, which consists of our principals and certain key officers, and which functions as our chief operating decision maker to assess performance and to allocate resources. Management evaluates the performance of each segment based on its distributable earnings.

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

Distributable earnings is described in Note 10 to Part I, Item 1, "Financial Statements — Segment Reporting." Furthermore, a complete discussion of distributable earnings basis impairment and reserves, including the methodology used in estimating the amounts as well as the amounts incurred in the relevant periods, is disclosed therein.

"Distributable earnings" for the existing Fortress businesses is equal to net income (loss) attributable to Fortress's Class A shareholders adjusted as follows:

Incentive Income

- 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 (i) clawback is deemed greater than remote by Fortress's chief operating decision maker as described below (net of the reversal of any prior such reserves that are no longer deemed necessary), minus (b) incentive income recorded in accordance with GAAP,
 - for other Fortress Funds, at interim periods, adding (a) incentive income on an accrual basis as if the incentive
 - b. income from these funds were payable on a quarterly basis, minus (b) incentive income recorded in accordance with GAAP,

Other Income

- (ii) with respect to income from certain principal investments and certain other interests that cannot be readily transferred or redeemed:
 - for equity method investments in the private equity funds and credit PE funds as well as indirect equity method
 - a. 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,

adding (a) proceeds from the sale of shares received pursuant to the exercise of stock options in certain of the (iii) 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,

adding back equity-based compensation expense (including Castle options assigned to employees, RSUs and RPU

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

adding or subtracting, as necessary, any changes in the fair value of contingent consideration payable with respect (vi) 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, which expired in December 2011,

(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).

Private Equity Funds

The following table presents our results of operations for our private equity funds segment:

	Six Months Ended June 30,		2013 vs. 2012 \$	Three Months Ended June 30,		2013 vs. 2012 \$
	2013	2012		2013	2012	
Segment revenues						
Management Fees	\$66,722	\$59,406	\$7,316	\$33,834	\$29,748	\$4,086
Incentive Income	7,637	7,543	94	4,854	2,848	2,006
Segment revenues — total	\$74,359	\$66,949	\$7,410	\$38,688	\$32,596	\$6,092
Pre-tax distributable earnings	\$46,939	\$43,009	\$3,930	\$25,376	\$20,715	\$4,661

Six months ended June 30

Pre-tax distributable earnings increased by \$3.9 million primarily due to:

Revenues

Management fees were \$66.7 million for the six months ended June 30, 2013, a net increase of \$7.3 million, compared to \$59.4 million for the six months ended June 30, 2012. Management fees increased by \$7.3 million due to (i) a net

increase of \$5.1 million in management fees primarily from Fund IV, Fund V, and FRID as a result of an increase in the market values of certain portfolio companies, some of which were below their invested capital in prior periods, which impacted the computation of fees for the six months ended June 30, 2013, (ii) an increase of \$1.1 million in management fees from the MSR Opportunities Funds which called initial capital in January 2013, and (iii) an increase of \$0.8 million in management fees from WWTAI due to an increase in investor commitments and net capital inflows.

Incentive income was \$7.6 million for the six months ended June 30, 2013, a net increase of \$0.1 million, compared to \$7.5 million of incentive income recognized for the six months ended June 30, 2012. Incentive income increased by \$0.1 million primarily as a result of a \$3.7 million increase in the amount of incentive income earned from realization events that occurred in Fund I for the six months ended June 30, 2013 as compared to the prior comparative period, which was partially offset by a reduction in the reversal of previously recognized reserves for the potential clawback of incentive income from Fund II of \$3.6 million.

Expenses

Expenses were \$27.4 million for the six months ended June 30, 2013, a net increase of \$3.5 million, compared to \$23.9 million for the six months ended June 30, 2012. The net increase of \$3.5 million in expenses was primarily attributable to a net increase of \$2.2 million in general and administrative and allocable expenses, primarily related to placement fees associated with capital raises incurred in the first quarter of 2013, and a net increase of \$1.3 million in net compensation and benefits expense due to increased headcount.

Three months ended June 30

Pre-tax distributable earnings increased by \$4.7 million primarily due to:

Revenues

Management fees were \$33.8 million for the three months ended June 30, 2013, a net increase of \$4.1 million, compared to \$29.7 million for the three months ended June 30, 2012. Management fees increased by \$4.1 million primarily due to (i) a net increase of \$2.9 million in management fees primarily from Fund IV, Fund V, and FRID as a result of an increase in the market values of certain portfolio companies, some of which were below their invested capital in prior periods, which impacted the computation of fees for the three months ended June 30, 2013, (ii) an increase of \$0.6 million in management fees from the MSR Opportunities Funds which called initial capital in January 2013, and (iii) an increase of \$0.5 million in management fees from WWTAI due to an increase in investor commitments and net capital inflows.

Incentive income was \$4.9 million for the three months ended June 30, 2013, a net increase of \$2.1 million, compared to \$2.8 million of incentive income recognized for the three months ended June 30, 2012. Incentive income increased by \$2.1 million primarily as a result of the recognition of \$4.9 million in incentive income for the three months ended June 30, 2013 as a result of a realization event that occurred in Fund I, which was partially offset by a reduction in the reversal of previously recognized reserves for the potential clawback of incentive income from Fund II of \$2.8 million.

Expenses

Expenses were \$13.3 million for the three months ended June 30, 2013, a net increase of \$1.5 million, compared to \$11.8 million for the three months ended June 30, 2012. The net increase of \$1.5 million in expenses was primarily attributable to a net increase of \$1.8 million in net compensation and benefits expense related to increased headcount offset by a decrease of \$0.4 million in general and administrative and allocable expenses due to lower professional fees.

Publicly Traded Alternative Investment Vehicles (“Castles”)

The following table presents our results of operations for our Castles segment:

	Six Months Ended June 30,		2013 vs. 2012 \$	Three Months Ended June 30,		2013 vs. 2012 \$
	2013	2012		2013	2012	
Segment revenues						
Management Fees	\$30,817	\$27,636	\$3,181	\$12,985	\$13,060	\$(75)
Incentive Income	1,200	—	1,200	1,200	—	1,200
Segment revenues — total	\$32,017	\$27,636	\$4,381	\$14,185	\$13,060	\$1,125
	\$14,653	\$12,735	\$1,918	\$4,211	\$5,924	\$(1,713)

Pre-tax distributable
earnings

Six months ended June 30

Pre-tax distributable earnings increased by \$2.0 million primarily due to:

Revenues

Management fees were \$30.8 million for the six months ended June 30, 2013, a net increase of \$3.2 million, compared to \$27.6 million for the six months ended June 30, 2012. Management fees increased by \$3.2 million primarily as a result of (i) a \$7.8 million increase in management fees primarily due to an increase in Newcastle AUM resulting from their equity raises in the second and third quarters

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of 2012 and the first and second quarters of 2013, and (ii) a \$1.9 million increase due to fees generated by our senior living property management business which launched in July 2012. These increases were partially offset by a \$6.5 million decrease in Eurocastle management fees due to a decrease in AUM as a result of their restructuring process and amended management agreement in April 2013.

Expenses

Expenses were \$17.4 million for the six months ended June 30, 2013, a net increase of \$2.5 million, compared to \$14.9 million for the six months ended June 30, 2012. The increase of \$2.5 million in expenses was primarily attributable to a \$2.6 million increase in net compensation and benefits expense primarily due to higher headcount in Newcastle, New Residential and the senior living property management business, offset by decreased headcount in Eurocastle.

Three months ended June 30

Pre-tax distributable earnings decreased by \$1.7 million primarily due to:

Revenues

Management fees were \$13.0 million for the three months ended June 30, 2013, a net decrease of \$0.1 million, compared to \$13.1 million for the three months ended June 30, 2012. Management fees decreased by \$0.1 million primarily as a result of a \$5.0 million decrease in Eurocastle management fees primarily due to a decrease in AUM as a result of their restructuring process and amended management agreement in April 2013. This decrease was partially offset by (i) a \$4.0 million increase in management fees primarily due to an increase in Newcastle AUM resulting from their equity raises in the second and third quarters of 2012 and the first and second quarters of 2013, and (ii) a \$0.9 million increase in management fees generated by our senior living property management business which launched in July 2012.

Expenses

Expenses were \$10.0 million for the three months ended June 30, 2013, a net increase of \$2.8 million, compared to \$7.2 million for the three months ended June 30, 2012. The increase of \$2.8 million in expenses were primarily attributable to a \$3.2 million increase in net compensation and benefits expense primarily due to higher headcount in Newcastle, New Residential and the senior living property management business, offset by decreased headcount in Eurocastle. These increases were partially offset by a \$0.3 million net decrease in general and administrative expenses and allocable expenses primarily due to lower acquisition related professional fees incurred in the three months ended June 30, 2013, as compared to the prior comparative period.

Liquid Hedge Funds

The following table presents our results of operations for our liquid hedge funds segment:

	Six Months Ended June 30,		2013 vs. 2012 \$	Three Months Ended June 30,		2013 vs. 2012 \$
	2013	2012		2013	2012	
Segment revenues						
Management Fees	\$48,744	\$39,361	\$9,383	\$25,721	\$19,194	\$6,527
Incentive Income	124,712	9,730	114,982	92,460	3,438	89,022
Segment revenues - total	\$173,456	\$49,091	\$124,365	\$118,181	\$22,632	\$95,549
	\$88,622	\$7,100	\$81,522	\$63,989	\$2,809	\$61,180

Pre-tax distributable
earnings

Six months ended June 30

Pre-tax distributable earnings increased by \$81.5 million primarily due to:

Revenues

Management fees were \$48.7 million for the six months ended June 30, 2013, a net increase of \$9.3 million, compared to \$39.4 million for the six months ended June 30, 2012. Management fees increased by \$9.3 million primarily due to (i) a \$6.8 million increase in management fees generated from the Fortress Asia Macro Funds (including related managed accounts), (ii) a \$6.4 million net increase in management fees generated from the Fortress Macro Funds (including related managed accounts), and (iii) a \$0.4 million increase

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in management fees generated from the Fortress Convex Asia Funds, primarily as a result of an increase in net capital inflows and positive performance in these funds. These increases were partially offset by a \$3.1 million decrease in management fees due to the closing of the Fortress Commodities Funds (including related managed accounts) in the second quarter of 2012, and \$0.6 million and \$0.6 million in net decreases in management fees from the Drawbridge Global Macro Funds and Fortress Partners Funds, respectively, primarily as a result of net capital outflows.

Incentive income, which is determined on a fund-by-fund basis, was \$124.7 million for the six months ended June 30, 2013, a net increase of \$115.0 million, compared to \$9.7 million for the six months ended June 30, 2012. Incentive income increased by \$115.0 million primarily due to an increase of \$85.9 million in the incentive income generated by the Fortress Macro Funds (including related managed accounts) as a result of a higher proportion of capital being eligible for incentive income as substantially all capital met or exceeded its high water mark in 2013 and generated subsequent positive performance. The increase in incentive income was also due to increases of \$26.1 million and \$2.9 million in the incentive income generated by the Fortress Asia Macro Funds (including related managed accounts) and Drawbridge Global Macro Funds, respectively, primarily due to all capital remaining above their high water marks in 2013 and positive performance for the six months ended June 30, 2013.

Expenses

Expenses were \$84.8 million for the six months ended June 30, 2013, a net increase of \$42.8 million, compared to \$42.0 million for the six months ended June 30, 2012. The increase of \$42.8 million in expenses was primarily attributable to (i) an increase of \$32.1 million in profit sharing compensation expense, (ii) an increase of \$9.0 million in accruals for Principal Performance Payments, and (iii) an increase of \$3.5 million in compensation and benefits expense. These increases were partially offset by a net decrease of \$1.9 million in general and administrative expenses and corporate allocable expenses.

Three months ended June 30

Pre-tax distributable earnings increased by \$61.2 million primarily due to:

Revenues

Management fees were \$25.7 million for the three months ended June 30, 2013, a net increase of \$6.5 million, compared to \$19.2 million for the three months ended June 30, 2012. Management fees increased by \$6.5 million primarily due to (i) a \$4.1 million increase in management fees generated from the Fortress Asia Macro Funds (including related managed accounts), (ii) a \$3.6 million increase in management fees generated from the Fortress Macro Funds (including related managed accounts), and (iii) a \$0.2 million increase in management fees generated from the Fortress Convex Asia Funds, primarily as a result of an increase in net capital inflows and positive performance. These increases were partially offset by a \$0.6 million decrease in management fees due to the closing of the Fortress Commodities Funds (including related managed accounts) in the second quarter of 2012, and \$0.4 million and \$0.4 million in net decreases in management fees from the Drawbridge Global Macro Funds and Fortress Partners Funds, respectively, primarily as a result of net capital outflows.

Incentive income, which is determined on a fund-by-fund basis, was \$92.5 million for the three months ended June 30, 2013, a net increase of \$89.1 million, compared to \$3.4 million for the three months ended June 30, 2012. Incentive income increased by \$89.1 million primarily due to an increase of \$63.2 million in the incentive income generated by the Fortress Macro Funds (including related managed accounts) as a result of a higher proportion of capital being eligible for incentive income as substantially all capital met or exceeded its high water mark in 2013 and generated subsequent positive performance. The increase in incentive income was also due to increases of \$23.6 million and \$2.1 million in the incentive income generated by the Fortress Asia Macro Funds (including related managed accounts) and Drawbridge Global Macro Funds, respectively, primarily due to all capital remaining above

their high water marks in 2013 and positive performance for the three months ended June 30, 2013.

Expenses

Expenses were \$54.2 million for the three months ended June 30, 2013, a net increase of \$34.4 million, compared to \$19.8 million for the three months ended June 30, 2012. The increase of \$34.4 million in expenses was primarily attributable to (i) an increase of \$25.5 million in profit sharing compensation expense, (ii) an increase of \$6.8 million in accruals for Principal Performance Payments, and (iii) an increase of \$2.9 million in compensation and benefits expense. These increases were partially offset by a net decrease of \$0.9 million in general and administrative expenses and corporate allocable expenses.

Credit Hedge Funds

The following table presents our results of operations for our credit hedge funds segment:

	Six Months Ended June 30,		2013 vs. 2012 \$	Three Months Ended June 30,		2013 vs. 2012 \$
	2013	2012		2013	2012	
Segment revenues						
Management Fees	\$49,954	\$51,572	\$(1,618)	\$25,393	\$25,942	\$(549)
Incentive Income	96,646	56,345	40,301	63,489	26,103	37,386
Segment revenues - total	\$146,600	\$107,917	\$38,683	\$88,882	52,045	\$36,837
Pre-tax distributable earnings	\$57,903	\$43,837	\$14,066	\$36,609	\$20,611	\$15,998

Six months ended June 30

Pre-tax distributable earnings increased by \$14.1 million primarily due to:

Revenues

Management fees were \$50.0 million for the six months ended June 30, 2013, a net decrease of \$1.6 million, compared to \$51.6 million for the six months ended June 30, 2012. Management fees decreased by \$1.6 million primarily due to (i) a \$1.1 million decrease in management fees from the Drawbridge Special Opportunities Funds as a result of net capital outflows due to RCA distributions, and (ii) a \$0.7 million decrease in management fees from the Value Recovery Funds and related assets primarily as a result of certain asset structures within the Value Recovery Funds terminating in the third quarter of 2012. These decreases were partially offset by an increase of \$0.3 million in management fees from the Worden Funds as a result of net capital inflows.

Incentive income, which is determined on a fund-by-fund basis, was \$96.6 million for six months ended June 30, 2013, a net increase of \$40.3 million, compared to \$56.3 million for the six months ended June 30, 2012. Incentive income increased by \$40.3 million primarily due to an increase of \$37.2 million in incentive income generated by the Drawbridge Special Opportunities Funds primarily due to relatively higher returns and increased RCA distributions, and an increase of \$3.6 million in incentive income generated by the Worden Funds primarily due to higher returns during the six months ended June 30, 2013. These increases were partially offset by a \$0.3 million decrease in incentive income from other investments.

Expenses

Expenses were \$88.7 million for the six months ended June 30, 2013, a net increase of \$24.6 million, compared to \$64.1 million for the six months ended June 30, 2012. The increase of \$24.6 million in expenses was primarily attributable to (i) an increase of \$21.0 million in profit sharing compensation expense, (ii) an increase of \$6.3 million in compensation and benefits expense, and (iii) an increase of \$4.3 million in accruals for Principal Performance Payments. These increases were partially offset by a net decrease of \$6.9 million in general and administrative expenses and allocable expenses.

Three months ended June 30

Pre-tax distributable earnings increased by \$16.0 million primarily due to:

Revenues

Management fees were \$25.4 million for the three months ended June 30, 2013, a net decrease of \$0.5 million, compared to \$25.9 million for the three months ended June 30, 2012. Management fees decreased by \$0.5 million primarily due to (i) a \$0.6 million decrease in management fees from the Drawbridge Special Opportunities Funds as a result of net capital outflows due to RCA distributions, and (ii) a \$0.1 million decrease in management fees from the Value Recovery Funds and related assets primarily as a result of certain asset structures within the Value Recovery Funds terminating in the third quarter of 2012. These decreases were partially offset by an increase of \$0.2 million in management fees from the Worden Funds as a result of net capital inflows.

Incentive income, which is determined on a fund-by-fund basis, was \$63.5 million for the three months ended June 30, 2013, a net increase of \$37.4 million, compared to \$26.1 million for the three months ended June 30, 2012. Incentive income increased by \$37.4 million primarily due to an increase of \$33.2 million in incentive income generated by the Drawbridge Special Opportunities Funds

primarily due to higher returns and increased RCA distributions, and an increase of \$4.3 million in incentive income generated by the Worden Funds primarily due to higher returns during the three months ended June 30, 2013.

Expenses

Expenses were \$52.3 million for the three months ended June 30, 2013, a net increase of \$20.9 million, compared to \$31.4 million for the three months ended June 30, 2012. The increase of \$20.9 million in expenses was primarily attributable to (i) an increase of \$17.4 million in profit sharing compensation expense, (ii) an increase of \$4.3 million in compensation and benefits expense, and (iii) an increase of \$3.1 million in accruals for Principal Performance Payments. These increases were partially offset by a net decrease of \$4.0 million in general and administrative expenses and allocable expenses.

Credit PE Funds

The following table presents our results of operations for our credit PE segment:

	Six Months Ended June 30,		2013 vs.	Three Months Ended June 30,		2013 vs.
	2013	2012	2012	2013	2012	2012
			\$			\$
Segment Revenues						
Management Fees	\$47,551	\$42,554	\$4,997	\$22,360	\$20,676	\$1,684
Incentive Income	84,358	25,430	58,928	36,954	14,196	22,758
Segment revenues - total	\$131,909	\$67,984	\$63,925	\$59,314	\$34,872	\$24,442
Pre-tax distributable earnings	\$36,821	\$7,089	\$29,732	\$16,422	\$4,414	\$12,008

Six months ended June 30

Pre-tax distributable earnings increased by \$29.7 million primarily due to:

Revenues

Management fees were \$47.6 million for the six months ended June 30, 2013, a net increase of \$5.0 million, compared to \$42.6 million for the six months ended June 30, 2012. Management fees increased by \$5.0 million primarily due to a \$12.5 million net increase in management fees primarily due to net capital calls or additional commitments made after the first quarter of 2012, most notably in Japan Opportunity Fund II, Credit Opportunities Fund III and FCO Managed Accounts. These increases in management fees were partially offset by (i) a \$4.0 million decrease in management fees primarily in Fortress Credit Opportunities Fund I and Fortress Credit Opportunities Fund II primarily attributable to net capital distributions, (ii) a \$3.0 million decrease in management fees in Japan Opportunity Fund due to the expiration of its capital commitment period in June 2012, and (iii) a \$0.6 million decrease in management fees in the Long Dated Value Funds and Real Assets Funds, for the six months ended June 30, 2013, as compared to the prior comparative period.

Incentive income was \$84.4 million for the six months ended June 30, 2013, a net increase of \$58.9 million, compared to \$25.4 million for the six months ended June 30, 2012. Incentive income increased by \$58.9 million primarily due to (i) a net increase of \$51.7 million in incentive income generated primarily by the Credit Opportunities Funds and FCO Managed Accounts as a result an increase in distributions generated by realization events, and (ii) a net increase of \$5.7 million in incentive income generated by the Japan Opportunity Funds I and II.

Expenses

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Expenses were \$95.1 million for the six months ended June 30, 2013, a net increase of \$34.2 million, compared to \$60.9 million for the six months ended June 30, 2012. The increase of \$34.2 million in expenses was primarily attributable to (i) an increase of \$28.2 million in profit sharing compensation expense, (ii) a net increase of \$9.3 million in general and administrative expenses and allocable expenses, and (iii) an increase of \$0.6 million in accruals for Principal Performance Payments. These increases were partially offset by a \$3.9 million decrease in compensation and benefits expense.

Three months ended June 30

Pre-tax distributable earnings increased by \$12.0 million primarily due to:

Revenues

Management fees were \$22.4 million for the three months ended June 30, 2013, a net increase of \$1.7 million, compared to \$20.7 million for the three months ended June 30, 2012. Management fees increased by \$1.7 million primarily due to a \$5.4 million net increase in management fees mainly due to net capital calls or additional commitments made after the first quarter of 2012, most notably in Japan Opportunity Fund II and Credit Opportunities Fund III. These increases in management fees were partially offset by (i) a \$1.9 million decrease in management fees primarily in Fortress Credit Opportunities Fund I and Fortress Credit Opportunities Fund II attributable to net capital distributions, (ii) a \$1.5 million decrease in management fees in Japan Opportunity Fund due to the expiration of its capital commitment period in June 2012, and (iii) a \$0.3 million net decrease in management fees from the Long Dated Value Funds and Real Assets Funds.

Incentive income was \$37.0 million for the three months ended June 30, 2013, a net increase of \$22.8 million, compared to \$14.2 million for the three months ended June 30, 2012. Incentive income increased by \$22.8 million primarily due to (i) a \$14.1 million increase in incentive income generated by the Credit Opportunities Fund I, (ii) a \$4.9 million increase in incentive income generated by Japan Opportunity Fund I, and (iii) a \$2.5 million net increase in incentive income generated by the FCO Managed Accounts.

Expenses

Expenses were \$42.9 million for the three months ended June 30, 2013, a net increase of \$12.4 million, compared to \$30.5 million for the three months ended June 30, 2012. The increase of \$12.4 million in expenses was primarily attributable to (i) an increase of \$11.2 million in profit sharing compensation expense, and (ii) a net increase of \$3.2 million in general and administrative expenses and allocable expenses. These increases were partially offset by a \$2.0 million decrease in compensation and benefits expense.

Logan Circle

The following table presents our results of operations for our Logan Circle segment:

	Six Months Ended June 30,		2013 vs. 2012 \$	Three Months Ended June 30,		2013 vs. 2012 \$
	2013	2012		2013	2012	
Segment Revenues						
Management Fees	\$17,026	\$11,873	\$5,153	\$8,604	\$6,223	\$2,381
Incentive Income	—	—	—	—	—	—
Segment revenues - total	\$17,026	\$11,873	\$5,153	\$8,604	\$6,223	\$2,381
Pre-tax distributable earnings (loss)	\$(4,285)	\$(4,536)	\$251	\$(3,236)	\$(2,018)	\$(1,218)

Six months ended June 30

Pre-tax distributable loss decreased by \$0.2 million primarily due to:

Revenues

Management fees were \$17.0 million for the six months ended June 30, 2013, a net increase of \$5.1 million, compared to \$11.9 million for the six months ended June 30, 2012. Management fees increased \$5.1 million due to an increase in average AUM as a result of net client inflows and positive performance.

Expenses

Expenses were \$21.3 million for the six months ended June 30, 2013, a net increase of \$4.9 million, compared to \$16.4 million for the six months ended June 30, 2012. The increase of \$4.9 million in expenses was primarily attributable to an increase of \$2.5 million in compensation and benefits expense, and an increase of \$2.4 million in general and administrative expenses and corporate allocable expenses as a result of an increase in average headcount within Logan Circle (including the growth equities business which commenced in April 2013) during the six months ended June 30, 2013 as compared to the prior comparative period.

Three months ended June 30

Pre-tax distributable loss increased by \$1.2 million primarily due to:

Revenues

Management fees were \$8.6 million for the three months ended June 30, 2013, a net increase of \$2.4 million, compared to \$6.2 million for the three months ended June 30, 2012. Management fees increased \$2.4 million due to an increase in average AUM as a result of net client inflows and positive performance.

Expenses

Expenses were \$11.8 million for the three months ended June 30, 2013, a net increase of \$3.6 million, compared to \$8.2 million for the three months ended June 30, 2012. The increase of \$3.6 million in expenses was primarily attributable to a net increase of \$1.9 million in compensation and benefits expense, and an increase of \$1.7 million in general and administrative expenses and corporate allocable expenses as a result of an increase in average headcount within Logan Circle (including the growth equities business which commenced in April 2013) during the three months ended June 30, 2013 as compared to the prior comparative period.

Principal Investments

The following table presents our results of operations for our principal investments segment:

	Six Months Ended June 30,		2013 vs.	Three Months Ended June		2013 vs.
	2013	2012	2012	30,	2012	2012
			\$	2013		\$
Pre-tax distributable earnings (loss)	\$7,480	\$(2,082)	) \$9,562	\$4,270	\$(2,986)	) \$7,256

Six months ended June 30

Pre-tax distributable income increased by \$9.6 million primarily due to:

a \$6.5 million increase in net investment income from realizations and the performance of our investments in our funds. The \$6.5 million net increase in investment income was due to a net increase of \$6.8 million in distributions from realization events in our credit PE funds, private equity funds, and special investments in our hedge funds, partially offset by a net decrease of \$0.3 million attributable to our investments in our hedge funds for the six months ended June 30, 2013 as compared to the prior comparative period;

a \$0.6 million decrease in net investment income primarily as a result of an increase in recorded impairments with respect to our special investments in our hedge funds and certain illiquid investments for the six months ended June 30, 2013 as compared to the prior comparative period;

a \$4.4 million increase in net investment income due to a decrease in interest expense primarily as a result of a decrease in the average debt balance and average interest rate for the six months ended June 30, 2013 as compared to the prior comparable period;

a \$0.2 million increase in net investment income primarily due to the receipt of dividend income earned from a private investment for the six months ended June 30, 2013 and an increase in dividend income from our direct investments in Newcastle and New Residential common stock for the six months ended June 30, 2013, as compared to the prior comparative period; and

a \$1.0 million decrease in net investment income due to our foreign currency hedges and foreign currency translation adjustments.

Three months ended June 30

Pre-tax distributable income increased by \$7.3 million primarily due to:

a \$4.9 million increase in net investment income from realizations and the performance of our investments in our funds. The \$4.9 million net increase in investment income was due to a net increase of \$3.8 million in distributions from realization events in our credit PE funds, private equity funds, and special investments in our hedge funds and an increase of \$1.1 million attributable to our investments in our hedge funds for the three months ended June 30, 2013 as compared to the prior comparative period;

a \$0.4 million decrease in net investment income primarily as a result of an increase in recorded impairments with respect to our special investments in our hedge funds and certain illiquid investments for the three months ended June 30, 2013 as compared to the prior comparative period;

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a \$2.3 million increase in net investment income due to a decrease in interest expense primarily as a result of a decrease in the average debt balance and average interest rate for the three months ended June 30, 2013 as compared to the prior comparable period;

a \$0.6 million increase in net investment income due to our foreign currency hedges and foreign currency translation adjustments.

The following table reflects all of our investments which are not marked to market through distributable earnings for segment reporting purposes as of June 30, 2013:

Fund	Fortress Share of NAV (A)	Fortress Segment Cost Basis (B)	Excess (C)	(Deficit) (C)
Main Funds				
Fund II	1,598	—	1,598	N/A
Fund III and Fund III Coinvestment	13,888	3,195	10,693	N/A
Fund IV and Fund IV Coinvestment	137,087	58,451	78,636	N/A
Fund V and Fund V Coinvestment	163,229	70,673	92,556	N/A
Long Dated Value Funds	19,467	13,197	6,270	N/A
Real Assets Funds	20,799	8,261	12,538	N/A
Credit Opportunities Funds	72,597	37,223	35,374	N/A
Mortgage Opportunities Funds	4,973	—	4,973	N/A
Asia Funds (Japan Opportunity Funds and Global Opportunities Fund)	13,471	10,050	3,421	N/A
WWTAI	3,199	2,944	255	N/A
Real Estate Opportunities Funds	2,253	2,000	253	N/A
MSR Opportunities Funds	42	42	—	N/A
Other Funds (combined)				
GAGFAH (XETRA: GFJ)	11,276	2,880	8,396	N/A
Brookdale (NYSE: BKD)	34,426	8,136	26,290	N/A
Private investment #1	268,544	207,357	61,187	N/A
Private investment #2	107,056	44,770	62,286	N/A
Castles				
Eurocastle (EURONEXT: ECT)	2,331	78	2,253	N/A
Newcastle (NYSE: NCT)	5,424	342	5,082	N/A
New Residential (NYSE: NRZ)	6,990	413	6,577	N/A
Other				
Hedge fund side pocket investments	103,160	65,364	39,753	(1,957)
Direct investments - GAGFAH	70,273	28,223	42,050	N/A
Direct investments - Other	66,442	23,914	43,664	(1,136)
Total	\$1,128,525	\$587,513	\$544,105	\$(3,093)

(A) Represents the net asset value (“NAV”) of Fortress’s investment in each fund. This is generally equal to its GAAP and segment carrying value.

(B) Represents Fortress’s cost basis in each investment for segment reporting purposes, which is net of any prior impairments taken for distributable earnings.

(C) Represents the difference between NAV and segment cost basis. If negative (a deficit), this represents potential future impairment. If positive (an excess), this represents unrealized gains which, if realized, will increase future distributable earnings.

Sensitivity

For an analysis of the sensitivity of segment revenues to changes in the estimated fair value of the Fortress Fund investments, see Part I, Item 3, “Quantitative and Qualitative Disclosures About Market Risk.”

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Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, including our capital commitments (and clawback obligations, if any) to our funds, pay compensation, and satisfy our other general business needs including our obligation to pay U.S. federal income tax. In addition, we may use cash to make distributions, particularly the distributions we are required to make to our principals in connection with tax obligations, which can be material. Our primary sources of funds for liquidity consist of cash flows provided by operating activities, primarily the management fees and incentive income paid to us from the Fortress Funds, borrowings under loans, and the potential issuance of debt and equity securities, as well as the investment returns on our principal investments in these funds. The cash received from these investment returns is limited based on the liquidity terms of the respective funds; for instance, private equity funds generally only distribute cash upon investment realization events. Our primary uses of liquidity include operating expenses (which include compensation, rent and interest, among others), payments under our credit agreement and other debt, capital commitments to our funds and tax and tax-related payments and distributions.

The receipt of management fees generally occurs on a fixed and fairly predictable schedule, subject to changes in the NAV of the Fortress Funds (due to performance or capital transactions). From time to time, we may elect, in our discretion, to defer the receipt of management or other fees or reimbursements, to which we are legally entitled, in order to optimize the operations of the underlying funds. As of June 30, 2013, the aggregate amount of management fees that various of our managed funds owed but had not yet paid was approximately \$39.9 million, excluding \$12.2 million which has been fully reserved by us, and the ultimate timing of their payment is currently uncertain. In addition, \$15.6 million of private equity general and administrative expenses had been advanced on behalf of certain funds, excluding \$6.1 million which has been fully reserved by Fortress. The amount of deferred management fees and reimbursements may increase in the future. Also, while we still believe that we will receive these amounts, if these deferrals continue or increase, they could meaningfully constrain our liquidity in the future.

The timing of receipt of cash flows from other operating activities is in large part dependent on the timing of distributions from our private equity funds and credit PE funds, which are subject to restrictions and to management's judgment regarding the optimal timing of the monetization of underlying investments, and to dates specified in our hedge funds' operating documents, which outline the determination and payment of our incentive income, if any. The timing of capital requirements to cover fund commitments is subject to management's judgment regarding the acquisition of new investments by the funds, as well as the ongoing liquidity requirements of the respective funds. The timing of capital requirements and the availability of liquidity from operating activities may not always coincide, and we may make short-term, lower-yielding investments with excess liquidity or fund shortfalls with short-term debt or other sources of capital.

We expect that our cash on hand and our cash flows from operating activities, capital receipts from balance sheet investments and available financing will be sufficient to satisfy our liquidity needs with respect to expected current commitments relating to investments and with respect to our debt obligations over the next twelve months. We estimate that our expected management fee receipts over the next twelve months, a portion of which may be deferred, will be sufficient (along with our cash on hand of \$292.6 million at June 30, 2013, our available draws under our credit facility of \$147.3 million as of June 30, 2013, and capital receipts from our balance sheet investments) to meet our operating expenses (including compensation and lease obligations), required debt payments, tax distribution requirements, incentive income clawback obligations (if any), and fund capital commitments, in each case to be funded during the next twelve months (see obligation tables below). These uses of cash would not (barring changes in other relevant variables, such as EBITDA and Consolidated EBITDA, as defined in our credit agreement) cause us to violate any of our financial covenants under our credit agreement. We believe that the compensation we will be able to pay from these available sources will be sufficient to retain key employees and maintain an effective workforce. We may elect, if we deem it appropriate, to defer certain payments due to our principals and affiliates or raise capital to enable us to make payments required under our credit agreement or for other working capital needs.

We expect to meet our long-term liquidity requirements, including the repayment of our debt obligations and any new commitments or increases in our existing commitments (and clawback obligations, if any) relating to principal investments, through the generation of operating income (including management fees, a portion of which may be deferred), capital receipts from balance sheet investments and, potentially, additional borrowings and equity offerings. Our ability to execute our business strategy, particularly our ability to form new funds and increase our AUM, depends on our ability to raise additional investor capital within our funds and on our ability to monetize our balance sheet investments. Furthermore, strategic initiatives and the ability to make principal investments in funds may be dependent on our ability to raise capital at the Fortress level. Decisions by counterparties to enter into transactions with us will depend upon a number of factors, such as our historical and projected financial performance and condition, compliance with the terms of our credit arrangements, industry and market trends and performance, the availability of capital and our counterparties' policies and rates applicable thereto, the rates at which we are willing to borrow, and the relative attractiveness of alternative investment or lending opportunities. Furthermore, given the current level of the market price of our Class A shares as well as the relative illiquidity in the credit market (as described above under “— Market Considerations”), raising equity capital could be dilutive to our current

shareholders and issuing debt obligations could result in significant increases to operating costs. The level of our share price also limits our ability to use our equity as currency in the potential acquisition of businesses, other companies or assets.

We are a publicly traded partnership and have established a wholly owned corporate subsidiary (“FIG Corp.”). Accordingly, a substantial portion of our income earned by the corporate subsidiary is subject to U.S. federal income taxation and taxed at prevailing rates. The remainder of our income is allocated directly to our shareholders and is not subject to any corporate level of taxation.

As of June 30, 2013, our material cash commitments and contractual cash requirements were related to our capital commitments to our funds, lease obligations and debt obligations. Our potential liability for the contingent repayment of incentive income is discussed under “— Contractual Obligations” below.

Capital Commitments

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

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

Our capital commitments to our funds with outstanding commitments as of June 30, 2013 consisted of the following.

	Outstanding Commitment
Private Equity Funds	
Fund III Coinvestment	\$ 2
Fund IV	4,053
Fund IV Coinvestment	3
Fund V	6,143
Fund V Coinvestment	2
FRID (GAGFAH)	812
FHIF (Holiday)	8,089
FECI (Florida East Coast / Flagler)	1,551
WWTAI	4,632
MSR Opportunities Fund IA	29
MSR Opportunities Fund IB	29
A&K Global Health	500
Starcastle	454
Credit PE Funds	
Credit Opportunities Fund	6,627
Credit Opportunities Fund II	6,942
Credit Opportunities Fund III	17,046
FCO Managed Accounts	50,292
Long Dated Value Fund I	460
Long Dated Value Fund II	1,640
Long Dated Value Fund III	160
LDVF Patent Fund	27
Real Assets Fund	21,088
Japan Opportunity Fund	2,916
Japan Opportunity Fund II	15,374
Net Lease Fund I	224
Global Opportunities Fund	1,968
Life Settlements Fund	82
Life Settlements Fund MA	54
Real Estate Opportunities Fund	4,080
Real Estate Opportunities REOC Fund	170
Karols Development Co	7,332
Other	265
Total	\$ 163,046

Lease Obligations

Minimum future rental payments (excluding expense escalations) under our operating leases are as follows:

July 1 to December 31, 2013	\$ 12,538
2014	23,423
2015	20,882
2016	19,401
2017	2,540
2018	251
Thereafter	—
Total	\$ 79,035

Debt Obligations

As of June 30, 2013, our debt obligations consisted of our credit agreement and promissory note, as described below.

In February 2013, we entered into a new \$150.0 million revolving credit facility (the “2013 Credit Agreement”) with a \$15.0 million letter of credit subfacility. The 2013 Credit Agreement generally bears interest at an annual rate equal to LIBOR plus an applicable rate that fluctuates depending upon our credit rating, and a commitment fee on undrawn amounts that fluctuates depending upon our credit rating, as well as other customary fees. In connection with the closing of the 2013 Credit Agreement, approximately \$2.3 million of fees and expenses were incurred.

Increases in the interest rate on our debt obligations under the 2013 Credit Agreement, whether through amendments, refinancings, increases in LIBOR, or a downgrade of our credit rating, may result in a direct reduction in our earnings and cash flow from operations and, therefore, impact our liquidity.

The following table presents information regarding our debt obligations:

Debt Obligation	Face Amount and Carrying Value		Contractual Interest Rate	Final Stated Maturity	June 30, 2013 Amount Available for Draws
	June 30, 2013	December 31, 2012			
Revolving credit agreement (A)(B)	\$—	\$—	LIBOR + 2.50% (C)	Feb 2016	\$ 147,332
Promissory note (D)	89,453	149,453	5.00%	Feb 2014	N/A
Total	\$ 89,453	\$ 149,453			

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

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

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

(D) Issued to a former Principal in exchange for his equity interests in Fortress.

During the six months ended June 30, 2013, the average face amount of our outstanding debt was approximately \$123.7 million and the highest face amount outstanding at one time during this period was \$149.5 million. During this period, we did not incur any new short-term borrowings.

In July 2013, Fortress repaid the remaining \$89.5 million, plus accrued interest, on its promissory note due to a former Principal. As such, this note is no longer outstanding.

As a result of our initial public offering and related transactions, secondary public offerings, and other transactions, FIG Asset Co. LLC lent aggregate excess proceeds of approximately \$464.8 million to FIG Corp., pursuant to a demand note. As of June 30, 2013, the outstanding balance was approximately \$370.4 million, including unpaid interest. This intercompany debt is eliminated in consolidation.

Covenants

Fortress Operating Group is required to prepay any amounts outstanding under the 2013 Credit Agreement upon the occurrence of certain events.

The events of default under the 2013 Credit Agreement are typical of such agreements and include payment defaults, failure to comply with credit agreement covenants, cross-defaults to material indebtedness, bankruptcy and insolvency, and change of control. A default under the 2013 Credit Agreement would likely have a material, adverse impact on our liquidity.

The 2013 Credit Agreement contains customary representations and warranties and affirmative and negative covenants that, among other things, restrict the ability of Fortress to create or incur certain liens, incur or guarantee additional indebtedness, merge or consolidate with other companies or transfer all or substantially all of their respective assets, transfer or sell assets, make restricted payments, engage in transactions with affiliates and insiders, and incur restrictions on the payment of dividends or other distributions and certain other contractual restrictions. These covenants are subject to a number of limitations and exceptions set forth in the 2013 Credit Agreement. In addition, Fortress Operating Group must not:

Permit AUM (as defined as Management Fee Earning Assets in the 2013 Credit Agreement) to be less than \$25.0 billion as of the end of any calendar month;

Permit the Consolidated Leverage Ratio (a measure of Adjusted Net Funded Indebtedness compared to Consolidated EBITDA, each such term as defined in the 2013 Credit Agreement) to be greater than 2.00 to 1.0 as of the end of any fiscal quarter for the four quarter period ending on such date; or

Permit the Consolidated Interest Coverage Ratio (a measure of Consolidated EBITDA compared to Consolidated Interest Charges, each such term as defined in the 2013 Credit Agreement) to be less than 4.00 to 1.0 as of the end of any fiscal quarter for the four quarter period ending on such date.

The following table sets forth the financial covenant requirements under the 2013 Credit Agreement as of June 30, 2013.

	June 30, 2013 (dollars in millions)		
	Requirement	Actual	Notes
AUM, as defined	≥ \$25,000	\$40,100	(A)
Consolidated Leverage Ratio	≤ 2.00	0.10	(B)
Consolidated Interest Coverage Ratio	≥ 4.00	36.64	(B)

Impacted by capital raised in funds, redemptions from funds, and valuations of fund investments. The AUM (A) presented here is based on the definition of Management Fee Earning Assets contained in the 2013 credit agreement.

The Consolidated Leverage Ratio is equal to Adjusted Net Funded Indebtedness, as defined, divided by the trailing four quarters' Consolidated EBITDA, as defined. The Consolidated Interest Coverage Ratio is equal to the quotient of (A) the trailing four quarters' Consolidated EBITDA, as defined, divided by (B) the trailing four quarters' interest charges as defined in the 2013 Credit Agreement. Adjusted Net Funded Indebtedness and Consolidated EBITDA are computed as shown below (in millions). Consolidated EBITDA, as defined, is impacted by the same factors as distributable earnings, except Consolidated EBITDA is not impacted by changes in clawback reserves or gains and losses, including impairment, on investments.

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	Twelve Months Ended June 30, 2013
Fortress Investment Group LLC net income	\$ 115.2
Depreciation and amortization, interest expense and income taxes	62.6
Extraordinary or non-recurring gains and losses	1.7
Incentive Income Adjustment	185.6
Other Income Adjustment	(265.0)
Compensation expenses recorded in connection with the assignment of Castle Options and Stock Based Compensation	135.4
Non-controlling interest and tax receivable agreement adjustments at FIG Corp.	178.6
(Income) loss of excluded entities (as defined in the 2013 Credit Agreement)	1.1
Consolidated EBITDA	\$ 415.2
Interest charges	\$ 11.3
	June 30, 2013
Outstanding debt	\$ 89.5
Plus: Outstanding letters of credit	2.7
Less: Cash (up to \$50 million)	(50.0)
Adjusted Net Funded Indebtedness	\$ 42.2

The foregoing summary is not complete and is qualified in its entirety by reference to the 2013 Credit Agreement, which is filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2012 and is incorporated by reference herein.

Dividends / Distributions

On July 31, 2013, we declared a second quarter cash dividend of \$0.06 per Class A share. The dividend is payable on August 16, 2013 to shareholders of record of our Class A shares on August 13, 2013. The aggregate amount of this dividend payment is approximately \$14.2 million. In connection with this dividend, dividend equivalent payments of approximately \$0.5 million will be paid to holders of restricted Class A share units.

On May 1, 2013, we declared a first quarter cash dividend of \$0.06 per Class A share. The dividend was payable on May 17, 2013 to holders of record of our Class A shares on May 14, 2013. The aggregate amount of this dividend payment was approximately \$14.2 million. In connection with this dividend, dividend equivalent payments of approximately \$0.3 million were paid to holders of restricted Class A share units.

On February 26, 2013, we declared a fourth quarter cash dividend of \$0.06 per Class A share. The dividend was payable on March 15, 2013 to holders of record of our Class A shares on March 12, 2013. The aggregate amount of this dividend payment was approximately \$13.3 million. In connection with this dividend, dividend equivalent payments of approximately \$0.6 million were paid to holders of restricted Class A share units.

During the six months ended June 30, 2013, Fortress Operating Group declared distributions of \$48.6 million to the principals and one senior employee.

Cash Flows

Our primary cash flow activities are: (i) generating cash flow from operations, (ii) making investments in Fortress Funds, (iii) meeting financing needs through, and making required payments under, our credit agreement and other debt, and (iv) distributing cash flow to equity holders, as applicable.

As described above in "— Results of Operations," our AUM has changed throughout the periods reflected in our financial statements included in this Quarterly Report on Form 10-Q. This change is a result of the Fortress Funds raising and investing capital, and generating gains from investments, offset by redemptions, capital distributions and losses.

Our dividend policy has certain risks and limitations, particularly with respect to liquidity. Although we may pay dividends in accordance with our stated dividend policy, we may not pay the amount of dividends suggested by our policy, or at all, if, among other things, we do not have the cash necessary to pay the intended dividends, if such payment would violate the terms of our credit agreement, or if our board of directors determines it would be prudent to reduce or eliminate future dividend payments. To the extent we do not have cash on hand sufficient to pay dividends, we may borrow funds to pay dividends, but we are not obligated to do so. By paying cash dividends rather than investing that cash in our future growth, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations or unanticipated capital expenditures, should the need arise.

Operating Activities

Our net cash flow provided by (used in) operating activities was \$192.1 million and \$(73.5) million during the six months ended June 30, 2013 and 2012, respectively.

Operating Activities — Comparative

Cash received for affiliate and non-affiliate management fees increased by \$56.2 million from \$202.3 million in 2012 to \$258.5 million in 2013. Management fees are based on average fee paying AUM, which, based on a simple quarterly average, increased within our alternative and traditional investment businesses from 2012 to 2013 (private equity funds increased by \$1.0 billion, Castles decreased by \$(9.0) million, liquid hedge funds increased by \$0.8 billion, credit hedge funds decreased by \$(0.3) billion, credit PE funds increased by \$1.1 billion, and Logan Circle increased by \$5.4 billion) as a result of capital raising, including new fund formation, and returns, offset by redemptions, capital distributions, and losses. The average management fee rate earned by Logan Circle is significantly lower than that earned by Fortress's alternative asset management businesses. In addition to changes in AUM, management fee receipts were impacted by approximately \$39.9 million of management fees that were past due at June 30, 2013, as opposed to \$131.4 million at June 30, 2012, as discussed in "— Liquidity and Capital Resources" above.

Incentive income is calculated as a percentage of returns, or profits, earned by the Fortress Funds and non-affiliates or is based on profitable realization events within private equity funds and credit PE funds and based on cash realizations in Value Recovery Funds. A \$87.0 million increase in cash incentive income received was mainly due to increased realizations within the credit PE funds in 2013.

Cash received as Distributions of Earnings from Equity Method Investments increased \$18.4 million from 2012 as a result of realization events within certain funds.

Cash paid for compensation decreased by \$66.2 million from the six months ended June 30, 2012 to June 30, 2013. Bonuses and profit sharing payments are generally paid in January or February of the year following the year in which they are earned, so the amounts paid in 2013 and 2012 primarily related to bonuses and profit sharing earned in 2012 and 2011, respectively. However, a portion (approximately \$176.2 million) of the bonuses and profit sharing earned in 2012 were also paid in 2012.

Cash paid for interest decreased \$4.8 million primarily due to a lower average debt balance of \$123.7 million for the six months ended June 30, 2013 compared to \$234.0 million for the six months ended June 30, 2012.

Investing Activities

Our net cash flow provided by (used in) investing activities was \$195.4 million and \$93.6 million during the six months ended June 30, 2013 and 2012, respectively. Our investing activities primarily included: (i) contributions to equity method investees of \$(18.8) million and \$(36.6) million during the six months ended June 30, 2013 and 2012, respectively, (ii) distributions of capital from equity method investees of \$236.2 million and \$136.1 million during these periods, respectively, (iii) the purchase of \$16.9 million of equity securities during the six months ended June 30, 2013 and (iv) purchases of fixed assets, net of proceeds from the disposal of fixed assets, of \$(5.0) million and \$(5.9) million during these periods, respectively.

Financing Activities

Our net cash flow provided by (used in) financing activities was \$(199.2) million and \$(169.1) million during the six months ended June 30, 2013 and 2012, respectively. Our financing activities primarily included (i) distributions made to principals and one senior employee, including those classified within “principals’ and others’ interests in consolidated subsidiaries,” of (\$52.5) million and

(\$43.8) million during these periods, respectively, (ii) distributions to employees and others related to their interests in consolidated subsidiaries of (\$56.5) million and (\$31.9) million during these periods, respectively, (iii) contributions from employees and others related to their interests in consolidated subsidiaries of \$0.3 million and less than \$0.1 million during these periods, respectively, (iv) dividend and dividend equivalent payments of \$(28.4) million and \$(21.4) million during these periods, respectively, and (v) our net borrowing and repayment activity, including payments for deferred financing costs.

Critical Accounting Policies

Consolidation

For those entities in which it has a variable interest, Fortress first determines whether the entity is a VIE. This determination is made by considering whether the entity's equity investment at risk is sufficient and whether the entity's at-risk equity holders have the characteristics of a controlling financial interest. A VIE must be consolidated by its primary beneficiary. The primary beneficiary of a VIE is generally defined as the party who, considering the involvement of related parties and de facto agents, has (i) the power to direct the activities of the VIE that most significantly affect its economic performance, and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. This evaluation is updated continuously.

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

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

The analysis as to whether to consolidate an entity is subject to a significant amount of judgment. Some of the criteria considered are the determination as to the degree of control over an entity by its various equity holders, the design of the entity, how closely related the entity is to each of its equity holders, the relation of the equity holders to each other and a determination of the primary beneficiary in entities in which we have a variable interest. These analyses involve estimates, based on the assumptions of management, as well as judgments regarding significance and the design of the entities. If, as a result of such analysis, Fortress were required to consolidate a fund, portfolio company, or related entity, it could have a material impact on our gross revenues, expenses, net income, assets, liabilities and total equity. However, we would not expect it to materially impact our net income, or equity, attributable to Class A shareholders.

As of June 30, 2013, the investment vehicles in which Fortress held an interest were comprised of 44 VIEs and 112 non-VIEs.

Revenue Recognition on Incentive Income

Incentive income is calculated as a percentage of the returns, or profits, earned by the Fortress Funds subject to the achievement of performance criteria. Incentive income from certain of the private equity funds and credit PE funds we manage is subject to contingent repayment (or clawback) and may be paid to us as particular investments made by the funds are realized. If, however, upon liquidation of a fund the aggregate amount paid to us as incentive income

exceeds the amount actually due to us based upon the aggregate performance of the fund, the excess is required to be returned by us (i.e. "clawed back") to that fund. We have elected to adopt the preferred method of recording incentive income subject to contingencies. Under this method, we do not recognize incentive income subject to contingent repayment (or clawback) until all of the related contingencies have been resolved. Deferred incentive income related to a particular private equity fund, or credit PE fund, each of which has a limited life, would be recognized upon the termination of a private equity fund, or credit PE fund, or when distributions from a fund exceed the point at which a clawback of a portion or all of the historic incentive income distributions could no longer occur. Recognition of incentive income allocated to us prior to that date is deferred and recorded as a deferred incentive income liability. For GAAP purposes, the determination of when incentive income is recognized as income is formulaic in nature, resulting directly from each fund's governing documents. For certain funds, a portion (or all) of any incentive income distribution may be deemed a "tax distribution." Tax distributions are not subject to contingencies. The determination of the amount of a distribution which represents a tax distribution is based on an estimate of both the amount of taxable income generated and the applicable tax rate. Estimates of taxable income are subject to significant judgment.

Profit Sharing Arrangements

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

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

For profit sharing plans related to private equity funds and credit PE funds, where incentive income is received as investments are realized but is subject to clawback (see “— Revenue Recognition on Incentive Income” above), although Fortress defers the recognition of incentive income until all contingencies are resolved, accruing expense for employee profit sharing is based upon when it becomes probable and reasonably estimable that incentive income has been earned and therefore a profit sharing liability has been incurred. Based upon this policy, the recording of an accrual for profit sharing expense to employees generally precedes the recognition of the related incentive income revenue. As a result, private equity and credit PE incentive income realization events, which benefit Fortress economically, cause our GAAP earnings to decline in the short term as expense is recognized before the corresponding revenue. Such profit sharing expense may be reversed upon determination that the expense is no longer probable of being incurred based on the performance of the fund.

Our determination of the point at which it becomes probable and reasonably estimable that incentive income will be earned and therefore a corresponding profit sharing expense should be recorded is based upon a number of factors, the most significant of which is the level of realized gains generated by the underlying funds that may ultimately give rise to incentive income payments. Accordingly, profit sharing expense is generally recorded upon realization events within the underlying funds. A realization event has occurred when an investment within a fund generates proceeds in excess of its related invested capital, such as when an investment is sold at a gain. Changes in the judgments and estimates made in arriving at the appropriate amount of profit sharing expense accrual could materially impact net income.

For further information on amounts paid and payable in the future under our profit sharing arrangements, please see Note 2 to Part I, Item 1, “Financial Statements — Management Agreements and Fortress Funds.”

Valuation of Investments

Our investments in the Fortress Funds are recorded based on the equity method of accounting. The Fortress Funds themselves apply specialized accounting principles for investment companies. As such, our results are based on the reported fair value of the investments held by the funds as of the reporting date with our pro rata ownership interest (based on our principal investment) in the changes in each fund's NAV reflected in our results of operations. Fair value generally represents the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. We are the manager of these funds and in certain cases participate in the valuation of underlying investments, many of which are illiquid and/or without a public market. The fair value of these investments is generally estimated based on either values provided by independent valuation agents, who use their own proprietary valuation models, or proprietary models developed by us, which include discounted cash flow analyses, public market comparables, and other techniques and may be based, at least in part, on independently sourced market parameters. The material estimates and assumptions used in these models include the timing and expected amount of cash flows, the appropriateness of discount rates used, and, in some cases, the ability to execute, timing of, and estimated proceeds from expected financings. Significant judgment and estimation goes into the selection of an appropriate valuation methodology as well as the assumptions which generate these models, and

the actual values realized with respect to investments could be materially different from values obtained based on the use of those estimates. The valuation methodologies applied impact the reported value of our investments in the Fortress Funds in our consolidated financial statements.

With respect to valuation information provided by independent valuation agents, or pricing services, Fortress performs procedures to verify that such information is reasonable and determined in accordance with GAAP, and that the information is properly classified in the valuation hierarchy. Depending on the circumstances, these procedures generally include the following: (i) using established procedures to assess and approve agents, and their valuation methodologies, prior to their selection, (ii) obtaining a report from an independent auditing firm regarding the reliability of the internal controls of the agent (formerly known as a “SAS 70 review”), if available, (iii) performing due diligence on the agent's processes and controls, including developing an understanding of the agent's methodologies, (iv) obtaining broker quotations and/or performing an internal valuation in order to gauge the reasonableness of the information provided by the agent, (v) challenging the information provided, as appropriate, and (vi) performing back-testing of valuation information against actual prices received in transactions.

In addition, our investments in the Castles, including options, are held at fair value. The significant assumptions used in valuing the options include volatility, which is subject to significant judgment and estimation. We base this assumption on historical experience, current expectations, the market environment, and other factors.

Private Equity Funds

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

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

Our private equity funds have not to date based a valuation of a private security solely upon public or private market transactions in a similar security. There have been no circumstances to date in which a security in a public market transaction, or a private market transaction of which we were aware, has been considered to be sufficiently similar to a private security owned by one of our private equity funds to be used as the measure of valuation for such private security investment.

Our private equity funds have used the price of private market transactions in identical securities as a valuation method for investments. In cases in which there has been a significant private transaction in a private security held by our private equity funds, the value of private equity fund investments in the private security are based upon the price of such recent private transaction in that security and no sensitivity analysis is used.

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

Liquid Hedge Funds

A substantial portion of the investments in our liquid hedge funds are valued based on quoted market prices. Investments valued based on other observable market parameters in our liquid hedge funds include interest rate swaps and swaptions, equity swaps and foreign exchange swaps which are verified by the independent fund administrator using models with significant observable market parameters. The fair value of interest rate swaps and swaptions is calculated using the current market yield of the relevant interest rate durations and an appropriate discount rate to determine a present value. The fair value of equity swaps and foreign exchange swaps is calculated using the market price of the underlying stock or foreign exchange pair, plus the financing cost of carrying the transaction. The fair value of these investments is also confirmed independently with the counterparty to the transaction. Investments valued using methods, including internal models, with significant unobservable market parameters consist primarily of investments in other funds and certain illiquid securities. Counterparty risk is also considered.

Investments in other funds are valued primarily based on the net asset values provided by the fund managers of those funds.

Credit Hedge Funds

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

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

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

Another method used to value loans that may not be repaid in full is a recoverability analysis, which values the total amount of assets of the borrower that might be sold to raise proceeds to repay the loan (and debt, if any, that has a higher claim against assets) if necessary. Under this method, all assets of the borrower must be analyzed and valued. If the total value is less than the total payments due under the loan (and debt, if any, that has a higher claim against assets), the fair value of the loan will be reduced.

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

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

Other investments valued using methods, including internal models, with significant unobservable market parameters consist primarily of investments in other funds and certain illiquid investments.

Credit PE Funds

Investments held within these funds are valued in a consistent manner with either the private equity funds or credit hedge funds, as applicable depending on the nature of the investment.

Traditional Asset Management Business

Investments made within this business are valued in a consistent manner with our funds' policies as described above.

Sensitivity

Changes in the fair value of our funds' investments would impact our results of operations as described in Part I, Item 3, "Quantitative and Qualitative Disclosures About Market Risk."

As discussed above, the determination of investment fair values involves management's judgments and estimates. The degree of judgment involved is dependent upon the availability of quoted market prices or observable market parameters. The following table summarizes the investments held by the Fortress Funds by valuation methodology as of June 30, 2013. As of June 30, 2013, revenues from our traditional asset management business are not material to our operations and are therefore not included in the analysis below.

The categories displayed below correspond directly with the disclosures which are required under fair value accounting guidance.

Basis for Determining Fair Value	Private Equity Funds	Liquid Hedge Funds (B)			Credit Hedge Funds	Credit PE Funds	Total Investment Company Holdings
		Fortress Partners Funds	Other Funds Long	Short			

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1. Quoted market prices	12	% 5	% 61	% 72	% 4	% 5	% 9	%
2. Other observable market parameters	17	% 22	% 28	% 28	% 1	% 1	% 10	%
3. Significant unobservable market parameters (A)	71	% 73	% 11	% —	% 95	% 94	% 81	%
Total	100	% 100	% 100	% 100	% 100	% 100	% 100	%

A substantial portion of our funds' level 3 investment valuations are based on third party pricing services, broker (A) quotes, or third party fund manager statements, in addition to internal models. In particular, 99% and 56% of our credit hedge funds' and credit PE funds', respectively, level 3 valuations were based on such sources.

(B) The level 3 investments within the "other funds" in the liquid hedge funds segment are primarily related to the illiquid SPV and sidepocket investments within the Drawbridge Global Macro Funds.

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As of June 30, 2013, \$11.4 billion of investments in our private equity funds, \$1.3 billion of investments in our liquid hedge funds, \$8.5 billion of investments in our credit hedge funds, and \$7.4 billion of investments in our credit PE funds are valued with significant unobservable market parameters. A 10% increase or decrease in the value of investments held by the Fortress Funds valued at level 3 would have had the following effects on our results of operations on an unconsolidated basis for the six months ended June 30, 2013, consistent with the table above:

	Private Equity Funds	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds
Management fees, per annum on a prospective basis	\$4.3 million or (\$4.5 million) (A)	\$1.3 million or (\$1.3 million)	\$15.5 million (\$15.5 million)	\$0.1 million or (\$0.8 million) (A)
Incentive income	N/A (B)	N/A (C)	N/A (C)	N/A (B)
Earnings from equity method investees	\$61.6 million or (\$61.6 million)	\$9.3 million or (\$9.3 million)	\$3.0 million or (\$3.0 million)	\$11.7 million or (\$11.7million)

Note: The tables above exclude non-investment assets and liabilities of the funds, which are not classified in the fair value hierarchy. Such net assets may be material, particularly within the hedge funds.

Private equity fund and credit PE fund management fees would be generally unchanged as, for investments in non-publicly traded securities, they are generally not based on the value of the funds, but rather on the amount of capital invested in the funds. However, if the NAV of a portfolio company of certain private equity funds or credit PE funds is reduced below its invested capital, there would be a reduction in management fees. As of June 30, 2013, \$3.8 billion of such portfolio companies valued at level 3 were carried at or below their invested capital and are in funds which are no longer in their commitment period. Management fees are generally calculated as of certain reset dates. The amounts disclosed show what the estimated effects would be to management fees over the next year assuming June 30, 2013 is the current reset date.

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

Hedge fund incentive income would be unchanged as it is not recognized until all contingencies are resolved in the fourth quarter (and Value Recovery Funds generally do not pay any current incentive income). Incentive income is generally not charged on amounts invested by liquid hedge funds in funds managed by external managers.

Income Taxes

FIG Corp. has recorded a significant deferred tax asset, primarily in connection with our initial public offering and related transactions. These transactions resulted in the basis of Fortress Operating Group's net assets being in excess of its book basis, which will result in future tax deductions. A substantial portion of this asset is offset by a liability associated with the tax receivable agreement with our Principals.

The realization of the deferred tax assets is dependent on the amount of our future taxable income before deductions related to the establishment of the deferred tax asset. The deferred tax asset is comprised of a portion that would be realized in connection with future ordinary income and a portion that would be realized in connection with future capital gains.

We project that we will have sufficient future taxable ordinary income in the normal course of business without any projected significant change in circumstances to fully realize the portion of the deferred tax asset that would be realized in connection with future ordinary income. Our projections do not include material changes in AUM or

incentive income from the current levels. However, the projections do contain an estimated marginal growth assumption. Based on our historical and projected taxable income, we have concluded that the realization of the portion of the deferred tax asset that would be realized in connection with future taxable ordinary income is more likely than not. If our estimates change in the future and it is determined that it is more likely than not that some portion, or all, of this portion of the deferred tax asset will not be realized, a valuation allowance would be recorded for that portion. However, in most cases, any tax expense recorded in connection with the establishment of a valuation allowance or the reversal of a deferred tax asset would be partially offset by other income recorded in connection with a corresponding reduction of a portion of the tax receivable agreement liability (see below). The following table sets forth our federal taxable income for historical periods (2012 is estimated) before deductions relating to the establishment of the deferred tax assets, other than deferred tax assets arising from equity-based compensation, as well as the average of ordinary income needed over the approximate period of the deductibility (approximately 15 years from the date of establishment, based on the amortization period of the tax basis intangible assets recorded) in order to fully realize the portion of the deferred tax asset that would be realized in connection with future ordinary income (in millions):

2009	\$24.8
2010	\$77.6
2011	\$53.5
2012: Estimated	\$68.1
2013: Estimated	\$76.6
2014 - 2021: Average Required	\$80.5

Based on the effects of the continuing challenging market conditions, we have made an assessment of the realizability of the portion of the deferred tax asset that would only be realized in connection with future capital gains. We have established a full valuation allowance for this portion of the deferred tax asset as management does not believe that the projected generation of material taxable capital gains is sufficiently assured in the foreseeable future. The establishment of the valuation allowance resulted in a reduction of the obligations associated with the tax receivable agreement and a corresponding reduction of the deferred tax asset.

For further information on our effective tax rate, and the tax receivable agreement, see Note 5 to our financial statements in Part I, Item 1, “Financial Statements — Income Taxes and Tax Related Payments.” Our effective tax rate for GAAP reporting purposes may be subject to significant variation from period to period. In addition, legislation has been introduced in the United States, which, if enacted in its current or similar form, could cause us to incur a material increase in our tax liability. See Part II, Item 1A, “Risk Factors — Risks Related to Taxation — Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis.”

Equity-Based Compensation

We currently have several categories of equity-based compensation which are described in Note 7 to Part I, Item 1, “Financial Statements — Equity-Based and Other Compensation.” The aggregate fair value of each of the RSU grants that are subject to service conditions is reduced by an estimated forfeiture factor (that is, the estimated amount of awards which will be forfeited prior to vesting). The estimated forfeiture factor is based upon historic turnover rates within our company adjusted for the expected effects of the grants on turnover, if any, and other factors in the judgment of management. The estimated forfeiture factor is updated at each reporting date.

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

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

- the determination of the grant date;
- the estimated forfeiture factor;
- the discount related to RSUs which do not entitle the recipients to dividend equivalents prior to the delivery of Class A shares. This discount was based on the estimated present value of dividends to be paid during the service period,

which in turn was based on an estimated initial dividend rate, an estimated dividend growth rate and a risk-free discount rate of like term;

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

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

Recent Accounting Pronouncements

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

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

Market Risks

Our predominant exposure to market risk is related to our role as investment manager for the Fortress Funds and the sensitivities to movements in the fair value of their investments on management fee and incentive income revenue, as well as on returns on our principal investments in such funds. For a discussion of the impact of market risk factors on our financial instruments refer to Part I, Item 3 “Quantitative and Qualitative Disclosures About Market Risk” and “— Critical Accounting Policies — Valuation of Investments” above.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

See Note 9 to Part I, Item 1 “Financial Statements” for a discussion of our commitments and contingencies.

Contractual Obligations

As of June 30, 2013, our material contractual obligations are our lease obligations, our debt obligations, our tax receivable agreement obligations, and our capital commitments to our funds as described above. Furthermore, we have potential clawback obligations with respect to our private equity deferred incentive income received to date.

Our future contractual obligations decreased from \$782.1 million as of December 31, 2012 to \$720.9 million as of June 30, 2013.

Our operating lease agreement obligations decreased from \$90.6 million at December 31, 2012 to \$79.0 million at June 30, 2013.

Our debt obligations payable decreased from \$155.1 million as of December 31, 2012 to \$93.4 million as of June 30, 2013, including estimates for interest payments. In July 2013, Fortress repaid the remaining \$89.5 million, plus accrued interest, on its promissory note. As such, this note is no longer outstanding.

The amount of clawback that would be due based on a liquidation of the related Fortress Funds at their net asset value as of June 30, 2013, which we refer to as intrinsic clawback, was \$86.6 million as compared to \$87.1 million at December 31, 2012.

Our estimated liability under the tax receivable agreement increased from \$253.8 million at December 31, 2012 to \$261.6 million at June 30, 2013.

Our outstanding capital commitments, including our commitments to our funds, have increased from \$155.5 million as of December 31, 2012 to \$163.0 million as of June 30, 2013.

In addition, we have entered into five-year employment agreements with our principals which are effective as of January 1, 2012. These agreements do not contain fixed and determinable payments, other than a base salary of \$0.2 million per annum per principal, as all payments are performance based. Payments under these agreements may be material.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The fair value of the financial assets and liabilities of the Fortress Funds may fluctuate in response to changes in the value of securities, foreign exchange, commodities and interest rates. Fluctuations in the fair value of the Fortress Funds will continue to directly affect the carrying value of our investments in the Fortress Funds and thereby our earnings (losses) from equity method investees, as well as the management fees and incentive income we record, to the extent that they are earned based on fair value or NAV. As of June 30, 2013, revenues from our traditional asset management business are not material to our operations and are therefore not included in the analysis below.

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

Although the Fortress Funds share many common themes, each segment within the company runs its own investment and risk management process.

the investment process of our private equity funds involves a detailed analysis of potential acquisitions, and asset management teams assigned to oversee the strategic development, financing and capital deployment decisions of each portfolio investment;

our credit hedge funds, credit PE funds and Castles perform credit and cash-flow analysis of borrowers, tenants and credit-based assets, and have asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers, tenants and other obligors, asset pool performance statistics, tracking of cash payments relating to investments, and ongoing analysis of the credit status of investments; and

our liquid hedge funds continuously monitor a variety of markets for attractive trading opportunities, applying various risk management techniques to analyze risk related to specific assets or portfolios, as well as fund-wide risks.

Each segment has an institutional risk management process and related infrastructure to address these risks. The following table summarizes our financial assets and liabilities that may be impacted by various market risks such as equity prices and exchange rates as of June 30, 2013 (in thousands):

Assets	
Investments	\$ 1,215,469
Investments in options	\$ 98,298

Since Fortress’s investments in the various Fortress Funds are not equal, Fortress’s risks from a management fee and incentive income perspective (which mirror the funds’ investments) and its risks from an investment perspective are not proportional.

Fortress Funds’ Market Risk Impact on GAAP Management Fees

Our management fees are generally based on either: (i) capital commitments to a Fortress Fund, (ii) capital invested in a Fortress Fund, or (iii) the NAV of a Fortress Fund, as described in our consolidated financial statements. Management fees will only be impacted by changes in market risk factors to the extent they are based on NAV. These management fees will be increased (or reduced) in direct proportion to the impact of changes in market risk factors on

the investments in the related funds and would occur only in periods subsequent to the change, as opposed to having an immediate impact. The proportion of our management fees that are based on NAV is dependent on the number and types of Fortress Funds in existence and the current stage of each fund's life cycle. As of June 30, 2013, approximately 33% of the management fees earned from our alternative investment businesses (excluding fees based on senior living property revenues) were based on the NAV of the applicable funds.

For private equity funds and certain credit PE funds, management fees are charged on committed capital during the investment period of a new fund, and then generally on invested capital after the investment period, with the exception of private equity funds formed after March 2006. For private equity funds formed after March 2006 that are no longer in the investment period, management fees are earned on NAV with respect to investments in publicly traded entities. Reductions in net asset value below invested capital for any fund investment will also cause reductions in management fees.

- For Castles, management fees are not calculated based on NAV but instead a fee is charged based on the funds' contributed capital (or on revenues, for senior living property management).

For hedge funds, other than the Value Recovery Funds, management fees are based on their NAV, which in turn is dependent on the estimated fair values of their investments, and on the non-investment assets and liabilities of the funds. For the Value Recovery Funds, management fees are based on realizations, which are not dependent on current estimated fair value.

Changes in values of investments could also indirectly affect future management fees by, among other things, reducing the funds' access to capital or liquidity and their ability to currently pay management fees.

Fortress Funds' Market Risk Impact on GAAP Incentive Income

Our incentive income is generally based on a percentage of returns, or profits, of the various Fortress Funds subject to the achievement of performance criteria. Our incentive income will be impacted by changes in the values of the funds' investments which, in turn, are impacted by changes in market risk factors. However, several major factors will influence the degree of impact: (i) the performance criteria for each individual fund in relation to how that fund's results of operations are impacted by changes in the values of its investments, (ii) the period over which the Fortress Funds apply performance criteria (i.e. quarterly, annually or over the life of the fund), (iii) to the extent applicable, the previous performance of each fund in relation to its performance criteria, and (iv) whether each fund's incentive income is subject to contingent repayment. As a result, the impact of changes in market risk factors on incentive income will vary significantly from fund to fund, as summarized below, and is heavily dependent on the prior performance of each fund, and is therefore not readily predicted or estimated.

Incentive income from our private equity funds and credit PE funds is not recorded as revenue but instead is deferred under GAAP until the related clawback contingency is resolved. Deferred incentive income, which is subject to contingencies, will be recognized as revenue to the extent it is received and all the associated contingencies are resolved. Assuming that the deferred incentive income earned to date would be equal to what would be recognized when all contingencies are resolved, a 10% increase or decrease in the fair values of investments held by all of the private equity funds and credit PE funds where incentive income is subject to contingencies at June 30, 2013 would increase or decrease future incentive income by \$191.1 million or \$149.0 million, respectively; however, this would have no effect on our current reported financial condition or results of operations.

Incentive income from the Castles is generally not impacted by changes in the fair values of their investments, except to the extent they represent impairment, since these changes generally do not impact the measure of current operating results (i.e. FFO in excess of specified returns to the company's shareholders) upon which the incentive income is calculated. The definition of FFO excludes unrealized changes in the values of the Castles' investments (primarily real estate, loans, securities and other financial instruments), except for certain items (for example, the unrealized gain or loss on excess mortgage servicing rights or non-hedge derivatives).

Incentive income from our hedge funds is directly impacted by changes in the fair value of their investments. Incentive income from certain of our hedge funds is earned based on achieving annual performance criteria. For certain hedge funds, a 10% decrease in the NAV of the funds on June 30, 2013 would have resulted in a loss to investors for the quarter. In future periods, this loss could create, or cause a fund to fall further below, a "high water mark" (minimum future return to recover the loss to the investors) for our funds' performance which would need to be achieved prior to any incentive income being earned by us. The Value Recovery Funds only pay incentive income if aggregate realizations exceed an agreed threshold and, therefore, this potential incentive income is not directly impacted by changes in fair value.

Fortress Funds' Market Risk Impact on GAAP Investment Income

Our investments in the Fortress Funds, other than the Castles, are accounted for under the equity method. To the extent they are investment companies, our investments are directly affected by the impact of changes in market risk factors on the investments held by such funds, which could vary significantly from fund to fund.

Market Risk — Quantitative Analysis

The following table presents information on the impact to Fortress of a 10% change in the net asset values of the Fortress Funds at June 30, 2013 (in millions).

	10% Positive Change GAAP Revenues			Earnings from Equity Method Investees (C)	Segment Revenues (A)			
	Management Fees (B)	Incentive Income			Management Fees (B)	Incentive Income	Investment Income	
Private Equity (D) Funds	\$6.1	\$ N/A	(E)	\$76.3	\$6.1	\$ N/A	(E)	\$ N/A
Castles (G)	N/A	N/A		N/A	N/A	N/A		N/A
Liquid Hedge Funds Credit	12.1	N/A	(H)	15.9	12.1	95.4		5.6
Hedge Funds	10.5	N/A	(H)	3.0	10.5	73.3		2.9
PE Funds	0.1	N/A	(E)	13.0	0.1	N/A	(E)	N/A
Total	\$28.8	\$—		\$108.2	\$28.8	\$168.7		\$8.5

	10% Negative Change GAAP Revenues			Earnings from Equity Method Investees (C)	Segment Revenues (A)				
	Management Fees (B)	Incentive Income			Management Fees (B)	Incentive Income	Investment Income		
Private Equity (D) Funds	\$(9.3	) \$ N/A	(E)	\$(76.3	) \$(9.3	) \$ N/A	(E) (F)	\$ N/A	(F)
Castles (G)	N/A	N/A		N/A	N/A	N/A		N/A	(F)
Liquid Hedge Funds Credit	(12.1	) N/A	(H)	(15.9	) (12.1	) \$(90.4	)	\$(5.6)
Hedge Funds	(10.5	) N/A	(H)	(3.0	) (10.5	) (71.6	)	(2.9)
PE Funds	(0.8	) N/A	(E)	(13.0	) (0.8	) N/A	(E) (F)	N/A	(F)
Total	\$(32.7	) \$—		\$(108.2	) \$(32.7	) \$(162.0)		\$(8.5)

(A) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Segment Analysis” for a discussion of the differences between GAAP and segment basis revenues.

Changes in management fees represent an annual change for the one year period following the measurement date assuming there is no change to the investments held by the funds during that period. For private equity funds and credit PE funds, it assumes that the management fees reset as of the reporting date. Private equity fund and credit PE fund management fees would be generally unchanged as, for investments in non-publicly traded securities,

(B) they are not based on the value of the funds, but rather on the amount of capital invested in the funds. However, if the NAV of a portfolio company of certain private equity funds or credit PE funds is reduced below its invested capital, there would be a reduction in management fees. As of the reporting date, \$4.0 billion of such private equity fund or credit PE fund portfolio companies were carried at or below their invested capital and are in funds which are no longer in their commitment period.

The changes presented do not include any effect related to our direct investment in GAGFAH common stock. A

(C) 10% increase (decrease) in the equity price of GAGFAH’s common shares would affect our unrealized gains and losses by \$7.0 million.

(D) The private equity Fortress Funds held concentrated positions in certain industries as of June 30, 2013, as illustrated in the following table:

Industry	Percentage of Investments Based on Fair Value	%
Transportation and Infrastructure	26	%
Financial Services and Assets	29	%
Senior Living	22	%
Real Estate	12	%
Other	11	%
	100	%

(E) For GAAP Revenues, private equity fund and credit PE fund incentive income would be unchanged as it is not recognized until received and all contingencies are resolved. Furthermore, incentive income would be based on the actual price realized in a transaction, not based on a valuation. For Segment Revenues, private equity fund and credit PE fund incentive income is based on realizations.

(F) A reduction in the fair value of investments could impact our conclusion regarding the potential impairment of our investments or a potential segment basis incentive income reserve for funds which are subject to clawback.

Our investments in the Castles are held at fair value, based on the market value of the shares we own. Gains (losses) on our shares in the Castles and options granted to us by the Castles are affected by movements in the equity price of the shares. A 10% increase (decrease) in the equity price of the shares would increase unrealized (G) gains by \$25.0 million or decrease unrealized gains by \$23.7 million. Compensation and benefits expense would increase by \$3.6 million or decrease by \$3.6 million. Furthermore, the Castles' management fees and incentive income are generally not directly impacted by changes in the fair value of their investments (unless the changes are deemed to be impairment, which could impact incentive income).

(H) For GAAP Revenues, hedge fund incentive income would be unchanged as it is not recognized until all contingencies are resolved in the fourth quarter (and Value Recovery Funds generally do not pay any current incentive income). Incentive income is generally not charged on amounts invested by liquid hedge funds in funds managed by external managers.

The changes presented in the table above do not include any effect related to our direct investment in accounts managed by our Logan Circle growth equities business. The equity investments in these accounts are owned on Fortress's behalf and are held at fair value. A 10% increase (decrease) in the value of the equity prices of the shares held by those accounts would affect our unrealized gains and losses by \$1.7 million.

Interest Rate Risk

Subsequent to the repayment of our term loan in October 2012, we are not materially directly impacted by changes in interest rates.

Exchange Rate Risk

Our investments in Eurocastle, GAGFAH, Karols Development Co., Global Opportunities Fund, Japan Opportunity Funds and Japanese investments are directly exposed to foreign exchange risk. As of June 30, 2013, we had a \$8.8 million investment in Eurocastle and a \$70.3 million investment in GAGFAH, including foreign exchange option contracts, which are accounted for at fair value. We also had a \$0.1 million investment in Karols Development Co. and \$19.8 million of investments in Japanese funds and entities, including foreign exchange option contracts. In the event of a 10% change in the applicable foreign exchange rate against the U.S. dollar on June 30, 2013, we estimate

the gains and losses for the six months ended June 30, 2013 on these investments would increase by approximately \$1.0 million or decrease by approximately \$3.2 million. In addition, we held \$17.4 million of foreign-denominated cash as of June 30, 2013.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

Risks Related to Our Business

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

The success of our business depends on the efforts, judgment and personal reputations of our principals, Peter Briger, Wesley Edens, Randal Nardone and Michael Novogratz. One of our principals, Randal Nardone, was appointed Chief Executive Officer of the company in addition to his other duties. Our principals' reputations, expertise in investing, relationships with our investors and relationships with members of the business community on whom our funds

depend for investment opportunities and financing, are each critical elements in operating and expanding our businesses. We believe our performance is strongly correlated to the performance of these individuals. Accordingly, the retention of our principals is crucial to our success. In addition, if any of our principals were to join or form a competitor, some of our investors could choose to invest with that competitor rather than in our funds. The loss of the services of any of our principals could have a material adverse effect on us, including our ability to retain and attract investors and raise new funds, and the performance of our funds. Two or more of our principals occasionally fly together, which concentrates the potential impact of an accident on our company. We do not carry any “key man” insurance that would provide us with proceeds in the event of the death or disability of any of our principals.

Each of our principals has an employment agreement with us, which extends to January 1, 2017. If a principal terminates his employment voluntarily or we terminate his employment for cause (as defined in the agreement), the principal will be subject to eighteen-month post-employment covenants requiring him not to compete with us. However, if we terminate a principal's employment without cause, the principal will not be subject to the non-competition provisions.

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

Several of our funds have "key person" provisions pursuant to which the failure of one or more of our principals or senior employees (other than our principals) to be actively involved in the business provides investors with the right to redeem their investment or otherwise limits our rights to manage the funds. The loss of the services of any one of such senior employees could have a material adverse effect on certain of our funds to which such key person provisions relate and in some circumstances on us.

Investors in most of our hedge funds may generally redeem their investment without paying redemption fees if the relevant key person ceases to perform his functions with respect to the fund for 90 consecutive days. In addition, the terms of certain of our hedge funds' financing arrangements contain "key person" provisions, which may result, under certain circumstances, in the acceleration of such funds' debt or the inability to continue funding certain investments if the relevant employee ceases to perform his functions with respect to the fund and a replacement has not been approved.

The loss of Mr. Novogratz or his inability to perform his services for 90 days could result in substantial withdrawal requests from investors in our Fortress Macro funds. The loss of the co-chief investment officer of the Fortress Macro funds and chief investment officer of the Fortress Asia Macro funds, Adam Levinson, also could result in withdrawal requests. Substantial withdrawals would have a material adverse effect on the Fortress Macro funds, Fortress Asia Macro funds, related managed accounts, and us by reducing our management fees from those funds. Further, such withdrawals could possibly lead to the liquidation of the funds and a corresponding elimination of our management fees and potential to earn incentive income from those funds. The loss of either Mr. Novogratz or Mr. Levinson, could, therefore, ultimately result in a loss of a material portion of our earnings attributable to our liquid hedge fund business segment.

The loss of Mr. Briger or his inability to perform his services for 90 days could result in substantial withdrawal requests from investors in our credit hedge funds and, in the event that a replacement for him is not approved, the termination of a substantial portion of the funds' financing arrangements. Such withdrawals and terminations would have a material adverse effect on the credit hedge funds and us by reducing our management fees from those funds. Further, such withdrawals and terminations could lead possibly to the eventual liquidation of the funds and a corresponding elimination of our management fees and potential to earn incentive income from those funds. Similarly, our credit PE funds contain key man provisions with respect to Mr. Briger, which would limit the ability of the funds to make future investments or call capital if both Mr. Briger and the funds' co-chief investment officer, Constantine Dakolias, were to cease to devote time to the funds. The loss of Mr. Briger could, therefore, ultimately result in a loss of a material portion of our earnings attributable to our credit hedge fund and/or credit private equity business segments.

If either Mr. Edens or Mr. Nardone ceases to devote certain minimum portions of their business time to the affairs of certain of our private equity funds, the funds will not be permitted to make further investments, and then-existing investments may be liquidated if investors vote to do so. Our ability to earn management fees and realize incentive income from our private equity funds therefore would be adversely affected if we cannot make further investments or

if we are required to liquidate fund investments at a time when market conditions result in our obtaining less for investments than could be obtained at later times. In addition, we may be unable to raise additional private equity funds if existing private equity fund key-man provisions are triggered. The loss of either Mr. Edens or Mr. Nardone could, therefore, ultimately result in a loss of substantially all of our earnings attributable to our private equity funds.

Certain of our existing funds have key person provisions relating to our principals or senior employees other than our principals, and the resignation or termination of any such senior employee could result in a material adverse effect on the applicable fund or funds and on us. In addition, the terms of certain of our existing funds may be amended over time to add additional key persons, and senior employees (including, but not limited to, our principals) may also be deemed as key persons for funds that are formed in the future. Any such events would potentially have a direct material adverse effect on our revenues and earnings (depending on the size of the particular fund to which a key person event relates), and would likely harm our ability to maintain or grow management fee paying assets under management in existing funds or raise additional funds in the future.

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

Our success depends on our ability to retain our managing directors and the other members of our investment management team and to recruit additional qualified personnel. We refer to these key employees (other than our principals) collectively as our “investment professionals.” Our investment professionals possess substantial experience and expertise in investing, are responsible for locating and executing our funds' investments, have significant relationships with the institutions that are the source of many of our funds' investment opportunities, and in certain cases have strong relationships with our investors. Therefore, if our investment professionals join competitors or form competing companies, it could result in the loss of significant investment opportunities and certain existing investors. As a result, the loss of even a small number of our investment professionals could impact the performance of our funds, which could have a material adverse effect on our results of operations as well as our ability to retain and attract investors and raise new funds. Also, while we have non-competition and non-solicitation agreements with certain investment professionals, there is no guarantee that the agreements to which our investment professionals are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. In particular, some jurisdictions in which we operate our businesses (for example, California) have public policies limiting the enforcement of restrictive covenants applicable to employees. In addition, these agreements will expire after a certain period of time following resignation or termination, at which point such persons would be free to compete against us and solicit investors in our funds, clients and employees.

Efforts to retain or attract investment professionals may result in significant additional expenses, which could adversely affect our profitability, and changes in law could hamper our recruitment and retention efforts. For example, we might not be able, or may elect not, to provide future investment professionals with equity interests in our business to the same extent or with the same tax consequences as our existing investment professionals, and the retentive utility of grants of equity of our public company is affected during periods of slow or negative stock price performance. Therefore, in order to recruit and retain existing and future investment professionals, we may need to increase the level of cash compensation that we pay to them. Accordingly, as we promote or hire new investment professionals over time, we may increase the level of cash compensation we pay to our investment professionals, which would cause our total employee compensation and benefits expense as a percentage of our total revenue to increase and adversely affect our profitability. In addition, we may deem it necessary to maintain compensation levels to retain employees even during periods when we generate less revenues than in previous periods, which would reduce our profit margins. Also, if proposed legislation were to be enacted by the U.S. Congress to treat carried interest as ordinary income rather than as capital gain for U.S. federal income tax purposes, such legislation would materially increase the amount of taxes that we and our investment professionals that are compensated in part with carried interest would be required to pay on such compensation, thereby adversely affecting our ability to recruit, retain and motivate our current and future professionals. See “- Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.” In recent years, various legislative and regulatory bodies (particularly in Europe) have focused on the issue of compensation in the financial services industry. Although new regulations flowing out of these bodies have only just begun to take effect and the specific impact on the company is not yet clear, there is the potential that new compensation rules will make it more difficult for us to attract and retain talent by capping overall compensation levels, requiring the deferral of certain types of compensation over time, implementing “clawback” requirements, or other rules deemed onerous by potential employees.

Certain of our businesses face particular retention issues with respect to investment professionals whose compensation is tied, often in large part, to performance thresholds or “high water marks.” For example, several investment professionals receive performance-based compensation at the end of each year based upon their annual investment performance, and this performance-based compensation has historically represented a substantial majority of the

compensation those professionals are entitled to receive during the year. If an investment professional's annual performance is negative, or insufficient to overcome prior negative results, the professional may not be entitled to any performance-based compensation for the year. If an investment professional or fund, as the case may be, does not produce investment results sufficient to merit performance-based compensation, any affected investment professional may be incentivized to join a competitor because doing so would allow the professional to eliminate the burden of having to satisfy the high water mark before earning performance-based compensation. Similarly, many of our investment professionals in our private equity and credit PE fund businesses are compensated with grants of carried interest in our funds. During periods of economic volatility, realization events in our private equity and credit PE fund businesses may be delayed, and it may therefore take significantly longer for investments to result in payments to such professionals. In addition, in the event that overall returns for any of our private equity funds or credit PE funds result in the generation of less incentive income than anticipated, such professionals' grants of carried interest in such fund will have similarly decreased in value. To retain such professionals, the fund's manager may elect to compensate the professional using a portion of the management fees earned by the manager, which would, in turn, reduce the amount of cash available to the public company, thereby reducing the amount available for distribution to our Class A shareholders or for other liquidity needs. This retention risk is heightened during periods where market conditions

make it more difficult to generate positive investment returns and where capital markets provide fewer opportunities for realization of portfolio company investments.

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

We face operational risk from errors made in the negotiation, execution, confirmation or settlement of transactions. We also face operational risk from transactions not being properly recorded, valued, evaluated or accounted for in our funds. In particular, our liquid hedge and, to a lesser extent, credit fund businesses are highly dependent on our ability to process, value and evaluate, on a daily basis, transactions across markets and geographies in a time-sensitive, efficient and accurate manner. Consequently, we rely heavily on our financial, accounting and other data processing systems. In addition, new investment products have created, and future investment products may create, a significant risk that our existing systems may not be adequate to identify or control the relevant risks in the investment strategies employed by such new investment products. If any of these systems do not operate properly, are inadequately designed, disabled, or are the target of a cyber security attack, we could suffer financial loss, disruption of our businesses, liability to our funds and their investors, regulatory intervention and reputational damage.

Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. Additionally, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to our or our clients' or counterparties' confidential or other information. One or more such events could potentially could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations, which could result in significant losses or reputational damage to us. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures arising from operational and security risks, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

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

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

Finally, we rely on third-party service providers for certain aspects of our business, including certain financial operations of our hedge funds. In particular, we rely heavily on the services of third-party administrators in our hedge fund businesses, on the general ledger software provider for a number of our funds, and on third parties to provide critical front- and back-office systems support to Logan Circle. Any interruption or deterioration in the performance of these third parties, particularly with respect to the services provided to Logan Circle, could impair the quality of

operations and could impact our reputation and adversely affect our business and limit our ability to grow.

Our removal as the investment manager, or the liquidation, of one or more of our funds could have a material adverse effect on our business, results of operations and financial condition.

We derive a substantial portion of our revenues from funds managed pursuant to investment management agreements that may be terminated or fund partnership agreements that permit investors to request liquidation of investments in our funds on short notice. Material defaults under the management agreements would constitute an event of default under our current credit agreement if such defaults continue after the applicable grace period.

The terms of our funds generally give either the general partner of the fund or the fund's board of directors the right to terminate our investment management agreement with the fund. However, insofar as we control the general partner of our funds that are limited partnerships, the risk of termination of any investment management agreement for such funds is limited, subject to our

fiduciary or contractual duties as general partner. This risk is more significant for our offshore hedge funds for which we do not serve as the general partner, which represent a significant portion of our hedge fund AUM.

In addition, investors in our private equity funds or credit PE funds and certain hedge funds have the ability to act, without cause, to accelerate the date on which the fund must be wound down. We will cease earning management fees on the assets of any such fund that is wound down. In addition, the winding down of a material fund or group of funds within a short period of time could trigger an event of default under certain covenants in our current credit agreement, subject, in certain instances, to the expiration of applicable grace periods. In addition, our ability to realize incentive income from such funds would be adversely affected if we are required to liquidate fund investments at a time when market conditions result in our obtaining less for investments than could be obtained at later times.

In addition, the boards of directors of certain hedge funds and our Castles have the right under certain circumstances to terminate the investment management agreements or otherwise attempt to renegotiate the terms of such agreements with the applicable fund or Castle. Termination of these agreements, or revisions to the terms that are detrimental to the manager, could affect the fees we earn from the relevant funds or Castles, which could have a material adverse effect on our results of operations.

We may become involved in lawsuits or investigations that could result in significant liabilities and reputational harm, which could materially adversely affect our results of operations, financial condition and liquidity.

We could be sued by many different parties, including, but not limited to, our fund investors, creditors of our funds, shareholders of the companies in which our funds have investments, our own shareholders, our employees, regulators, and residents of senior living facilities that we manage. We have been a defendant in many lawsuits filed by various parties in recent years. In addition, we may participate in transactions that involve litigation (including the enforcement of property rights) from time to time, and such transactions may expose us to increased risk from countersuits. Any of these parties could bring an array of claims not just against us but also against our funds and their portfolio companies or other investments based on a variety of allegations relating to, among other things, conflicts of interest, improper related party transactions, breaches of financing or other agreements, violations of any of a multitude of laws applicable to us, non-compliance with organizational documents, misconduct by employees and improper influence over the companies in which our funds or accounts have investments. It is likely that we would be brought into any lawsuit that involves a fund-related issue. We also face the risk of lawsuits relating to claims for compensation, which may individually or in the aggregate be significant in amount, particularly since our workforce consists of many very highly paid investment professionals. Such claims are more likely to occur when individual employees experience significant volatility in their year-to-year compensation due to trading performance or other issues, and in situations where previously highly compensated employees are terminated for performance or efficiency reasons, as has occurred recently. The cost of settling such claims could adversely affect our results of operations.

Lawsuits or investigations in which we may become involved could be very expensive and highly damaging to our reputation, even if the underlying claims are without merit. We could potentially be found liable for significant damages. For instance, in a lawsuit based on an allegation of negligent management of any of our funds, plaintiffs could potentially recover damages in an amount equal to the fund's investment losses. In general, the applicable standard of care in our contracts with fund or account investors is gross negligence or willful misconduct. However, the majority of the capital in our Logan Circle business is managed under a negligence or reasonable person standard of care, which is more favorable to plaintiffs.

Although we have certain indemnification rights from the funds we manage, these rights may be challenged. Moreover, we could incur legal, settlement and other costs in an amount that exceeds the insurance coverage maintained by us or by our funds. The costs arising out of litigation or investigations could have a material adverse effect on our results of operations, financial condition and liquidity.

Certain of our consolidated subsidiaries have potentially unlimited liability for the obligations of various Fortress Funds under applicable partnership law principles, because they act as general partners of such funds. 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 as a liability on the balance sheet of the general partner entity. Such liability would be recorded on our balance sheet in consolidation until the time such liability was legally resolved.

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”), so-called “whistleblower” provisions have been enacted that will entitle persons who report alleged wrongdoing to the SEC to cash rewards. We anticipate that these provisions will result in a significant increase in whistleblower claims across our industry, and dealing with such claims could generate significant expenses and take up significant management time, even for frivolous and non-meritorious claims. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Such investigations may impose additional

expense on us, may require the attention of senior management and may result in fines and/or reputational damage whether or not any of our funds are deemed to have violated any regulations.

We do not know whether the U.S. government's various efforts to attempt to strengthen the economy and the financial markets or its increased focus on the regulation of the financial services industry will adversely affect our business.

In recent years, the U.S. government has taken a number of steps to attempt to strengthen the global financial markets and U.S. economy, including direct government investments in, and guarantees of, troubled financial institutions as well as government-sponsored programs such as the TARP. There can be no assurance that these steps will have a lasting beneficial impact on the financial markets. To the extent that the markets do not respond favorably to such actions or such actions do not function as intended, there may be broad adverse market implications, which could have a material adverse effect on our business.

Dodd-Frank may adversely affect our business. Dodd-Frank imposes significant new rules on almost every aspect of the U.S. financial services industry, including aspects of our business and the markets in which we operate. These rules address, among other things, the following topics:

- oversight and regulation of systemic market risk (including the power to liquidate certain institutions);
- regulation by the Federal Reserve of non-bank institutions;
- prohibitions on insured depository institutions and their affiliates from conducting proprietary trading and investing in private equity funds and hedge funds;
- new registration, recordkeeping and reporting requirements for private fund investment advisers;
- exchange-trading of OTC derivatives;
- minimum equity retention requirements for issuers of asset-backed securities;
- the establishment of a new bureau of consumer financial protection;
- new requirements and higher liability standards on credit rating agencies; and
- increased disclosure of executive compensation and mandatory shareholder votes on executive compensation.

Since the implementation of many key rules by various regulatory bodies and other groups is not yet complete, we do not know exactly what the final regulations under Dodd-Frank will require or how significantly they will affect us. For instance, in October 2011, the SEC adopted a rule that requires fund advisors with over \$1.5 billion in AUM, such as Fortress, to file substantial quarterly disclosure on fund assets, leverage, investment positions, valuations, trading practices and other topics. It is likely that Dodd-Frank will, among other things, increase our costs of operating as a public company and impose restrictions on our business. For example, Dodd-Frank could increase our overall costs of entering into derivatives transactions and could also adversely affect the performance of certain of our trading strategies. Dodd-Frank imposes mandatory clearing and will impose exchange-trading and margin requirements on many derivatives transactions (including formerly unregulated over-the-counter derivatives) in which we engage. Dodd-Frank also creates new categories of regulated market participants, such as "swap-dealers," "security-based swap dealers," "major swap participants" and "major security-based swap participants" who will be subject to significant new capital, registration, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements, which will give rise to new administrative costs. Even if certain new requirements are not directly applicable to us, they may still increase our costs of entering into transactions with the parties to whom the requirements are directly applicable. Moreover, new exchange-trading and trade reporting requirements may lead to reductions in the liquidity of derivative transactions, causing higher pricing or reduced availability of derivatives, or the reduction of arbitrage opportunities for us, which could adversely affect the performance of certain of our trading strategies. In addition, due to recently adopted regulations, certain of our affiliates have registered with the U.S. Commodity Futures Trading Commission ("CFTC") as commodity pool operators ("CPOs"). The Commodity Exchange Act and CFTC regulations impose various requirements on CPOs, including record-keeping, reporting, operational and marketing requirements, disclosure obligations and prohibitions on fraudulent activities. Complying with these requirements could increase our expenses and negatively impact our financial results.

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

Potential regulatory compliance failures pose a significant risk to our reputation and thereby to our business. Our business is subject to extensive regulation in the United States and in the other countries in which our investment activities occur. The Securities and Exchange Commission (the “SEC”), oversees our activities as a registered investment adviser under the Investment Advisers Act of 1940. We are subject to regulation under the Securities Exchange Act of 1934, the Investment Company Act of 1940, and various other statutes. We are subject to regulation by the Department of Labor under the Employee Retirement Income Security Act of 1974 (“ERISA”). We and our Castles, as public companies, are subject to applicable stock exchange regulations, and certain of our Castles are subject to the Sarbanes-Oxley Act of 2002. A number of portfolio companies are also publicly traded and/or are

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subject to significant regulatory oversight. For example, Springleaf Finance Inc. is in the consumer finance industry and Nationstar Mortgage is in the mortgage servicing industry, both of which have recently been the focus of extensive regulation. Moreover, some of our portfolio companies are subject to regulation from non-financial bodies (such as our senior living and railroad investments). For example, as a manager of senior living facilities we are subject to regulations applicable to operators of independent living and assisted living facilities, as well as laws designed to protect Medicaid. As an affiliate of a registered broker-dealer, we are subject to certain rules promulgated by the Financial Industry Regulatory Authority (“FINRA”) and the SEC. A number of our investing activities, such as our lending business, are subject to regulation by various U.S. state regulators. In the United Kingdom, we are subject to regulation by the U.K. Financial Services Authority. Our other European operations, and our investment activities in Singapore, Australia and other parts of the globe, are subject to a variety of regulatory regimes that vary by country.

Many of the regulatory bodies with jurisdiction over us have regulatory powers dealing with many aspects of financial services, including the authority to grant, and in specific circumstances to cancel, permissions to carry on particular businesses. A failure to comply with the obligations imposed by the Investment Advisers Act of 1940 on investment advisers, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or by the Investment Company Act of 1940, could result in investigations, sanctions and reputational damage and potentially revocation of our registration as an investment advisor and exemptions from investment company requirements. Our liquid hedge fund business, and, to a lesser degree, our credit fund business, are involved regularly in trading activities which implicate a broad number of U.S. and foreign securities law regimes, including laws governing trading on inside information, market manipulation and a broad number of technical trading requirements that implicate fundamental market regulation policies. Violation of such laws could result in severe restrictions on our activities and in damage to our reputation. Furthermore, the mere investigation by authorities of alleged or potential wrong-doing (such as insider trading) has the potential to create a material adverse effect on companies in our industry.

Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or investing activities or other sanctions. The regulations to which our businesses are subject are designed primarily to protect investors in our funds and to ensure the integrity of the financial markets. They are not designed to protect holders of our publicly traded Class A shares. Even if a sanction imposed against us or our personnel by a regulator is for a small monetary amount, the adverse publicity related to such sanction could harm our reputation, result in redemptions by our fund investors and impede our ability to raise additional capital or new funds, all of which would be materially damaging to the value of our Class A shares.

Changes in ERISA requirements, or a failure to comply with ERISA requirements, could adversely affect our business. Our funds generally operate pursuant to exemptions from the fiduciary requirements of ERISA with respect to their assets. However, it is possible that the U.S. Department of Labor may amend the relevant regulations or that the characteristics of our funds may change. If these funds fail to qualify for such exemptions or otherwise satisfy the requirements of ERISA, including the requirement of investment prudence and diversification or the prohibited transaction rules, it could materially interfere with our activities in relation to these funds or expose us to risks related to our failure to comply with such requirements. A meaningful portion of the capital managed in our Logan Circle business is subject to ERISA requirements, and our failure to comply with those requirements could have a material adverse effect on our business.

Our results of operations may also be negatively impacted if certain proposed tax legislation is enacted. If legislation were to be enacted by the U.S. Congress to treat carried interest as ordinary income rather than as capital gain for U.S. federal income tax purposes, such legislation would materially increase the amount of taxes that we and possibly our equity holders are required to pay, thereby reducing the value of our Class A shares and adversely affecting our ability to recruit, retain and motivate our current and future professionals. President Obama has publicly stated that he supports similar changes to the tax code. See “-Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative,

judicial or administrative change and differing interpretations, possibly on a retroactive basis” and “-Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis.”

New European Union legislation for fund managers could increase our costs and make it more difficult to operate and market our funds.

European regulators have approved legislation (the Alternative Investment Fund Managers Directive, or "AIFMD") requiring fund managers to comply with new rules regarding their activities in the EU, including the marketing of fund interests to EU-domiciled investors. AIFMD additionally covers topics such as periodic reporting to fund investors, disclosures to shareholders of EU companies targeted for acquisition or disposition, limitations on dividends by fund-controlled EU companies, monitoring the use of leverage, and imposition of remuneration guidelines. The legislation came into effect in July 2013 although the implementation

of the rules will be staggered over the next five years. Once fully implemented the laws could impose additional costs on the operation of our business in the EU, limit our operating flexibility and generally hamper our ability to grow our business in Europe.

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

As we have expanded the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds' investment activities, the management of our Castles and our other activities, such as our management of senior living facilities. Certain of our funds and Castles, which may have different fee structures, have overlapping investment objectives, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among these vehicles. For example, a decision to receive material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest if it results in our having to restrict the ability of other funds to take any action. In addition, perceived conflicts of interest regarding investment decisions for funds in which our principals, who have and may continue to make significant personal investments in a variety of Fortress Funds, are personally invested may also arise. Similarly, conflicts of interest may exist or develop regarding decisions about the allocation of specific investment opportunities between Fortress and the Fortress Funds, in situations where multiple funds are making investments in one portfolio company at the same or different levels of the investee's capital structure or in situations where one portfolio company engages another portfolio company to provide goods or services. Moreover, because certain of our operating entities are held, in part, by FIG Corp., which is subject to U.S. federal corporate income tax, conflicts of interest may exist regarding decisions about which of Fortress's holdings should be held by these taxable entities and which by entities not subject to U.S. federal corporate income tax. We have, from time to time, made advances or loans to, or acquired preferred equity interests in, various of our investment funds or other investment vehicles. In addition, our principals have sometimes extended similar capital to our funds, or made equity investments in portfolio companies, in their individual capacities. The existence and the repayment of such obligations by the funds to us and our principals, or the existence of personal investments by our principals in our portfolio companies, creates the potential for claims of conflicts of interest by our fund and portfolio company investors.

Pursuant to the terms of our operating agreement, whenever a potential conflict of interest exists or arises between any of the principals, one or more directors or their respective affiliates, on the one hand, and the company, any subsidiary of the company or any member other than a principal, on the other, any resolution or course of action by our board of directors shall be permitted and deemed approved by all shareholders if the resolution or course of action (i) has been specifically approved by a majority of the members of a committee composed entirely of two or more independent directors, or it is deemed approved because it complies with rules or guidelines established by such committee, (ii) has been approved by a majority of the total votes held by disinterested parties that may be cast in the election of directors, (iii) is on terms no less favorable to the company or shareholders (other than a principal) than those generally being provided to or available from unrelated third parties or (iv) is fair and reasonable to the company taking into account the totality of the relationships between the parties involved. We bring actual and potential conflicts of interest to the advisory boards of funds that we manage on a regular basis. Notwithstanding the foregoing, it is possible that potential or perceived conflicts could give rise to investor or shareholder dissatisfaction or litigation or regulatory enforcement actions. For example, fund investors could claim that a conflict should have been brought before a board or that disclosure of the conflict was inadequate. Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest would have a material adverse effect on our reputation, which could lead to redemptions by investors in our hedge funds, hamper our ability to raise additional funds and discourage counterparties to do business with us. Any such development could have a material adverse effect on our business.

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

Our reputation is critical to maintaining and developing relationships with the investors in our funds, potential investors and third parties with whom we do business. In recent years, there have been a number of highly-publicized cases involving fraud, conflicts of interest or other misconduct by individuals in the financial services industry in general and the hedge fund industry in particular. There is a risk that our employees could engage in misconduct that adversely affects our business. For example, if an employee were to engage - or be accused of engaging - in illegal or suspicious activities (such as improper trading, disclosure of confidential information or breach of fiduciary duties), we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial position, investor relationships and ability to attract future investors. Moreover, in July 2012, we entered into agreements to manage senior living facilities pursuant to which we became the employer of a significant number of on-site employees (the compensation expense of which is reimbursed to us by the owners of the facilities). As a result, we are now subject to the risk of employee misconduct with respect to the personal care of the residents of such facilities. Employee misconduct could prompt regulators to allege or to determine based upon such misconduct that we have not established adequate supervisory systems and procedures to inform employees of applicable rules or to detect and deter violations of such rules. It is not always possible to deter

employee misconduct, and the precautions we take to detect and prevent misconduct may not be effective in all cases. Misconduct by our employees, or even unsubstantiated allegations, could result in a material adverse effect on our reputation and our business.

Additionally, public state pension plans and retirement systems considering an investment in our funds may require us to make certain representations, warranties and covenants with respect to our and our employees' use of placement agents, political donations and gifts to state employees. A misrepresentation or breach of such covenants could result in damage to our reputation or in such investors seeking recovery of losses, withdrawal of their investment, repayment of management fees or liquidated damages, any of which could cause our revenues and earnings to decline.

The alternative investment management business is intensely competitive.

The 2008 Recession and its aftermath increased the level of competition for capital raising, particularly for big-fund capital in the alternative investment industry. When trying to raise new capital, we are competing for fewer total available assets in an increasingly competitive environment, and there can be no assurance that we will be successful in continuing to raise capital at our historical growth rates. Depending on industry dynamics, we and our competitors may be compelled to offer investors improved terms (such as lower fees, improved liquidity or increased principal investments in funds) in order to continue to attract significant amounts of new investment capital. Such changes would adversely affect our revenues and profitability. As has historically been the case, competition in our industry is based on a number of factors, including:

- investment performance;
- investors' liquidity and willingness to invest;
- investor perception of investment managers' drive, focus and alignment of interest;
- changing decision making processes of investors;
- terms of investment;
- our actual or perceived financial condition, liquidity and stability;
- the quality and mix of services provided to, and the duration of relationships with, investors;
- our business reputation; and
- the level of fees and expenses charged for services.

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

- investors may develop concerns that we will allow a business to grow to the detriment of its performance;
- investors may reduce their investments with us or not make additional investments with us based upon dissatisfaction with our investment performance, market conditions, their available capital or their perception of the health of our business;
- some of our competitors have greater capital, lower cost of capital, better access to financing, lower targeted returns or greater sector or investment strategy specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;
 - some of our competitors may have greater technical, marketing and other resources than we possess;
- some of our competitors may perceive risk differently than we do, which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;
- some of our competitors may agree to more restrictive terms or policies (such as those related to electoral donations or a different standard of care), which would allow them to compete for the capital being invested by entities wishing to impose such terms;
- some of our funds may not perform as well as competitor funds or other available investment products;
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some of our competitors are corporate buyers and may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment, particularly if conditions in the debt markets increase our financing costs or make debt financing generally unavailable or cost prohibitive;

some investors may prefer to invest with an investment manager that is not publicly traded; and

other industry participants continuously seek to recruit our investment professionals, particularly our top performers, away from us.

These and other factors could reduce our earnings and revenues and materially adversely affect our business. In addition, if we are forced to compete with other alternative asset managers on the basis of fees, we may not be able to maintain our current management and performance fee structures.

The due diligence process that we undertake in connection with investments by our investment funds or the public company may not reveal all relevant facts in connection with an investment.

Before making investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. When conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. In addition, if investment opportunities are scarce or the process for selecting bidders is competitive, our ability to conduct a due diligence investigation may be limited, and we would be required to make investment decisions based upon a less thorough diligence process than would otherwise be the case. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity, including, among other things, the existence of fraud or other illegal or improper behavior. Moreover, such an investigation will not necessarily result in the investment being successful.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. While management has certified that our internal controls over financial reporting were effective as of December 31, 2012, 2011 and 2010, because internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules, we cannot assure you that our internal control over financial reporting will be effective in the future. For example, the FASB has proposed changes to the rules for consolidating entities in financial statements, which, if enacted with respect to our funds, may require us to consolidate entities that we do not currently consolidate, and, therefore, to document and test effective internal controls over the financial reporting of these entities in accordance with Section 404, which we may be unable to do. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm would not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable New York Stock Exchange listing rules, and result in a breach of the covenants under our credit agreement. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline in our share price and impairing our ability to raise capital.

Our continued growth places significant demands on our administrative, operational and financial resources

Our continued growth creates significant demands on our legal, accounting and operational infrastructure, and results in increased expenses. The complexity of these demands, and the expense required to address them, is a function not simply of our growth, but also of significant differences in the investing strategies of our different businesses and of the differences between old and new lines of business. For example, in April 2010, we acquired Logan Circle, which requires operational infrastructure that differs from the infrastructure used in our alternative asset management business, which we were not familiar with prior to the acquisition, and in April 2013, Logan Circle launched a growth equities investment business. In addition, we recently opened an office in Singapore, which subjects us to Asian regulatory and market risks, and we are generally focused on expanding our presence in Asia. In July 2012, our

workforce grew significantly when we became the manager of several senior living facilities (the compensation expense of which is reimbursed to us by the owners of the facilities), which has placed significant demands on our human resources and other infrastructure.

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

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

In addition, we are required to continuously develop our systems and infrastructure in response to the increasing sophistication of the investment management market and legal, accounting and regulatory developments. Moreover, the strains upon our resources caused by our growth are compounded by the additional demands imposed upon us as a public company with shares listed on the New York Stock Exchange and, thus, subject to an extensive body of regulations.

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

We intend, to the extent that market conditions warrant, to grow our business by increasing management fee paying assets under management in existing businesses and creating new investment products. In addition, our organizational documents do not limit us to the investment management business and we may pursue growth through strategic investments, acquisitions or joint ventures, which may include entering into new lines of business, such as the banking, insurance or financial advisory industries, and which may involve assuming responsibility for the actual operation of assets or entire companies. For example, in July 2012, we entered into the business of managing senior living facilities on behalf of Newcastle and another owner of senior living facilities. In addition, we expect opportunities will arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, enter into joint ventures, or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (i) the required investment of capital and other resources, (ii) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, and (iii) combining or integrating operational and management systems and controls. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk and negative publicity. For example, in April 2010 we acquired Logan Circle, which is a traditional asset manager that is required to comply with ERISA regulations from which our other funds are currently generally exempt and which operates under a standard of care that is generally less favorable to us and exposes us to greater liability for simple negligence than do our alternative asset management businesses. In addition, our management of senior living facilities exposes us to licensing and regulatory regimes with which we have limited experience, as well as litigation risk arising from, among other things, the care of seniors. If a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected. In the case of joint ventures, we are subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control.

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

We experience significant variations in revenues and profitability during the year and among years because, among other reasons, we are paid incentive income from certain funds only when investments are realized, rather than periodically on the basis of increases in the funds' net asset values. The timing and receipt of incentive income generated by our private equity funds and credit PE funds is event driven and thus highly variable, which contributes to the volatility of our segment revenue, and our ability to realize incentive income from our private equity funds and credit PE funds may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized. We cannot predict when, or if, any realization of investments will occur. If we were to have a realization event in a particular quarter, it may have a significant impact on our segment revenues and profits for that particular quarter that may not be replicated in subsequent quarters. In addition, our private equity fund and credit PE fund investments are adjusted for accounting purposes to their net asset

value at the end of each quarter, resulting in income (loss) attributable to our principal investments, even though we receive no cash distributions from our private equity funds and credit PE funds, which could increase the volatility of our quarterly earnings. The terms of the operating documents of our private equity funds and credit PE funds generally require that if any investment in a particular fund has been marked down below its initial cost basis, the aggregate amount of any such markdowns (plus the amount of the accrued preferred return on the capital used to make such investments) be factored into the computation of the amount of any incentive income we would otherwise collect on the realization of other investments within the same fund. This provision generally will result in an overall lower level of incentive income being collected by the company in the near term for any private equity fund or credit PE fund that has investments that are carried both above and below their cost basis. To the extent that our principal investments in our private equity funds or credit PE funds (or direct investments in private equity transactions) are marked down, such mark-downs will flow through our statements of operations as a GAAP loss, even in circumstances where we have a long investment horizon and have no present intention of selling the investment.

With respect to our liquid and credit hedge funds, our incentive income is generally paid annually if the NAV of a fund has increased for the period. The amount (if any) of the incentive income we earn from our hedge funds depends on the increase in the NAV of the funds, which is subject to market volatility. Our liquid hedge funds have historically experienced significant fluctuations in NAV from month to month. Certain of our hedge funds also have “high water marks” whereby we do not earn incentive income for a particular period even though the fund had positive returns in such period if the fund had greater losses in prior periods. Therefore, if a hedge fund experiences losses in a period, we will likely not be able to earn incentive income from that fund until it surpasses the previous high water mark. Each fund must generate earnings, on an investor by investor basis, equal to any amount lost as a result of negative performance before it will generate additional incentive income for us from existing fund investors. See the “Management Agreements and Fortress Funds” note to the consolidated financial statements included herein for more information.

In addition, no private equity fund or credit PE fund will earn incentive income on any particular investment in the event that the aggregate carrying value of the other investments contained in the same fund is lower than the invested and unreturned capital in such fund plus, in some cases, any preferred return relating to such fund. The NAVs of some of these private equity style funds, as of period end, were below these amounts as they apply to the respective funds and, thus, these funds will not be able to earn incentive income until their respective NAVs exceed these amounts. See the “Management Agreements and Fortress Funds” note to the consolidated financial statements included herein for more information.

These quarterly fluctuations in our revenues and profits in any of our businesses could lead to significant volatility in the price of our Class A shares.

The terms of our credit agreement may restrict our current and future operations, particularly our ability to respond to certain changes or to take future actions.

We entered into a credit agreement, which we also refer to as the 2013 Credit Agreement, for a new revolving facility, which contains a number of restrictive covenants. These covenants collectively impose significant operating and financial restrictions on us, including restrictions that may limit our ability to engage in acts that may be in our long-term best interests. The financial covenants require that we:

- not exceed a total leverage ratio;
- maintain a minimum AUM; and
- maintain a minimum consolidated interest coverage ratio.

The leverage ratio and consolidated interest coverage ratio covenants are tested as of the end of each fiscal quarter, while the AUM covenant is tested as of the end of the each calendar month. Our ability to comply with these and other covenants is dependent upon a number of factors, some of which are beyond our control but could nonetheless result in noncompliance. For example, our leverage ratio fluctuates depending upon changes in revenues and expenses relative to our outstanding debt; our consolidated interest coverage ratio fluctuates depending upon changes in revenues and expenses relative to our interest payment obligations; and the value of our AUM fluctuates due to a variety of factors, including mark-to-market valuations of certain assets, other market factors, and our net capital raised or returned.

Our credit agreement also contains other covenants that restrict our operations and a number of events that would constitute an event of default under the agreement.

A failure by us to comply with the covenants in our credit agreement could result in an event of default under the agreement, which would give the lenders under the agreement the right to terminate their commitments to provide additional loans under our revolving credit facility and to declare all borrowings outstanding (if any), together with

accrued and unpaid interest and fees, to be immediately due and payable. In addition, the lenders would have the right to proceed against the collateral we granted to them, which would consist of substantially all our assets. If the debt (if any) under our credit agreement were accelerated, we might not have sufficient cash on hand or be able to sell sufficient collateral to repay this debt, which could have an immediate material adverse effect on our business, results of operations and financial condition. For more detail regarding our current credit agreement and the status of our compliance with the related covenants, please see “Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources,” “-Debt Obligations,” and “-Covenants.”

In addition, our revolving credit facility matures in February 2016. The terms of any new revolving credit facility or other replacement financing may be less favorable to us than the terms of our existing credit agreement.

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

Under our current credit agreement, as of June 30, 2013, we have a \$150.0 million revolving credit facility (including a \$15.0 million letter of credit subfacility). As of June 30, 2013, \$147.3 million was available to be drawn; we had no loans outstanding thereunder and \$2.7 million of letters of credit were outstanding. Borrowings under our revolving credit facility mature in February 2016. As we approach the maturity date of a facility, we may seek to enter into new facilities or issue new debt, which could result in higher borrowing costs, or to issue equity, which would dilute existing shareholders. We could also repay a facility by using cash on hand (if available) or cash from the sale of our assets. No assurance can be given that we will be able to enter into new facilities, issue new debt or issue equity in the future on attractive terms, or at all.

Our credit facility loans are typically LIBOR-based floating-rate obligations, and the interest expense we incur will vary with changes in the applicable LIBOR reference rate. As a result, an increase in short-term interest rates will increase our interest costs and will reduce the spread between the returns on our investments and the cost of our borrowings. An increase in interest rates would adversely affect the market value of any fixed-rate debt investments and/or subject them to prepayment or extension risk, which may adversely affect our earnings and liquidity. We may, from time to time, hedge these interest rate related risks. There is no guarantee that any such hedges will be economically effective.

Risks Related to Our Funds

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

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

The historical and potential future returns of the funds we manage are not directly linked to returns on our Class A shares. Therefore, readers should not conclude that positive performance of the funds we manage will necessarily result in positive returns on our Class A shares.

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

- the historical performance of our funds should not be considered indicative of the future results that should be expected from such funds or from any future funds we may raise;
- our funds' returns have benefited historically from investment opportunities and general market conditions that currently may not exist and may not repeat themselves, and there can be no assurance that our current or future funds will be able to avail themselves of profitable investment opportunities;
- the performance of a number of our funds that is calculated on the basis of NAV of the funds' investments reflects unrealized gains that may never be realized;
- several of our private equity portfolio companies have become public companies and have experienced significant subsequent decreases in their public market value. There can be no assurance that we will be able to realize such investments at profitable sale prices, particularly if market conditions are weak or the market perceives that the companies will perform less well when a Fortress fund reduces its investment in them.

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

Poor performance of our funds could have a material adverse impact on our primary sources of revenue, which are: (1) management fees, which are based on the size of our funds; (2) incentive income, which is based on the performance of our funds; and (3) investment income (loss) from our investments in the funds, which we refer to as our “principal investments.” Losses in our funds result in a decrease in the size of our funds, which results in lower management fee revenues. In addition, our funds may be unable to pay all or part of the management fees that we are owed for an indeterminate period of time, or they may require advances to cover expenses if they perform poorly or suffer from liquidity constraints due to operational or market forces.

In situations where we have deferred the receipt of management or other fees in order to provide liquidity to one or more of our managed funds, amounts that we have receivable from those funds may be difficult to collect in the future (or may take longer than anticipated to collect) if such funds have continued liquidity problems or if fund investors raise objections to such collections. As of June 30, 2013, the aggregate amount of management fees that various of our managed funds owed but had not yet paid was

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approximately \$39.9 million, excluding \$12.2 million which has been fully reserved by us, and the aggregate amount of advances made by the public company on behalf of various of our managed funds to cover expenses was approximately \$15.6 million, excluding \$6.1 million which has been fully reserved by us. The amount of deferred management fees and reimbursements may increase in the future.

In addition, as a result of the performance of our funds or other factors, hedge fund investors may redeem their investments in our funds, which would also decrease the size of our funds, while investors in private equity funds and credit PE funds may decline to invest in future funds we raise. Our liquid hedge funds received redemption requests from fee-paying investors for a total of \$0.6 billion and \$1.2 billion during the during the six months ended June 30, 2013 and 2012, respectively, and our credit hedge funds received return of capital requests from fee-paying investors for a total of \$41.1 million and \$30.0 million during the periods ended June 30, 2013 and 2012, respectively. Our liquid hedge fund redemptions for 2012 include \$0.7 billion of capital returned to investors in the Fortress Commodities Funds which closed in the second quarter of 2012. The annual return of capital request date for our flagship credit hedge fund occurs in October.

If, as a result of poor performance of investments in a private equity fund or credit PE fund, the fund does not achieve total investment returns that exceed a specified investment return threshold for the life of the fund, we will be obligated to repay the amount by which incentive income that was previously distributed to us exceeds the amounts to which we are ultimately entitled. We have contractually agreed to guarantee the payment in certain circumstances of such “clawback” obligations for our managed investment funds that are structured as private equity funds and credit PE funds. If all of our existing private equity funds and credit PE funds were liquidated at their NAV as of June 30, 2013, the cumulative clawback obligation to investors in these funds would be approximately \$57.3 million (net of amounts that would be due from employees pursuant to profit sharing arrangements, and without regard to potential tax adjustments).

We may be unable — as a result of poor fund performance or other issues — to raise enough new capital and new funds to seize investment opportunities in the future. If our competitors are more successful than we are in raising new fund capital and seizing investment opportunities, we may face challenges in competing for future investor capital and investment opportunities.

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

Our funds are materially affected by conditions in the global financial markets and economic conditions throughout the world. The global market and economic climate may be adversely affected by factors beyond our control, including rising interest rates or accelerating asset deflation or inflation, deterioration in the credit and finance markets, deterioration in the credit of sovereign nations, terrorism or political uncertainty. In the event of a continued market downturn, each of our businesses could be affected in different ways. Our private equity funds have faced reduced opportunities to sell and realize value from their existing investments. In addition, adverse market or economic conditions as well as the slowdown of activities in particular sectors in which portfolio companies of these funds operate (including, but not limited to, travel, leisure, real estate, media and gaming) have had an adverse effect on the earnings and liquidity of such portfolio companies, which in some cases has negatively impacted the valuations of our funds' investments and, therefore, our actual and potential earnings from management and incentive fees. Our liquid hedge funds may also be adversely affected by difficult market conditions if they fail to predict the adverse effect of such conditions on particular investments, resulting in a significant reduction in the value of those investments.

The recent financial downturn adversely affected our operating performance in a number of ways, and if the economy were to re-enter a period of recession, it may cause our revenue, results of operations and financial condition to

decline by causing:

- AUM to decrease, lowering management fees;
- increases in costs associated with financial instruments;
- adverse conditions for our portfolio companies (e.g., decreased revenues, liquidity pressures, increased difficulty in obtaining access to financing and complying with the terms of existing financings as well as increased financing costs);
- lower investment returns, reducing incentive income or eliminating incentive income for a period of time;
- reduced demand to purchase assets held by our funds, which would negatively affect the funds' ability to realize value from such assets;
- material reductions in the value of our private equity fund investments in portfolio companies, which would reduce our ability to realize incentive income from these investments;
- difficulty raising additional capital;
- investor redemptions, resulting in lower fees and potential increased difficulty in raising new capital; and
- decreases in the carrying value of our principal investments.

Furthermore, while difficult market conditions may increase opportunities to make certain distressed asset investments, such conditions also increase the risk of default with respect to debt investments held by our funds, in particular the mortgage opportunities funds and the Castles.

Our funds may make investments that are concentrated in certain companies, asset types or geographical regions, which means that negative developments in certain sectors could have a material adverse effect on our revenues and results of operations.

The governing agreements of our funds contain limited investment restrictions and limited requirements as to diversification of fund investments, whether by geographic region or asset type. Many of our private equity funds have significant investments in particular companies whose assets are concentrated in certain industries, and from time to time we establish funds that target particular asset classes, such as our MSR Opportunities Fund, Real Estate Opportunities Fund, Japan Opportunity Fund and LDVF Patent and Life Settlements. Sectors in which our funds have significant investments include 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 these sectors, or any other sector in which our funds have concentrated investments, were adversely affected by market conditions or other factors, certain of our funds may perform poorly. 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 overall fund performance. Moreover, poor performance by our private equity and credit businesses could harm our reputation, which could make it difficult for us to raise capital for our other businesses. For a description of the consequences to us of poor fund performance, see “-Poor performance of our funds would cause a decline in our revenue and results of operations, could obligate us to repay incentive income previously paid to us, and could adversely affect our ability to raise capital for future funds.”

Our Castles and funds could be adversely affected by a contraction of the structured finance and mortgage markets.

Our Castles have historically relied on the structured finance and mortgage markets in order to obtain leverage and thereby increase the yield on substantially all of their investments. To the extent that volatility in those credit markets leads to a situation where financing of that type is unavailable or limited (as was the case during the 2008 Recession and currently continues to be limited), Newcastle or Eurocastle may be unable to make new investments on a basis that is as profitable as during periods when such financing was available. Furthermore, it could significantly reduce the yield available for reinvesting capital received from prior investments, thereby reducing profits. As a result of impairments recorded in connection with the 2008-2009 structured finance and mortgage market disruption, we do not expect to earn incentive income from Newcastle or Eurocastle for an indeterminate period of time.

Many of our funds also have relied on the structured finance markets. To the extent that financing of that type is unavailable or limited, such funds may be unable to make certain types of investments as the yield on those investments will be outside of the funds' target range without leverage. This could reduce the overall rate of return such funds obtain from their investments and could lead to a reduction in overall investments by those funds and a slower rate of growth of fee paying assets under management in those funds, with a commensurate decrease in the rate of growth of our management fees.

We and our funds are subject to counterparty default and concentration risks.

Our funds enter into numerous types of financing arrangements with counterparties globally, including loans, hedge contracts, swaps, repurchase agreements and other derivative and non-derivative contracts. The terms of these contracts are often customized and complex, and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight. In particular, some of our funds utilize prime brokerage arrangements with

a relatively limited number of counterparties, which has the effect of concentrating the transaction volume (and related counterparty default risk) of these funds with these counterparties. Our funds may also experience counterparty concentration risk with respect to partners in coinvestments.

Our funds are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur rapidly and without notice to us. Moreover, if a counterparty defaults, we may be unable to take action to cover our exposure, either because we lack the contractual ability or because market conditions make it difficult to take effective action. This inability could occur in times of market stress, which are precisely the times when defaults may be most likely to occur.

In addition, our funds' risk-management models may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not take sufficient action to reduce our risks effectively. Although each of our funds monitors its credit exposures, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition,

concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

In the event of a counterparty default, particularly a default by a major investment bank, one or more of our funds could incur material losses, and the resulting market impact of a major counterparty default could harm our business, results of operations and financial condition. In the event that one of our counterparties becomes insolvent or files for bankruptcy, our ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding.

The counterparty risks that we face have increased in complexity and magnitude as a result of the recent insolvency of a number of major financial institutions (such as Lehman Brothers and MF Global) who served as counterparties for derivative contracts, insurance policies and other financial instruments. The consolidation and elimination of counterparties has increased our concentration of counterparty risk and decreased the universe of potential counterparties, and our funds are generally not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. For additional detail on counterparty risks, please see “-We are subject to risks in using prime brokers and custodians.”

Because the public company is dependent on receiving cash from our funds, any loss suffered by a fund as a result of a counterparty default would also affect the results of the public company. In addition, the board of directors of the public company has only limited ability to influence any fund's choice of, or the amount of a fund's exposure to, any given counterparty. As a result, our funds may have concentrated exposure to one or more counterparties and thus be exposed to a heightened risk of loss if that counterparty defaults. This may mean that the company has a significant concentration of risk with one or more particular counterparties at any particular time if aggregate counterparty risk were to be measured across all of the various Fortress Funds.

Third party investors in our investment funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund's operations and performance.

Investors in our private equity and credit PE funds make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. As of the end of this reporting period, we have not had investors fail to honor capital calls to any extent meaningful to us. Any investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of its existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

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

Investors in our hedge funds may generally redeem their investments on an annual or quarterly basis, subject to the applicable fund's specific redemption provisions, and our flagship liquid markets hedge fund has a monthly redemption class. Investors may decide to move their capital away from us to other investments for any number of

reasons in addition to poor investment performance. Factors that could result in investors leaving our funds include the need to increase available cash reserves or to fund other capital commitments, changes in interest rates that make other investments more attractive, the publicly traded nature of the indirect parent of their manager, changes in investor perception regarding our focus or alignment of interest, dissatisfaction with changes in or broadening of a fund's investment strategy, changes in our reputation, and departures or changes in responsibilities of key investment professionals. In a declining financial market, the pace of redemptions and consequent reduction in our fee paying assets under management could accelerate. The decrease in our revenues that would result from significant redemptions in our hedge fund business would have a material adverse effect on our business.

Our liquid hedge funds received redemption requests from fee-paying investors for a total of \$0.6 billion and \$1.2 billion during the six months ended June 30, 2013 and 2012, respectively. Our liquid hedge fund redemptions for 2012 include \$0.7 billion of capital returned to investors in the Fortress Commodities Funds which closed in the second quarter of 2012. Investors in our credit hedge funds are permitted to request that their capital be returned generally on an annual basis, and such returns of capital may be paid over time as the underlying investments are liquidated, in accordance with the governing documents of the applicable

funds. Our credit hedge funds received return of capital requests from fee-paying investors for a total of \$41.1 million and \$30.0 million during the periods ended June 30, 2013 and 2012, respectively. The annual return of capital request date for our flagship credit hedge fund occurs in October.

In addition, the investors in our private equity, credit PE and certain hedge funds may, subject to certain conditions, act at any time to accelerate the liquidation date of the fund without cause, resulting in a reduction in management fees we earn from such funds and a significant reduction in the amounts of total incentive income we could earn from those funds. See “-Our removal as the investment manager, or the liquidation, of one or more of our funds could have a material adverse effect on our business, results of operations and financial condition.” Incentive income could be significantly reduced as a result of our inability to maximize the value of a fund's investments in a liquidation. The occurrence of such an event with respect to any of our funds would, in addition to the significant negative impact on our revenue and earnings, likely result in significant reputational damage as well.

A significant decline in AUM could result in one or more defaults under certain fund agreements, which could negatively impact our business.

Our funds have various agreements that create debt or debt-like obligations (such as repurchase arrangements, ISDAs, credit default swaps and total return swaps, among others) with a material number of counterparties. Such agreements in many instances contain covenants or “triggers” that require our funds to maintain specified amounts of AUM. In particular, many such covenants to which our hedge funds are party are designed to protect against sudden and pronounced drops in AUM over specified periods, so if our funds were to receive larger-than-anticipated redemption requests during a period of poor performance, such covenants may be breached. Decreases in such funds' AUM (whether due to performance, redemption, or both) that breach such covenants may result in defaults under such agreements, and such defaults could permit the counterparties to take various actions that would be adverse to the funds, including terminating the financing arrangements, increasing the amount of margin or collateral that the funds are required to post (so-called “supercollateralization” requirements) or decreasing the aggregate amount of leverage that such counterparty is willing to provide to our funds. Defaults under any such covenants would be likely to result in the affected funds being forced to sell financed assets (which sales would presumably occur in suboptimal or distressed market conditions) or otherwise raise cash by reducing other leverage, which would reduce the funds' returns and our opportunities to produce incentive income from the affected funds.

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

Many of our funds invest in securities, loans or other assets that are not publicly traded. In many cases, our funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. The ability of many of our funds, particularly our private equity funds, to dispose of investments is heavily dependent on the public equity markets, inasmuch as our ability to realize any value from an investment may depend upon our ability to sell equity of the portfolio company in the public equity markets through an initial public offering or secondary public offering of shares of the portfolio company in which such investment is held. Furthermore, large holdings even of publicly traded equity securities can often be disposed of only over a substantial period of time, exposing the investment returns to risks of downward movement in market prices during the disposition period. Accordingly, our funds may be forced to sell securities at a loss under certain conditions. The illiquid nature of many of our funds' assets may also negatively affect a fund's ability to retain sufficient liquidity to satisfy its obligations as they become due. As a result, a fund with illiquid assets may be unable, for example, to generate sufficient liquidity to pay the management fees or other amounts due to the manager, which would, in turn, reduce the amounts we receive from our funds, thereby reducing the amount of funds available to us to satisfy our obligations, including any obligations under our credit agreement.

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

Our funds are subject to risks due to potential illiquidity of assets and leverage of capital structure.

Our funds may make investments or hold trading positions in markets that are volatile and which may be illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which we may be a party, and

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

In addition, the funds we manage may operate with a substantial degree of leverage. They may borrow, invest in derivative instruments and purchase securities using borrowed money, so that the positions held by the funds may in aggregate value exceed the NAV of the funds. This leverage creates the potential for higher returns, but also increases the volatility of a fund, including the risk of a total loss of the amount invested. In addition, our private equity funds have historically leveraged some of their investments in order to return capital to investors earlier than would have otherwise been possible without a sale of the asset. In many such cases, such debt was secured by publicly-traded stock of portfolio companies. To the extent that the value of such collateral decreases due to decreases in the share price of such portfolio companies, our funds may be subject to margin calls that require them to call additional capital from investors, sell assets or otherwise take actions that decrease the overall return of the impacted funds. Such actions would result in overall decreased revenues for us and a lower likelihood of generating incentive income from the affected investments.

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

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

There are no readily-ascertainable market prices for a very large number of illiquid investments in our private equity and credit PE funds and, to a lesser extent, credit hedge funds as well as a small number of so called "sidepocket" investments in our liquid hedge funds. The fair value of such investments of our funds is determined periodically by us based on the methodologies described in the funds' valuation policies. These policies are based on a number of factors, including the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment, the length of time the investment has been held, the trading price of securities (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies. The methodologies we use in valuing individual investments are based on a variety of estimates and assumptions specific to the particular investments, and actual results related to the investment therefore often vary materially from such assumptions or estimates. In addition, because many of the illiquid investments held by our funds are in industries or sectors that are unstable, in distress, or in the midst of some uncertainty, such investments are subject to rapid changes in value caused by sudden company-specific or industry-wide developments. Moreover, in many markets, transaction flow is further limited by uncertainty about accurate asset valuations, which may cause

hedge fund investors to become concerned about valuations of funds that have illiquid or hard-to-value assets. This concern may lead to increased redemptions by investors irrespective of the performance of the funds. In addition, uncertainty about asset values on redemptions from our investments in our hedge funds may lead to an increased risk of litigation by investors over NAVs.

Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, the fair values of such investments as reflected in a fund's NAV do not necessarily reflect the prices that would actually be obtained by us on behalf of the fund when such investments are sold. The SEC has recently announced that it is undertaking a significant review of valuation practices within the private equity industry and has instituted enforcement actions against private equity fund advisers for misleading investors about valuation, so there will be increased regulatory scrutiny in the future. Realizations at values significantly lower than the values at which investments have been reflected in fund NAVs would result in losses for the applicable fund, a decline in management fees and the loss of potential incentive income. Also, a situation where asset values turn out to be materially different than values reflected in fund NAVs could cause investors to lose confidence in us, which would, in turn, result in redemptions from our hedge funds or difficulties in raising additional private equity funds and credit PE funds.

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

Our private equity and credit funds invest in obligors and issuers with weak financial conditions, poor operating results, substantial financial needs, negative net worth, and/or special competitive problems. These funds also invest in obligors and issuers that are involved in bankruptcy or reorganization proceedings. It may be difficult to obtain complete information as to the exact financial and operating conditions of these obligors and issuers. Additionally, the fair values of such investments are subject to abrupt and erratic market movements and significant price volatility if they are widely traded securities and significant uncertainty in general if they are not widely traded securities or have no recognized market. A fund's exposure to such investments may be substantial in relation to the market for those investments, and the assets are likely to be illiquid and difficult to sell or transfer. As a result, it may take a number of years for the fair value of such investments to ultimately reflect their intrinsic value as perceived by us. For example, several of our funds from time to time make significant investments in mortgage-backed securities and other investments that are directly or indirectly related to the value of real estate in various locations globally, particularly in the United States. As a result, the results of a number of our funds have been, and may continue to be affected, in some cases materially, by fluctuations in the value of real estate and real estate related investments. Such fluctuations could have a meaningful impact on the performance of the applicable fund and potentially on our operating results.

A central feature of our distressed investment strategy is our ability to successfully predict the occurrence of events such as mortgage default rates, mortgage prepayment rates, the amounts of any prepayments, maturity extensions, interest rates for mortgage-backed securities and similar instruments as well as corporate events such as capital raises, restructurings, reorganizations, mergers and other transactions. Predicting any of these data points is difficult and subject to uncertainty, and if our analyses are inaccurate, the actual results of such investments could be materially lower than expected and the applicable fund's investment results could decline sharply.

In addition, these investments could subject our private equity, credit PE funds and hedge funds to certain potential additional liabilities that may exceed the value of their original investment. Under certain circumstances, payments or distributions on certain investments may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. In addition, under certain circumstances, a lender that has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated or disallowed, or may be found liable for damages suffered by parties as a result of such actions. In the case where the investment in securities of troubled companies is made in connection with an attempt to influence a restructuring proposal or plan of reorganization in bankruptcy, our funds may become involved in substantial litigation.

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

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

We participate in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments.

Our private equity funds participate in large transactions from time to time. The increased size of these investments involves certain complexities and risks that may not be encountered in small- and medium-sized investments. For example, larger transactions may be more difficult to finance and complete, and exiting larger deals may present challenges in many cases. In addition, larger transactions may entail greater scrutiny by regulators, labor unions, political bodies and other third parties and greater risk of litigation. Any of these factors could increase the risk that our larger investments could be unsuccessful. The consequences to our investment funds of an unsuccessful larger investment could be more severe than those of a smaller investment.

Our investment funds often make investments in companies that we do not control.

Investments by most of our investment funds will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our investment funds through trading activities or through purchases

of securities from the issuer. In addition, our private equity funds and credit funds may acquire debt investments or minority equity interests and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the investment funds retaining a minority investment. Those investments will be subject to increased risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of investments by our investment funds could decrease, and our financial condition, results of operations and cash flow could suffer as a result.

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

Some of our funds invest a portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, which may entail risks that are not typically associated with an investment in a U.S. issuer. In addition to business uncertainties, such investments may be affected by changes in currency exchange values, including currencies in the Asia-Pacific region and the euro. Recently, the instability of the euro zone, including fears of sovereign debt defaults, and stagnant growth of certain euro zone member states have resulted in concerns regarding the suitability of a shared currency for the region, which could lead to the reintroduction of individual currencies for member states. If this were to occur, euro-denominated assets and liabilities of certain of our funds would be redenominated to such individual currencies, which could result in a mismatch in the values of assets and liabilities and expose us and certain of our funds to additional currency risks. Even if the euro is maintained, continued concerns regarding the stability of the euro zone and the potential effects of government intervention intended to address it could materially adversely affect our business.

Foreign investments may also expose us to political, social and economic uncertainties affecting a country or region, or to political hostility to investments by foreign or private equity investors. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher in those markets than in more developed markets. The legal and regulatory environment may also be different, particularly with respect to bankruptcy and reorganization, and may afford us less protection as a creditor than we may be entitled to under U.S. law. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

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

Investments by our funds will frequently rank junior to investments made by others in the same company.

In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our fund's investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of our investment. After repaying senior security holders, the company may not

have any remaining assets to use for repaying amounts owed in respect of our fund's investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of our investment funds to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

Our fund investments are subject to numerous additional risks.

Our fund investments, including investments by our funds of hedge funds in other hedge funds, are subject to numerous additional risks, including the following:

• Certain of the funds are newly established funds without any operating history or are managed by management companies or general partners who do not have a significant track record as an independent manager.

Generally, there are few limitations on the execution of our funds' investment strategies, which are, in some cases, subject to the sole discretion of the management company or the general partner of such funds. The execution of a particular fund's strategy — for example, a strategy involving the enforcement of intellectual property rights through litigation, or a strategy of purchasing pools of tax liens on residential buildings or pools of life settlements — may negatively impact one or more other Fortress funds whether due to reputational or other concerns. We have historically been subjected to intermittent protests by groups affiliated with an animal rights movement related to a particular investment. Although no Fortress Fund continues to hold the investment targeted by such protestors, the protest activity may nevertheless have a negative effect on our reputation.

• Our funds may engage in short-selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.

• Our funds are exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is increased for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. Generally, funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the funds' internal consideration of the creditworthiness of their counterparties may prove insufficient. The absence of a regulated market to facilitate settlement may increase the potential for losses.

• Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This “systemic risk” may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, investment banks, securities firms and exchanges) with which the funds interact on a daily basis.

• The efficacy of investment and trading strategies depends largely on the ability to establish and maintain an overall market position in a combination of financial instruments. A fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position.

• Fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing “daily price fluctuation limits” or “daily limits,” the existence of which may reduce liquidity or effectively curtail trading in particular markets. Dodd-Frank will also give rise to a substantial set of new rules focused on the use of derivatives, which when fully formulated and enacted may lead to requirements to post

additional capital or which may otherwise make our use of derivatives less efficient.

• Fund investments may also be subject to litigation, which could impact the value of the investment and harm the performance of one or more of our funds.

We have been engaged as the investment manager of third-party investment funds and managed accounts, and we may be engaged as the investment manager of other third-party investment funds or managed accounts in the future, and each such engagement exposes us to a number of potential risks.

Changes within the alternative asset management industry may cause investors of some funds to replace their existing fund or managed account managers or may cause certain such managers to resign. In such instances, we may seek to be engaged

as investment manager of these funds or accounts. For example, in 2009, we became the investment manager of certain investment funds and accounts previously managed by D.B. Zwirn & Co., L.P.

While being engaged as investment manager of third-party funds or accounts potentially enables us to grow our business, it also entails a number of risks that could harm our reputation, results of operations and financial condition. For example, we may choose not to, or be unable to, conduct significant due diligence of the fund and its investments, and any diligence we undertake may not reveal all relevant facts that may be necessary or helpful in evaluating such engagement. We may be unable to complete such transactions, which could harm our reputation and subject us to costly litigation. We may willingly or unknowingly assume actual or contingent liabilities for significant expenses, we may become subject to new laws and regulations with which we are not familiar, and we may become subject to increased risk of litigation, regulatory investigation or negative publicity. For example, we have been named as a defendant in various lawsuits relating to the Zwirn portfolio, and as part of our role as manager, we may incur time and expense in defending these and any similar future litigation. In addition to defending against litigation, being engaged as investment manager may require us to invest significant capital and other resources for various other reasons, which could detract from our existing funds or our ability to capitalize on future opportunities. In addition, being engaged as investment manager may require us to integrate complex technological, accounting and management systems, which may be difficult, expensive and time-consuming and which we may not be successful in integrating into our current systems. If we include the financial performance of funds for which we have been engaged as the investment manager in our public filings, we are subject to the risk that, particularly during the period immediately after the engagement, this information may prove to be inaccurate or incomplete. The occurrence of any of these negative integration events could negatively impact our reputation with both regulators and investors, which could, in turn, subject us to additional regulatory scrutiny and impair our relationships with the investment community. The occurrence of any of these problems could negatively affect our reputation, financial condition and results of operations.

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

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

Risks Related to Our Organization and Structure

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

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

In addition, the shareholders agreement among us and the principals provides the principals, who are then employed by the Fortress Operating Group and who hold shares representing greater than 50% of the total combined voting

power of all shares held by such principals, so long as the principals and their permitted transferees continue to hold more than 40% of the total combined voting power of our outstanding Class A and Class B shares, with approval rights over a variety of significant corporate actions, including:

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

ten percent share issuance: any issuance by us, in any transaction or series of related transactions, of equity or equity-related securities that would represent, after such issuance, or upon conversion, exchange or exercise, as the case may be, at least 10% of the total combined voting power of our outstanding Class A and Class B shares other than (1) pursuant to transactions solely among us and our wholly owned subsidiaries, or (2) upon conversion of convertible securities or upon exercise of warrants or options, which convertible securities, warrants or options are either outstanding on the date of, or issued in compliance with, the shareholders agreement;

investment of \$250 million or more: any equity or debt commitment or investment or series of related equity or debt commitments or investments in an entity or related group of entities in an amount equal to or greater than \$250 million;

new business requiring investment in excess of \$100 million: any entry by us or any of our controlled affiliates into a new line of business that does not involve investment management and that requires a principal investment in excess of \$100 million;

the adoption of a shareholder rights plan;

any appointment of a chief executive officer or co-chief executive officer; or

the termination without cause of the employment of a principal with us or any of our material subsidiaries.

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

Because our principals primarily hold their economic interests in our business directly through Fortress Operating Group, rather than through the public company, they may have conflicting interests with holders of Class A shares. For example, our principals may have different tax positions from us, which could influence their decisions regarding whether and when to dispose of assets, and whether and when to incur new or refinance existing indebtedness, especially in light of the tax receivable agreement. In addition, the structuring of future transactions may take into consideration the principals' tax considerations even where no similar benefit would accrue to us. Moreover, any distribution by Fortress Operating Group to us to satisfy our tax obligations or to make payments to our principals under the tax receivable agreement will result in a corresponding pro rata distribution to our principals. Our principals are also entitled to distributions on their Fortress Operating Group units in respect of their tax obligations as holders of FOG units. As a result of the foregoing, amounts may be distributed to the holders of the FOG units that are greater in the aggregate, or are distributed earlier in time, than distributions that are made to holders of Class A shares (on a per share basis).

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

As a holding company, our ability to pay dividends is subject to the ability of our subsidiaries to provide cash to us. When we declare a dividend on our Class A shares, we generally expect to cause Fortress Operating Group to make distributions to its unitholders, including our wholly-owned subsidiaries, pro rata in an amount sufficient to enable us to pay such dividends to our Class A shareholders. However, no assurance can be given that such distributions will or can be made. Our board can reduce or eliminate our dividend at any time, in its discretion. For example, our board determined not to pay any dividend to our Class A shareholders from the third quarter of 2008 through the third quarter of 2011. Our board has elected to resume quarterly dividends, beginning with the fourth quarter of 2011. In addition, Fortress Operating Group is required to make minimum tax distributions to its unitholders. See also “- Risks Related to Taxation - There can be no assurance that amounts paid as dividends on Class A shares will be sufficient to cover the tax liability arising from ownership of Class A shares.” If Fortress Operating Group has insufficient funds, we may have to borrow additional funds or sell assets, which could materially adversely affect our liquidity and financial condition. In addition, Fortress Operating Group's earnings may be insufficient to enable it to make required minimum tax distributions to unitholders.

We are also subject to certain contingent repayment obligations that may affect our ability to pay dividends. We earn incentive income - generally 20% of the profits - from each of our private equity funds and credit PE funds based on a percentage of the profits earned by the fund as a whole, provided that the fund achieves specified performance criteria. We generally receive, however, our percentage share of the profits on each investment in the fund as it is realized, before it is known with certainty that the fund as a whole will meet the specified criteria. As a result, the incentive income paid to us as a particular investment made by the funds is realized is subject to contingent repayment (or “clawback”) if, upon liquidation of the fund, the aggregate amount paid to us as incentive income exceeds the amount

actually due to us based upon the aggregate performance of the fund. If we are required to repay amounts to a fund in order to satisfy a clawback obligation, any such repayment will reduce the amount of cash available to distribute as a dividend to our Class A shareholders. While the principals have personally guaranteed, subject to certain limitations, this "clawback" obligation related to certain funds, pursuant to our shareholders agreement we have agreed to indemnify the principals for all amounts that the principals pay pursuant to any of these personal guarantees in favor of our private equity funds and credit PE funds. Consequently, any requirement to satisfy a clawback obligation could impair our ability to pay dividends on our Class A shares.

There may also be circumstances under which we are restricted from paying dividends under applicable law or regulation (for example due to Delaware limited partnership or limited liability company act limitations on making distributions if liabilities of the entity after the distribution would exceed the value of the entity's assets). In addition, under our credit agreement, the ability of the loan parties thereunder and certain of our other subsidiaries to make cash distributions is subject to certain restrictions, including the following restriction: no default exists at the time of declaration or event of default exists at the time of payment or immediately after giving effect thereto. Such restrictions on certain of our subsidiaries may in turn limit our ability to make cash

distributions. The events of default under the credit agreement are typical of such agreements and include payment defaults, failure to comply with credit agreement covenants (including a leverage covenant that is negatively affected by realized losses), cross-defaults to material indebtedness, bankruptcy and insolvency and change of control. Our lenders may also attempt to exercise their security interests over substantially all of the assets of the Fortress Operating Group upon the occurrence of an event of default.

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

As a result of unrealized built-in gain attributable to the value of our assets held by the Fortress Operating Group entities at the time of our initial public offering, or as a result of other differences between the tax attributes of our principals and the Fortress Operating Group entities, upon the sale, refinancing or disposition of the assets owned by the Fortress Operating Group entities, our principals will incur different and significantly greater tax liabilities as a result of the disproportionately greater allocations of items of taxable income and gain to the principals upon a realization event. As the principals will not receive a corresponding greater distribution of cash proceeds, they may, subject to applicable fiduciary or contractual duties, have different incentives regarding the appropriate pricing, timing and other material terms of any sale, refinancing, or disposition, or whether to sell such assets at all. Decisions made with respect to an acceleration or deferral of income or deductions or the sale or disposition of assets may also influence the timing and amount of payments that are received by an exchanging or selling principal under the tax receivable agreement. All other factors being equal, earlier disposition of assets following a transaction will tend to accelerate such payments and increase the present value of the tax receivable agreement, and disposition of assets before a transaction will increase a principal's tax liability without giving rise to any rights to receive payments under the tax receivable agreement. Decisions made regarding a change of control also could have a material influence on the timing and amount of payments received by the principals pursuant to the tax receivable agreement.

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

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

We have entered into a tax receivable agreement with our principals that provides for the payment by the corporate taxpayers to our principals of 85% of the amount of tax savings, if any, that the corporate taxpayers actually realize (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change of control, as discussed below) as a result of increases in tax deductions and tax basis of the Fortress Operating Group caused by such transactions with the principals. The payments that the corporate taxpayers may make to our principals could be material in amount.

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

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

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

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

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

Risks Related to Our Class A Shares

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

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

- variations in our quarterly operating results or dividends, or a reversal of our decision to resume quarterly dividends;
- failure to meet analysts' earnings estimates;
- sales by the company, key executives or other shareholders of a significant amount of our equity securities, including sales to cover withholding taxes with respect to equity-based compensation;
- difficulty in complying with the provisions in our credit agreement such as financial covenants;
- publication of research reports or press reports about us, our investments or the investment management industry or the failure of securities analysts to cover our Class A shares;
- additions or departures of our principals and other key management personnel or lack of certainty about our principals' employment agreements, whose term ends in January 2017;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- actions by shareholders;
- changes in market valuations and performance or share price of other alternative asset managers;
- speculation in the press or investment community;
- changes or proposed changes in laws or regulations or differing interpretations thereof affecting our business or enforcement of these laws and regulations, or announcements relating to these matters;
- litigation or governmental investigations or regulatory activities;
- poor performance or other complications affecting our funds or current or proposed investments;
- adverse publicity about the asset management industry generally, our specific funds or investments, or individual scandals, specifically;
- general market and economic conditions; and
- dilution resulting from the issuance of equity-based compensation to employees.

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

price.

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

The market price of our Class A shares could decline as a result of sales of a large number of our Class A shares or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. As of June 30, 2013, we had 485,565,242 outstanding Class A shares on a fully diluted basis, including 84,098,388 resulting from vested equity compensation granted pursuant to our equity incentive plan, 22,964,527 restricted Class A share units granted to employees and affiliates pursuant to our equity incentive plan (net of forfeitures), 932,878 restricted Class A shares granted to directors pursuant to our equity incentive plan, and 65,423,441 Class A shares that remain available for future grant under our equity incentive plan. The Class A shares reserved under our equity incentive plan is increased on the first day of each fiscal year during the plan's term by the lesser of (x) the excess of (i) 15% of the number of outstanding Class A and Class B shares of the company on the last day of the immediately preceding fiscal year over (ii) the number of shares reserved and available for issuance under our equity incentive plan as of such date or (y) 60,000,000 shares. In January 2013, 2012, 2011, 2010 and 2009, the number of shares reserved for issuance pursuant to this calculation increased by zero, 9,389,280, 12,212,225, 10,262,121, and 26,555,608 shares, respectively. We may issue and sell in the future additional Class A shares or any securities issuable upon conversion of or exchange or exercise for, Class A shares (including Fortress Operating Group units) at any time.

As of June 30, 2013, our principals directly owned an aggregate of 249,227,229 Fortress Operating Group units and also owned an aggregate of 3,104,211 Class A shares. Each principal has the right to exchange each of his directly owned Fortress Operating Group units for one of our Class A shares at any time, subject to the exchange agreement. These Class A shares and Fortress Operating Group units are eligible for resale from time to time, subject to certain contractual restrictions and Securities Act limitations.

Our principals and Nomura are parties to shareholders agreements with us. The principals have the ability to cause us to register the Class A shares they acquire upon exchange for their Fortress Operating Group units. Nomura has the ability to cause us to register any of the 55,071,450 Class A shares it purchased prior to our initial public offering. Nomura also purchased an additional 5,400,000 Class A shares in our May 2009 offering.

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

Our principals (and one senior employee) beneficially own all of our Class B shares. Class B shares represent a majority of the total combined voting power of our outstanding Class A and Class B shares. As a result, if they vote all of their shares in the same manner, they will be able to exercise control over all matters requiring the approval of shareholders and will be able to prevent a change in control of our company. In addition, provisions in our operating agreement may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our shareholders. For example, our operating agreement provides for a staggered board, requires advance notice for proposals by shareholders and nominations, places limitations on convening shareholder meetings, and authorizes the issuance of preferred shares that could be issued by our board of directors to thwart a takeover attempt. In addition, certain provisions of Delaware law may delay or prevent a transaction that could cause a change in our control. The market price of our Class A shares could be adversely affected to the extent that our principals' control over us, as well as provisions of our operating agreement, discourage potential takeover attempts that our shareholders may favor.

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

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

We have elected to become a “controlled company” within the meaning of the New York Stock Exchange rules and, as a result, will qualify for, and may rely on, exemptions from certain corporate governance requirements.

A company of which more than 50% of the voting power is held by an individual, a group or another company is a “controlled company” within the meaning of the New York Stock Exchange rules and may elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including requirements that:

- a majority of our board of directors consist of independent directors;
- we have a nominating/corporate governance committee that is composed entirely of independent directors; and
- we have a compensation committee that is composed entirely of independent directors.

We have elected to become a “controlled company” within the meaning of the New York Stock Exchange rules, and we intend to rely on one or more of the exemptions listed above. For example, our board is not currently, and likely in the future will not be, comprised of a majority of independent directors. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange.

Risks Related to Taxation

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

So long as we are not required to register as an investment company under the Investment Company Act of 1940 and 90% of our gross income for each taxable year constitutes “qualifying income” within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”), on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Class A shareholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on their allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within their taxable year, regardless of whether or not they receive cash dividends from us. They may not receive cash dividends equal to their allocable share of our net taxable income or even the tax liability that results from that income.

In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation (“CFC”) and a Passive Foreign Investment Company (“PFIC”), may produce taxable income prior to the receipt of cash relating to such income, and holders of our Class A shares will be required to take such income into account in determining their taxable income. Under our operating agreement, in the event of an inadvertent partnership termination in which the Internal Revenue Service (“IRS”) has granted us limited relief, each holder of our Class A shares also is obligated to make such adjustments as are required by the IRS to maintain our status as a partnership. Such adjustments may require persons who hold our Class A shares to recognize additional amounts in income during the years in which they hold such shares. We may also be required to make payments to the IRS.

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

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

negatively impact our results of operations.

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

Any dividends paid on Class A shares will not take into account a shareholder's particular tax situation (including the possible application of the alternative minimum tax) and, therefore, because of the foregoing as well as other possible reasons, may not be sufficient to pay their full amount of tax based upon their share of our net taxable income. In addition, the actual amount and

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timing of dividends will always be subject to the discretion of our board of directors. In particular, the amount and timing of dividends will depend upon a number of factors, including, among others:

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

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

Tax gain or loss on disposition of our Class A shares could be more or less than expected.

Upon a sale of Class A shares the shareholder will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those shares. Prior distributions to such shareholder in excess of the total net taxable income allocated to such shareholder, which decreased the tax basis in its Class A shares, will increase the gain recognized upon a sale when the Class A shares are sold at a price greater than such shareholder's tax basis in those shares, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be treated as ordinary income to such shareholder.

We currently do not intend to make an election under Section 754 of the Internal Revenue Code to adjust our asset basis, so a holder of our Class A shares could be allocated more taxable income in respect of those shares prior to disposition than if such an election were made.

We currently do not intend to make an election under Section 754 of the Internal Revenue Code to adjust our asset basis. If no Section 754 election is made, there will generally be no adjustment to the basis of our assets in connection with our initial public offering, or upon a subsequent transferee's acquisition of Class A shares from a prior holder of such shares, even if the purchase price for those shares is greater than the portion of the aggregate tax basis of our assets attributable to those shares immediately prior to the acquisition. Consequently, upon our sale of an asset, gain allocable to a holder of Class A shares could include built-in gain in the asset existing at the time such holder acquired such shares, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

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

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

defined in the Code) it will be nonetheless treated as a corporation for U.S. federal income tax purposes, unless the exception described below, and upon which we intend to rely, applies. A publicly traded partnership will, however, be treated as a partnership, and not as a corporation for U.S. federal income tax purposes, so long as 90% or more of its gross income for each taxable year constitutes “qualifying income” within the meaning of the Code and it is not required to register as an investment company under the Investment Company Act of 1940. We refer to this exception as the “qualifying income exception.”

Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We expect that our income generally will consist of interest, dividends, capital gains and other types of qualifying income, including dividends from FIG Corp. and interest on indebtedness from FIG Corp. No assurance can be given as to the types of income that will be earned in any given year. If we fail to satisfy the qualifying income exception described above, items of income and deduction would not pass through to holders of our Class A shares, and holders

of our Class A shares would be treated for U.S. federal (and certain state and local) income tax purposes as shareholders in a corporation. In such a case, we would be required to pay income tax at regular corporate rates on all of our income. In addition, we would likely be liable for state and local income and/or franchise taxes on all of such income. Dividends to holders of our Class A shares would constitute ordinary dividend income taxable to such holders to the extent of our earnings and profits, and the payment of these dividends would not be deductible by us. Taxation of us as a publicly traded partnership taxable as a corporation could result in a material adverse effect on our cash flow and the after-tax returns for holders of our Class A shares and thus could result in a substantial reduction in the value of our Class A shares.

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

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

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

We cannot match transferors and transferees of our Class A shares, and we have therefore adopted certain income tax accounting positions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our Class A shares.

Because we cannot match transferors and transferees of our Class A shares, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our common unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of our Class A shares and could have a negative impact on the value of our Class A shares or result in audits of and

adjustments to our shareholders' tax returns.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes. We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination would, among other things, result in the closing of our taxable year for all shareholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

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

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

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

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

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

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

While we expect that our method of operation will not result in a determination that we are engaged in a U.S. trade or business, there can be no assurance that the IRS will not assert successfully that we are engaged in a U.S. trade or business, with the result that some portion of our income would be properly treated as effectively connected income with respect to non-U.S. holders. Moreover, dividends paid by an investment that we make in a REIT that is attributable to gains from the sale of U.S. real property interests will, and sales of certain investments in the stock of U.S. corporations owning significant U.S. real property may, be treated as effectively connected income with respect to non-U.S. holders. To the extent our income is treated as effectively connected income, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable shares of income effectively connected with such trade or business, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income. Non-U.S. holders may also be subject to a 30% branch profits tax on such income in the hands of non-U.S. holders that are corporations.

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

We will not make investments through taxable U.S. corporations solely for the purpose of limiting unrelated business taxable income, or UBTI, from “debt-financed” property and, thus, an investment in Class A shares will give rise to UBTI to certain tax-exempt holders. For example, FIG Asset Co. LLC will invest in or hold interests in entities that are treated as partnerships, or are otherwise subject to tax on a flow-through basis, that will incur indebtedness. FIG Asset Co. LLC may borrow funds from FIG Corp. or third parties from time to time to make investments. These investments will give rise to UBTI from “debt-financed” property. However, we expect to manage our activities to avoid a determination that we are engaged in a trade or business, thereby limiting the amount of UBTI that is realized by tax-exempt holders of our Class A shares.

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

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

Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis.

In May 2010, the U.S. House of Representatives passed H.R. 4213, the American Jobs and Closing Tax Loopholes Act of 2010. That proposed legislation contains a provision that, if enacted, would have the effect of treating some or all of the income recognized from “carried interests” as ordinary income. While the proposed legislation, if enacted in its current form, would explicitly treat such income as nonqualifying income under the publicly traded partnership rules, thereby precluding us from qualifying for treatment as a partnership for U.S. federal income tax purposes, the proposed legislation provides for a 10-year transition period before such income would become nonqualifying income. In addition, the proposed legislation could, upon its enactment, prevent us from completing certain types of internal reorganization transactions, or converting to a corporation, on a tax free basis and acquiring other asset management companies on a tax free basis. The proposed legislation may also increase the ordinary income portion of any gain realized from the sale or other disposition of a Class A Share.

Other legislative proposals previously considered would subject our offshore funds to significant U.S. federal income taxes and potentially state and local taxes, which would adversely affect our ability to raise capital from foreign investors and certain tax-exempt investors.

In addition, as a result of widespread budget deficits, several states are evaluating proposals to subject partnerships to state entity level taxation through the imposition of state income, franchise or other forms of taxation. If any version of any of these legislative proposals were to be enacted into law in the form in which it was introduced, or if other similar legislation were enacted or any other change in the tax laws, rules, regulations or interpretations were to preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly-traded partnership rules or otherwise impose additional taxes, Class A shareholders would be negatively impacted because we would incur a material increase in our tax liability as a public company from the date any such changes became applicable to us, which could result in a reduction in the value of our Class A Shares.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

See Part I, Item 1, "Financial Statements"

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

- 3.1 Certificate of Formation of the Registrant (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 3.1).
- 3.2 Certificate of Amendment to Certificate of Formation of the Registrant (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 3.2).
- 3.3 Fourth Amended and Restated Limited Liability Company Agreement of the Registrant (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 filed with the SEC on August 10, 2009 (File No. 001-33294), Exhibit 3.3).
- 4.1 Specimen Certificate evidencing the Registrant's Class A shares (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 4.1).
- 4.2 Form of Shareholders Agreement, by and among the Registrant, Peter Briger, Wesley Edens, Randal Nardone, Robert Kauffman, and Michael Novogratz (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 4.2).
- 4.3 Investor Shareholder Agreement, dated January 17, 2007, by and between the Registrant and Nomura Investment Managers U.S.A., Inc. (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 4.3).
- 10.1 Form of Agreement Among Principals, by and among Peter Briger, Wesley Edens, Randal Nardone, Robert Kauffman, and Michael Novogratz (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.1).
- 10.2 Amended and Restated Tax Receivable Agreement dated February 1, 2007, by and among FIG Corp., FIG Asset Co. LLC, the entities set forth on the signature pages thereto and each of the parties thereto identified as partners (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.3).
- 10.3 Form of Indemnification Agreement, by and between Fortress Investment Group LLC and the executive officers and directors of the Registrant (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.12).
- 10.4 Certificate of Incorporation of FIG Corp. (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.13).
- 10.5 By-Laws of FIG Corp. (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.14).
- 10.6 Certificate of Formation of FIG Asset Co. LLC (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.15).
- 10.7

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Operating Agreement of FIG Asset Co. LLC (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.16).

10.8 Amended and Restated Limited Partnership Agreement of Fortress Operating Entity I LP (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.17).

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- 10.9 Amended and Restated Agreement of Limited Partnership of Fortress Operating Entity II LP (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 filed with the SEC on August 2, 2012 (File No. 001-33294), Exhibit 10.9).
- 10.10 First Amendment to Amended and Restated Agreement of Limited Partnership of FOE II (New) LP (formerly known as Fortress Operating Entity II LP) (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 filed with the SEC on August 2, 2012 (File No. 001-33294), Exhibit 10.10).
- 10.11 Amended and Restated Limited Partnership Agreement of Principal Holdings I LP (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.20).
- 10.12 Amended and Restated Exchange Agreement among FIG Corp., FIG Asset Co. LLC, Peter Briger, Wesley Edens, Randal Nardone, Robert Kauffman, Michael Novogratz, Adam Levinson, Fortress Operating Entity I LP, and Principal Holdings I LP (incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on March 1, 2011 (File No. 001-33294), Exhibit 10.17).
- 10.13 Employment Agreement by and between Daniel Bass and the Registrant (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.24).
- 10.14 Employment Agreement by and between David Brooks and the Registrant (incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on March 28, 2008 (File No. 001-33294), Exhibit 10.25).
- 10.15 Amended and Restated Fortress Investment Group LLC 2007 Omnibus Equity Incentive Plan (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 filed with the SEC on August 10, 2009 (File No. 001-33294), Exhibit 10.4).
- 10.16 Separation Agreement and General Release dated January 24, 2012, by and between Daniel H. Mudd and FIG LLC (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 28, 2012 (File No. 001-33294), Exhibit 10.14).
- 10.17 Form of Indemnification Agreement, by and between Fortress Investment Group LLC and the executive officers and directors of the Registrant (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 filed with the SEC on August 10, 2009 (File No. 001-33294), Exhibit 10.6).
- 10.18 Principal Compensation Plan, effective as of January 1, 2012 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed with the SEC on August 4, 2011 (File No. 001-33294), Exhibit 10.17).
- 10.19 Employment, Non-Competition and Non-Solicitation Agreement of Peter L. Briger, Jr., dated August 4, 2011 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed with the SEC on August 4, 2011 (File No. 001-33294), Exhibit 10.18).
- 10.20 Employment, Non-Competition and Non-Solicitation Agreement of Wesley R. Edens, dated August 4, 2011 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed with the SEC on August 4, 2011 (File No. 001-33294), Exhibit 10.19).

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- 10.21 Employment, Non-Competition and Non-Solicitation Agreement of Robert I. Kauffman, dated August 4, 2011 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed with the SEC on August 4, 2011 (File No. 001-33294), Exhibit 10.20).
- 10.22 Employment, Non-Competition and Non-Solicitation Agreement of Randal A. Nardone, dated August 4, 2011 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed with the SEC on August 4, 2011 (File No. 001-33294), Exhibit 10.21).
- 10.23 Employment, Non-Competition and Non-Solicitation Agreement of Michael E. Novogratz, dated August 4, 2011 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed with the SEC on August 4, 2011 (File No. 001-33294), Exhibit 10.22).
- 10.24 Separation Agreement and Release Agreement dated December 21, 2012, by and between Robert I. Kauffman and FIG LLC (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on February 27, 2013 (File No. 001-33294), Exhibit 10.25).

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- 10.25 Purchase Agreement dated December 21, 2012, by and among Fortress Operating Group Entity I LP, FOE II (New) LP, Principal Holdings I LP, Robert I. Kauffman and Aldel LLC (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on February 27, 2013 (File No. 001-33294), Exhibit 10.26).
- 10.26 Credit Agreement, dated as of February 26, 2013, among FIG LLC, a Delaware limited liability company, as borrower, certain subsidiaries and affiliates of the borrower, as guarantors, Bank of America, N.A., individually and as administrative agent and letter of credit issuer, Citibank, N.A., individually and as syndication agent, Barclays Bank Plc, as documentation agent, and the lenders party thereto (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on February 27, 2013 (File No. 001-33294), Exhibit 10.28).
- 31.1 Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS** XBRL Instance Document.
- 101.SCH** XBRL Taxonomy Extension Schema Document.
- 101.CAL** XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF** XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB** XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document.

**XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

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

FORTRESS INVESTMENT GROUP LLC

August 1, 2013

By: /s/ Randal A. Nardone
Randal A. Nardone
Chief Executive Officer and Director

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

By: /s/ Daniel N. Bass
Daniel N. Bass
Chief Financial Officer

August 1, 2013

By: /s/ John A. Konawalik
John A. Konawalik
Principal Accounting Officer

August 1, 2013