Fortress Investment Group LLC
Form 10-Q
November 09, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2009

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 or organization)	**(I.R.S. Employer Identification No.)**
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 x 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 x	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 x

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

Class A Shares: 145,511,736 outstanding as of November 2, 2009.

Class B Shares: 307,773,852 outstanding as of November 2, 2009.

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

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

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

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

(iii) the net asset value, or NAV, of our hedge funds, including the Value Recovery Funds which pay fees based on realizations (and on certain managed assets); and

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

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

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

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

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

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

principals or Principals refers to Peter Briger, Wesley Edens, Robert Kauffman, Randal Nardone and Michael Novogratz, collectively, who prior to the completion of our initial public offering and related transactions directly owned 100% of the Fortress Operating Group units and following completion of our initial public offering and related transactions own a majority of the Fortress Operating Group units and of the Class B shares, representing a majority of the total combined voting power of all of our outstanding Class A and Class B shares. The principals ownership percentage is subject to change based on, among other things, equity offerings and grants by Fortress and dispositions by the principals.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

SPECIAL NOTE REGARDING EXHIBITS

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Cash and cash equivalents	$ 106,986	$ 263,337
Due from affiliates	105,518	38,504
Investments		
Equity method investees	881,768	774,382
Options in affiliates	1,417	39
Deferred tax asset	444,316	408,066
Other assets	91,763	93,407
	$ 1,631,768	$ 1,577,735
Liabilities and Shareholders Equity		
Liabilities		
Accrued compensation and benefits	$ 92,950	$ 158,033
Due to affiliates	333,320	346,265
Deferred incentive income	163,635	163,635
Debt obligations payable	411,800	729,041
Other liabilities	53,194	26,741
	1,054,899	1,423,715
Commitments and Contingencies		
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 145,511,736 and 94,609,525 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively		
Class B shares, no par value, 750,000,000 shares authorized, 307,773,852 and 312,071,550 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively		
Paid-in capital	932,709	596,803
Retained earnings (accumulated deficit)	(683,732)	(513,379)
Accumulated other comprehensive income (loss)	(597)	(866)
Total Fortress shareholders equity	248,380	82,558
Principals and others interests in equity of consolidated subsidiaries - Note 6	328,489	71,462
Total equity	576,869	154,020

	$ 1,631,768	$ 1,577,735

See notes to consolidated financial statements

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(dollars in thousands, except share data)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues				
Management fees from affiliates	$ 106,926	$ 154,266	$ 321,003	$ 447,928
Incentive income from affiliates	7,638	718	14,596	56,162
Expense reimbursements from affiliates	24,952	12,501	58,660	42,722
Other revenues (affiliate portion disclosed in Note 6)	4,167	17,651	10,807	27,300
	143,683	185,136	405,066	574,112
Expenses				
Interest expense	4,451	9,481	20,242	29,705
Compensation and benefits	132,033	134,774	354,725	399,253
Principals agreement compensation	239,975	239,976	712,101	714,710
General, administrative and other	18,461	23,536	56,680	59,852
Depreciation and amortization	2,719	2,437	8,121	7,309
	397,639	410,204	1,151,869	1,210,829
Other Income (Loss)				
Gains (losses) from investments				
Net realized gains (losses)	(408)	(2,477)	(1,180)	(803)
Net realized gains (losses) from affiliate investments	315	(671)	301	(516)
Net unrealized gains (losses)				
Net unrealized gains (losses) from affiliate investments	20,282	(6,951)	38,036	(43,352)
Tax receivable agreement liability reduction			(55)	
Earnings (losses) from equity method investees	40,345	(37,921)	56,553	(113,550)
	60,534	(48,020)	93,655	(158,221)
Income (Loss) Before Income Taxes	(193,422)	(273,088)	(653,148)	(794,938)
Income tax benefit (expense)	3,116	5,636	4,831	333
Net Income (Loss)	$ (190,306)	$ (267,452)	$ (648,317)	$ (794,605)
Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries	$ (131,704)	$ (210,012)	$ (477,964)	$ (612,692)
Net Income (Loss) Attributable to Class A Shareholders - Note 6	$ (58,602)	$ (57,440)	$ (170,353)	$ (181,913)
Dividends declared per Class A share	$	$	$	$ 0.450
Earnings Per Class A share - Fortress Investment Group				
Net income (loss) per Class A share, basic	$ (0.41)	$ (0.61)	$ (1.50)	$ (1.96)
Net income (loss) per Class A share, diluted	$ (0.43)	$ (0.66)	$ (1.53)	$ (1.97)

Weighted average number of Class A shares outstanding, basic	143,627,823	94,938,434	118,638,707	94,915,666
Weighted average number of Class A shares outstanding, diluted	454,064,379	407,009,984	430,159,270	406,987,216

See notes to consolidated financial statements

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENT OF EQUITY (Unaudited)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders Equity	Principals and Others Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity - December 31, 2008	94,609,525	312,071,550	$ 596,803	$ (513,379)	$ (866)	$ 82,558	$ 71,462	$ 154,020
Contributions from principals and others interests in equity							9,650	9,650
Distributions to principals and others interests in equity			(1,296)			(1,296)	(54,030)	(55,326)
Public offering of Class A shares, net of offering costs	46,000,000		219,500			219,500		219,500
Dilution impact of public offering			(144,572)			(144,572)	144,572	
Conversion of Class B shares to Class A shares	4,297,698	(4,297,698)	4,100			4,100	(4,100)	
Net deferred tax effects resulting from acquisition of Fortress Operating Group units			15,080			15,080		15,080
Net deferred tax effects resulting from exchange of Fortress Operating Group units for Class A shares			4,351			4,351		4,351
Director restricted share grant	116,672		172			172	229	401
Capital increase related to equity-based compensation, net	487,841		238,571			238,571	638,177	876,748
Comprehensive income (loss) (net of tax)								
Net income (loss)				(170,353)		(170,353)	(477,964)	(648,317)
Foreign currency translation					282	282	979	1,261
Comprehensive income (loss) from					(13)	(13)	(486)	(499)

equity method investees								
Total comprehensive income (loss)								(647,555)
Equity - September 30, 2009	145,511,736	307,773,852	$ 932,709	$ (683,732)	$ (597)	$ 248,380	$ 328,489	$ 576,869

See notes to consolidated financial statements

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands)

	Nine Months Ended September 30, 2009	2008
Cash Flows From Operating Activities		
Net income (loss)	$ (648,317)	$ (794,605)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	8,121	7,309
Other amortization and accretion	7,988	3,401
(Earnings) losses from equity method investees	(56,553)	113,550
Distributions of earnings from equity method investees	2,156	9,386
(Gains) losses from investments	(37,157)	44,671
Deferred incentive income		(36,003)
Deferred tax (benefit) expense	(12,428)	(8,297)
Reversal of forfeited non-cash compensation	(55)	
Tax receivable agreement liability reduction	55	
Equity-based compensation	878,808	853,861
Cash flows due to changes in		
Due from affiliates	(66,712)	90,724
Other assets	(8,166)	(13,052)
Accrued compensation and benefits	(58,861)	(93,466)
Due to affiliates	(18,087)	(50)
Deferred incentive income		26,077
Other liabilities	26,548	30,076
Net cash provided by (used in) operating activities	17,340	233,582
Cash Flows From Investing Activities		
Contributions to equity method investees	(43,322)	(135,036)
Distributions of capital from equity method investees	28,740	211,162
Purchase of fixed assets	(1,979)	(9,120)
Proceeds from disposal of fixed assets	7	53
Net cash provided by (used in) investing activities	(16,554)	67,059
Cash Flows From Financing Activities		
Borrowings under debt obligations		450,000
Repayments of debt obligations	(317,241)	(235,000)
Payment of deferred financing costs	(4,162)	(5,020)
Proceeds from public offering	230,000	
Costs related to public offering	(10,500)	
Dividends and dividend equivalents paid		(81,026)
Principals and others interests in equity of consolidated subsidiaries - contributions	92	145
Principals and others interests in equity of consolidated subsidiaries - distributions	(55,326)	(270,897)
Net cash provided by (used in) financing activities	(157,137)	(141,798)
Net Increase (Decrease) in Cash and Cash Equivalents	(156,351)	158,843
Cash and Cash Equivalents, Beginning of Period	263,337	100,409

Cash and Cash Equivalents, End of Period	$	106,986	$	259,252
Supplemental Disclosure of Cash Flow Information				
Cash paid during the period for interest	$	11,160	$	26,084
Cash paid during the period for income taxes	$	8,266	$	7,184
Supplemental Schedule of Non-cash Investing and Financing Activities				
Employee compensation invested directly in subsidiaries	$	7,976	$	22,861
Investments of receivable amounts into Fortress Funds	$		$	59,133
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	$		$	

See notes to consolidated financial statements

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2009

(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

1) Private equity:

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

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

2) Liquid hedge funds, which invest globally in fixed income, currency, equity and commodity markets, and related derivatives to capitalize on imbalances in the financial markets.

3) Hybrid funds:

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

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

4) Principal investments in the above described funds.

2007 Reorganization of Fortress Operating Group and Recent Offering

Fortress Investment Group LLC was formed in November 2006 for the purpose of becoming the general partner of Fortress Operating Group, completing the Nomura Transaction (described below), and effecting a public offering of shares and related transactions (the Transactions) in order to carry on the business of its predecessor, Fortress Operating Group, as a publicly traded entity. The Registrant is a limited liability company and its members are not responsible for any of its liabilities beyond the equity they have invested. Fortress s formation documents allow for an indefinite life.

In January 2007, Nomura Investment Managers U.S.A Inc. (Nomura) completed a transaction (the Nomura Transaction) whereby it purchased 55,071,450 Class A shares of the Registrant and the Registrant, in turn, purchased 55,071,450 Fortress Operating Group units from the Principals. In February 2007, the Registrant completed an initial public offering (IPO) of 39,428,900 of its Class A shares.

In May 2009, Fortress sold 46 million Class A shares in a public offering at a price to the public of $5.00 per share, for net proceeds of approximately $219.5 million after deducting the underwriters discount and other offering expenses. The Principals purchased an aggregate of 3.6 million of these shares, a senior employee purchased 0.4 million of these shares, and Nomura purchased 5.4 million of these shares, at the public offering price. A portion of the proceeds were used to pay down amounts outstanding under the credit agreement (Note 4).

Financial Statement Guide

Selected Financial Statement Captions	**Note Reference**	**Explanation**
Balance Sheet		
Due from Affiliates	6	Generally, management fees, expense reimbursements and incentive income earned from Fortress Funds.

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2009

(dollars in tables in thousands, except share data)

Selected Financial Statement Captions	Note Reference	Explanation
Investments in Equity Method Investees	3	The carrying value of Fortress s principal investments in the Fortress Funds.
Options in Affiliates	3	The fair value of common stock options received from the Castles.
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.
Principals and Others Interests in Equity of Consolidated Subsidiaries	6	The GAAP basis of the Principals ownership interests in Fortress Operating Group as well as employees ownership interests in certain subsidiaries.
Income Statement		
Management Fees from Affiliates	2	Fees earned for managing Fortress Funds, generally determined based on the size of such funds.
Incentive Income from Affiliates	2	Income earned from Fortress Funds, based on the performance of such funds.
Compensation and Benefits	7	Includes equity-based, profit-sharing and other compensation to employees.
Principals Agreement Compensation	N/A	As a result of the principals agreement, the value of a significant portion of the Principals equity in Fortress prior to the Nomura Transaction is being recorded as an expense over a five year period. Fortress is not a party to this agreement. It is an agreement between the Principals to further incentivize them to remain with Fortress. This GAAP expense has no economic effect on Fortress or its shareholders.
Gains (Losses) from Other Investments	N/A	Subsequent to the IPO, the result of asset dispositions or changes in the fair value of assets which are marked to market (primarily the Castles and GAGFAH).
Tax Receivable Agreement Liability Reduction	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 Fortress Funds resulting from its principal investments.

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2009

(dollars in tables in thousands, except share data)

Selected Financial Statement Captions	Note Reference	Explanation
Income Tax Benefit (Expense)	5	The net tax result related to the current period. Certain of Fortress s revenues are not subject to taxes because they do not flow through taxable entities. Furthermore, Fortress has significant permanent differences between its GAAP and tax basis earnings.
Principals and Others Interests in (Income) Loss of Consolidated Subsidiaries	6	Primarily the Principals and employees share of Fortress s earnings based on their ownership interests in subsidiaries, including Fortress Operating Group. This amount is disclosed in order to provide a net income (loss) which relates only to Fortress s Class A shareholders.
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 accompanying consolidated and combined financial statements and related notes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Fortress s financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Fortress s consolidated and combined financial statements for the year ended December 31, 2008 and notes thereto included in Fortress s current report on Form 8-K filed with the Securities and Exchange Commission on May 12, 2009. Capitalized terms used herein, and not otherwise defined, are defined in Fortress s consolidated and combined financial statements for the year ended December 31, 2008.

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2009

(dollars in tables in thousands, except share data)

2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

Management Fees, Incentive Income and Related Profit Sharing Expense

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

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

Fortress recognized management fees and incentive income as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Private Equity				
Private Equity Funds				
Management fees - affil.	$ 32,048	$ 40,007	$ 108,638	$ 120,225
Incentive income - affil.		509		38,684
Castles				
Management fees - affil.	12,358	12,755	35,698	38,828
Incentive income - affil.				12
Management fees - non-affil. (A)	596	1,035	1,936	2,867
Liquid Hedge Funds				
Management fees - affil.	18,566	59,530	61,063	169,721
Incentive income - affil.	6,431	47	6,575	16,885
Management fees - non-affil. (A)		110	25	246
Incentive income - non-affil. (A)		36		240
Hybrid Funds				
Hybrid Hedge Funds				
Management fees - affil.	31,815	37,760	89,030	110,753
Incentive income - affil.		162		581
Management fees - non-affil. (A)	277	270	686	730
Incentive income - non-affil. (A)	279	13,094	1,264	13,094
Hybrid PE Funds				
Management fees - affil.	12,139	4,214	26,574	8,401
Incentive income - affil.	1,207		8,021	
Management fees - non-affil. (A)	875		875	
Total				
Management fees - affil.	$ 106,926	$ 154,266	$ 321,003	$ 447,928
Incentive income - affil. (B)	$ 7,638	$ 718	$ 14,596	$ 56,162
Management fees - non-affil. (A)	$ 1,748	$ 1,415	$ 3,522	$ 3,843
Incentive income - non-affil. (A)	$ 279	$ 13,130	$ 1,264	$ 13,334

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

(B) See Deferred Incentive Income below.

Deferred Incentive Income

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

Incentive income from certain Fortress Funds, primarily hybrid hedge funds, as well as certain liquid hedge funds beginning in the second quarter of 2009, is earned based on achieving annual performance criteria. Accordingly, this incentive income is

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recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the nine months ended September 30, 2009 and 2008. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, $1.8 million and $0.0 million of additional incentive income from affiliates would have been recognized during the nine months ended September 30, 2009 and 2008, 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 2009, Fortress received $8.0 million of incentive income distributions from its hybrid PE funds which represented tax distributions. These tax distributions are not subject to clawback and reflect a cash amount equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

Deferred incentive income from the Fortress Funds, subject to contingent repayment, was comprised of the following, on an inception to date basis:

	Distributed-Gross	Distributed-Recognized (A)	Distributed-Unrecognized (B)	Undistributed net of intrinsic clawback (C) (D)
Deferred incentive income as of December 31, 2008	$ 470,798	$ (307,163)	$ 163,635	$ (89,085)
Share of income (loss) of Fortress Funds				233,136
Recognition of previously deferred incentive income				
Deferred incentive income as of September 30, 2009	$ 470,798	$ (307,163)	$ 163,635	$ 144,051

(A) All related contingencies have been resolved.

(B) Reflected on the balance sheet.

(C) At September 30, 2009, the undistributed incentive income is comprised of $227.4 million of gross undistributed incentive income, net of $83.3 million of previously distributed incentive income that would be returned by Fortress to the related funds if such funds were liquidated on September 30, 2009 at their net asset values.

(D) From inception to September 30, 2009, Fortress has paid $137.7 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income, of which $19.5 million has not been expensed because management has determined that it is not probable of being incurred as an expense and will be recovered from the related employees. If the $227.4 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional $108.4 million of compensation expense.

Private Equity Funds and Hybrid PE Funds

During the nine months ended September 30, 2009, Fortress formed new private equity funds or hybrid PE funds which had capital commitments as follows as of September 30, 2009 (based on September 30, 2009 foreign exchange rates):

Fortress s commitments	$ 18,840
Fortress s affiliates commitments	
Third party investors commitments	430,385
Total capital commitments	$ 449,225

Unrealized losses in a significant portion of Fortress s private equity funds have resulted in higher future returns being required before Fortress earns incentive income from such funds.

In February 2009, one of the private equity Fortress Funds issued notes in the amount of $80 million. These notes bear interest at 20% per annum, payable at maturity, and mature in January 2014. The notes were offered to existing investors in proportion to their ownership of the fund s equity and Fortress consequently subscribed to and received $0.5 million of these notes, which are recorded as part of Fortress s investment in such fund. In addition, the Principals concurrently acquired $4.7 million of these notes.

In March 2009, one of the private equity Fortress Funds which was formed as a coinvestment fund to invest solely in GAGFAH (XETRA: GFJ), distributed all of its shares in GAGFAH to its investors, including Fortress. As a result, Fortress received 5.7 million shares of GAGFAH. Fortress elected to account for these shares at fair value (Note 3).

In June 2009, one of the private equity Fortress Fund portfolio companies, Eurocastle, issued convertible securities in the amount of 75 million ($105 million). These securities bear interest at 20% per annum, payable annually (but deferrable), have no stated maturity, and are convertible into common shares of Eurocastle at an initial conversion price of 0.30 per share (subject to adjustment based on the occurrence of certain capital events within Eurocastle, including the payment of dividends). The Fortress Fund which had an equity investment in Eurocastle acquired 15.4 million ($21.6 million) of these securities.

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Fortress acquired 1.2 million ($1.8 million) of these securities, which were recorded as part of Fortress s investment in such portfolio company. Fortress elected to account for these securities at fair value (Note 3). In addition, the Principals and certain employees of Fortress acquired 8.8 million ($12.3 million) and 0.2 million ($0.2 million) of these securities, respectively.

Liquid Hedge Funds and Hybrid Hedge Funds

During the nine months ended September 30, 2009, Fortress formed, or became the manager of, hedge funds with net asset values as follows as of September 30, 2009:

	Liquid	Hybrid
Fortress	$	$
Fortress s affiliates		
Third party investors		2,750,443
Total NAV (A)	$	$ 2,750,443

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

In the second quarter of 2009, Fortress launched its new flagship liquid hedge fund, Fortress Macro Fund. Fortress will receive management fees of between 1.5% and 2% of NAV and incentive income of between 15% and 20% of profits, based on elections made by investors in Fortress Macro Fund. Investors in Fortress s prior flagship liquid hedge, Drawbridge Global Macro Fund (DBGM), may transfer the liquid portion of their investment in that fund to Fortress Macro Fund and retain their highwater mark with respect to incentive income (no incentive income will be earned from these investors capital until losses incurred through DBGM are recovered). This fund is not considered a new fund for purposes of the above disclosure as it replaces an existing fund.

Historical redemptions during the periods, including affiliates, have been as follows:

	Liquid Hedge Funds		Hybrid Hedge Funds	
Nine Months Ended September 30,	Redemption Notices Received	Redemptions Paid	Redemption Notices Received	Redemptions Paid
2009	$ 1,427,563	$ 4,159,798	$ 1,548,060	$ 423,319
2008	$ 430,234	$ 554,082	$ 1,505,412	$ 571,375

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

As a result of not meeting the incentive income thresholds with respect to a majority of current investors, incentive income from a substantial portion of the capital invested in Fortress s liquid and hybrid hedge funds has been suspended. Returns earned on capital from new investors continue to be incentive income eligible.

On May 5, 2009, consolidated affiliates of Fortress executed several agreements, effective June 1, 2009, to become the investment manager of certain investment funds then managed by D.B. Zwirn & Co., L.P. (the Value Recovery Funds) and to effect other related transactions. Fortress will receive management fees from these funds equal to 1% of realized proceeds and up to 1% per annum on certain managed assets, and may receive limited incentive income if aggregate realizations exceed an agreed threshold. These funds are now included in the hybrid hedge funds segment. The Value Recovery Funds are reflected in the new fund table above based on the NAV of the funds plus the fee paying basis for certain other managed assets.

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3. INVESTMENTS IN EQUITY METHOD INVESTEES AND OTHER EQUITY INVESTMENTS

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

Investments in Equity Method Investees

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

	Fortress s Investment		Fortress s Equity in Net Income (Loss)			
	September 30,	December 31,	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008	2009	2008
Private equity funds, excluding NIH (A)	$ 534,299	$ 455,691	$ 22,197	$ (4,280)	$ 18,366	$ (71,380)
NIH	3,795	3,666	300	(9)	144	872
Castles (B)	5,451	1,171	N/A	N/A	N/A	N/A
Total private equity	543,545	460,528	22,497	(4,289)	18,510	(70,508)
Liquid hedge funds	14,021	29,338	1,285	(3,668)	3,254	(3,117)
Hybrid hedge funds	211,817	185,676	11,299	(27,940)	25,641	(36,715)
Hybrid PE funds	107,982	96,610	5,307	(2,029)	8,806	(3,226)
Total hybrid funds	319,799	282,286	16,606	(29,969)	34,447	(39,941)
Other	4,403	2,230	(43)	5	342	16
	$ 881,768	$ 774,382	$ 40,345	$ (37,921)	$ 56,553	$ (113,550)

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

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

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

	Nine Months Ended September 30, 2009		
	Private Equity	Liquid	Hybrid

	NIH	Other Funds (A)	Castles (B)	Hedge Funds	Hedge Funds	PE Funds	Other	Total
Investment, beginning	$ 3,666	$ 455,691	$ 1,171	$ 29,338	$ 185,676	$ 96,610	$ 2,230	$ 774,382
Earnings from equity method investees	144	18,366	N/A	3,254	25,641	8,806	342	56,553
Other comprehensive income from equity method investees	(15)		N/A			(190)		(205)
Contributions to equity method investees		29,103	1,664	6,025	500	14,652	1,889	53,833
Distributions of earnings from equity method investees		(135)	N/A	(1,741)		(241)	(39)	(2,156)
Distributions of capital from equity method investees		(2,823)	N/A	(22,855)		(11,655)	(19)	(37,352)
Total distributions from equity method investees		(2,958)	N/A	(24,596)		(11,896)	(58)	(39,508)
Mark to fair value - during period (C)	N/A	30,805	2,491	N/A	N/A	N/A	N/A	33,296
Translation adjustment		3,292	125					3,417
Investment, ending	$ 3,795	$ 534,299	$ 5,451	$ 14,021	$ 211,817	$ 107,982	$ 4,403	$ 881,768
Ending balance of undistributed earnings	$ 1,199	$ 514	N/A	$ 85	$ 109	2,176	$ 309	$ 4,392

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

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

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

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The ownership percentages presented in the following tables are reflective of the ownership interests held as of the end of the respective periods. For tables which include more than one Fortress Fund, the ownership percentages are based on a weighted average by total equity of the funds as of period end.

	Private Equity Funds excluding NIH		*Newcastle Investment Holdings LLC (NIH)*	
	September 30, 2009	**December 31, 2008**	**September 30, 2009**	**December 31, 2008**
Assets	$ 11,269,447	$ 9,362,237	$ 272,306	$ 278,161
Liabilities	(969,146)	(1,058,392)	(206,884)	(215,416)
Equity	$ 10,300,301	$ 8,303,845	$ 65,422	$ 62,745
Fortress s Investment (A)	$ 534,299	$ 455,691	$ 3,795	$ 3,666
Ownership (B)	5.2%	5.5%	4.8%	4.8%

	Nine Months Ended September 30,		**Nine Months Ended September 30,**	
	2009	**2008**	**2009**	**2008**
Revenues and gains (losses) on investments	$ 1,864,675	$ (3,244,034)	$ 16,462	$ 35,773
Expenses	(188,682)	(305,752)	(13,154)	(16,808)
Net Income (Loss)	$ 1,675,993	$ (3,549,786)	$ 3,308	$ 18,965
Fortress s equity in net income (loss)	$ 18,366	$ (71,380)	$ 144	$ 872

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

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

	Liquid Hedge Funds		*Hybrid Hedge Funds*		*Hybrid PE Funds (B)*	
	September 30, 2009	**December 31, 2008**	**September 30, 2009**	**December 31, 2008**	**September 30, 2009**	**December 31, 2008**
Assets	$ 10,491,436	$ 7,819,859	$ 10,868,982	$ 10,803,738	$ 6,444,285	$ 4,103,809
Liabilities	(6,310,524)	(540,204)	(3,384,107)	(4,407,170)	(2,304,787)	(1,517,607)
Minority interest			(10,947)	(29,922)		

Equity	$ 4,180,912	$ 7,279,655	$ 7,473,928	$ 6,366,646	$ 4,139,498	$ 2,586,202
Fortress s Investment	$ 14,021	$ 29,338	$ 211,817	$ 185,676	$ 107,982	$ 96,610
Ownership (A)	0.3%	0.4%	2.8%	2.9%	2.6%	3.7%

	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008	2009	2008
Revenues and gains (losses) on investments	$ 899,569	$ (716,901)	$ 1,307,348	$ (485,557)	$ 1,559,414	$ (81,719)
Expenses	(130,254)	(490,442)	(216,459)	(312,522)	(98,119)	(39,612)
Net Income (Loss)	$ 769,315	$ (1,207,343)	$ 1,090,889	$ (798,079)	$ 1,461,295	$ (121,331)
Fortress s equity in net income (loss)	$ 3,254	$ (3,117)	$ 25,641	$ (36,715)	$ 8,806	$ (3,226)

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

(B) Includes one entity which is recorded on a one quarter lag (i.e. the balances reflected for this entity are for the periods ended June 30, 2009 and 2008, respectively). It is recorded on a lag because it is a German entity and does not provide financial reports under U.S. GAAP within the reporting timeframe necessary for U.S. public entities.

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. No reconsideration events occurred during the nine months ended September 30, 2009 which caused a change in Fortress s accounting.

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The following table presents information as of September 30, 2009 regarding entities formed during the nine months ended September 30, 2009 that were determined to be VIEs 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.

		Fortress is not Primary Beneficiary		
Business Segment	**Gross Assets**	**Financial Obligations (A)**	**Fortress Investment (B)**	**Notes**
Hybrid PE Funds	$ 120,893	$	$ 1,658	(C) (D)
Liquid Hedge Funds	$ 7,358,533	$ 5,392,124	$ 2,297	(C) (D)
Hybrid Hedge Funds	$ 819,699	$ 595,812	$	(D) (E)

(A) Represents financial obligations at the fund level, which are not recourse to Fortress. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these funds have additional debt within unconsolidated subsidiaries. Of the financial obligations represented herein, $595.8 million represent financial borrowings which have a weighted average maturity of 3.5 years for hybrid hedge funds.

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

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

(D) Fortress s investment includes $0.3 million of management fees receivable from the liquid hedge funds. Fortress s investment also includes $0.5 million and $1.8 million of other receivables from the hybrid PE funds and liquid hedge funds, respectively.

(E) Fortress is not the primary beneficiary of these entities, which represent collateralized loan obligation (CLO) structures whose equity is owned by one of the Fortress hybrid hedge funds, because the related funds (which are not consolidated) are more closely associated with the CLOs than Fortress based on both a quantitative and qualitative analysis.

Fair Value of Financial Instruments

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

	Fair Value		Valuation Method
	September 30, 2009	December 31, 2008	
Assets - Carried at Fair Value			
Newcastle and Eurocastle common shares	$ 3,694	$ 1,171	Level 1 - Quoted prices in active markets for identical assets
GAGFAH common shares	$ 64,029	$	Level 1 - Quoted prices in active markets for identical assets
Eurocastle convertible debt (A)	$ 1,757	$	Level 3B - Internal model
Newcastle and Eurocastle options	$ 1,417	$ 39	Level 2 - Lattice-based option valuation models using significant observable inputs

(A) The debt bears interest 20% per annum and is perpetual, but ECT may redeem the securities after two years at a premium of 20%. As of September 30, 2009, it has a face amount of 1.2 million ($1.8 million) and is convertible into ECT common shares at 0.30 per share.

Fortress s investments in instruments measured at fair value using Level 3 inputs changed during the nine months ended September 30, 2009 as follows:

Balance at December 31, 2008	$
Transfers into Level 3	1,684
Total gains (losses) included in net income (including foreign currency translation)	73
Balance at September 30, 2009	$ 1,757

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4. DEBT OBLIGATIONS

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

	Face Amount and Carrying Value				September 30, 2009	
			Contractual Interest	Final	Weighted Average	Weighted Average
Debt Obligation	**September 30, 2009**	**December 31, 2008**	**Rate**	**Stated Maturity**	**Funding Cost (A)**	**Maturity (Years)**
Credit agreement (B)						
Revolving debt (C)	$	$ 104,041	LIBOR + 2.50% (D)	May 2012		
Term loan	350,000	350,000	LIBOR + 2.50%	May 2012	3.99%	1.60
Delayed term loan (C)	61,800	275,000	LIBOR + 2.50%	May 2012	3.23%	0.33
Total	$ 411,800	$ 729,041			3.88%	1.41

(A) The weighted average funding cost is calculated based on the contractual interest rate (utilizing the most recently reset LIBOR rate) plus the amortization of deferred financing costs. The most recently reset LIBOR rate was 0.25%.

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

(C) Approximately $65.9 million was undrawn on the revolving debt facility as of September 30, 2009. The revolving debt facility includes a $25 million letter of credit subfacility of which $9.1 million was utilized. Lehman Brothers Commercial Paper, Inc., which is committed to fund $7.2 million (including $0.9 million of the outstanding letters of credit) of the $75 million revolving credit facility, has filed for bankruptcy protection, did not fund its pro rata portion of the last borrowing under this facility, and it is reasonably possible that it will not fund its portion of the commitments. As a result, $59.6 million of the undrawn amount was available.

(D) Subject to unused commitment fees of 0.50% per annum.

On March 12 and March 13, 2009, Fortress entered into amendments to its credit agreement. The amendments, among other things: (i) modified the financial covenants by (a) amending the amount of required management fee earning assets to $22 billion as of the end of each fiscal quarter through December 31, 2009 and $20 billion as of the end of each fiscal quarter thereafter; (b) reducing the amount of investment assets required as of any point in time to an amount equal to the term loans and revolving loans (including outstanding letters of credit) then outstanding; (c) changing the required Consolidated Leverage Ratio to 3.5 to 1.0 for the remainder of the term of the credit agreement; (ii) increased the rate on LIBOR loans to LIBOR + 2.50 (and Base Rate loans to the prime rate plus 1.50%); (iii) reduced the revolving credit facility commitments to $75 million; (iv) established an annual requirement, beginning in 2010, that outstanding loans be prepaid in an amount equal to 75% of Free

Cash Flow (as defined in the agreement) generated during the previous year; (v) increased the amount of Fortress s scheduled amortization payments (the amortization schedule now requires the following payments: $50 million in July 2009, $25 million in each of October 2009 and January, April, July and October 2010, and $75 million in January 2011); (vi) established a requirement that 50% of the net proceeds from any equity issuance by the Fortress Operating Group be applied to prepay outstanding term loans; (vii) reduced the amount of certain types of distributions Fortress can make to equity holders of the Fortress Operating Group and, in turn, Fortress s Class A shareholders, and (viii) provided that the dissolution or termination of specified material funds would not constitute an event of default. In connection with the amendment, Fortress prepaid $75 million of outstanding term loans and $50 million of outstanding revolving facility loans.

On June 11, 2009, Fortress entered into an amendment to its credit agreement. This amendment, among other things, (i) allows Fortress to repurchase outstanding loans made under the credit agreement subject to certain conditions, (ii) permits Fortress to make investments in Fortress Funds in any amount it deems appropriate, provided that investments in Fortress Funds created after June 11, 2009 in excess of 1.5% of such Fund s aggregate called capital may not be deducted from Free Cash Flow (as defined in the credit agreement), (iii) excludes Managed Accounts (as defined in the credit agreement) from the definition of Material Fortress Funds, (iv) expands the term Permitted Fund Termination to include the termination, dissolution, liquidation or windup of a Fortress Fund either (a) after the last asset or investment is sold in the ordinary course of business or (b) after the date of dissolution as stated in the applicable fund document, and (v) revises the financial covenants by (a) reducing the percentage of Free Cash Flow that must be applied to prepay outstanding term loans from 75% to 50% if, on the applicable measurement dates, the amount of outstanding commitments and loans does not exceed $315 million, the amount of outstanding loans does not exceed $300 million and the Consolidated Leverage Ratio (as calculated according to the terms of the Credit Agreement) does not exceed 2.0 to 1.0, and (b) increasing the amount of restricted payments that can be made, with such increase specified according to formulas set forth in the Credit Agreement.

In connection with the repayment of a portion of the term loan from proceeds of our May 2009 capital raise (Note 1), $1.6 million of deferred loan coasts were written off to interest expense.

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To management s knowledge, there have not been any market transactions in Fortress s debt obligations. However, management believes the fair value of this debt was between 80% and 90% of face value at September 30, 2009.

Fortress was in compliance with all of its debt covenants as of September 30, 2009. The following table sets forth the financial covenant requirements as of September 30, 2009 (dollars in millions).

	Requirement	Actual
AUM	≥$ 22,000	$ 32,000
Consolidated Leverage Ratio	≤ 3.50	1.52
Required Investment Assets	≥$ 421	$ 868
Fortress Fund Investments	≥$ 168	$ 518
Total Investments	≥$ 253	$ 662

5. INCOME TAXES AND TAX RELATED PAYMENTS

For the nine months ended September 30, 2009, an estimated annual effective tax rate of 2.76% was used to compute the tax provision. Fortress incurred a loss before income taxes for financial reporting purposes, after deducting the compensation expense arising from the Principals forfeiture agreement. However, this compensation expense is not deductible for income tax purposes. Also, a portion of Fortress s income is not subject to U.S. federal income tax, but is allocated directly to Fortress s shareholders.

The provision for income taxes consists of the following:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Current				
Federal income tax (benefit)	$ (232)	$ (3,310)	$ 387	$ (1,316)
Foreign income tax	433	891	1,424	2,090
State and local income tax	1,951	1,646	5,786	7,190
	2,152	(773)	7,597	7,964
Deferred				
Federal income tax expense (benefit)	(1,956)	(2,506)	(5,227)	(2,526)
Foreign income tax expense (benefit)	(127)	(281)	219	(101)
State and local income tax expense (benefit)	(3,185)	(2,076)	(7,420)	(5,670)
	(5,268)	(4,863)	(12,428)	(8,297)
Total expense (benefit)	$ (3,116)	$ (5,636)	$ (4,831)	$ (333)

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

	September 30, 2009		December 31, 2008	
Total deferred tax assets	$	545,722	$	504,017
Valuation allowance		(101,406)		(95,951)
Net deferred tax assets	$	444,316	$	408,066
Total deferred tax liabilities (A)	$	515	$	592

(A) Included in Other Liabilities

The equity offering during the second quarter increased FIG Corp s ownership percentage in the underlying Fortress Operating Group entities. As a result of the increased ownership, the deferred tax asset was increased by $24.2 million with an offsetting increase of $9.1 million to the valuation allowance. The establishment of the net deferred tax asset of $15.1 million increased additional paid-in capital.

The exchange by the principals of Fortress Operating Group units and Class B shares for Class A shares during the third quarter (as described in Note 8) increased FIG Corp s ownership percentage in the underlying Fortress Operating group entities. As a result of the increased ownership, the deferred tax asset was increased by $4.0 million with an offsetting increase of $1.9 million to the valuation allowance. In addition, the deferred tax asset was increased by $6.8 million related to a step-up in tax basis due to the share exchange which will result in additional tax deductions. The establishment of these net deferred tax assets also increased additional paid in capital.

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For the nine months ended September 30, 2009, a deferred income tax provision of $0.1 million was debited to other comprehensive income, primarily related to the equity method investees. A current income tax benefit of $0.5 million was credited to additional paid in capital, related to (i) dividend equivalent payments on RSUs (Note 7), and (ii) distributions to Fortress Operating Group restricted partnership unit holders (Note 7), which are currently deductible for income tax purposes.

Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the nine months ended September 30, 2009, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be $11.3 million.

As a result of the share exchange by the principals, the liability for the tax receivable agreement was increased by $5.1 million to represent 85% of the expected cash tax savings resulting from the increase in tax basis deductions.

6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

	Private Equity			Hybrid			
	Funds	Castles	Liquid Hedge Funds	Hedge Funds	PE Funds	Other	Total
September 30, 2009							
Management fees and incentive income (A)	$ 45,937	$ 7,969	$ 6,824	$ 2,230	$ 10,511	$	$ 73,471
Expense reimbursements (A)	13,948	3,742	4,663	5,208	2,594		30,155
Dividends and distributions							
Other	64	94			95	1,639	1,892
Total	$ 59,949	$ 11,805	$ 11,487	$ 7,438	$ 13,200	$ 1,639	$ 105,518

	Private Equity			Hybrid			
	Funds	Castles	Liquid Hedge Funds	Hedge Funds	PE Funds	Other	Total
December 31, 2008							
Management fees and incentive income	$ 7,833	$ 4,094	$ 329	$ 1,285	$ 6,907	$	$ 20,448
Expense reimbursements	6,289	2,734	1,211	2,115	3,536		15,885
Dividends and distributions		89					89
Other	1					2,081	2,082
Total	$ 14,123	$ 6,917	$ 1,540	$ 3,400	$ 10,443	$ 2,081	$ 38,504

(A) Net of reserves of $1.7 million and $0.4 million, respectively.
Due to affiliates was comprised of the following:

	September 30, 2009	December 31, 2008
Principals		
- Tax receivable agreement - Note 5	$ 326,485	$ 338,649
- Distributions payable on Fortress Operating Group units		
Other	6,835	7,616
	$ 333,320	$ 346,265

As of September 30, 2009, Due from Affiliates included $45.6 million of past due management fees from, and $8.1 million of private equity general and administrative expenses advanced on behalf of, certain Fortress Funds. Of these amounts, $22.4 million has been collected subsequent to September 30, 2009. Although such funds are currently experiencing liquidity issues, Fortress believes these fees will ultimately be collectable as the NAV s of the respective funds exceed the amounts owed.

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Other Related Party Transactions

For the nine months ended September 30, 2009 and 2008, Other Revenues included approximately $5.0 million and $1.9 million, respectively, of revenues from affiliates, including dividends.

Fortress has entered into cost sharing arrangements with the Fortress Funds, including market data services and subleases of certain of its office space. Expenses borne by the Fortress Funds under these agreements are generally paid directly by those entities (i.e. they are generally not paid by Fortress and reimbursed). For the nine months ended September 30, 2009 and 2008, these expenses, mainly related to subscriptions to market data services, approximated $12.5 million and $15.6 million, respectively.

In February 2007, we entered into an agreement with two employees who were departing from Fortress to form their own investment management company. We received a minority ownership interest in the management company, which receives management fees and incentive income from all funds formed by such company, and as part of the transaction a Fortress Fund received certain rights to invest at discounted fee rates in the fund being formed by the departing employees, and committed to invest $200 million in that fund subject to certain conditions (of which that Fortress Fund has invested approximately $100 million as of April 2009). In December 2008, the Fortress Fund agreed to eliminate its $100 million unfunded commitment and provide that fund with a $25 million revolving credit facility.

In March 2009, a private equity Fortress Fund repaid in full the remaining $14.4 million of non-dividend bearing preferred equity it had issued to three of the Principals.

In April 2009, five employees terminated their employment with Fortress s private equity funds operating subsidiary in order to become employees of GAGFAH, one of Fortress s private equity portfolio companies. These employees had received RSUs from Fortress. Fortress has modified these awards, valued at approximately $0.9 million in the aggregate, such that each employee s vesting continues on the original vesting schedule as long as such employee remains employed by GAGFAH.

In April 2009, Fortress advanced $0.7 million to one of its senior employees who is not an officer. This advance bears interest at LIBOR+3% and is payable on the earlier of (i) April 6, 2012, or (ii) the termination of employment.

In May 2009, in connection with the launch of a new Fortress Fund in Asia, Fortress entered into an agreement under which Nomura acted as a placement agent and assisted the fund in raising investor capital. Nomura raised a total of $250.8 million in committed capital for the fund during 2009 and receives, from Fortress, a fee equal to 1% of all such capital.

In July 2009, Fortress entered into an employment offer letter with Daniel H. Mudd, pursuant to which Mr. Mudd began serving as the Chief Executive Officer of Fortress on August 11, 2009. Fortress will provide Mr. Mudd with an annual base salary of $200,000 for each of 2009 and 2010. Mr. Mudd will receive a cash bonus of $1.3 million for 2009 and $1.8 million for 2010.

Mr. Mudd received a grant of 7,243,577 restricted stock units (the RSU Grant) with a value, as defined in the agreement, of $25,000,000. One-half of the RSU Grant consisted of dividend-paying restricted stock units. The RSU Grant will vest in equal annual installments on each of the first eight (8) anniversaries of Mr. Mudd s start date, subject to Mr. Mudd s continued employment on each such anniversary. Mr. Mudd will be granted restricted Class A Shares with a value of $500,000 on January 1, 2010, subject to his continued employment on such date. In addition, Fortress purchased a residential property from Mr. Mudd in August 2009 for $8.5 million, which was equal to its estimated market value.

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Principals and Others Interests in Consolidated Subsidiaries

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

This balance sheet caption was comprised of the following:

	September 30, 2009	December 31, 2008
Principals Fortress Operating Group units	$ 291,282	$ 47,305
Employee interests in majority owned and controlled fund advisor and general partner entities	36,370	23,981
Other	837	176
Total	$ 328,489	$ 71,462

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Principals Fortress Operating Group units	$ (133,712)	$ (208,169)	$ (482,261)	$ (611,760)
Employee interests in majority owned and controlled fund advisor and general partner entities	2,013	(1,843)	4,234	(1,401)
Other	(5)		63	469
Total	$ (131,704)	$ (210,012)	$ (477,964)	$ (612,692)

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net income (loss) attributable to Fortress	$ (58,602)	$ (57,440)	$ (170,353)	$ (181,913)
Transfers (to) from the Principals and Others Interests:				
Decrease in Fortress s paid-in-capital for Purchase of 46,000,000 Fortress Operating Group Units			(144,572)	
Conversion to Class A Shares (A)	4,100		4,100	
Change from net income (loss) attributable to Fortress and transfers (to) from Principals and Others Interests	$ (54,502)	$ (57,440)	$ (310,825)	$ (181,913)

(A) In August 2009, the Principals exchanged an aggregate of 4,297,698 FOG units and Class B shares for an equal number of Class A shares. Of these shares, 2,410,904 were simultaneously contributed by the Principals to various charitable organizations.

As a result of the May 2009 capital raise (Note 1), the Principals recorded interests in FOG were increased by $151.3 million (the capital raise was accretive to the Principals interests).

In December 2007, the FASB issued FASB Accounting Standards Codification (FASB ASC) Section 810-10-65 Transition Related to SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements. FASB ASC Section 810-10-65 clarifies the classification of non-controlling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and holders of such non-controlling interests. FASB ASC Section 810-10-65 applies to reporting periods beginning after December 15, 2008. FASB ASC Section 810-10-65 had the following effects on Fortress s financial statements: (i) reclassification of Principals and Others Interests in Equity of Consolidated Subsidiaries from the mezzanine section of the balance sheet (between liabilities and equity) to equity, (ii) removal of Principals and Others Interests in Income of Consolidated Subsidiaries from the calculation of Net Income (Loss) on the statement of operations, and disclosure thereof below Net Income (Loss), and (iii) with respect to potential future transactions in which Fortress could acquire Fortress Operating Group units from the Principals pursuant to their exchange (along with Class B shares) for Class A shares (or otherwise), these transactions would be accounted for as equity transactions rather than as a step acquisition of Fortress Operating Group (as would be required under prior accounting principles). There is no effect from adoption of FASB ASC Section 810-10-65 on the equity which pertains to Class A shareholders, or net income (loss) allocable to Class A shareholders, or on Fortress s liquidity.

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7. EQUITY-BASED AND OTHER COMPENSATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Equity-based compensation, per below	$ 60,883	$ 57,755	$ 166,707	$ 139,152
Profit-sharing expense, per below	8,949	8,142	20,798	50,132
Discretionary bonuses	31,396	35,737	77,545	109,793
Other payroll, taxes and benefits	30,805	33,140	89,675	100,176
	$ 132,033	$ 134,774	$ 354,725	$ 399,253

Equity-Based Compensation

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

	RSUs				Restricted Shares		RPUs	
	Employees		Non-Employees		Issued to Directors		Employees	
	Number	Value (A)	Number	Value (A)	Number	Value (A)	Number	Value (A)
Outstanding as of December 31, 2008	40,865,316	$ 16.53	8,600,867	$ 14.84	109,174	$ 17.76	31,000,000	$ 13.75
Issued	7,243,577	3.25	352,162	2.58	127,482	3.77		
Converted to Class A shares	(345,463)	12.16	(555,120)	24.82	(9,479)	15.60		
Forfeited	(2,633,738)	14.31	(1,531,942)	14.63	(10,810)	18.50		
Outstanding as of September 30, 2009 (B)	45,129,692	$ 14.56	6,865,967	$ 13.45	216,367	$ 9.58	31,000,000	$ 13.75

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Expense incurred (B)				
Employee RSUs	$ 29,431	$ 29,088	$ 78,696	$ 82,997
Non-Employee RSUs	6,607	3,970	14,577	9,381
Restricted Shares	299	151	596	450
LTIP	1,733	1,733	5,143	5,162
RPUs	22,813	22,813	67,695	41,162
Total equity-based compensation expense	$ 60,883	$ 57,755	$ 166,707	$ 139,152

(A) Represents the weighted average grant date estimated fair value per share or unit. The weighted average estimated fair value per unit as of September 30, 2009 for awards granted to non-employees was $5.20, which is equal to the closing trading price per share of Fortress s Class A shares on such date.

(B) In future periods, Fortress will recognize compensation expense on its non-vested equity based awards of $698.6 million, with a weighted average recognition period of 3.4 years. This does not include amounts related to the Principals Agreement.

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

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Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Private equity funds (A)	$	$ (5,412)	$ (15)	$ (2,868)
Castles (A)	(55)	1,231	(192)	3,388
Liquid hedge funds	6,723	5,455	12,173	38,572
Hybrid hedge funds	1,646	6,867	4,603	10,573
Hybrid private equity funds	635		4,229	
Other		1		467
Total	$ 8,949	$ 8,142	$ 20,798	$ 50,132

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

8. EARNINGS PER SHARE AND DISTRIBUTIONS

	Three Months Ended September 30, 2009 Basic	Three Months Ended September 30, 2009 Diluted	Nine Months Ended September 30, 2009 Basic	Nine Months Ended September 30, 2009 Diluted
Weighted average shares outstanding				
Class A shares outstanding	142,369,630	142,369,630	117,408,542	117,408,542
Fully vested restricted Class A share units with dividend equivalent rights	1,158,673	1,158,673	1,137,275	1,137,275
Fully vested restricted Class A shares	99,520	99,520	92,890	92,890
Fortress Operating Group units exchangeable into Fortress Investment Group LLC Class A shares (1)		310,436,556		311,520,563
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	143,627,823	454,064,379	118,638,707	430,159,270
Basic and diluted net income (loss) per Class A share				
Net income (loss)	$ (58,602)	$ (58,602)	$ (170,353)	$ (170,353)

Dilution in earnings due to RPUs treated as a participating security of Fortress Operating Group (4)		(855)		(855)		(7,318)		(7,318)
Dividend equivalents declared on non-vested restricted Class A shares and restricted Class A share units								
Add back Principals and others interests in loss of Fortress Operating Group, net of assumed corporate income taxes at enacted rates, attributable to Fortress Operating Group units exchangeable into Fortress Investment Group LLC Class A shares (1)				(135,087)				(479,890)
Net income (loss) available to Class A shareholders	$	(59,457)	$	(194,544)	$	(177,671)	$	(657,561)
Weighted average shares outstanding		143,627,823		454,064,379		118,638,707		430,159,270
Basic and diluted net income (loss) per Class A share	$	(0.41)	$	(0.43)	$	(1.50)	$	(1.53)

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	Three Months Ended September 30, 2008		Nine Months Ended September 30, 2008	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	94,500,351	94,500,351	94,500,351	94,500,351
Fully vested restricted Class A share units with dividend equivalent rights	394,286	394,286	394,286	394,286
Fully vested restricted Class A shares	43,797	43,797	21,029	21,029
Fortress Operating Group units exchangeable into Fortress Investment Group LLC Class A shares (1)		312,071,550		312,071,550
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)				
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)				
Total weighted average shares outstanding	94,938,434	407,009,984	94,915,666	406,987,216
Basic and diluted net income (loss) per Class A share				
Net income (loss)	$ (57,440)	$ (57,440)	$ (181,913)	$ (181,913)
Dilution in earnings due to RPUs treated as a participating security of Fortress dividend equivalent rights treated as outstanding Fortress Operating Group units (4)	(298)	(298)	(2,071)	(2,071)
Dividend equivalents declared on non-vested restricted Class A shares and restricted Class A share units			(2,276)	(2,276)
Add back Principals and others interests in loss of Fortress Operating Group, net of assumed corporate income taxes at enacted rates, attributable to Fortress Operating Group units exchangeable into Fortress Investment Group LLC Class A shares (1)		(210,477)		(613,553)
Net income (loss) available to Class A shareholders	$ (57,738)	$ (268,215)	$ (186,260)	$ (799,813)
Weighted average shares outstanding	94,938,434	407,009,984	94,915,666	406,987,216
Basic and diluted net income (loss) per Class A share	$ (0.61)	$ (0.66)	$ (1.96)	$ (1.97)

(1) The Fortress Operating Group units not held by Fortress (that is, those held by the Principals) are exchangeable into Class A shares on a one-to-one basis. These units are not included in the computation of basic earnings per share. These units enter into the computation of diluted net income (loss) per Class A share when the effect is dilutive using the if-converted method. To the extent charges, particularly tax related charges, are incurred by the Registrant (i.e. not at the Fortress Operating Group level), the effect may be anti-dilutive.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Share Units	25,932,813	28,063,543	24,964,718	27,841,459

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

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

In August 2009, the Principals exchanged an aggregate of 4,297,698 FOG units and Class B shares for an equal number of Class A shares. Of these shares, 2,410,904 were simultaneously contributed by the Principals to various charitable organizations.

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Fortress s dividend paying shares and units were as follows:

	Weighted Average Three Months Ended September 30,		Weighted Average Nine Months Ended September 30,	
	2009	2008	2009	2008
Class A shares (public shareholders)	142,369,630	94,500,351	117,408,542	94,500,351
Restricted Class A shares (directors)	183,173	108,661	138,999	103,411
Restricted Class A share units (employees) (A)	1,158,673	394,286	1,137,275	394,286
Restricted Class A share units (employees) (B)	25,480,488	24,101,891	23,794,771	23,840,819
Fortress Operating Group units (Principals)	310,436,556	312,071,550	311,520,563	312,071,550
Fortress Operating Group RPUs (senior employee)	31,000,000	31,000,000	31,000,000	18,781,022
Total	510,628,520	462,176,739	485,000,150	449,691,439

	As of September 30, 2009	As of December 31, 2008
Class A shares (public shareholders)	145,295,369	94,500,351
Restricted Class A shares (directors)	216,367	109,174
Restricted Class A share units (employees) (A)	959,831	631,260
Restricted Class A share units (employees) (B)	25,218,073	22,955,132
Fortress Operating Group units (Principals)	307,773,852	312,071,550
Fortress Operating Group RPUs (senior employee)	31,000,000	31,000,000
Total	510,463,492	461,267,467

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

(B) Represents nonvested restricted Class A share units which are entitled to dividend equivalent payments.
Dividends and distributions during the nine months ended September 30, 2009 are summarized as follows:

		Current Year		
	Declared in Prior Year, Paid Current Year	Declared and Paid	Declared but not yet Paid	Total
Dividends on Class A Shares	$	$	$	$
Dividend equivalents on restricted Class A share units (A)				
		45,468		45,468

Distributions to Fortress Operating Group unit holders (Principals) (B)				
Distributions to Fortress Operating Group RPU holders (Note 7) (B)		4,540		4,540
Total distributions	$	$ 50,008	$	$ 50,008

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

(B) Fortress Operating Group made distributions to the principals and RPU holders in connection with distributions made to FIG Corp. to pay Fortress s income taxes.

The following table summarizes our comprehensive income (loss) (net of taxes) for the nine months ended September 30, 2008:

	Impact to Total Fortress Shareholders Equity	**Impact to Principals and Others Interests in Equity of Consolidated Subsidiaries**	**Impact to Total Equity**
Net income (loss)	$ (181,913)	$ (612,692)	$ (794,605)
Foreign currency translation	654	(1,441)	(787)
Comprehensive income (loss) from equity method investees	346	(13)	333
Total comprehensive income (loss)	$ (180,913)	$ (614,146)	$ (795,059)

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9. COMMITMENTS AND CONTINGENCIES

Other than as described below, Fortress s commitments and contingencies remain materially unchanged from December 31, 2008.

Private Equity Fund and Hybrid PE Fund Capital Commitments Fortress has remaining capital commitments to certain of the Fortress Funds which aggregated $129.9 million as of September 30, 2009. These commitments can be drawn by the funds on demand.

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

Minimum future rent payments under these leases is as follows:

October 1 to December 31, 2009	$ 4,712
2010	18,608
2011	12,406
2012	11,917
2013	11,724
2014	11,107
Thereafter	22,423
Total	$ 92,897

Rent expense recognized on a straight-line basis during the nine months ended September 30, 2009 and 2008 was $14.4 million and $14.7 million, respectively, and during the three months ended September 30, 2009 and 2008 was $4.6 million and $5.3 million, respectively, and was included in General, Administrative and Other Expense.

Litigation Fortress is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions that existed as of September 30, 2009, if any, will not materially affect Fortress s results of operations, liquidity or financial position.

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10. SEGMENT REPORTING

Fortress conducts its management and investment business through the following six primary segments: (i) private equity funds, (ii) Castles, (iii) liquid hedge funds, (iv) hybrid hedge funds, (v) hybrid private equity (PE) funds, and (vi) principal investments in these funds as well as cash that is available to be invested. Due to the increased significance of the hybrid PE funds segment, it has been disaggregated from the private equity fund segment in this period and for all periods presented.

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

Incentive Income

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

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

Other Income

(ii) with respect to income from certain principal investments and certain other interests that cannot be readily transferred or redeemed:

a. for equity method investments in the private equity funds and hybrid 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) from consolidated private equity funds and hybrid PE funds,

d.

subtracting unrealized gains (or adding unrealized losses) on direct investments in publicly traded portfolio companies and in the Castles,

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

Expenses

(iv) adding or subtracting, as necessary, the employee profit sharing in incentive income described in (i) above to match the timing of the expense with the revenue,

(v) adding back equity-based compensation expense (including Castle options assigned to employees, RSUs and RPUs (including the portion of related dividend and distribution equivalents recorded as compensation expense), restricted shares and the LTIP),

(vi) adding back compensation expense recorded in connection with the forfeiture arrangements entered into among the principals,

(vii) adding the income (or subtracting the loss) allocable to the interests in consolidated subsidiaries attributable to Fortress Operating Group units, and

(viii) adding back income tax benefit or expense and any expense recorded in connection with the tax receivable agreement (Note 5).

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

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

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

(iii) the difference between the GAAP carrying amount for options owned in certain of the Castles and their carrying amount for segment reporting purposes, which is intrinsic value.

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Distributable Earnings Impairment

Investment Impairment for DE purposes

Fortress had the following direct and indirect investments in private equity funds, Castles and hybrid PE funds as of September 30, 2009:

Fund	Fortress Share of NAV	Fortress Current Cost Basis (A)	Deficit	% Below Current Cost Basis (A)	% Below Original Cost Basis (B)	Periods in Deficit	Nine Months Ended Sep 30, 2009 DE Impairment Recorded	Notes
Main Funds								
Fund I	$ 245	$	N/A	N/A	N/A	N/A	$	
Fund II	6,179	2,317	N/A	N/A	N/A	N/A	(248)	
Fund III and Fund III CO	8,774	5,286	N/A	N/A	(22%)	6 Quarters	(232)	
Fund IV and Fund IV CO	107,588	98,747	N/A	N/A	(29%)	8 Quarters	(6,184)	
Fund V and Fund V CO	56,071	34,926	N/A	N/A	(52%)	8 Quarters	(5,553)	
Mortgage Opportunities Funds	3,995	2,572	N/A	N/A	(55%)	6 Quarters	(518)	
Long Dated Value Funds	20,682	17,853	N/A	N/A	N/A	N/A		
Real Assets Funds	16,654	12,551	N/A	N/A	N/A	N/A		
Credit Opportunities Funds	31,306	17,030	N/A	N/A	N/A	N/A	(562)	
Japan Opportunity Fund	1,199	1,035	N/A	N/A	N/A	N/A		
Yama 1 and 2 GK	2,394	2,042	N/A	N/A	N/A	N/A		
Single Investment Funds and Direct Investments (combined)								
GAGFAH (XETRA: GFJ)	75,319	32,327	N/A	N/A	(23%)	6 Quarters	(6,588)	
Brookdale (NYSE: BKD)	24,808	8,200	N/A	N/A	(45%)	8 Quarters	(749)	
Aircastle (NYSE: AYR)	638	366	N/A	N/A	N/A	N/A		
Private investment #1	43,691	43,115	N/A	N/A	(34%)	6 Quarters	(10,002)	
Private investment #2	255	590	(335)	(57%)	(97%)	7 Quarters	(1,018)	
Private investment #3	233,730	275,708	(41,978)	(15%)	(15%)	8 Quarters		(C)
Private investment #4	36,823	31,525	N/A	N/A	N/A	N/A		
Other, net	40,598	43,170	(2,572)	(6%)	N/A	Various	(2,210)	(D)
Castles								
Eurocastle (EURONEXT: ECT)	2,404	1,973	N/A	N/A	(84%)	6 Quarters		
Newcastle (NYSE: NCT)	3,046	667	N/A	N/A	(82%)	5 Quarters	(195)	
Total	$ 716,399	$ 632,000	$ (44,885)				$ (34,059)	

(A) Current cost basis is net of any impairments taken in prior quarters but before impairment taken at September 30, 2009.

(B) Original cost basis is before any impairment.

(C) This fund is a single asset fund invested in a railroad and commercial real estate company. The net asset value of this investment is only 15% below Fortress s basis and the fund s life extends to 2017. Fortress anticipates that this value will recover during the fund s life and has the intent and ability to hold its investment until recovery. As a result, Fortress s CODM has determined that this decline in value does not meet the definition of other than temporary impairment at this time.

(D) This primarily represents indirect investments in funds through hedge fund special investment accounts, including Fortress Funds not represented individually in the table as well as funds managed by third parties. Fortress s CODM has analyzed each of these investments individually and recorded other than temporary impairment where it was deemed appropriate.

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Clawback Reserve on Incentive Income for DE Purposes

Fortress had recognized incentive income for DE purposes from the following private equity funds, which are subject to contingent clawback, as of September 30, 2009:

Fund	Incentive Income Received	No Longer Subject to Clawback	Subject to Clawback (A)	Intrinsic Clawback (B)	Employee Portion (C)	Net Clawback	Prior Net DE Reserves Taken (D)	Periods in Intrinsic Clawback	Nine Months Ended September 30, 2009 Gross DE Reserve Recorded (D)	Notes
Fund I	$ 308,633	$ 296,882	$ 11,751	$	$	$	$	N/A	$	(E)
Fund II - A	191,726	71,126	120,600				(18,376)	N/A		(F)
Fund II - B	62,962	44,612	18,350	8,355	3,013	5,342	(7,466)	4 Quarters		(F)
Fund III	72,483		72,483	72,483	27,375	45,108	(45,108)	7 Quarters		(G)
FRID	16,739		16,739	16,739	6,698	10,041	(10,041)	9 Quarters		(G)
Total	$ 652,543	$ 412,620	$ 239,923	$ 97,577	$ 37,086	$ 60,491	$ (80,991)		$	

(A) Includes deferred incentive income from the consolidated balance sheet plus the maximum payment under the guarantee, in both cases gross of promote related to non-fee paying investors (affiliates).

(B) Intrinsic clawback is the maximum amount of clawback that would be required to be repaid to the fund if the fund were liquidated at its NAV as of the reporting date. It has not been reduced for any tax related effects.

(C) Employees who have received profit sharing payments in connection with private equity or hybrid PE incentive income are liable to repay Fortress for their share of any clawback. Fortress remains liable to the funds for these amounts even if it is unable to collect the amounts from employees (or former employees).

(D) Net of promote related to non-fee paying investors (affiliates).

(E) This fund had significant unrealized gains at September 30, 2009. As a result, the CODM determined that no reserve for clawback was required.

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

(G) The potential clawback on these funds has been fully reserved in prior quarters.

Impairment Determination

Fortress has recorded a total of approximately $34.1 million of impairment and reserves for DE purposes on certain private equity funds and hybrid PE funds as described above for DE purposes during the nine months ended September 30, 2009. Fortress expects aggregate returns on its other private equity funds and hybrid PE funds that are in an unrealized investment loss or intrinsic clawback position to ultimately exceed their carrying amount or breakeven point, as applicable. If such funds were liquidated at their September 30, 2009 NAV (although Fortress has no current intention of doing so), the result would be additional impairment losses and reserves for DE purposes of approximately $46.3 million.

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

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September 30, 2009 and the Nine Months Then Ended

	Private Equity		Liquid	Hybrid				
	Funds	Castles	Hedge Funds	Hedge Funds	PE Funds	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues								
Management fees	$ 108,525	$ 37,260	$ 61,088	$ 89,715	$ 27,449	$	$	$ 324,037
Incentive income			8,243	1,386	8,022			17,651
Segment revenues - total	$ 108,525	$ 37,260	$ 69,331	$ 91,101	$ 35,471	$	$	$ 341,688
Pre-tax distributable earnings	$ 81,856	$ 16,248	$ 18,831	$ 16,112	$ 15,230	$ (23,313)	$ (10)	$ 124,954
Total segment assets	$ 59,886	$ 11,708	$ 13,155	$ 7,564	$ 13,200	$ 911,897	$ 529,405	$ 1,546,815
							(A)	

	Fortress Subtotal	Reconciliation to GAAP	Fortress Consolidated*	Principals and Others	GAAP Net Income (Loss)
Revenues	$ 341,688	$ 63,378	$ 405,066		
Pre-tax distributable earnings / net income (loss)	$ 124,954	$ (295,307)	$ (170,353)	$ (477,964)	$ (648,317)
Total assets	$ 1,546,815	$ 84,953	$ 1,631,768		

(A) Unallocated assets include deferred tax assets of $444.3 million.

Nine Months Ended September 30, 2008

	Private Equity		Liquid	Hybrid				
	Funds	Castles	Hedge Funds	Hedge Funds	PE Funds	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues								
Management fees	$ 120,113	$ 41,320	$ 169,965	$ 111,483	$ 8,401	$	$	$ 451,282
Incentive income	12,294	12	17,125	14,128				43,559

Segment revenues - total	$ 132,407	$ 41,332	$ 187,090	$ 125,611	$ 8,401	$	$	$ 494,841
Pre-tax distributable earnings	$ 99,555	$ 12,033	$ 70,662	$ 26,099	$ 906	$ (113,506)	$ 21	$ 95,770

	Fortress Subtotal	Reconciliation to GAAP	Fortress Consolidated*	Principals and Others	GAAP Net Income (Loss)
Revenues	$ 494,841	$ 79,271	$ 574,112		
Pre-tax distributable earnings / net income (loss)	$ 95,770	$ (277,683)	$ (181,913)	$ (612,692)	$ (794,605)

* Net income (loss) presented herein represents net income (loss) attributable to Fortress s Class A shareholders.

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Reconciling items between segment measures and GAAP measures:

	September 30, 2009 and the Nine Months then Ended	Nine Months Ended September 30, 2008
Adjustments from segment revenues to GAAP revenues		
Adjust management fees*	$ 488	$ 488
Adjust incentive income	(1,791)	26,390
Adjust income from the receipt of options		
Other revenues*		
Adjust management fees from non-affiliates	(3,522)	(3,842)
Adjust incentive income from non-affiliates	(1,264)	(13,787)
Adjust other revenues (including expense reimbursements)	69,467	70,022
	64,681	52,393
Total adjustments	$ 63,378	$ 79,271

* 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.

Adjustments from pre-tax distributable earnings to GAAP net income (loss)**		
Adjust incentive income		
Incentive income received from private equity funds and hybrid PE funds, subject to contingent repayment	$	$ (26,077)
Incentive income accrued from private equity funds and hybrid PE funds, no longer subject to contingent repayment		36,003
Incentive income received from private equity funds and hybrid PE funds, not subject to contingent repayment		17
Incentive income from hedge funds, subject to annual performance achievement	(1,791)	
Reserve for clawback, gross (see discussion above)		16,447
	(1,791)	26,390
Adjust other income		
Distributions of earnings from equity method investees***	(32)	(367)
Earnings (losses) from equity method investees***	26,359	(80,297)
Gains (losses) on options in equity method investees	1,323	(16,160)
Unrealized gains (losses) on publicly traded investments	36,713	(27,192)
Impairment of investments (see discussion above)	34,059	59,162
Adjust income from the receipt of options		
	98,422	(64,854)

Adjust employee compensation				
Adjust employee equity-based compensation expense (including Castle options assigned)		(166,653)		(146,246)
Adjust employee portion of incentive income from private equity funds, accrued prior to the realization of incentive income				9,648
Adjust employee portion of incentive income from one private equity fund, not subject to contingent repayment				(4)
		(166,653)		(136,602)
Adjust Principals equity-based compensation expense		(712,101)		(714,710)
Adjust Principals interests related to Fortress Operating Group units		482,261		611,760
Adjust tax receivable agreement liability		(55)		
Adjust income taxes		4,610		333
Total adjustments	$	(295,307)	$	(277,683)

** Net income (loss) presented herein represents net income (loss) attributable to Fortress s Class A shareholders.

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

<u>Adjustments from total segment assets to GAAP assets</u>		
Adjust equity investments from fair value	$	
Adjust equity investments from cost		48,971
Adjust investments gross of employee portion		34,565
Adjust option investments from intrinsic value		1,417
Total adjustments	$	84,953

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Three Months Ended September 30, 2009

	Private Equity		Liquid	Hybrid				
	Funds	Castles	Hedge Funds	Hedge Funds	PE Funds	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues								
Management fees	$ 32,010	$ 12,830	$ 18,566	$ 32,091	$ 13,014	$	$	$ 108,511
Incentive income			7,996	373	1,208			9,577
Segment revenues - total	$ 32,010	$ 12,830	$ 26,562	$ 32,464	$ 14,222	$	$	$ 118,088
Pre-tax distributable earnings	$ 25,000	$ 5,534	$ 6,125	$ 5,741	$ 8,407	$ 5,801	$ 284	$ 56,892

	Fortress Subtotal	Reconciliation to GAAP	Fortress Consolidated*	Principals and Others	GAAP Net Income (Loss)
Revenues	$ 118,088	$ 25,595	$ 143,683		
Pre-tax distributable earnings / net income (loss)	$ 56,892	$ (115,494)	$ (58,602)	$ (131,704)	$ (190,306)

Three Months Ended September 30, 2008

	Private Equity		Liquid	Hybrid				
	Funds	Castles	Hedge Funds	Hedge Funds	PE Funds	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues								
Management fees	$ 39,970	$ 13,665	$ 59,640	$ 38,028	$ 4,214	$	$	$ 155,517
Incentive income	(16,447)		85	13,256				(3,106)
Segment revenues - total	$ 23,523	$ 13,665	$ 59,725	$ 51,284	$ 4,214	$	$	$ 152,411
Pre-tax distributable earnings	$ 17,909	$ 3,829	$ 25,236	$ 14,820	$ 666	$ (82,850)	$ 14	$ (20,376)

	Fortress Subtotal	Reconciliation to GAAP	Fortress Consolidated*	Principals and Others	GAAP Net Income

					(Loss)
Revenues	$ 152,411	$ 32,725	$ 185,136		
Pre-tax distributable earnings / net income (loss)	$ (20,376)	$ (37,064)	$ (57,440)	$ (210,012)	$ (267,452)

* Net income (loss) presented herein represents net income (loss) attributable to Fortress s Class A shareholders.

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Reconciling items between segment measures and GAAP measures:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008
Adjustments from segment revenues to GAAP revenues		
Adjust management fees*	$ 163	$ 163
Adjust incentive income	(1,660)	16,956
Adjust income from the receipt of options		
Other revenues*		
Adjust management fees from non-affiliates	(1,748)	(1,414)
Adjust incentive income from non-affiliates	(279)	(13,132)
Adjust other revenues (including expense reimbursements)	29,119	30,152
	27,092	15,606
Total adjustments	$ 25,595	$ 32,725

* 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.

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008
Adjustments from pre-tax distributable earnings to GAAP net income (loss)**		
Adjust incentive income		
Incentive income received from private equity funds and hybrid PE funds, subject to contingent repayment	$	$
Incentive income accrued from private equity funds and hybrid PE funds, no longer subject to contingent repayment		509
Incentive income received from private equity funds and hybrid PE funds, not subject to contingent repayment		
Incentive income from hedge funds, subject to annual performance achievement	(1,660)	
Reserve for clawback, gross (see discussion above)		16,447
	(1,660)	16,956
Adjust other income		
Distributions of earnings from equity method investees***	(32)	
Earnings (losses) from equity method investees***	28,277	(12,814)
Gains (losses) on options in equity method investees	1,256	(734)
Unrealized gains (losses) on publicly traded investments	19,026	(6,217)
Impairment of investments (see discussion above)	1,785	49,655
Adjust income from the receipt of options		
	50,312	29,890
Adjust employee compensation		

Adjust employee equity-based compensation expense (including Castle options assigned)		(60,830)		(57,739)
Adjust employee portion of incentive income from private equity funds, accrued prior to the realization of incentive income				
Adjust employee portion of incentive income from one private equity fund, not subject to contingent repayment				
		(60,830)		(57,739)
Adjust Principals equity-based compensation expense		(239,975)		(239,976)
Adjust Principals interests related to Fortress Operating Group units		133,712		208,169
Adjust tax receivable agreement liability				
Adjust income taxes		2,947		5,636
Total adjustments	$	(115,494)	$	(37,064)

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Fortress s depreciation expense by segment was as follows:

	Private Equity Funds	Castles	Liquid Hedge Funds	Hybrid Hedge Funds	Hybrid PE Funds	Unallocated	Total
Nine Months Ended September 30,							
2009	$ 852	$ 436	$ 1,528	$ 2,202	$ 491	$ 2,612	$ 8,121
2008	$ 720	$ 538	$ 2,302	$ 2,195	$ 121	$ 1,433	$ 7,309
Three Months Ended September 30,							
2009	$ 284	$ 136	$ 386	$ 796	$ 253	$ 864	$ 2,719
2008	$ 241	$ 165	$ 808	$ 709	$ 53	$ 461	$ 2,437

11. SUBSEQUENT EVENTS

These financial statements include a discussion of material events which have occurred subsequent to September 30, 2009 (referred to as subsequent events) through the issuance of these consolidated financial statements on November 9, 2009. Events subsequent to that date have not been considered in these financial statements.

No such subsequent events have occurred.

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NOTE 12 CONSOLIDATING FINANCIAL INFORMATION

The consolidating financial information presents the balance sheet, statement of operations and statement of cash flows for Fortress Operating Group (on a combined basis) and Fortress Investment Group LLC (including its consolidated subsidiaries other than those within Fortress Operating Group) on a deconsolidated basis, as well as the related eliminating entries for intercompany balances and transactions, which sum to Fortress Investment Group s consolidated financial statements as of, and for the nine months ended, September 30, 2009.

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

The consolidating balance sheet information is as follows:

	As of September 30, 2009			
	Fortress Operating Group Combined	Fortress Investment Group LLC Consolidated (A)	Intercompany Eliminations	Fortress Investment Group LLC Consolidated
Assets				
Cash and cash equivalents	$ 106,499	$ 487	$	$ 106,986
Due from affiliates	105,518			105,518
Investments				
Equity method investees	881,768	137,950	(137,950)	881,768
Options in affiliates	1,417			1,417
Deferred tax asset	13,108	431,208		444,316
Other assets	86,536	5,227		91,763
	$ 1,194,846	$ 574,872	$ (137,950)	$ 1,631,768
Liabilities and Shareholders Equity				
Liabilities				
Accrued compensation and benefits	$ 92,950	$	$	$ 92,950
Due to affiliates	6,828	326,492		333,320
Deferred incentive income	163,635			163,635
Debt obligations payable	411,800			411,800
Other liabilities	53,194			53,194
	728,407	326,492		1,054,899
Commitments and Contingencies				
Equity				
Paid-in capital	2,723,101	932,709	(2,723,101)	932,709
Retained earnings (accumulated deficit)	(2,288,746)	(683,732)	2,288,746	(683,732)
Accumulated other comprehensive income (loss)	(5,121)	(597)	5,121	(597)

Total Fortress shareholders equity (B)	429,234	248,380	(429,234)	248,380
Principals and others interests in equity of consolidated subsidiaries	37,205		291,284	328,489
Total Equity	466,439	248,380	(137,950)	576,869
	$ 1,194,846	$ 574,872	$ (137,950)	$ 1,631,768

(A) Other than Fortress Operating Group.

(B) Includes the Principals members 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:

	Nine Months Ended September 30, 2009			
	Fortress Operating Group Consolidated	Fortress Investment Group LLC Consolidated (A)	Intercompany Eliminations	Fortress Investment Group LLC Consolidated
Revenues				
Management fees from affiliates	$ 321,003	$	$	$ 321,003
Incentive income from affiliates	14,596			14,596
Expense reimbursements from affiliates	58,660			58,660
Other revenues	10,802	5		10,807
	405,061	5		405,066
Expenses				
Interest expense	20,007	235		20,242
Compensation and benefits	354,725			354,725
Principals agreement compensation	712,101			712,101
General, administrative and other	56,640	40		56,680
Depreciation and amortization	8,121			8,121
	1,151,594	275		1,151,869
Other Income (Loss)				
Gains (losses) from investments				
Net realized gains (losses)	(1,180)			(1,180)
Net realized gains (losses) from affiliate investments	301			301
Net unrealized gains (losses)				
Net unrealized gains (losses) from affiliate investees	38,036			38,036
Tax receivable agreements liabilty reduction		(55)		(55)
Earnings (losses) from equity method investees	56,553	(175,035)	175,035	56,553
	93,710	(175,090)	175,035	93,655
Income (Loss) Before Income Taxes	(652,823)	(175,360)	175,035	(653,148)
Income tax benefit (expense)	(176)	5,007		4,831
Net Income (Loss)	$ (652,999)	$ (170,353)	$ 175,035	$ (648,317)
Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries	$ 4,297	$	$ (482,261)	$ (477,964)

Net Income (Loss) Attributable to Class A Shareholders (B)	$ (657,296)	$ (170,353)	$ 657,296	$ (170,353)

(A) Other than Fortress Operating Group.

(B) Includes net income (loss) attributable to the Principals 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:

	Nine Months Ended September 30, 2009			
	Fortress Operating Group Consolidated	Fortress Investment Group LLC Consolidated (A)	Intercompany Eliminations	Fortress Investment Group LLC Consolidated
Cash Flows From Operating Activities				
Net income (loss)	$ (652,999)	$ (170,353)	$ 175,035	$ (648,317)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	8,121			8,121
Other amortization and accretion	7,988			7,988
(Earnings) losses from equity method investees	(56,553)	175,035	(175,035)	(56,553)
Distributions of earnings from equity method investees	2,156			2,156
(Gains) losses from investments	(37,157)			(37,157)
Deferred incentive income				
Deferred tax (benefit) expense	(5,522)	(6,906)		(12,428)
Reversal of forfeited non-cash compensation	(55)			(55)
Tax receivable agreement liability reduction		55		55
Equity-based compensation	878,808			878,808
Cash flows due to changes in				
Due from affiliates	(66,712)			(66,712)
Other assets	(10,095)	1,929		(8,166)
Accrued compensation and benefits	(58,861)			(58,861)
Due to affiliates	(789)	(17,298)		(18,087)
Deferred incentive income				
Other liabilities	27,748	(1,200)		26,548
Net cash provided by (used in) operating activities	36,078	(18,738)		17,340
Cash Flows From Investing Activities				
Contributions to equity method investees	(43,322)	(219,500)	219,500	(43,322)
Distributions of capital from equity method investees	28,740	18,351	(18,351)	28,740
Purchase of fixed assets	(1,979)			(1,979)
Proceeds from disposal of fixed assets	7			7
Net cash provided by (used in) investing activities	(16,554)	(201,149)	201,149	(16,554)
Cash Flows From Financing Activities				
Borrowings under debt obligations				
Repayments of debt obligations	(317,241)			(317,241)
Payment of deferred financing costs	(4,162)			(4,162)
Proceeds from public offering		230,000		230,000

Costs related to public offering		(10,500)		(10,500)
Capital contributions	219,500		(219,500)	
Dividends and dividend equivalents paid	(68,359)		68,359	
Principals and others interests in equity of consolidated subsidiaries - contributions	92			92
Principals and others interests in equity of consolidated subsidiaries - distributions	(5,318)		(50,008)	(55,326)
Net cash provided by (used in) financing activities	(175,488)	219,500	(201,149)	(157,137)
Net Increase (Decrease) in Cash and Cash Equivalents	(155,964)	(387)		(156,351)
Cash and Cash Equivalents, Beginning of Period	262,463	874		263,337
Cash and Cash Equivalents, End of Period	$ 106,499	$ 487	$	$ 106,986

(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.

General

Our Business

Fortress is a leading global alternative asset manager with approximately $32.0 billion in AUM as of September 30, 2009. We raise, invest and manage private equity funds, liquid hedge funds and hybrid funds. We earn management fees based on the size of our funds, incentive income based on the performance of our funds, and investment income from our principal investments in those funds. We invest capital in each of our businesses.

As of September 30, 2009, we managed alternative assets in three core businesses:

Private Equity a business that manages approximately $14.3 billion of AUM comprised of two business segments: (i) private equity funds that primarily make significant, control-oriented investments in debt and equity securities of public or privately held entities in North America and Western Europe, with a focus on acquiring and building asset-based businesses with significant cash flows; and (ii) publicly traded alternative investment vehicles, which we refer to as Castles, that invest primarily in real estate and real estate related debt investments.

Liquid Hedge Funds a business that manages approximately $4.5 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.

Hybrid Funds a business that manages approximately $13.2 billion of AUM comprised of two business segments: (i) hybrid hedge funds which make highly diversified investments globally in assets, opportunistic lending situations and securities throughout the capital structure with a value orientation, as well as in investment funds managed by external managers, and which include non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and (ii) hybrid private equity (PE) funds which are comprised of a family of credit opportunities funds focused on investing in distressed and undervalued assets, a family of long dated value funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of real assets funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), and an Asian fund.

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

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 reimbursements.

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

Our liabilities consist primarily of the following:

1) Debt owed under our credit facility.

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

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

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

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

1) Expected cash flows from funds, including the potential for incentive income.
2) Cash on hand.
3) Collectability of receivables.
4) Current amounts due under our credit facility.
5) Other current liabilities, primarily accrued compensation.
6) Debt covenants, including the ratio of investment assets to debt.
7) Likelihood of clawback of incentive income.

Income Statement

Our revenues consist primarily of the following:

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

Our expenses consist primarily of the following:

1) Employee compensation paid in cash.
2) Equity-based compensation, which is not paid in cash but has a dilutive effect when it vests because it results in additional shares being issued. (This amount is broken out from total compensation in the compensation footnote in our consolidated financial statements.)
3) Principals agreement compensation, which has no economic effect on us and is not considered by management in assessing our performance.
4) Other general and administrative expenses and interest.

5) Taxes.

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

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

Managing Business Performance

We conduct our management and investment business through the following six primary segments: (i) private equity funds, (ii) Castles (iii) liquid hedge funds, (iv) hybrid hedge funds, (v) hybrid private equity (PE) funds, and (vi) principal investments in those funds as well as cash that is available to be invested. These segments are differentiated based on the varying investment strategies of the funds we manage in each segment.

The amounts not allocated to a segment consist primarily of certain general and administrative expenses. Where applicable, portions of the general and administrative expenses have been allocated between the segments.

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 income tax expense.

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

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

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Market Considerations

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

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

Many market participants remain uncertain about the health of a number of financial institutions as well as the financial system in general. Continuing write-downs and capital related issues in the financial services industry have contributed to the recent wave of significant events affecting financial institutions, including the insolvency of Lehman Brothers, the government s placing of Fannie Mae and Freddie Mac under its supervision, the government s increasing its equity investment in Citigroup, and the announced distressed sales of all or portions of Bear Stearns, Merrill Lynch, Wachovia and Washington Mutual. These events have impacted the credit and equity markets and global economy in a number of ways (some of which are discussed in more detail below under The strength and liquidity of the U.S. and global equity and debt markets). In addition, certain of these institutions serve as key counterparties for a tremendous number of derivatives and other financial instruments held by Fortress and our funds. The consolidation and elimination of counterparties has increased our concentration of counterparty risk, decreased the universe of potential counterparties and reduced our ability to obtain competitive financing rates. Moreover, the insolvency of Lehman Brothers affected some of our funds in various ways. For example, some of our hedge funds had prime brokerage accounts with Lehman Brothers, and Lehman Brothers was the counterparty on a number of these funds derivatives, repurchase agreements and other financial instruments. These funds are working to close out such arrangements, and we do not currently expect losses as a result of the Lehman insolvency to have a material effect on the net asset value of any Fortress Fund or on Fortress. However, due to the sudden nature of Lehman s insolvency, the complexity and ambiguity of both the contractual arrangements and applicable regulations, this process will take time, may be expensive and may result in one or more funds receiving only a portion of the amount they are owed (or potentially receiving nothing at all). Additional failures of financial institutions, particularly those who serve as counterparties to our financing arrangements, would have a meaningfully negative impact on the financial markets in which we operate and could have a meaningfully negative impact on Fortress and one or more of our funds.

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

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

Although equity and debt market conditions had been favorable for a number of years, the debt market conditions began to deteriorate in mid-2007, as the United States experienced considerable turbulence in the housing and sub-prime mortgage markets, which negatively affected other fixed income markets. The difficult conditions in the fixed income markets prompted lenders to cease committing to new senior loans and other debt, which, in turn, made it extremely difficult to finance new and pending private equity acquisitions or to refinance existing debt. In particular, the securitization markets, which in years prior to 2007 had represented an important outlet for the placing of acquisition debt, have nearly shut down since that time. Private equity-led acquisitions announced since mid-2007 have generally been smaller, less levered, and subject to more restrictive debt covenants than acquisitions done prior to the disruption.

As the turbulence continued and its intensity increased, equity market conditions also began to deteriorate in the latter part of 2007 as concerns of an economic slowdown began to affect equity valuations. The resulting reduction in liquidity and increase in volatility caused several commercial and investment banks, hedge funds and other financial institutions to reduce the carrying value of a significant amount of their fixed income holdings, which further reduced the liquidity of debt and, to a lesser extent, equity instruments. Although the United States and other governments took a number of significant steps to improve market conditions, such efforts to date have not brought complete stability or liquidity to the capital markets, and we cannot predict the future conditions of these markets or the impact of such conditions on our business. That said, market conditions showed initial signs of stabilizing in the second and third quarters of 2009.

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

While conditions in the U.S. capital markets have begun to recently improve, there currently is less debt and equity capital available in the market relative to the levels available in recent years, which, coupled with additional margin collateral requirements imposed by lenders on some types of investments, debt and derivatives, has increased the importance of maintaining sufficient liquidity without relying upon additional infusions 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. However, maintaining this liquidity rather than investing available capital, and the reduced availability of attractive financing, has reduced our returns. This, in turn, may limit our ability to make investments, distributions, or engage in other strategic transactions. The dislocation of values and associated decreased liquidity in the global equity and debt markets have caused a material depreciation in equity and fixed income asset values, greater price volatility and weaker economic conditions around the globe. This has resulted in a significant reduction in the value of our investments, which in turn impacts our management fees, incentive income and investment income as described below.

There has been a prolonged reduction in market trading activity in certain market sectors. This reduction and concern over market conditions have resulted in significant reductions in valuations by third party brokers and pricing agents, and in difficulty in obtaining price quotes for less actively traded instruments.

The per share market prices of the investments held by our private equity funds in public companies have decreased substantially from their high points, but have rebounded meaningfully in 2009. A decrease in these prices hinders our ability to realize gains within these funds and therefore our ability to earn incentive income. Furthermore, the disruptions in the debt and equity markets have made exit strategies for private investments more difficult to execute as potential buyers have difficulty obtaining attractive financing and the demand for IPOs has been greatly reduced. Although we successfully executed an IPO of one of our private equity portfolio companies in October 2009, the overall volume of IPO transactions (particularly of private equity-backed companies) has continued to be significantly lower than in prior years and execution risk for such transactions remains higher.

These conditions have made it more difficult to generate positive investment returns and have contributed to increased redemption requests from investors throughout the hedge fund industry. A number of our funds have been affected by this trend in prior periods, but this trend decelerated somewhat in 2009.

As a result of the above factors:

We did not pay a dividend on our Class A shares for the third quarter of 2008 through the third quarter of 2009. 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. If current conditions persist or deteriorate, we may be unable to pay any dividends.

Our share of the NAV of certain fund investments, including certain investments on which we have received incentive returns, has declined below their related carrying amounts for distributable earnings purposes. During the nine months ended September 30, 2009, we have taken $34.1 million of impairments and reserves related to such funds for distributable earnings purposes. While we expect aggregate returns on our other private equity fund investments to ultimately exceed their carrying amount, if such funds were liquidated at their current NAV (although we have no present intention of doing so), the result would be additional impairment and reserves of approximately $46.3 million. Declines in the NAV of our fund investments have also caused us to record GAAP losses from equity method investees in prior periods, although we have recorded net GAAP income from such investments in 2009. Furthermore, such declines impact our future management fees, generally at an annual rate of between 1% - 3% of the decline in aggregate fund NAV. See Fee Paying Assets Under Management below for a table summarizing our AUM.

Our liquid hedge funds received a total of $1.4 billion in redemption requests, including affiliates, for the nine months ended September 30, 2009. These redemptions will directly impact the management fees we receive in 2009 from such funds (which pay management fees of between 1.5% - 3% of AUM). Investors in our hybrid hedge funds are permitted to request that their capital be returned on an annual basis. With respect to capital returns requested in 2008 and 2009, such returns of capital are being paid over time as the underlying investments are liquidated. During this period, such amounts continue to be subject to management fees and, as applicable, incentive income. Future capital return requests may be paid immediately or over time, in accordance with the governing documents of the applicable funds. Return of capital requests, including affiliates, for the hybrid hedge funds, most of which are still subject to being rescinded, totaled approximately $1.5 billion for the nine months ended September 30, 2009. The 2009 notice date for the flagship hybrid hedge fund occurred in October 2009.

As a result of not meeting the incentive income thresholds with respect to a majority of such funds current investors, incentive income from a substantial portion of the capital invested in our liquid and hybrid hedge funds has been suspended. Returns earned on capital from new investors continue to be incentive income eligible. Unrealized losses in a significant portion of our private equity funds have resulted in higher future returns being required before we earn incentive income from such funds. The returns required are subject to a number of variables including: the amount of loss incurred, the amount of outstanding capital in the fund, the amount and timing of future capital draws and distributions, the rate of preferential return earned by investors, and others. We do not expect to earn a substantial amount of incentive income in 2009. Management expects that, if recent fund performance continues, there is a potential to earn incentive income from our liquid hedge funds and, to a lesser extent, from our hybrid hedge funds in 2010.

The current ratio of our distributable earnings to our AUM is lower than it has been historically, and it is reasonably likely that the future ratios may also be below historic levels for an indeterminate period of time.

Decreases in revenues and in the value of our principal investments could potentially affect our ability to comply with our debt covenants in the future. See Covenants below.

The public company has recently been more focused on preserving capital and liquidity at the public-company level than on making investments. Our funds continue to make investments on an opportunistic basis, and we continue to raise new funds as illustrated in the AUM table below.

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

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

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

A second and related factor is the amount of capital invested with such managers. Over the past several years, institutions, high net worth individuals and other investors (including sovereign wealth funds) have increased their allocations of capital to the alternative investment sector. However, investors have recently begun reducing the amount of capital they are allocating to certain alternative asset investment products, particularly hedge funds, for three reasons. First, as discussed above, challenging market conditions have reduced the returns generated by hedge funds, with many funds posting negative returns in 2008. Second, the lack of available credit has prompted many investors to maximize their cash holdings. Because the terms of many hedge funds allow investors to redeem their capital periodically (as opposed to most private equity funds, which do not allow redemptions), investors have begun redeeming their investments at rates that are generally higher than redemptions rates in previous years. This wave of redemptions may affect the investment decisions, and impair the viability, of many hedge funds who may not have sufficient cash on hand to satisfy redemption requests and may thus be forced either to sell assets at distressed prices in order to generate cash or take other measures. Over the past twelve months, certain of our hedge funds have received higher levels of redemption requests than those received in previous years. Third, negative investment performance has significantly reduced the amount of capital held by university endowments, pension funds, insurance companies and other traditionally significant investors in the alternative assets sector. As a result, many of these investors are decreasing the amount of capital they will allocate to alternative assets.

The third factor, which most directly impacts our results, is our investment performance relative to other investment alternatives, including products offered by other alternative asset managers. As a historical leader in the alternative asset management sector based on the size, diversity and historical performance of our funds, we have been able to attract a significant amount of new capital both at the public company and within our funds, even during the recent challenging market conditions. For example, in April 2009, the public company successfully raised approximately $220 million in net proceeds from an offering of its Class A shares. Moreover, during 2009, we have been able to raise additional capital in various funds.

Market Considerations Summary

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

We do not currently know the full extent to which this disruption will affect us or the markets in which we operate. If the disruption continues, or results in a permanent, fundamental change in the credit markets, we and the funds we manage may experience further tightening of liquidity, reduced earnings and cash flow, impairment charges, increased margin requirements, as well as challenges in maintaining our reputation, raising additional capital, maintaining compliance with debt covenants,

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obtaining investment financing and making investments on attractive terms, and may need to make corresponding fundamental changes in our investment practices. However, to date we have been able to continue raising capital for our funds, on a net basis, both through new and existing funds, which serves both to increase our AUM and our management fee income and to give us a significant amount of capital available to be invested at a time when we believe attractive returns in distressed and other asset classes are available.

Results of Operations

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

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2009	2008	Variance	2009	2008	Variance
Revenues						
Management fees from affiliates	$ 321,003	$ 447,928	$ (126,925)	$ 106,926	154,266	$ (47,340)
Incentive income from affiliates	14,596	56,162	(41,566)	7,638	718	6,920
Expense reimbursements from affiliates	58,660	42,722	15,938	24,952	12,501	12,451
Other revenues	10,807	27,300	(16,493)	4,167	17,651	(13,484)
	405,066	574,112	(169,046)	143,683	185,136	(41,453)
Expenses						
Interest expense	20,242	29,705	(9,463)	4,451	9,481	(5,030)
Compensation and benefits	354,725	399,253	(44,528)	132,033	134,774	(2,741)
Principals agreement compensation	712,101	714,710	(2,609)	239,975	239,976	(1)
General, administrative and other expense (including depreciation and amortization)	64,801	67,161	(2,360)	21,180	25,973	(4,793)
	1,151,869	1,210,829	(58,960)	397,639	410,204	(12,565)
Other Income (Loss)						
Net gains (losses) - other investments	37,157	(44,671)	81,828	20,189	(10,099)	30,288
Tax receivable agreement liability reduction	(55)		(55)			
Earnings (losses) from equity method investees	56,553	(113,550)	170,103	40,345	(37,921)	78,266
	93,655	(158,221)	251,876	60,534	(48,020)	108,554
Income (Loss) Before Income Taxes	(653,148)	(794,938)	141,790	(193,422)	(273,088)	79,666
Income tax benefit (expense)	4,831	333	4,498	3,116	5,636	(2,520)
Net Income (Loss)	$ (648,317)	$ (794,605)	$ 146,288	$ (190,306)	$ (267,452)	$ 77,146

Factors Affecting Our Business

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

changes in our AUM;

level of performance of our funds; and

growth of our fund management and investment platform and our compensation structure to sustain that growth.

Fee Paying Assets Under Management

We measure AUM by reference to the fee paying assets we manage, including the capital we have the right to call from our investors due to their capital commitments. As a result of raising new funds and increases in the NAVs of our hedge funds from new investor capital, our AUM has increased over the periods discussed. Recently, lower performance in our funds, coupled with redemptions in our liquid hedge funds, have caused offsetting reductions in our AUM.

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Our AUM has changed for the nine months ended September 30, 2009 as follows (in millions):

	Private Equity			Hybrid Funds		
2009	**Funds**	**Castles**	**Liquid Hedge Funds**	**Hedge Funds**	**PE Style Funds**	**Total**
AUM December 31, 2008	$ 10,307	$ 3,182	$ 7,169	$ 6,494	$ 2,302	$ 29,454
Capital raised (A)			295	3,310	407	4,012
Increase in invested capital	70		1	2	772	845
Redemptions (B)			(3,716)	(432)		(4,148)
Return of capital distributions	(117)			(16)	(760)	(893)
Adjustment for reset date (C)						
Crystallized incentive income (D)						
Income (loss) and foreign exchange (E)	797	97	734	472	630	2,730
AUM September 30, 2009	$ 11,057	$ 3,279	$ 4,483	$ 9,830	$ 3,351	$ 32,000

(A) Includes offerings of shares by the Castles, if any, and capital acquired through the acquisition of management of third party funds.

(B) Excludes redemptions which reduced AUM subsequent to September 30, 2009. See Market Considerations above.

(C) The reset date is the date on which a private equity fund or hybrid PE fund stops paying management fees based on commitments and starts paying such fees based on invested capital, which therefore changes fee paying AUM.

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

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

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

Management Fees

Changes in our 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 a change in AUM may not be recognized until the following period.

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Performance of Our Funds

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

Name of Fund	Inception Date	AUM September 30, 2009	AUM September 30, 2008	Returns (A) Inception to September 30, 2009		
Private Equity Funds						
Fund I	Nov-99	$ 36	$ 36	26.1%		
Fund II	Jul-02	328	143	37.8%		
Fund III	Sep-04	1,091	855	(1.3)%		
Fund III Coinvestment	Nov-04	146	148	0.8%		
Fund IV	Mar-06	2,067	2,268	(14.3)%		
Fund IV Coinvestment	Apr-06	482	555	(14.3)%		
Fund V	May-07	3,961	4,000	(C)		
Fund V Coinvestment	Jun-07	935	806	(C)		
FRID	Mar-05	578	583	(8.1)%		
FECI	Jun-07	532	532	(8.2)%		
GAGACQ Fund	Sep-04			(0.6)%		
GAGACQ Coinvestment Fund	Sep-04		9	25.2%		
RIC Coinvestment Fund LP	May-06	109	132	(17.2)%		
FICO	Aug-06	46	326	(81.5)%		
FHIF	Dec-06	638	881	(15.6)%		
				Returns (A) Inception to September 30, 2009 (B)	Returns (A) Nine Months Ended September 30, 2009	Returns (A) Nine Months Ended September 30, 2008
Other Private Equity Funds						
Mortgage Opportunities Fund III	Jun-08	108	421	(26.9)%	34.6%	(C)
Castles						
Newcastle Investment Corp.	Jun-98	1,165	1,192	N/A	N/A	(53.9)%
Eurocastle Investment Limited	Oct-03	2,114	2,035	N/A	(11.7)%	6.3%
Liquid Hedge Funds						
Drawbridge Global Macro Funds	Jul-02	2,074	7,998	9.9%	19.5%	(13.5)%
Fortress Macro Funds	May-09	1,544		17.3%	6.9%	(C)
Fortress Commodities Fund	Jan-08	865	1,059	6.9%	5.2%	(C)
Hybrid Hedge Funds						
Drawbridge Special Opportunities Fund LP (D)	Aug-02	4,700	5,690	7.9%	18.2%	(5.7)%
Drawbridge Special Opportunities Fund LTD (D)	Aug-02	524	604	7.5%	21.0%	(7.2)%
Fortress Partners Fund LP	Jul-06	999	1,061	(2.8)%	11.4%	(16.5)%
Fortress Partners Offshore Fund LP	Nov-06	784	769	(2.6)%	12.5%	(12.6)%
Value Recovery Funds and related assets	(E)	2,751		(E)	(E)	(E)
				Returns (A) Inception to September 30, 2009		
Hybrid PE Funds						
Credit Opportunities Fund	Jan-08	1,751	1,226	(C)		
Credit Opportunities Fund II	Jul-09	50		(C)		
Long Dated Value Fund I	Apr-05	201	193	3.1%		
Long Dated Value Fund II	Nov-05	207	202	3.4%		
Long Dated Value Fund III	Feb-07	145	136	(C)		

LDVF Patent Fund	Nov-07	16	21	(C)
Real Assets Fund	Jun-07	97	140	(C)
Assets Overflow Fund	Jul-08	80	91	(C)
Japan Opportunity Fund	Jun-09	380		(C)
Subtotal - all funds		31,504	34,112	
Managed accounts		496	177	
Total		$ 32,000	$ 34,289	

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(A) Represents the following:
For private equity funds, other than the Mortgage Opportunities Funds, and hybrid PE funds, returns represent net 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 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 return on invested equity (ROE) as reported by such entities. ROE is not reported on an inception to date basis. Newcastle s 2009 ROE is not meaningful because Newcastle incurred a loss and had negative book equity. Eurocastle s 2009 ROE is estimated as they have not yet finalized their results.

For liquid and hybrid hedge funds, as well as the Mortgage Opportunities 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.

(B) For liquid hedge funds, hybrid hedge funds and the Mortgage Opportunities Funds, reflects a composite of monthly returns presented on an annualized net return basis.

(C) These funds were in their investment periods, or less than one year had elapsed from their inception, through the end of these years. In some cases, particularly the Mortgage Opportunities Funds, Fund V and Fund V Coinvestment, returns during these periods were significantly negative.

(D) The returns for the Drawbridge Special Opportunities Funds reflect the performance of each fund excluding the performance of the redeeming capital accounts which relate to December 31, 2008 redemptions.

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

Incentive Income

Incentive income is calculated as a percentage of 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 continue 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.

Fund Management and Investment Platform

In order to accommodate the demands of our funds growing 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 increased number of employees, and related augmentation of systems and infrastructure. Our headcount decreased from 900 employees as of September 30, 2008 to 824 employees as of September 30, 2009. This resulted in net decreases in our compensation, office related and other personnel related expenses, although there were increases in certain businesses.

Revenues

	Nine Months Ended September 30,	Three Months Ended September 30,

	2009	2008	Variance	2009	2008	Variance
Management fees from affiliates	$ 321,003	$ 447,928	$ (126,925)	$ 106,926	$ 154,266	$ (47,340)
Incentive income from affiliates	14,596	56,162	(41,566)	7,638	718	6,920
Expense reimbursements from affiliates	58,660	42,722	15,938	24,952	12,501	12,451
Other revenues	10,807	27,300	(16,493)	4,167	17,651	(13,484)
Total Revenues	$ 405,066	$ 574,112	$ (169,046)	$ 143,683	$ 185,136	$ (41,453)

Nine months ended September 30

For the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008, total revenues decreased as a result of the following:

Management fees from affiliates decreased by $126.9 million primarily due to the net effect of increases (decreases) in average AUM of ($1.4) billion, ($0.1) billion, ($5.1) billion, ($1.1) billion and $1.6 billion in our private equity funds, our Castles, our liquid hedge funds, our hybrid hedge funds, and our hybrid PE funds, respectively. The combined net decrease to average AUM generated a reduction in the amount of $121.9 million in management fees. In addition, management fees from affiliates decreased by $1.4 million as a result of a decrease in the average management fee percentage earned and by $2.4 million as a result of changes in foreign currency exchange rates.

Incentive income from affiliates decreased by $41.6 million primarily as a result of (i) no incentive income being recognized from our private equity funds for the nine months ended September 30, 2009 as compared to the recognition of $38.7 million of incentive income for the nine months ended September 30, 2008, as contingencies for repayment had been resolved in certain private equity funds allowing for income recognition at that time, and (ii) a decrease of $10.3 million in incentive income from certain of our liquid hedge funds primarily due to prior period losses (i.e. the highwater mark) not being completely recovered during the nine months ended September 30, 2009. These decreases were partially offset by $8.0 million in incentive income recognized from our hybrid PE funds generated from distributions not subject to clawback for the nine months ended September 30, 2009 as compared to no incentive income recognized for the prior comparative period.

Expense reimbursements from affiliates increased by $15.9 million primarily due to an increase in operating expenses eligible for reimbursement from our funds for the nine months ended September 30, 2009, primarily attributable to the Value Recovery Funds which Fortress began managing in June 2009, as compared to the nine months ended September 30, 2008.

Other revenues decreased by $16.5 million primarily due to a decrease in interest income of $6.4 million and a decrease of $12.8 million in fees from non-affiliates, including managed accounts, offset by a net increase of $3.1 million in dividend income earned primarily from our direct investment in GAGFAH common stock compared to dividends earned from the Castles in the prior comparative period.

Three months ended September 30

For the three months ended September 30, 2009 compared with the three months ended September 30, 2008, total revenues decreased as a result of the following:

Management fees from affiliates decreased by $47.3 million primarily due to the net effect of increases (decreases) in average AUM of ($2.5) billion, ($0.1) billion, ($5.9) billion, ($0.3) billion and $2.0 billion in our private equity funds, our Castles, our liquid hedge funds, our hybrid hedge funds, and our hybrid PE funds, respectively. The combined net decrease to average AUM generated a reduction in the amount of $46.1 million in management fees. In addition, management fees from affiliates decreased by $0.3 million as a result of changes in foreign currency exchange rates.

Incentive income from affiliates increased by $6.9 million primarily as a result of (i) an increase of $6.4 million in incentive income recognized from our liquid hedge funds for the three months ended September 30, 2009, primarily due to higher returns in 2009 in certain of our liquid hedge funds, and (ii) a net increase of $1.0 million in incentive income recognized from our hybrid PE funds generated from distributions not subject to clawback. These increases were partially offset by $0.5 million in incentive income from our private equity funds during the three months ended September 30, 2008 as compared to no incentive income recognized for the three months ended September 30, 2009.

Expense reimbursements from affiliates increased by $12.5 million primarily due to an increase in operating expenses eligible for reimbursement from our funds for the three months ended September 30, 2009, primarily attributable to the Value Recovery Funds which Fortress began managing in June 2009, as compared to the three months ended September 30, 2008.

Other revenues decreased by $13.5 million primarily due to a decrease in interest income of $1.8 million and a net decrease of $12.6 million in fees from non-affiliates, including managed accounts, which was partially offset by a net increase of $0.9 million in dividend income earned primarily from our direct investment in GAGFAH common stock as compared to dividends earned from the Castles in the prior comparative period.

Expenses

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2009	2008	Variance	2009	2008	Variance
Interest expense	$ 20,242	$ 29,705	$ (9,463)	$ 4,451	$ 9,481	$ (5,030)
Compensation and benefits	354,725	399,253	(44,528)	132,033	134,774	(2,741)
Principals agreement compensation	712,101	714,710	(2,609)	239,975	239,976	(1)
General, administrative and other (including depreciation and amortization)	64,801	67,161	(2,360)	21,180	25,973	(4,793)
Total Expenses	$ 1,151,869	$ 1,210,829	$ (58,960)	$ 397,639	$ 410,204	$ (12,565)

Nine months ended September 30

For the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008, total expenses decreased as a result of the following:

Interest expense decreased by $9.5 million primarily due to (i) a decrease of $13.4 million due to a decrease in average interest rates and a decrease in average borrowings from the first nine months of 2008, (ii) a decrease of $0.5 million due to a decrease in bank and other related charges, and offset by (iii) an increase of $4.6 million due to write-offs and increased amortization of deferred financing costs. The increase in write-offs and amortization of deferred financing costs is primarily due to the partial prepayment of our term loans as a result of our May 2009 capital raise and the March 2009 amendment to our credit agreement.

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Compensation and benefits decreased by $44.5 million primarily due to a net decrease in profit sharing compensation of $28.8 million, a decrease in our employee population and discretionary bonuses resulting in a decrease of $35.0 million and a $7.0 million one-time discretionary bonus declared during the first quarter of 2008 to one senior employee. These decreases were partially offset by an increase of $26.5 million in equity based compensation primarily due to the 31 million FOG RPUs granted in April 2008 (see discussion below). Profit sharing compensation decreased largely due to decreased profit from our liquid and hybrid hedge funds. Our average headcount for the nine months ended September 30, 2009 decreased 2.9% compared to the nine months ended September 30, 2008.

Principals agreement compensation is being amortized on a straight-line basis over the term of the agreement.

General, administrative and other expenses decreased by $2.4 million primarily as a result of a net decrease of $4.8 million in recruiting, professional fees and other general expenses, and partially offset by $2.4 million in fees paid to Nomura in connection with raising investor capital for a new fund in Asia during the nine months ended September 30, 2009.

Three months ended September 30

For the three months ended September 30, 2009 compared with the three months ended September 30, 2008, total expenses decreased as a result of the following:

Interest expense decreased by $5.0 million primarily due to (i) a decrease of $3.9 million due to a decrease in average interest rates and a decrease in average borrowings from the third quarter of 2008, and (ii) a decrease of $0.9 million due to a decrease in write-offs and amortization of deferred financing costs.

Compensation and benefits decreased by $2.7 million primarily due to a net decrease in our employee population and discretionary bonuses resulting in a decrease of $6.7 million, partially offset by an increase of $3.1 million in equity based compensation and a net increase of $0.8 million in profit sharing compensation. Our average headcount for the three months ended September 30, 2009 decreased 7.3% compared to the three months ended September 30, 2008.

Principals agreement compensation is being amortized on a straight-line basis over the term of the agreement.

General, administrative and other expenses decreased by $4.8 million primarily as a result of a decrease in professional fees and consulting fees of $4.2 million, a net decrease of $2.1 million in recruiting and other general expenses and partially offset by $1.5 million in fees paid to Nomura in connection with raising investor capital for a new fund in Asia during the three months ended September 30, 2009.

Future Compensation Expense

In future periods, we will further recognize non-cash compensation expense on our non-vested equity-based awards of $698.6 million with a weighted average recognition period of 3.4 years. This does not include amounts related to the Principals Agreement, which is discussed above.

In April 2008, we granted 31 million Fortress Operating Group (FOG) restricted partnership units (RPUs) to a senior employee. In connection with the grant of these interests, the employee receives partnership distribution equivalent payments on such units with economic effect as from January 1, 2008. The interests will vest into full capital interests in FOG units in three equal portions on the first business day of 2011, 2012 and 2013, respectively, subject to continued employment with Fortress. In connection with this grant, we have reduced the employee s profit sharing interests in various Fortress Funds.

Other Income (Loss)

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2009	2008	Variance	2009	2008	Variance
Net gains (losses) - other investments	$ 37,157	$ (44,671)	$ 81,828	$ 20,189	$ (10,099)	$ 30,288
Tax receivable agreement liabilty reduction	(55)		(55)			
Earnings (losses) from equity method investees	56,553	(113,550)	170,103	40,345	(37,921)	78,266

Total Other Income (Loss)	$ 93,655	$ (158,221)	$ 251,876	$ 60,534	$ (48,020)	$ 108,554

Nine months ended September 30

For the nine months ended September 30, 2009 compared with the nine months ended September 30, 2008, total other income (loss) increased as a result of the following:

Net gains (losses) other investments increased by $81.8 million primarily due to the recognition of an unrealized gain of $36.7 million for the nine months ended September 30, 2009 on our investments in GAGFAH and in our Castles, as compared to the recognition of an unrealized loss of $27.2 million on our investments in our Castles for the nine months ended September

30, 2008, and due to the recognition of an unrealized gain of $1.3 million for the nine months ended September 30, 2009 on our options in our Castles, as compared to the recognition of an unrealized loss of $16.2 million for the nine months ended September 30, 2008. Our investments in GAGFAH and the Castles are held at fair value.

Earnings (losses) from equity method investees increased by $170.1 million primarily due to the net effect of (i) the recognition of $56.6 million in net income from equity method investees in 2009 as a result of an increase in income attributable to investments in our private equity funds, liquid hedge funds, hybrid hedge funds and hybrid PE funds, compared to (ii) the recognition of a $113.6 million loss on our equity method investments for the nine months ended September 30, 2008. The overall increase in income was primarily a result of improved returns within the funds.

Three months ended September 30

For the three months ended September 30, 2009 compared with the three months ended September 30, 2008, total other income (loss) increased as a result of the following:

Net gains (losses) other investments increased by $30.3 million primarily due to (i) the recognition of an unrealized gain of $19.0 million for the three months ended September 30, 2009 on our investments in GAGFAH and in our Castles, as compared to the recognition of an unrealized loss of $6.2 million on our investments in our Castles for the three months ended September 30, 2008, (ii) a $3.1 million net decrease in realized losses related to changes in the foreign currency exchange rates from the three months ended September 30, 2008 to the three months ended September 30, 2009, and (iii) the recognition of an unrealized gain of $1.3 million for the three months ended September 30, 2009 on our options in our Castles, as compared to the recognition of an unrealized loss of $0.7 million for the three months ended September 30, 2008. Our investments in GAGFAH and the Castles are held at fair value.

Earnings (losses) from equity method investees increased by $78.3 million primarily due to the net effect of (i) the recognition of $40.3 million in net income from equity method investees in 2009 as a result of an increase in income attributable to investments in our private equity funds, liquid hedge funds, hybrid hedge funds and hybrid PE funds, compared to (ii) the recognition of a $37.9 million net loss on our equity method investments for the three months ended September 30, 2008. The overall increase in income was primarily a result of improved returns within the funds.

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.

For the nine and three months ended September 30, 2009, Fortress recognized income tax expense (benefit) of ($4.8 million) and ($3.1 million), respectively. For the nine and three months ended September 30, 2008, Fortress recognized income tax expense (benefit) of ($0.3 million) and ($5.6 million), respectively. The primary reasons for the changes in income tax expense (benefit) for the nine and three months ended September 30, 2009 compared to the nine and three months ended September 30, 2008 are (i) changes in the mix of business segments producing income, which may be subject to tax at different rates, and (ii) changes in the forecasts of annual taxable income which are used to calculate the tax provision.

Segment Analysis

Fortress conducts its management and investment business through the following six primary segments: (i) private equity funds, (ii) Castles, (iii) liquid hedge funds, (iv) hybrid hedge funds, (v) hybrid private equity (PE) funds, and (vi) principal investments in these funds as well as cash that is available to be invested. These segments are differentiated based on their varying investment strategies. Due to the increased significance of the hybrid PE funds segment, it has been disaggregated from the private equity funds segment in this period and for all periods presented.

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 income tax expense.

Distributable earnings is defined 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.

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Private Equity Funds

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Variance	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Variance
Management Fees	$ 108,525	$ 120,113	$ (11,588)	$ 32,010	$ 39,970	$ (7,960)
Incentive Income		12,294	(12,294)		(16,447)	16,447
Segment revenues - total	$ 108,525	$ 132,407	$ (23,882)	$ 32,010	$ 23,523	$ 8,487
Pre-tax distributable earnings	$ 81,856	$ 99,555	$ (17,699)	$ 25,000	$ 17,909	$ 7,091

Nine months ended September 30

Pre-tax distributable earnings decreased by $17.7 million primarily due to:

- an $8.2 million net decrease in management fees. Management fees decreased by $11.6 million primarily due to (i) a decrease of $14.8 million primarily as a result of the net asset value of certain portfolio companies in our private equity funds and special investments declining below their invested capital and (ii) a $1.8 million decrease due to a reduction in the average management fee percentage earned from the Mortgage Opportunities Fund I and II. These decreases were partially offset by an increase of $5.1 million primarily generated by capital called for Fund V Coinvestment and Fund II after September 30, 2008. The management fee decrease of $11.6 million was partially offset by a corresponding reduction of $3.4 million in the employees percentage share of management fees;

- an $8.4 million net decrease in incentive income. The decrease in incentive income is primarily attributable to a decrease in performance in the private equity funds that resulted in no incentive income (and no employee s share of incentive income) recognized for the nine months ended September 30, 2009 as compared to $12.3 million in incentive income (reduced by the employees share of incentive income of $3.9 million) for the nine months ended September 30, 2008; and

- a $1.3 million net increase in operating expenses primarily related to (i) a $2.1 million increase in allocable corporate expenses, (ii) a $0.3 million increase in general and administrative expenses and offset by (iii) a $0.9 million decrease in compensation expense (mainly discretionary bonuses).

Three months ended September 30

Pre-tax distributable earnings increased by $7.1 million primarily due to:

- a $6.8 million net decrease in management fees. Management fees decreased by $8.0 million due to (i) a decrease of $8.3 million primarily as a result of the net asset value of certain portfolio companies in our private equity funds and special investments declining below their invested capital and (ii) a $0.9 million decrease due to a reduction in the average management fee percentage earned from the Mortgage Opportunities Fund I and II. These decreases were partially offset by an increase of $1.7 million primarily generated by capital called for Fund V Coinvestment and Fund II after September 30, 2008. The management fee decrease of $8.0 million was partially offset by a corresponding reduction of $1.1 million in the employees percentage share of management fees;

- a $10.0 million net increase in incentive income. The increase in incentive income is primarily attributable to no incentive income (and no employee s share of incentive income) recognized for the three months ended September 30, 2009 as compared to a reserve taken against incentive income from FRID of $16.4 million (reduced by the employee s share of the reserve of $6.4 million) for the three months ended September 30, 2008; and

a $4.0 million net decrease in operating expenses primarily related to a $2.7 million decrease in compensation expense (mainly discretionary bonuses) and a $1.1 million decrease in general and administrative expenses (mainly professional fees) .

Publicly Traded Alternative Investment Vehicles (Castles)

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2009	2008	Variance	2009	2008	Variance
Management Fees	$ 37,260	$ 41,320	$ (4,060)	$ 12,830	$ 13,665	$ (835)
Incentive Income		12	(12)			
Segment revenues - total	$ 37,260	$ 41,332	$ (4,072)	$ 12,830	$ 13,665	$ (835)
Pre-tax distributable earnings	$ 16,248	$ 12,033	$ 4,215	$ 5,534	$ 3,829	$ 1,705

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Nine months ended September 30

Pre-tax distributable earnings increased by $4.2 million primarily due to:

a $0.4 million net decrease in management fees. Management fees decreased by $4.1 million primarily due to a $2.4 million decrease as a result of changes in foreign currency exchange rates, a $1.0 million decrease in management fees from non-affiliates, and a $0.7 million decrease as a result of a decrease in average AUM. These decreases to management fees were partially offset by a decrease in the employees share of management fees of $3.7 million; and

a $4.6 million net decrease in operating expenses primarily due to lower compensation expenses.

Three months ended September 30

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

a $0.3 million net increase in management fees. Management fees decreased by $0.8 million primarily due to a $0.3 million decrease as a result of changes in foreign currency exchange rates, a $0.5 million decrease in management fees from non-affiliates, and a $0.1 million decrease as a result of an decrease in average AUM. These decreases to management fees were offset by the elimination of the employees share of management fees as of December 31, 2008. The employees share of management fees for the three months ended September 30, 2008 was $1.2 million; and

a $1.3 million net decrease in operating expenses primarily due to lower compensation expenses.

Liquid Hedge Funds

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2009	2008	Variance	2009	2008	Variance
Management Fees	$ 61,088	$ 169,965	$ (108,877)	$ 18,566	$ 59,640	$ (41,074)
Incentive Income	8,243	17,125	(8,882)	7,996	85	7,911
Segment revenues - total	$ 69,331	$ 187,090	$ (117,759)	$ 26,562	$ 59,725	$ (33,163)
Pre-tax distributable earnings	$ 18,831	$ 70,662	$ (51,831)	$ 6,125	$ 25,236	$ (19,111)

Nine months ended September 30

Pre-tax distributable earnings decreased by $51.8 million primarily due to:

a $92.6 million net decrease in management fees. Management fees decreased $108.9 million primarily due to (i) a $118.8 million decrease resulting from a decline in average AUM due to lower cumulative returns and investor redemptions from the Drawbridge Global Macro Funds subsequent to September 30, 2008 and (ii) a $2.8 million decrease due to a reduction in the average management fee percentage earned, partially offset by (iii) a $2.5 million increase generated by the growth in the average AUM of Fortress Commodities Fund and (iv) a $10.2 million increase due to management fees generated by the new Fortress Macro Funds which were launched in May 2009. The management fee decrease of $108.9 million was offset by a $16.3 million reduction in the employees share of management fees;

a $0.9 million net increase in incentive income. Incentive income decreased $8.9 million primarily due to incentive income generated by special investments and the Fortress Commodities Fund of $2.0 million and $15.2 million, respectively, for the nine months ended September 30, 2008 as compared to $6.6 million and $1.7 million of incentive income generated by the Fortress Commodities Fund and the Fortress Macro Fund, respectively, that was recognized for the nine months ended September 30, 2009. The $8.9 million decrease was offset by a $9.8 million net decrease in the employees share of incentive income primarily as a result of (i) a $9.0 million decrease in the accrual of the employees share of incentive income due to prior period losses (i.e. the highwater mark) in the Drawbridge Global Macro Funds, (ii) a $2.1 million decrease in the accrual of the employees share of incentive income due to lower returns in the Fortress Commodities Fund, and partially offset by (iii) a $1.3 million increase in the employees share of incentive income earned on the Fortress Macro Funds; and

a $39.5 million net decrease in operating expenses primarily related to (i) a $6.3 million decrease in general and administrative expenses and (ii) a $31.9 million decrease in compensation expense. These decreases in expenses are primarily due to a 36% decrease in average headcount for the nine months ended September 30, 2009 as compared to the prior comparative period.

Three months ended September 30

Pre-tax distributable earnings decreased by $19.1 million primarily due to:

a $34.8 million net decrease in management fees. Management fees decreased $41.1 million primarily due to (i) a $47.2 million decrease resulting from a decline in average AUM due to lower cumulative returns and investor redemptions from the Drawbridge Global Macro Funds and Fortress Commodities Fund subsequent to September 30, 2008 and (ii) a $0.6 million decrease due to a reduction in the average management fee percentage earned, partially offset by (iii) a $6.8 million increase due to management fees generated by the new Fortress Macro Funds which were launched in May 2009. The management fee decrease of $41.1 million was offset by a $6.3 million reduction in the employees share of management fees;

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a $0.3 million net increase in incentive income. Incentive income increased $7.9 million primarily due to incentive income generated by the Fortress Commodities Fund of $0.2 million for the three months ended September 30, 2008 as compared to $6.4 million and $1.6 million of incentive income generated by the Fortress Commodities Fund and Fortress Macro Fund, respectively, that was recognized for the three months ended September 30, 2009. The $7.9 million increase was offset by a $7.6 million net increase in the employees share of incentive income primarily as a result of (i) a $4.1 million increase in the employee s share of incentive income earned on the Fortress Commodities Fund due to improved returns for the three months ended September 30, 2009 as compared to the prior comparative period and (ii) a $1.0 million increase in the accrual of the employees share of incentive income earned on the Fortress Macro Funds. Additionally, we accrue the employees share of incentive income at the end of each interim period based on the year to date performance of the funds. For the three months ended September 30, 2008, the Drawbridge Global Macro Funds recognized a negative return for that period. As a result we adjusted the employees share of incentive income for the three months ended September 30, 2008 to reflect the respective cumulative amount of the employees share of incentive income for the nine months ended September 30, 2008. This adjustment for the three months ended September 30, 2008 effectively represented a partial return by the employees of their incentive income earned for periods prior to the three months ended September 30, 2008. There was $2.6 million in incentive income returned by employees for the three months ended September 30, 2008 as compared to no incentive income returned by employees the three months ended September 30, 2009; and

a $15.3 million net decrease in operating expenses primarily related to (i) a $3.0 million decrease in general and administrative expenses and (ii) an $11.5 million decrease in compensation expense. These decreases in expenses are primarily due to a 50% decrease in average headcount for the three months ended September 30, 2009 as compared to the prior comparative period.

Hybrid Hedge Funds

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2009	2008	Variance	2009	2008	Variance
Management Fees	$ 89,715	$ 111,483	$ (21,768)	$ 32,091	$ 38,028	$ (5,937)
Incentive Income	1,386	14,128	(12,742)	373	13,256	(12,883)
Segment revenues - total	$ 91,101	$ 125,611	$ (34,510)	$ 32,464	$ 51,284	$ (18,820)
Pre-tax distributable earnings	$ 16,112	$ 26,099	$ (9,987)	$ 5,741	$ 14,820	$ (9,079)

Nine months ended September 30

Pre-tax distributable earnings decreased by $10.0 million primarily due to:

a $21.8 million net decrease in management fees. Management fees decreased by $26.0 million primarily as a result of a decrease in average AUM, primarily due to negative fund returns in 2008, offset by an increase of $4.2 million in management fees from the Value Recovery Funds, which Fortress began managing in June 2009;

a $6.5 million net decrease in incentive income. Incentive income decreased by $12.7 million and the employees share of incentive income, reflected as profit sharing compensation expense, decreased by $6.3 million. The $12.7 million decrease in incentive income was primarily attributable to an $11.8 million decrease in incentive income from third party accounts we manage and a $0.9 million net decrease in incentive income as a result of decreased performance of our hybrid hedge funds; and

an $18.6 million net decrease in operating expenses primarily related to a $16.9 million decrease in compensation expenses and a $1.8 million decrease in general and administrative expenses. These decreases were primarily due to (i) a 13.1% decrease in the average headcount (excluding the Value Recovery Funds) for the nine months ended September 30, 2009 as compared to the prior comparative period, and (ii) the reimbursement from the Value Recovery Funds of compensation expense for certain hybrid hedge fund employees which have provided services to the Value Recovery Funds.

Three months ended September 30

Pre-tax distributable earnings decreased by $9.1 million primarily due to:

- a $6.0 million net decrease in management fees. Management fees decreased by $8.7 million primarily as a result of a decrease in average AUM, primarily due to negative fund returns in 2008, offset by an increase of $2.7 million in management fees from the Value Recovery Funds, which Fortress began managing in June 2009;

- a $7.5 million net decrease in incentive income. Incentive income decreased by $12.9 million and the employees share of incentive income, reflected as profit sharing compensation expense, decreased by $5.4 million. The $12.9 million decrease in incentive income was primarily attributable to a $12.8 million decrease in incentive income primarily from third party accounts we manage; and

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a $4.5 million net decrease in operating expenses primarily related a $2.7 million decrease in compensation expense and a $1.8 million decrease in allocable corporate expenses and general and administrative expenses. The $2.7 million decrease in compensation expense was primarily due to the reimbursement from the Value Recovery Funds of compensation expense for certain hybrid hedge fund employees which have provided services to the Value Recovery Funds. The amount of corporate expenses allocable to the hybrid hedge funds segment and general and administrative expenses decreased primarily due to an 18.9% decrease in the average headcount for the hybrid hedge funds, excluding the Value Recovery Funds.

Hybrid PE Funds

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2009	2008	Variance	2009	2008	Variance
Management Fees	$ 27,449	$ 8,401	$ 19,048	$ 13,014	$ 4,214	$ 8,800
Incentive Income	8,022		8,022	1,208		1,208
Segment revenues - total	$ 35,471	$ 8,401	$ 27,070	$ 14,222	$ 4,214	$ 10,008
Pre-tax distributable earnings	$ 15,230	$ 906	$ 14,324	$ 8,407	$ 666	$ 7,741

Nine months ended September 30

Pre-tax distributable earnings increased by $14.3 million primarily due to:

a $19.0 million increase in net management fees primarily due to $8.4 million of management fees generated by the creation of new hybrid PE funds, most notably a new managed account, Japan Opportunity Fund, Credit Opportunities Fund II, and the Assets Overflow Fund, and an increase of $10.6 million in management fees primarily as a result of a net increase in average AUM primarily due to improved returns in 2009;

a $3.8 million increase in net incentive income primarily due to $8.0 million of incentive income generated from distributions not subject to clawback offset by $4.2 million of profit sharing expense; and

an $8.5 million net increase in operating expenses primarily related to a $6.3 million increase in general and administrative expenses and a $2.4 million increase in allocable corporate expenses. General and administrative expenses and the amount of corporate expenses allocable to the hybrid PE funds segment increased primarily due to a 150% increase in average headcount in 2009 as compared to the prior comparative period. The average headcount increased primarily due to the Credit Opportunities Fund and the Japan Opportunity Fund, which commenced in June 2009.

Three months ended September 30

Pre-tax distributable earnings increased by $7.7 million primarily due to:

an $8.8 million increase in net management fees primarily due to $5.0 million of management fees generated by the creation of new hybrid PE funds, most notably the Credit Opportunities Fund II, Japan Opportunity Fund and a new managed account, and an increase of $3.9 million in management fees primarily as a result of a net increase in average AUM primarily due to improved returns in 2009;

a $0.6 million increase in net incentive income primarily due to $1.2 million of incentive income generated from distributions not subject to clawback offset by $0.6 million of profit sharing expense; and

a $1.6 million net increase in operating expenses primarily related to an increase in general and administrative expenses and the amount of the corporate expenses allocable to the hybrid PE funds segment primarily due to a 100% increase in average headcount in 2009 as compared to the prior comparative period. The average headcount increased primarily due to the Credit Opportunities Fund and the Japan Opportunity Fund, which commenced in June 2009.

Principal Investments

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2009	2008	Variance	2009	2008	Variance
Pre-tax distributable earnings (loss)	$ (23,313)	$ (113,506)	$ 90,193	$ 5,801	$ (82,850)	$ 88,651

Nine months ended September 30

Pre-tax distributable loss decreased by $90.2 million primarily due to:

a $57.7 million net increase in investment income from our investments in our hedge funds. Investment income increased $63.4 million and the employee share of investment income increased by $5.7 million. The $63.4 million increase in investment income was due to higher returns on our investments in both our liquid hedge funds and hybrid hedge funds for the nine months ended September 30, 2009 as compared to the prior comparative period;

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a $3.1 million increase in net investment income due to dividend income earned primarily from our direct investment in GAGFAH common stock;

a $25.1 million increase in net investment income primarily as a result of a decrease in impairments of $8.1 million, $18.2 million and $0.2 million in our investments in our private equity funds, Castles and our liquid hedge funds, respectively, offset by an increase in impairments of $0.8 million and $0.6 million in our hybrid hedge funds and hybrid PE funds, respectively, for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008;

a $4.3 million increase in net investment income primarily due to (i) a decrease of $9.7 million in interest expense primarily due to a decrease in average interest rates and a decrease in average borrowings during the nine months ended September 30, 2009, (ii) a net increase of $1.0 million in other investment related income, and partially offset by (iii) a $6.4 million decrease in interest income as a result of lower interest rates and lower average cash balances.

Three months ended September 30

Pre-tax distributable earnings (loss) increased by $88.7 million primarily due to:

a $33.3 million net increase in investment income from our investments in our hedge funds. Investment income increased $37.2 million and the employee share of investment income increased by $3.9 million. The $37.2 million increase in investment income was due to higher returns on our investments in both our liquid hedge funds and hybrid hedge funds for the three months ended September 30, 2009 as compared to the prior comparative period;

a $0.9 million increase in net investment income due to dividend income earned primarily from our direct investment in GAGFAH common stock;

a $47.9 million increase in net investment income primarily as a result of a decrease in impairments of $36.5 million, $8.9 million, $0.3 million and $2.2 million in our investments in our private equity funds, Castles, liquid hedge funds and hybrid hedge funds, respectively, for the three months ended September 30, 2009 as compared to the three months ended September 30, 2008; and

a $6.4 million increase in net investment income primarily due to (i) a $3.2 million increase due to foreign currency translation adjustments, (ii) a decrease of $5.2 million in interest expense primarily due to a decrease in average interest rates and a decrease in average borrowings during the three months ended September 30, 2009, and partially offset by (iii) a $2.0 million decrease in interest income as a result of lower interest rates and lower average cash balances.

Unallocated

	Nine Months Ended September 30,			Three Months Ended September 30,		
	2009	2008	Variance	2009	2008	Variance
Pre-tax distributable earnings (loss)	$ (10)	$ 21	$ (31)	$ 284	$ 14	$ 270

Nine months ended September 30

Pre-tax distributable earnings (loss) decreased by less than $0.1 million. The decrease in earnings is primarily due to an increase in general corporate expenses.

Three months ended September 30

Pre-tax distributable earnings increased by $0.3 million. The increase in earnings is primarily due to a decrease in general corporate expenses.

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.

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, including our capital commitments to our funds, pay compensation, and satisfy our other general business needs including our obligation to pay U.S. federal income tax. In addition, we may require cash to make distributions. 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. Our primary uses of liquidity include operating expenses (which include compensation, rent and interest among others), working capital expenses, amortization payments under our credit agreement, capital commitments to our funds, and tax and tax-related payments.

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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, to which we are legally entitled, in order to optimize the operations of the underlying managed funds. As of September 30, 2009, the receipt of approximately $45.6 million of management fees had been deferred and the ultimate timing of their payment is currently uncertain. In addition, $8.1 million of private equity general and administrative expenses had been advanced on behalf of certain funds. Of these amounts, $22.4 million has been collected subsequent to September 30, 2009. The amount of deferred management fees may increase in the future. Also, while we still believe that we will receive these fees, we now expect to receive payment at a later date than we previously anticipated. Currently, these developments do not meaningfully impact our liquidity, but if they continue or worsen, 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 hybrid PE funds, which are subject to restrictions and to management s judgment regarding the optimal timing of the monetization of underlying investments, as well as 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 $107.0 million at September 30, 2009 and expected capital receipts from our balance sheet investments) to meet our operating expenses (including compensation and lease obligations), required debt amortization payments, and fund capital commitments, in each case expected to be funded during the next twelve months (see obligation tables below). These uses of cash would not (barring changes in other relevant variables) cause us to violate any of our debt covenants. 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 satisfy the amortization payments required under our credit agreement.

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 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. As discussed above, we believe that we will generate adequate operating cash flows to service our periodic debt payments, which will result in a gradual reduction in our debt level. 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, each of which is more challenging given current market conditions. 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 current 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, depressed level of the market price of our Class A shares as well as the illiquidity in the credit market (as described above under Market Considerations), raising equity capital could be highly dilutive to our current shareholders and issuing debt obligations could result in significant increases to operating costs, if either were achieved in this market. 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.

On February 8, 2007, we completed an initial public offering of our Class A shares. 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 September 30, 2009, 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 hybrid 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.

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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 September 30, 2009 consisted of the following (in thousands):

	Outstanding Commitment
Private Equity Funds	
Fund I	$ 12
Fund II	566
Fund III Coinvestment	2
Fund IV	4,053
Fund IV Coinvestment	3
Fund V	45,296
Fund V Coinvestment	4
FRID	796
FHIF	11,446
FECI	1,551
Hybrid PE Funds	
Credit Opportunities Fund	5,342
Credit Opportunities Fund II	11,250
Long Dated Value Fund I	460
Long Dated Value Fund II	2,081
Long Dated Value Fund III	392
LDVF Patent Fund	20
Real Assets Fund	37,521
Assets Overflow Fund	55
Karols Development Co	5,693
FTS SIP L.P.	597
Japan Opportunity Fund	2,702
Yama 1 and 2 GK	106
Total	$ 129,948

Lease Obligations

Minimum future rental payments under our operating leases are as follows (in thousands):

October 1 to December 31, 2009	$ 4,712
2010	18,608
2011	12,406
2012	11,917
2013	11,724
2014	11,107
Thereafter	22,423
Total	$ 92,897

Debt Obligations

As of September 30, 2009, our debt obligations consisted of the amount outstanding under our credit agreement, as described below.

In May 2007, we entered into a new $1 billion credit agreement (as amended, the 2007 Credit Agreement or our credit agreement) in order to refinance our then existing credit agreement, reduce the amount of interest and other fees payable under our credit facilities and increase the amount of funds available for investments. The credit facilities available under the 2007 Credit Agreement include a $200 million revolving credit facility (including a $25 million letter of credit subfacility) and an $800 million term loan facility. Borrowings and letters of credit issued under the 2007 Credit Agreement bore interest at a rate equal to (i) with respect to LIBOR loans, LIBOR plus 1.20%, or (ii) with respect to base rate loans, the base rate, as defined in the agreement, plus 0.20%. On February 1, 2008, the rate on LIBOR loans was reduced to LIBOR + 0.65% pursuant to the terms of the agreement. In addition, we were required to pay a commitment fee of 0.20% per annum on the unused portion of amounts available under our revolving credit facility.

On April 17, 2008, we entered into an amendment to the 2007 Credit Agreement. The amendment, among other things, (i) permits us to issue an unlimited amount of subordinated indebtedness with specified terms so long as 40% of the net proceeds are used to repay amounts outstanding under the 2007 Credit Agreement, (ii) increased the applicable rate on Eurodollar loans and letters of credit by 20 basis points (making the current rate LIBOR plus 0.85%) and the undrawn commitment fee by 5 basis points (making the current fee 0.25%), (iii) added an amortization schedule requiring us to repay $100 million of amounts outstanding under the agreement each year during the next three years (with the first payment due on January 15, 2009), (iv) modified the financial covenants by (a) replacing the EBITDA-based financial covenant with a Consolidated Leverage Ratio covenant, (b) increasing the minimum amount of management fee earning assets by $3 billion to $21.5 billion (which minimum amount increases annually by $500 million) and (c) eliminating the annual $50 million increase in required minimum investment assets, and (v) revised various definitions and clarified terms with respect to swap providers who are lenders under the agreement. In addition, on May 29, 2008, we entered into an amendment of our credit agreement to change from a co-borrower structure to a single borrower structure.

On November 12, 2008, we entered into an additional amendment to the 2007 Credit Agreement. The amendment, among other things: (i) modified the definition of EBITDA, which is used to calculate our Consolidated Leverage Ratio, to exclude any realized or unrealized gains and losses on investments and to reflect private equity fund and hybrid PE fund incentive income clawbacks on a cash basis; (ii) modified the financial covenants by (a) reducing the amount of required investment assets to $975 million (less any future term loan repayments) and (b) changing the required Consolidated Leverage Ratios for the quarters ending June 30 and September 30, 2009 from 2.5 to 1.0 to 2.75 to 1.0; (iii) increased the rate on LIBOR loans to LIBOR + 2.00% (and Base Rate loans to the prime rate + 1.00%) this rate is no longer subject to change pursuant to a ratings-based pricing grid; (iv) established the commitment fee for the unused portion of the revolving credit facility at 0.25% this rate is also no longer subject to change pursuant to a ratings-based pricing grid; (v) reduced the revolving credit facility commitments to $125 million; (vi) established a requirement that outstanding term loans be prepaid with 25% of the amount by which EBITDA for any twelve-month period exceeds $370 million (unless and until the amount of outstanding term loans equals or is less than $250 million); (vii) required $50 million of additional term loan repayments ($25 million in July of 2009 and 2010); (viii) established a requirement that the borrower cash collateralize the letter of credit obligations of distressed lenders under certain circumstances, including lender non-funding or bankruptcy; and (ix) established an event of default under certain circumstances if the borrower, any guarantor or certain of their subsidiaries are required to make incentive income clawback payments in excess of $20 million during any calendar year. In connection with the amendment, we prepaid $75 million of the outstanding term loans.

On March 12 and March 13, 2009, we entered into additional amendments to the 2007 Credit Agreement. The amendments, among other things: (i) modified the financial covenants by (a) amending the amount of required management fee earning assets to $22 billion as of the end of each fiscal quarter through December 31, 2009 and $20 billion as of the end of each fiscal quarter thereafter; (b) reducing the amount of investment assets required as of any point in time to an amount equal to the term loans and revolving loans (including outstanding letters of credit) then outstanding; (c) changing the required Consolidated Leverage Ratio to 3.5 to 1.0 for the remainder of the term of the credit agreement; (ii) increased the rate on LIBOR loans to LIBOR + 2.50 (and Base Rate loans to the prime rate plus 1.50%); (iii) reduced the revolving credit facility commitments to $75 million; (iv) established an annual requirement, beginning in 2010, that outstanding loans be prepaid in an amount equal to 75% of Free Cash Flow (as defined in the agreement) generated during the previous year; (v) increased the amount of our scheduled amortization payments (the amortization schedule now requires the following payments: $50 million in July 2009, $25 million in each of October 2009 and January, April, July and October 2010, and $75 million in January 2011); (vi) established a requirement that 50% of the net proceeds from any equity issuance by the Fortress Operating Group be applied to prepay outstanding term loans; (vii) reduced the amount of certain types of distributions we can make to equity holders of the Fortress Operating Group and, in turn, our Class A shareholders, and (viii) provided that the dissolution or termination of specified material funds would not constitute an event of default. In connection with the amendment, we prepaid $75 million of outstanding term loans and $50 million of outstanding revolving facility loans.

On June 11, 2009, we entered into an amendment to our credit agreement. This amendment, among other things, (i) allows us to repurchase outstanding loans made under the credit agreement subject to certain conditions, (ii) permits us to make investments in Fortress Funds in any amount we deem appropriate, provided that investments in Fortress Funds created after June 11, 2009 in excess of 1.5% of such Fund s aggregate called capital may not be deducted from Free Cash Flow (as defined in the credit agreement), (iii) excludes Managed Accounts (as defined in the credit agreement) from the definition of Material Fortress Funds, (iv) expands the term Permitted Fund Termination to include the termination, dissolution, liquidation or windup of a Fortress Fund either (a) after the last asset or investment is sold in the ordinary course of business or (b) after the date of dissolution as stated in the applicable fund document, and (v) revises the financial covenants by (a) reducing the percentage of Free Cash Flow that must be applied to prepay outstanding term loans from 75% to 50% if, on the applicable measurement dates, the amount of outstanding commitments and loans does not exceed $315 million, the amount of

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outstanding loans does not exceed $300 million and the Consolidated Leverage Ratio (as calculated according to the terms of the Credit Agreement) does not exceed 2.0 to 1.0, and (b) increasing the amount of restricted payments that can be made, with such increase specified according to formulas set forth in the Credit Agreement.

The foregoing description of the terms of the amendments is not complete and is qualified in its entirety by the full text of both the amendments, and the 2007 Credit Agreement (including other amendments thereto), each of which has been filed with the Securities and Exchange Commission.

Increases in the interest rate on our debt obligations, whether through amendments, refinancings, or increases in LIBOR, result in a direct reduction in our earnings and cash flow from operations and, therefore, our liquidity.

The following table presents information regarding our debt obligations (dollars in thousands):

				September 30, 2009	
	Face Amount and Carrying Value		Final	Weighted Average	Weighted Average
Debt Obligation	**September 30, 2009**	**December 31, 2008**	**Stated Maturity**	**Funding Cost [1]**	**Maturity (Years)**
Credit Agreement [2]					
Revolving debt [3]	$	$ 104,041	May 2012		
Term loan	350,000	350,000	May 2012	3.99%	1.60
Delayed term loan	61,800	275,000	May 2012	3.23%	0.33
Total	$ 411,800	$ 729,041		3.88%	1.41

(1) The weighted average funding cost is calculated based on the contractual interest rate (utilizing the most recently reset LIBOR rate) plus the amortization of deferred financing costs. The most recently reset LIBOR rate was 0.25%.

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

(3) Approximately $65.9 million was undrawn under the revolving debt facility as of September 30, 2009. The revolving debt facility included a $25 million letter of credit subfacility of which $9.1 million was utilized. Lehman Brothers Commercial Paper, Inc., which is committed to fund $7.2 million (including $0.9 million of the outstanding letters of credit) of the $75 million revolving credit facility, has filed for bankruptcy protection, did not fund its portion of the last borrowing under this facility, and it is reasonably possible that it will not fund its portion of the commitments. As a result, $59.6 million of the undrawn amount was available.

Assuming no EBITDA based required prepayments, our outstanding debt matures as follows as of September 30, 2009 (in thousands).

October 1 - December 31, 2009	$ 13,975
2010	55,900
2011	41,925
2012	300,000
Total	$ 411,800

As a result of the Nomura transaction and our initial and secondary public offerings, FIG Asset Co. LLC lent excess proceeds of $320.5 million to FIG Corp. pursuant to a demand note. As of September 30, 2009, the outstanding balance was $246.9 million. This intercompany debt is eliminated in consolidation.

Covenants

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

The events of default under the 2007 Credit Agreement are typical of such agreements and include payment defaults, failure to comply with credit agreement covenants, cross-defaults to material indebtedness, bankruptcy and insolvency, change of control, and adverse events (as defined in the 2007 Credit Agreement) with respect to our material funds. A default under this agreement would likely have a material, adverse impact on our liquidity and, given the current lack of available credit for refinancing in the market, could threaten our ability to continue as a going concern.

The 2007 Credit Agreement includes customary covenants. We were in compliance with all of these covenants as of September 30, 2009. Among other things, we are prohibited from incurring additional unsubordinated indebtedness or further encumbering our assets, subject to certain exceptions. In addition, Fortress Operating Group must not:

- Permit AUM to be less than $22.0 billion as of the end of each fiscal quarter through December 31, 2009 and $20.0 billion as of the end of each fiscal quarter thereafter;

- Permit the Consolidated Leverage Ratio, as defined in the 2007 Credit Agreement, to be greater than 3.5 to 1.0 for the remainder of the term of the credit agreement;

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Permit the aggregate value of investments held, including certain cash, as of any point in time, to be less than the amount equal to the sum of the term loans and the revolving loans (including outstanding letters of credit) then outstanding (the Required Investment Assets);

Permit the aggregate value of Fortress Fund Investments (generally defined in the 2007 Credit Agreement as the stock of Newcastle, Eurocastle and any other publicly traded company pledged as collateral (and any options in respect of such stock), and Fortress Operating Group s interest in the Fortress private equity funds, liquid hedge funds and hybrid funds and certain other investment funds) to be less than 40% of the Required Investment Assets;

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

Make incentive income clawback payments in excess of $20 million during a calendar year. To date, no clawback payments have been required. See Note 10 to Part I, Item 1 Financial Statements and Supplementary Data Segment Reporting for a further discussion of clawback.

The following table sets forth the financial covenant requirements as of September 30, 2009.

	September 30, 2009 (dollars in millions)		
	Requirement	**Actual**	**Notes**
AUM	≥$ 22,000	$ 32,000	(A)
Consolidated Leverage Ratio	≤ 3.50	1.52	(B)
Required Investment Assets	≥$ 421	$ 868	(C)
Fortress Fund Investments	≥$ 168	$ 518	(C)
Total Investments	≥$ 253	$ 662	(C)

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

(B) Impacted by EBITDA, as defined, which is impacted by the same factors as distributable earnings, except EBITDA is not impacted by clawback reserves or the impairment of investments.

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

Fortress expects to comply with these covenants as of the applicable testing dates. However, as a result of recent market conditions and their impact on Fortress, it is possible that we may not be able to comply with one or more of these covenants if conditions continue to worsen over time. As a result of the amortization requirements, we may take steps to ensure that we are able to make the required periodic cash amortization payments, including (i) deferring payments to our Principals and affiliates in order to preserve cash, including payments to our Principals under the tax receivable agreement, and (ii) considering potential capital raise transactions in order to increase investments, reduce debt, or a combination of the two options.

This summary is qualified by reference to our credit agreement, a copy of which, including all amendments thereto, has been filed with the SEC.

Dividends / Distributions

During the nine months ended September 30, 2009, Fortress Operating Group made distributions of $50.0 million to the principals and RPU holders in connection with distributions made to FIG Corp. to pay Fortress s income taxes.

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 amortization payments under, our credit agreement, 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 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, 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.

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Operating Activities

Our net cash flow provided by (used in) operating activities was $17.3 million and $233.6 million during the nine months ended September 30, 2009 and 2008, respectively.

Operating Activities Comparative (Nine months Ended September 30, 2009 vs. September 30, 2008)

Cash received for management fees decreased by $169.2 million from $433.9 million in 2008 to $264.7 million in 2009. Management fees are based on average fee paying AUM, which decreased from 2008 to 2009 (private equity funds decreased by ($1.4) billion, Castles decreased by ($0.1) billion, liquid hedge funds decreased by ($5.1) billion, hybrid hedge funds decreased by ($1.1) billion, and hybrid PE funds increased by $1.6 billion) as a result of redemptions and losses, offset by capital raising, including new fund formation and improved returns. In addition, approximately $45.6 million of management fees were past due at September 30, 2009 as discussed in Liquidity and Capital Resources above.

Incentive income is calculated as a percentage of profits earned by the Fortress Funds or is based on profitable realization events within private equity funds and hybrid PE funds. Adverse market conditions have resulted in lower fund performance and reduced realizations and thus a decrease of $129.8 million in cash received for incentive income from 2008 to 2009.

Despite an increase in average headcount from September 30, 2008 to September 30, 2009, cash paid for compensation decreased by $129.6 million for the nine month periods ended September 30, 2008 compared to September 30, 2009. This decrease is mainly attributable to reduced profit sharing compensation, as a result of lower performance within our funds.

Cash paid for interest decreased approximately $14.2 million due to a lower average debt balance of $551.6 million in 2009 compared to $774.1 million in 2008. The weighted average interest rate also decreased to 2.77% in 2009 as compared to 4.28% in 2008.

Investing Activities

Our net cash flow provided by (used in) investing activities was ($16.6) million and $67.1 million during the nine months ended September 30, 2009 and 2008, respectively. Our investing activities primarily included: (i) contributions to equity method investees of ($43.3) million and ($135.0) million during the nine months ended September 30, 2009 and 2008, respectively, (ii) distributions of capital from equity method investees of $28.7 million and $211.2 million during the nine months ended September 30, 2009 and 2008, respectively, and (iii) purchases of fixed assets, net of proceeds from the disposal of fixed assets, of ($2.0) million and ($9.1) million during the nine months ended September 30, 2009 and 2008, respectively.

Financing Activities

Our net cash flow provided by (used in) financing activities was ($157.1) million and ($141.8) million during the nine months ended September 30, 2009 and 2008, respectively. Our financing activities primarily included the capital raise described below and (i) distributions made to principals, including those classified within principals and others interests in consolidated subsidiaries, of ($50.0) million and ($203.6) million during these periods, respectively, (ii) distributions to employees related to their interests in consolidated subsidiaries of ($5.3) million and ($61.3) million during these periods, respectively, (iii) dividends to our shareholders, and (iv) our net borrowing and repayment activity.

In May 2009, Fortress sold 46 million Class A shares in a public offering at a price to the public of $5.00 per share, for net proceeds of approximately $219.5 million after deducting the underwriters discount and other offering expenses. The Principals purchased an aggregate of 3.6 million of these shares, a senior employee purchased 0.4 million of these shares, and Nomura purchased 5.4 million of these shares, at the public offering price. A portion of the proceeds were used to pay down the credit agreement (as shown above).

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Critical Accounting Policies

Consolidation

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

Revenue Recognition on Incentive Income

Incentive income is calculated as a percentage of the profits earned by the Fortress Funds subject to the achievement of performance criteria. Incentive income from certain of the private equity funds and hybrid 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, Method 1 of FASB Accounting Standards Codification (FASB ASC) paragraph 605-20-S99-1 Accounting for Management Fees Based on a Formula. Under this method, we do not recognize incentive income subject to contingent repayment until all of the related contingencies have been resolved. Deferred incentive income related to a particular private equity fund or hybrid PE fund, each of which has a limited life, would be recognized upon the termination of such fund, or when distributions from the fund exceed the point at which a clawback of a portion or all of the historic incentive income distributions could no longer occur. Recognition of incentive income allocated to us prior to that date is deferred and recorded as a deferred incentive income liability. For GAAP purposes, the determination of when incentive income is recognized as income is formulaic in nature, resulting directly from each fund s governing documents.

Profit Sharing Arrangements

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

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

For profit sharing plans related to private equity funds and hybrid 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. Furthermore, 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 specified by the Financial Services Investment Companies Topic of the FASB ASC. 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

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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.

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

The majority of the investments in our liquid hedge funds are valued based on quoted market prices, including broker quotations in illiquid or inactive markets which include disclaimers stating they are not actionable and are therefore included in level 3A as described below. Investments valued based on other observable market parameters in our liquid hedge funds include (i) interest rate swaps and swaptions, equity swaps and foreign exchange swaps which are valued by the independent fund administrator using models with significant observable market parameters, and (ii) funds managed by third parties for which we receive value information from the fund managers. 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.

Hybrid Hedge Funds

In our hybrid hedge funds, investments are valued using quoted market prices, to the extent available. Independent valuation agents are used by our hybrid hedge funds to provide estimates of the fair value of investments, 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 to value 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.

Investments in other funds are valued primarily based on the net asset values provided by the fund managers of those funds. Adjustments to such net asset values are made for liquidity or to other factors if deemed material and necessary.

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

Hybrid PE Funds

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

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 September 30, 2009.

The categories displayed below correspond directly with the disclosures which are required under the Fair Value Measurements and Disclosures Topic of the FASB ASC. Note that negative percentages represent net short positions.

	Liquid Hedge Funds	
Basis for Determining Fair Value	**Long**	**Short**

	Private Equity Funds			Hybrid Hedge Funds	Hybrid PE Funds	Total Investment Company Holdings
1. Quoted market prices	10%	42%	91%	1%	0%	(4%)
2. Other observable market parameters	10%	38%	9%	(1%)	0%	9%
3A. Third party pricing sources with significant unobservable market parameters (A)	8%	19%	0%	96%	88%	61%
3B. Internal models with significant unobservable market parameters	72%	1%	0%	4%	12%	34%
Total	100%	100%	100%	100%	100%	100%

(A) Primarily represents valuations based on third party pricing services, certain broker quotes, and third party fund managers.

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As of September 30, 2009, $7.8 billion of investments in our private equity funds, $0.1 billion of investments in our liquid hedge funds, $0.3 billion of investments in our hybrid hedge funds, and $0.7 billion of investments in our hybrid PE funds are valued by internal models with significant unobservable market parameters. A 10% increase or decrease in the value of investments held by the Fortress Funds valued at level 3 (A or B) would have had the following effects on our results of operations on an unconsolidated basis for the nine months ended September 30, 2009, consistent with the table above:

	Private Equity Funds	Liquid Hedge Funds	Hybrid Hedge Funds	Hybrid PE Funds
Management fees, per annum on a prospective basis	$3.0 million or ($3.2 million) (A)	$1.5 million	$15.6 million	$0.2 million or ($0.4 million) (A)
Incentive income	N/A (B)	$9.9 million or ($0.1 million)	N/A (C)	N/A (B)
Earnings from equity method investees	$43.2 million	$0.7 million	$24.2 million	$8.9 million

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.

(A) Private equity fund and hybrid PE fund management fees would be generally unchanged as, for investments in non-publicly traded securities, they are not based on the value of the funds, but rather on the amount of capital invested in the funds. However, if the NAV of a portfolio company of certain private equity funds or hybrid PE funds is reduced below its invested capital, there would be a reduction in management fees. As of September 30, 2009, $3.2 billion of such private equity fund or hybrid PE fund portfolio companies valued at level 3 (A or B) 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 September 30, 2009 is the current reset date.

(B) Private equity fund and hybrid 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.

(C) Hybrid 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 do not pay any current incentive income). Incentive income is generally not charged on amounts invested by hybrid hedge funds in funds managed by external managers.

Income Taxes

FIG Corp. has recorded a significant deferred tax asset, primarily in connection with the Nomura transaction and the IPO. 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 which, due to the market crisis, have declined from historical levels. However, the projections do contain an estimated marginal growth assumption in years beyond 2009. 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 estimated federal taxable ordinary income for 2007 and 2008 before deductions relating to the establishment of the deferred tax assets, excluding deferred tax assets arising from equity-based compensation, as well as the average of such amount 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):

2007	$ 74.9
2008	$ 48.0
2009 - 2015: Average Required	$ 55.8
2016 - 2021: Average Required	$ 79.7

As of December 31, 2008, based on the effects of the continuing credit crisis, particularly the fourth quarter declines in equity investment values, we revised our 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. In addition, 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.

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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.

The amount of income taxes that we may be required to pay could increase significantly if legislation introduced in Congress is passed in its proposed form. For more information on the proposed legislation, see Part II, Item 1A, Risk Factors Risks Related to Taxation Legislation has been introduced that would, if enacted, preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly traded partnership rules. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis.

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

The following elements of the accounting for equity-based compensation may be 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; and
- the estimated fair value of the LTIP awards, which was estimated using a Monte Carlo simulation valuation model, with the following assumptions: volatility, term, dividend rate, and risk-free discount rate.

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

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Recent Accounting Pronouncements

In December 2007, the FASB issued FASB ASC Section 810-10-65 Transition Related to SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. FASB ASC Section 810-10-65 clarifies the classification of non-controlling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and holders of such non-controlling interests. FASB ASC Section 810-10-65 applies to reporting periods beginning after December 15, 2008. FASB ASC Section 810-10-65 had the following effects on Fortress s financial statements: (i) reclassification of Principals and Others Interests in Equity of Consolidated Subsidiaries from the mezzanine section of the balance sheet (between liabilities and equity) to equity, (ii) removal of Principals and Others Interests in Income of Consolidated Subsidiaries from the calculation of Net Income (Loss) on the statement of operations, and disclosure thereof below Net Income (Loss), and (iii) with respect to potential future transactions in which Fortress could acquire Fortress Operating Group units from the Principals pursuant to their exchange (along with Class B shares) for Class A shares (or otherwise), these transactions would be accounted for as equity transactions rather than as a step acquisition of Fortress Operating Group (as would be required under prior accounting principles). There is no effect from the adoption of FASB ASC Section 810-10-65 on the equity which pertains to Class A shareholders, or net income (loss) allocable to Class A shareholders, or on Fortress s liquidity.

In April 2009, the FASB issued three new standards related to fair value and impairment, FASB ASC paragraph 825-10-65-1 Transition Related to FSP FAS 107-1 and APB 28-1 Interim Disclosures about Fair Value of Financial Instruments, FASB ASC paragraph 320-10-65-1 Transition Related to FSP FAS 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments, and FASB ASC paragraph 820-10-65-4 Transition Related to FSP FAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. These new standards (i) require disclosures about the fair value of financial instruments on an interim basis, (ii) change the guidance for determining, recording and disclosing other-than-temporary impairment, and (iii) provide additional guidance for estimating fair value when the volume or level of activity for an asset or liability have significantly decreased. These new standards were effective for Fortress in the second quarter of 2009. They have had a small impact on our disclosures, a potential impact on future impairment determinations for distributable earnings purposes (if any), but no material impact on our financial condition, liquidity, or results of operations upon adoption.

In June 2009, the FASB issued SFAS No. 167 Amendment to FASB Interpretation No. 46(R), which will become effective on January 1, 2010. SFAS 167 changes the definition of a variable interest entity (VIE) and changes the methodology of FASB Interpretation No. 46 (revised, December 2003) Consolidation of Variable Interest Entities (FASB ASC Topic 810) to determine who is the primary beneficiary of, or in other words who consolidates, a VIE. Generally, the changes are expected to cause more entities to be defined as VIE s and to shift consolidation to those entities that exercise day-to-day control over the VIE s, such as investment managers. We are currently evaluating the potential impact of SFAS 167 on us. To the extent it results in changes to the entities included in our consolidated financial statements, the impact could be material to our gross assets, liabilities, revenues and expenses but would not be material to the net income or equity attributable to our Class A shareholders.

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.

Contractual Obligations

As of September 30, 2009, our material contractual obligations are our capital commitments to our funds, our lease obligations and our debt obligations 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 $1.5 billion as of December 31, 2008 to $1.1 billion as of September 30, 2009.

Our debt obligations payable decreased from $777.7 million as of December 31, 2008 to $437.3 million as of September 30, 2009, including estimates for interest payments. This decrease was primarily attributable to the repayment of the revolving debt and a portion of the delayed term loan from proceeds of our May 2009 capital raise in the amounts of $54.0 million and $110.3 million, respectively. This decrease was also attributable to our March 13, 2009 amendment to our credit agreement, with respect to which we repaid (i) $50.0 million of outstanding revolving debt and (ii) $75.0 million of the outstanding delayed term loan. In addition, on July 15, 2009, we repaid an additional $28.0 million of the outstanding delayed term loan.

Our outstanding capital commitments, including our commitments to our funds, have decreased from $140.9 million as of December 31, 2008 to $129.9 million as of September 30, 2009. This decrease is primarily attributable to the cancellation of our $15.0 million commitment to Fund VI and $14.4 million of contributions we made to Fund V during the nine months ended September 30, 2009. These decreases were partially offset by our capital commitments to our newly formed funds, Credit Opportunities II and Japan Opportunity Fund, of $11.3 million and $2.7 million, respectively, as well as an increase due to the net effect of recallable capital distributions from the Real Assets Fund and Credit Opportunities Fund, which increased our outstanding capital commitments by $4.5 million.

The amount of clawback that would be due based on a liquidation of the related Fortress Funds at their net recorded asset value as of September 30, 2009, which we refer to as intrinsic clawback, was $97.6 million as compared to $130.3 million at December 31, 2008. This decrease is primarily a result of the net returns earned by the related Fortress Funds during the nine months ended September 30, 2009.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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 investment companies runs their own investment and risk management process subject to the company s overall risk tolerance and philosophy:

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

- our hybrid 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 a number of traditional and customized risk management metrics to analyze risk related to specific assets or portfolios, as well as fund-wide risks.

Each segment has an institutional risk management process and related infrastructure to address these risks. The following table summarizes our financial assets and liabilities that may be impacted by various market risks such as equity prices, interest rates and exchange rates as of September 30, 2009 (in thousands):

Assets	
Equity method investees	$ 881,768
Options in affiliates	1,417
	$ 883,185
Liabilities	
Debt obligations payable	$ 411,800

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 based on either: (i) capital commitments to a Fortress Fund, (ii) capital invested in a Fortress Fund, or (iii) the NAV of a Fortress Fund, as described in our historical 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 our investments in the related funds and would occur only in periods subsequent to the change, as opposed to having an immediate impact. The proportion of our management fees that are based on NAV is dependent on the number and types of Fortress

Funds in existence and the current stage of each fund s life cycle. As of September 30, 2009, approximately 47% of our management fees earned were based on the NAV of the applicable funds.

For private equity funds and certain hybrid 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 funds formed after March 2006. For funds formed after March 2006 that are no longer in the investment period, management fees are earned on the NAV of investments in publicly traded entities. 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.

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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. For the Value Recovery Funds, management fees are based on realizations which are not dependent on current estimated fair value; for certain managed assets within the Value Recovery Funds management fees are dependent on a defined gross asset value which is not directly dependent on current estimated fair value.

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

Fortress Funds Market Risk Impact on GAAP Incentive Income

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

Incentive income from our private equity funds and hybrid 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 hybrid PE funds where incentive income is subject to contingencies at September 30, 2009 would increase or decrease future incentive income by $116.5 million or ($113.9 million), respectively; however, this would have no effect on our current reported financial condition or results of operations.

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

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 quarterly or annual performance criteria. For certain hedge funds with quarterly performance criteria, a 10% decrease to the NAV of the funds on September 30, 2009 would have resulted in a loss to investors for the quarter. In future quarters, a 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. For the hedge funds with annual performance criteria, a 10% decrease to the NAV of the fund on September 30, 2009, assuming that NAV is constant for the rest of the current year, would result in no incentive income recorded as revenue at year end (in the fourth quarter of the year). The Value Recovery Funds only pay incentive income if aggregate realizations exceed a certain threshold and, therefore, this potential incentive income (none of which has been recorded to date) is not 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.

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Market Risk Quantitative Analysis

The following table presents information on the impact to Fortress of a 10% change in the fair values of all of the investments held by the Fortress Funds at September 30, 2009 (in millions).

	10% Positive Change					
	GAAP Revenues			Segment Revenues (A)		
	Management Fees (B)	Incentive Income	Earnings from Equity Method Investees (C)	Management Fees (B)	Incentive Income	Investment Income
Private Equity						
Funds	$ 4.1	$ N/A (E)	$ 47.4	$ 4.1	$ N/A (E)	$ N/A
Castles (D)	N/A	N/A	N/A	N/A	N/A	N/A
Liquid Hedge Funds	6.1	12.4	0.9	6.1	12.4	0.3
Hybrid						
Hedge Funds	11.0	N/A (G)	20.1	11.0	0.0	11.0
PE Funds	0.2	N/A (E)	6.9	0.2	N/A (E)	N/A
Total	$ 21.4	$ 12.4	$ 75.3	$ 21.4	$ 12.4	$ 11.3

	10% Negative Change					
	GAAP Revenues			Segment Revenues (A)		
	Management Fees (B)	Incentive Income	Earnings from Equity Method Investees (C)	Management Fees (B)	Incentive Income	Investment Income
Private Equity						
Funds	$ (4.4)	$ N/A (E)	$ (47.4)	$ (4.4)	$ N/A (E) (F)	$ N/A (F)
Castles (D)	N/A	N/A	N/A	N/A	N/A	N/A (F)
Liquid Hedge Funds	(6.1)	(5.5)	(0.9)	(6.1)	(7.2)	(0.3)
Hybrid						
Hedge Funds	(11.0)	N/A (G)	(20.1)	(11.0)	(0.1)	(11.0)
PE Funds	(0.4)	N/A (E)	(6.9)	(0.4)	N/A (E) (F)	N/A (F)
Total	$ (21.9)	$ (5.5)	$ (75.3)	$ (21.9)	$ (7.3)	$ (11.3)

(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.

(B) 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 hybrid PE funds, it assumes that the management fees reset as of the reporting date. Private equity fund and hybrid PE fund management fees would be generally unchanged as, for investments in non-publicly traded securities, they are not based on the value of the funds, but rather on the amount of capital invested in the funds. However, if the NAV of a portfolio company of certain private equity funds or hybrid PE funds is reduced below its invested capital, there would be a reduction in management fees. As of the reporting date, $3.9 billion of such private equity fund or hybrid PE fund portfolio companies were carried at or below their invested capital and are in funds which are no longer in their commitment period.

(C) Presented on a gross basis, before Principals and others interests in income of consolidated subsidiaries. The changes presented do not include any effect related to our direct investment in GAGFAH common stock. A 10% increase (decrease) in the equity price of GAGFAH s common shares would affect our unrealized gains and losses by $6.4 million.

(D) 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 affect unrealized gains and losses by $0.6 million. A 10% increase (decrease) in the market value of our investment in Eurocastle convertible debt would affect unrealized gains and losses by $0.2 million. Furthermore, the Castles management fees and incentive income are not directly impacted by changes in the fair value of their investments (unless the changes are deemed to be impairment, which would impact incentive income).

(E) For GAAP Revenues, private equity fund and hybrid 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 hybrid 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.

(G) For GAAP Revenues, hybrid 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 do not pay any current incentive income). Incentive income is generally not charged on amounts invested by hybrid hedge funds in funds managed by external managers.

Interest Rate Risk

Fortress Operating Group has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore impact the amount of interest payments, future earnings and cash flows. Based on debt obligations payable as of September 30, 2009, we estimate that interest expense relating to variable rate debt obligations payable would increase $4.1 million on an annual basis in the event interest rates were to increase by one percentage point.

Exchange Rate Risk

Our investments in Eurocastle and GAGFAH are directly exposed to foreign exchange risk. As of September 30, 2009, we had a $2.5 million investment in Eurocastle and a $64.0 million investment in GAGFAH which are accounted for at fair value. In the event of a 10% change in the applicable foreign exchange rate against the U.S. dollar on September 30, 2009, we estimate the gains and losses for the nine months ended September 30, 2009 in relation to the value of the shares and options would increase or decrease by $6.7 million.

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

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Item 1A. Risk Factors

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

Risks Related to the Financial Services Industry and Financial Markets

We do not know what impact the U.S. government s various plans to attempt to stabilize the economy and the financial markets will have on our business.

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, the U.S. government enacted the Emergency Economic Stabilization Act of 2008, or EESA, on October 3, 2008. Pursuant to the EESA, the U.S. Treasury has the authority to, among other things, purchase up to $700 billion of mortgage-backed and other securities from financial institutions for the purpose of stabilizing the financial markets. In addition, the U.S. government also made preferred equity investments in a number of the largest financial institutions, including Citigroup, Bank of America and AIG. In addition, on March 3, 2009, the U.S. Department of the Treasury and the Federal Reserve announced the launch of the Term Asset-Backed Securities Loan Facility, or TALF, which provides up to $200 billion (which may be increased to up to $1 trillion) of financing to certain U.S. entities to purchase qualifying AAA-rated asset-backed securities. Such financing is subject to various conditions, has a term of three years and accrues interest at specified rates. It is not clear what impact the various plans to attempt to stabilize the economy and the financial markets will have on our business.

In March 2009, the US Treasury announced plans for the Public Private Investment Partnership Program (or PPIP) for legacy assets, which is intended to generate purchasing power to help facilitate the purchase of various loans and securities held by financial institutions. As part of the PPIP, the Treasury accepted applications from investment managers to become pre-qualified to manage assets of to-be-formed investment funds that would invest in legacy securities on behalf of the government and private investors. We were not selected in the initial round of announcements to be pre-qualified as an investment manager under this program. As we stated prior to the announcement of pre-qualified managers, we do not currently anticipate that the PPIP will have a material impact on our business. The details of the TALF, PPIP and other initiatives are subject to change, and it is unclear whether we and/or our funds will be eligible to participate directly in these programs (whether as an investment manager, as a recipient of financing or otherwise) and, therefore, these initiatives may not directly benefit us. If any of our competitors are able to benefit from these programs, they may gain a competitive advantage over us. In addition, the government may decide to implement these programs in unanticipated ways that have a more direct impact on our funds or our businesses. For example, the government may decide that it will not purchase or finance certain types of loans or securities, which may adversely affect the price of those securities. If we own such securities in our funds, such price impacts may have an adverse impact on the liquidity and/or performance of such funds.

Risks Related To Our Business

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.

Our credit agreement contains a number of restrictive covenants and requires significant amortization payments over the next several years, which 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. Although we recently amended our credit agreement to, among other things, make the financial covenants less restrictive, the terms of our credit agreement still impose significant operating and financial restrictions on us. Our credit agreement includes financial covenants that we:

- not exceed a total leverage ratio;
- maintain a minimum AUM; and
- maintain a minimum amount of investment assets (and maintain specific amounts of certain types of investments).

The leverage ratio covenant is tested as of the end of each fiscal quarter while the AUM and investment asset covenants are applicable at all times. We have amended these and other covenants several times in the last year in order to provide sufficient flexibility to ensure compliance with the terms of our credit agreement. 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 the amount of cash flow that we generate, and the value of our AUM and investment assets fluctuates due to a variety of factors, including mark-to-market valuations of certain assets and other market factors. The ongoing global economic recession has negatively impacted the cash flow that we have generated and expect to generate in the future as well as the current and expected value of our investment assets and current and expected AUM. These negative conditions, in turn, negatively affect our ability to comply with these covenants. For example, the

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investment assets on our balance sheet include a limited number of concentrated positions in portfolio companies or other ventures whose liquidity, operating results and financial condition have been adversely affected by the ongoing recession. The failure of a portfolio company to successfully refinance its debt (or a material default by any portfolio company in which we have a material direct or indirect investment) could cause us to lose all, or a significant portion, of the value of our investment attributable to such portfolio company, or any amounts due from the applicable fund, which would, in turn, decrease the amount of our investment assets and could result in our failure to comply with the investment asset covenant in our credit agreement or make compliance more difficult. Our credit agreement also contains other covenants that restrict our operations as well as a number of events that, if they occurred, would constitute an event of default under the agreement.

In addition, our credit agreement requires that we make the following amortization payments during the following time periods: $14 million in 2009, $56 million during 2010, an additional $42 million by January 2011, and the remaining balance at the maturity of the facilities in May 2012. Making these payments will require a significant amount of our available cash flow that could otherwise be applied to other purposes such as making investments or paying dividends.

A failure by us to comply with the covenants or amortization requirements or upon the occurrence of other defaults or events of default specified 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, to declare all borrowings outstanding, 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 consists of substantially all our assets. If the debt under our credit agreement were to be accelerated, we may not have sufficient cash on hand or be able to sell sufficient collateral to repay this debt, which would have an immediate material adverse affect on our business, results of operations and financial condition. For more detail regarding our credit agreement, its terms and the current status of our compliance with the agreement, please see Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Debt Obligations, and Covenants.

We depend on Messrs. Briger, Edens, Kauffman, 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, Robert Kauffman, Randal Nardone and Michael Novogratz. Our principals reputations, expertise in investing, relationships with our investors and relationships with members of the business community on whom our funds depend for investment opportunities and financing, are each critical elements in operating and expanding our businesses. We believe our performance is strongly correlated to the performance of these individuals. Accordingly, the retention of our principals is crucial to our success. In addition, if any of our principals were to join or form a competitor, some of our investors could choose to invest with that competitor rather than in our funds. The loss of the services of any of our principals 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 entered into an employment agreement with us. The initial term of these agreements ends in February 2012, with automatic one-year renewals until a non-renewal notice is given by us or the principal. If a principal terminates his employment voluntarily or we terminate his employment for cause (as defined in the agreement), the principal will be subject to eighteen-month post-employment covenants requiring him not to compete with us. However, if we terminate a principal s employment without cause, the principal will not be subject to the non-competition provisions.

The principals have also entered into an agreement among themselves, which provides that, in the event a principal voluntarily terminates his employment with us for any reason prior to February 2012, the principal may be required to forfeit a portion of his Fortress Operating Group units (and the corresponding Class B shares) to the other principals who continue to be employed by the Fortress Operating Group. However, this agreement may be amended by the principals who are then employed by the Fortress Operating Group. We, our shareholders and the Fortress Operating Group have no ability to enforce any provision of this agreement or to prevent the principals from amending the agreement or waiving any of its obligations.

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

Several of our funds have key person provisions pursuant to which the failure of one or more of our senior employees to be actively involved in the business provides investors with the right to redeem from the funds or otherwise limits our rights to manage the funds. The loss of the services of any one of 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 or inability of Mr. Novogratz to perform his services for 90 days could result in substantial withdrawal requests from investors in our Global Macro funds and, in the event that a replacement is not approved, the termination of a substantial portion of the funds financing arrangements. Such withdrawals and terminations would have a material adverse effect on the Global Macro funds by reducing our management fees from those funds. Further, such withdrawals and terminations could lead possibly to the liquidation of the funds and a corresponding elimination of our management fees and potential to earn incentive income from those funds. The loss of Mr. Novogratz could, therefore, ultimately result in a loss of a material portion of our earnings attributable to our liquid hedge fund business segment.

The loss or inability of Mr. Briger to perform his services for 90 days could result in substantial withdrawal requests from investors in our Drawbridge Special Opportunities funds and, in the event that a replacement for him is not approved, the termination of a substantial portion of the funds financing arrangements. Such withdrawals and terminations would have a material adverse effect on the Drawbridge Special Opportunities funds by reducing our management fees from those funds. Further, such withdrawals and terminations could lead possibly to the eventual liquidation of the funds and a corresponding elimination of our management fees and potential to earn incentive income from those funds. The loss or inability of Mr. Briger to perform his services or devote an appropriate portion of his business time to the long dated value funds for 90 days would (unless approved by a majority of fund investors) prevent some of the Drawbridge long dated value funds from making additional investments. This could have a material adverse effect on such long dated value funds, resulting in us receiving reduced management fees. The loss of Mr. Briger could, therefore, ultimately result in a loss of a material portion of our earnings attributable to our hybrid hedge fund and hybrid PE fund business segments.

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

Certain of our existing funds have key person provisions relating to senior employees other than the named principals of Fortress, and the resignation or termination of any such senior employee could result in a material adverse effect on the applicable fund or funds. 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 Fortress 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 recruit additional qualified personnel. We collectively refer to these key employees (other than our principals) 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 which are the source of many of our funds investment opportunities, and in certain cases have strong relationships with our investors. Therefore, if our investment professionals join competitors or form competing companies it could result in the loss of significant investment opportunities and certain existing investors. As a result, the loss of even a small number of our investment professionals could jeopardize the performance of our funds, which could have a material adverse effect on our results of operations as well as our ability to retain and attract investors and raise new funds. 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 addition, these agreements will expire after a certain period of time, at which point each of our investment professionals 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. 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

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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, 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. Lastly, issuance of certain equity interests in our business to current or future investment professionals would dilute Class A shareholders.

Certain of our funds 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 represents substantially all of the compensation the professional is entitled to receive during the year. If the investment professional s annual performance is negative, the professional will not be entitled to receive any performance-based compensation for the year. If the 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 hybrid PE fund businesses are compensated with grants of carried interest in our funds. During periods of economic volatility such as what we are currently experiencing, realization events in our private equity and hybrid 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 hybrid PE funds result in the generation of less incentive income than might have otherwise been anticipated, such professionals grants of carried interest in such fund will have similarly decreased 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 other liquidity needs. This retention risk is heightened during periods similar to those we are currently experiencing where market conditions make it more difficult to generate positive investment returns.

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

Our rapid growth in recent years has created significant demands on our legal, accounting and operational infrastructure, and increased expenses. The complexity of these demands, and the expense required to address them, is a function not simply of the amount by which our fee paying assets under management have grown, but of significant differences in the investing strategies of our different funds. In addition, we are required to continuously develop our systems and infrastructure in response to the increasing sophistication of the investment management market and legal, accounting and regulatory developments. Moreover, the strains upon our resources caused by our growth are compounded by the additional demands imposed upon us as a public company with shares listed on the New York Stock Exchange and, thus, subject to an extensive body of regulations that did not apply to us prior to our initial public offering.

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

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

On July 19, 2009, the Company announced that Daniel Mudd would be appointed to the position of Chief Executive Officer, effective August 11, 2009. Mr. Mudd is responsible for Fortress s day-to-day operations, while the Fortress principals each continue to lead their respective investment businesses and serve on the Board of Directors. Since our founding, the CEO role has been filled by one of the founding principals. With our recent realignment of responsibilities, the integration of a new individual into that role will present various managerial, logistical and administrative risks to our daily operations, and there can be no assurance that we will manage this transition successfully.

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

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, 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 and on the general ledger software provider for a number of our funds. Any interruption or deterioration in the performance of these third parties could impair the quality of the funds operations and could impact our reputation and adversely affect our business and limit our ability to grow.

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

We derive a substantial portion of our revenues from funds managed pursuant to management agreements that may be terminated or fund partnership agreements that permit investors to request liquidation of investments in our funds on short notice. The termination of certain management agreements or commencement of the dissolution of certain funds would constitute an event of default under our credit agreement.

The terms of our funds generally give either the general partner of the fund or the fund s board of directors the right to terminate our investment management agreement with the fund. However, insofar as we control the general partner of our funds which are limited partnerships, the risk of termination of investment management agreement for such funds is limited, subject to our fiduciary or contractual duties as general partner. This risk is more significant for our offshore hedge funds where we do not serve as the general partner, which represent a significant portion of our hedge fund AUM.

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

In addition, investors in any private equity fund or hybrid PE fund 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 debt covenants in our credit facility. Our ability to realize incentive income from such funds therefore would be adversely affected if we are required to liquidate fund investments at a time when market conditions result in our obtaining less for investments than could be obtained at later times.

In addition, management agreements of our funds that are registered investment companies under the Investment Company Act of 1940 would terminate if we were to experience a change of control without obtaining investor consent. Such a change of control could be deemed to occur in the event our principals exchange enough of their interests in the Fortress Operating Group into our Class A shares such that our principals no longer own a controlling interest in us. We cannot be certain that consents required for the assignment of our investment management agreements will be obtained if such a deemed change of control occurs. In addition, the boards of directors of certain hedge funds have the right under certain circumstances to terminate the investment management agreements with the applicable fund. Termination of these agreements would affect the fees we earn from the relevant funds, which could have a material adverse effect on our results of operations.

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Under the terms of our credit agreement, if, subject to certain exceptions, we cease to serve as the investment manager of any fund that generates management and incentive fees during the previous twelve months or which we expect to generate such fees within the next twelve months in an aggregate amount of at least $25 million, such termination would constitute an event of default under our credit agreement. In addition, if any such fund commenced a process to dissolve, liquidate or otherwise wind-up the fund outside the ordinary course of business, such commencement would also constitute an event of default under our credit agreement. If either event of default occurred, it would give our lenders the right to terminate their commitments to lend us funds under our revolving credit facility and to require us to repay all outstanding term loans immediately (in addition to other remedies available under the credit agreement). If our lenders exercised their rights upon the occurrence of an event of default, doing so would likely have an immediate material adverse effect on our business, results of operations and financial condition.

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

In general, we will be exposed to risk of litigation by our fund investors if our management of any fund is alleged to constitute gross negligence or willful misconduct. Investors could sue us to recover amounts lost by our funds due to our alleged misconduct, up to the entire amount of loss. Further, we may be subject to litigation arising from investor dissatisfaction with the performance of our funds or from allegations that we improperly exercised control or influence over companies in which our funds have large investments. By way of example, we, our funds and certain of our employees, are each exposed to the risks of litigation relating to investment activities in our funds and actions taken by the officers and directors (some of whom may be Fortress employees) of portfolio companies, such as risks relating to a portfolio company s mortgage servicing activities and the risk of shareholder litigation by other shareholders of public companies in which our funds have large investments. The stock prices of several of our publicly traded portfolio companies and Castles have decreased significantly relative to their historical high prices (resulting in the delisting of one of our portfolio companies from the NYSE), which decreases may lead to securities class action claims or other suits against us. In addition, we are exposed to risks of litigation or investigation relating to transactions that presented conflicts of interest that were not properly addressed. In such actions we could be obligated to bear legal, settle