Fortress Investment Group LLC
Form 10-Q
October 30, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-33294
Fortress Investment Group LLC
(Exact name of registrant as specified in its charter)

Delaware	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 ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
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: 208,535,157 outstanding as of October 24, 2014.
Class B Shares: 226,331,513 outstanding as of October 24, 2014.

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PART II. OTHER INFORMATION

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

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

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

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

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

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

“Fortress Funds” and “our funds” refers to the private investment funds, permanent capital vehicles and related managed accounts that we manage. The Fortress Macro Fund is our flagship liquid hedge fund and the Drawbridge Special Opportunities Fund is our flagship credit hedge fund.

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

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

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

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

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

SPECIAL NOTE REGARDING EXHIBITS

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

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

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

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

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

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the company may be found elsewhere in this Quarterly Report on Form 10 Q and the company's other public filings, which are available without charge through the SEC's website at http://www.sec.gov.
The company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Investment Manager		
Cash and cash equivalents	$332,158	$364,583
Due from affiliates	165,074	407,124
Investments	1,099,955	1,253,266
Investments in options	70,251	104,338
Deferred tax asset, net	385,301	354,526
Other assets	174,623	190,595
Investment Company - consolidated VIEs		
Cash and cash equivalents	16,604	—
Receivables from brokers and counterparties	40,825	—
Investments, at fair value	133,857	—
Other assets	920	—
	2,419,568	2,674,432
Non-Investment Manager - consolidated VIE		
Cash and cash equivalents	135,063	—
Fixed assets, net	290,481	—
Goodwill	125,407	—
Intangible assets, net	155,133	—
Other assets, net	116,893	—
	822,977	—
Total Assets	$3,242,545	$2,674,432
Liabilities and Equity		
Investment Manager		
Accrued compensation and benefits	$269,060	$417,309
Due to affiliates	356,189	344,832
Deferred incentive income	283,684	247,556
Debt obligations payable	75,000	—
Other liabilities	116,113	49,830
Investment Company - consolidated VIEs		
Due to brokers and counterparties	12,577	—
Securities sold not yet purchased, at fair value	37,258	—
Other liabilities	1,477	—
	1,151,358	1,059,527
Non-Investment Manager - consolidated VIE		

Deferred revenue	36,125	—
Debt obligations payable	232,275	—
Accrued expenses and other liabilities	72,179	—
	340,579	—
Total Liabilities	1,491,937	1,059,527

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	September 30, 2014 (Unaudited)	December 31, 2013
Commitments and Contingencies		
Redeemable Non-controlling Interests, Investment Company - consolidated VIE	34,887	—
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 208,004,183 and 240,741,920 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	—	—
Class B shares, no par value, 750,000,000 shares authorized, 226,331,513 and 249,534,372 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	—	—
Paid-in capital	2,004,828	2,112,720
Retained earnings (accumulated deficit)	(1,412,494)	(1,286,131)
Accumulated other comprehensive income (loss)	(1,870)	(1,522)
Total Fortress shareholders’ equity	590,464	825,067
Principals’ and others’ interests in equity of consolidated subsidiaries	587,315	789,838
Non-controlling interests in equity of Investment Company - consolidated VIEs	58,426	—
Non-controlling interests in equity of Non-Investment Manager - consolidated VIE	479,516	—
Total Equity	1,715,721	1,614,905
Total Liabilities, Redeemable Non-controlling Interests and Equity	$3,242,545	$2,674,432

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues				
Investment Manager				
Management fees: affiliates	$133,674	$121,593	$397,200	$388,957
Management fees: non-affiliates	16,774	15,361	52,112	45,531
Incentive income: affiliates	30,941	40,934	125,634	103,176
Incentive income: non-affiliates	343	1,907	1,030	4,770
Expense reimbursements: affiliates	50,600	49,301	153,448	149,308
Expense reimbursements: non-affiliates	4,869	1,904	9,931	4,752
Other revenues (affiliate portion disclosed in Note 7)	1,302	1,019	4,325	2,954
Investment Company - consolidated VIEs				
Interest and dividend income	196	—	244	—
	238,699	232,019	743,924	699,448
Non-Investment Manager - consolidated VIE				
Advertising	96,761	—	236,434	—
Circulation	49,803	—	118,049	—
Commercial printing and other	18,497	—	42,832	—
	165,061	—	397,315	—
Total Revenues	403,760	232,019	1,141,239	699,448
Expenses				
Investment Manager				
Compensation and benefits	187,249	146,457	543,882	539,591
General, administrative and other	40,855	33,315	120,646	99,970
Depreciation and amortization	4,997	3,501	14,335	10,094
Interest expense	916	778	2,554	4,856
Investment Company - consolidated VIEs				
Other	466	—	685	—
	234,483	184,051	682,102	654,511
Non-Investment Manager - consolidated VIE				
Operating costs	93,716	—	225,249	—
General, administrative and other	54,375	—	130,900	—
Depreciation and amortization	10,854	—	26,201	—
Interest expense	4,519	—	10,813	—
Loss on extinguishment of debt	—	—	9,047	—
	163,464	—	402,210	—
Total Expenses	397,947	184,051	1,084,312	654,511

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Other Income (Loss)				
Investment Manager				
Gains (losses) (affiliate portion disclosed in Note 4)	(19,359)	7,503	(26,235)	45,578
Tax receivable agreement liability adjustment	(4,036)	—	(4,036)	(7,739)
Earnings (losses) from equity method investees	38,928	60,508	81,750	125,515
Investment Company - consolidated VIEs				
Gains (losses)	(4,991)	—	(4,427)	—
Total Other Income (Loss)	10,542	68,011	47,052	163,354
Income (Loss) Before Income Taxes	16,355	115,979	103,979	208,291
Income tax benefit (expense) - Investment Manager	(3,024)	(14,794)	(16,934)	(42,236)
Income tax benefit (expense) - Non-Investment Manager - consolidated VIE	(3,116)	—	(1,704)	—
Total Income Tax Benefit (Expense)	(6,140)	(14,794)	(18,638)	(42,236)
Net Income (Loss)	$10,215	$101,185	$85,341	$166,055
Allocation of Net Income (Loss):				
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	10,842	58,804	58,946	111,421
Redeemable Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIE	(2,042)	—	(1,885)	—
Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIEs	(9)	—	(9)	—
Non-controlling Interests in Income (Loss) of Non-Investment Manager - consolidated VIE	(3,014)	—	(10,305)	—
Net Income (Loss) Attributable to Class A Shareholders	4,438	42,381	38,594	54,634
	$10,215	$101,185	$85,341	$166,055
Dividends declared per Class A share	$0.26	$0.06	$0.42	$0.18
Earnings (Loss) Per Class A share				
Net income (loss) per Class A share, basic	$0.02	$0.17	$0.18	$0.23
Net income (loss) per Class A share, diluted	$0.02	$0.12	$0.17	$0.21
Weighted average number of Class A shares outstanding, basic	208,014,692	239,404,587	210,874,640	234,750,585
Weighted average number of Class A shares outstanding, diluted	220,792,711	502,091,166	457,019,507	499,562,470

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Comprehensive income (loss) (net of tax)				
Net income (loss)	$10,215	$101,185	$85,341	$166,055
Investment Manager				
Foreign currency translation	351	(46)	(1,251)	(1,862)
Comprehensive income (loss) from equity method investees	—	(1)	—	4,135
Total comprehensive income (loss)	$10,566	$101,138	$84,090	$168,328
Allocation of Comprehensive Income (Loss):				
Comprehensive income (loss) attributable to principals' and others' interests	10,997	58,772	58,081	112,842
Comprehensive income (loss) attributable to redeemable non-controlling interests of Investment Company - consolidated VIE	(2,042)	—	(1,885)	—
Comprehensive income (loss) attributable to non-controlling interests in Investment Company - consolidated VIEs	(9)	—	(9)	—
Comprehensive income (loss) attributable to non-controlling interests of Non- Investment Manager - consolidated VIE	(3,014)	—	(10,305)	—
Comprehensive income (loss) attributable to Class A shareholders	4,634	42,366	38,208	55,486
	$10,566	$101,138	$84,090	$168,328

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014
(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	Non-controlling Interests in Equity of Investment Company and Non-Investment Manager	Total E
Equity - December 31, 2013	240,741,920	249,534,372	$2,112,720	$(1,286,131)	$(1,522)	$825,067	$789,838	$—	$1,614,
Contributions from principals' and others' interests in equity	—	—	—	—	—	—	60,026	—	60,026
Contributions for non-controlling interests in equity of Investment Company	—	—	—	—	—	—	—	58,435	58,435
Distributions to principals' and others' interests in equity (net of tax)	—	—	—	—	—	—	(153,212)	—	(153,21
Consolidation of New Media	—	—	—	—	—	—	—	383,040	383,04
Issuance of New Media common stock (net of offering costs)	—	—	—	—	—	—	—	114,850	114,85
Dividends declared	—	—	(85,181)	—	—	(85,181)	—	(8,069)	(93,25
Dividend equivalents accrued in connection with	—	—	(1,013)	—	—	(1,013)	(1,794)	—	(2,807

equity-based compensation (net of tax)									
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	3,033	—	—	3,033	91	—	3,124
Director restricted share grant	89,390	—	312	—	—	312	348	—	660
Capital increase related to equity-based compensation, net	4,538,289	—	17,592	—	—	17,592	19,793	—	37,385
Dilution impact of equity transactions (Note 7)	—	—	(42,635)	—	38	(42,597)	42,597	—	—
Public offering of Class A shares	23,202,859	—	186,551	—	—	186,551	—	—	186,55
Repurchase of Class A shares (Note 9)	(60,568,275)	—	—	(164,957)	—	(164,957)	(228,453)	—	(393,41
Repurchase of Class B shares (Note 9)	—	(23,202,859)	(186,551)	—	—	(186,551)	—	—	(186,55
Comprehensive income (loss) (net of tax)									
Net income (loss) (excludes $(1.9) million loss allocated to redeemable non-controlling interests)	—	—		38,594	—	38,594	58,946	(10,314)	87,226
Foreign currency translation	—	—	—	—	(386)	(386)	(865)	—	(1,251
Comprehensive income (loss) from equity method investees	—	—	—	—	—	—	—	—	—
Total comprehensive						38,208	58,081	(10,314)	85,975

income (loss)									
Equity - September 30, 2014	208,004,183	226,331,513	$2,004,828	$(1,412,494)	$(1,870)	$590,464	$587,315	$537,942	$1,715,

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, 2014	2013
Cash Flows From Operating Activities		
Net income (loss)	$85,341	$166,055
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Investment Manager		
Depreciation and amortization	14,335	10,094
Other amortization and accretion (included in interest expense)	585	704
(Earnings) losses from equity method investees	(81,750)	(125,515)
Distributions of earnings from equity method investees	78,337	53,576
(Gains) losses	26,235	(45,578)
Deferred incentive income	(66,778)	(50,262)
Deferred tax (benefit) expense	8,426	53,048
Options received from affiliates	(3,346)	(36,470)
Tax receivable agreement liability adjustment	4,036	7,739
Equity-based compensation	29,584	28,648
Options in affiliates granted to employees	759	7,757
Other	(653)	633
Investment Company - consolidated VIEs		
(Gains) losses	4,427	—
Non-Investment Manager - consolidated VIE		
Depreciation and amortization	26,201	—
Loss on extinguishment of debt	5,949	—
Amortization of deferred financing costs (included in interest expense)	708	—
Deferred tax (benefit) expense	1,704	—
Other	462	—
Cash flows due to changes in		
Investment Manager		
Due from affiliates	(11,197)	(88,276)
Other assets	32,307	1,950
Accrued compensation and benefits	(81,405)	204,718
Due to affiliates	(21,685)	5,737
Deferred incentive income	99,553	105,753
Other liabilities	36,437	32,197
Investment Company - consolidated VIEs		
Purchases of investments and payments to cover securities sold not yet purchased	(458,794)	—
Proceeds from sale of investments and securities sold not yet purchased	386,242	—
Receivables from brokers and counterparties	(40,825)	—
Other assets	(9,362)	—
Due to brokers and counterparties	12,577	—
Other liabilities	2,467	—
Non-Investment Manager - consolidated VIE		
Other assets	239	—

Deferred revenue	(439)	—
Accrued expenses and other liabilities	(1,016)	—
Net cash provided by (used in) operating activities	79,661	332,508

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FORTRESS INVESTMENT GROUP LLC

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

	Nine Months Ended September 30,	
	2014	2013
Cash Flows From Investing Activities		
Investment Manager		
Contributions to equity method investees	(21,487)	(25,885)
Distributions of capital from equity method investees	368,373	257,829
Purchase of securities	(14,936)	(19,460)
Proceeds from sale of equity securities	83,039	9,951
Purchase of fixed assets	(7,631)	(7,777)
Purchase of software and technology-related assets	(25,976)	—
Non-Investment Manager - consolidated VIE		
Existing cash on consolidation date	23,845	—
Purchase of fixed assets	(2,550)	—
Acquisitions, net of cash acquired	(71,822)	—
Other	714	—
Net cash provided by (used in) investing activities	331,569	214,658
Cash Flows From Financing Activities		
Investment Manager		
Repayments of debt obligations	(50,000)	(149,453)
Borrowings under debt obligations	125,000	—
Payment of deferred financing costs	—	(2,367)
Proceeds from public offering (Note 9)	186,551	—
Repurchase of Class B shares (Note 9)	(186,551)	—
Repurchase of Class A shares (Note 9)	(363,410)	—
Dividends and dividend equivalents paid	(88,617)	(43,168)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	600	391
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(152,686)	(145,697)
Excess tax benefits from delivery of RSUs	3,030	—
Investment Company - consolidated VIEs		
Redeemable non-controlling interests - contributions	16,253	—
Non-redeemable non-controlling interests in Investment Company - contributions	58,435	—
Non-Investment Manager - consolidated VIE		
Repayments of debt obligations	(185,989)	—
Borrowings under debt obligations	239,840	—
Payment of debt issuance costs	(2,505)	—
Proceeds from public offering (net of offering costs)	116,130	—
Dividends and dividend equivalents paid	(8,069)	—
Net cash provided by (used in) financing activities	(291,988)	(340,294)
Net Increase (Decrease) in Cash and Cash Equivalents	119,242	206,872

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FORTRESS INVESTMENT GROUP LLC

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

	Nine Months Ended September 30,	
	2014	2013
Cash and Cash Equivalents, Beginning of Period	364,583	104,242
Cash and Cash Equivalents, End of Period	$483,825	$311,114
Cash and Cash Equivalents - Investment Manager, End of Period	$332,158	$311,114
Cash and Cash Equivalents - Investment Company - consolidated VIEs, End of Period	$16,604	$—
Cash and Cash Equivalents - Non-Investment Manager - consolidated VIE, End of Period	$135,063	$—
Supplemental Disclosure of Cash Flow Information		
Investment Manager		
Cash paid during the period for interest	$1,292	$3,586
Cash paid during the period for income taxes	$4,207	$2,990
Investment Company - consolidated VIEs		
Cash paid during the period for interest	$208	$—
Non-Investment Manager - consolidated VIE:		
Cash paid during the period for interest	$8,763	$—
Supplemental Schedule of Non-cash Investing and Financing Activities		
Investment Manager		
Employee compensation invested directly in subsidiaries	$59,285	$52,105
Investments of incentive receivable amounts into Fortress Funds	$256,993	$206,455
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	$—	$3,255
Investment Company - consolidated VIEs		
Non-cash redeemable non-controlling interests - contributions	$20,519	$—

See notes to consolidated financial statements.

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1. ORGANIZATION AND BASIS OF PRESENTATION

Investment Manager

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

Fortress has three primary sources of income from the Fortress Funds: management fees, incentive income, and investment income on its investments in the funds. In the third quarter of 2014, Fortress reorganized its segments (see Note 11). The Fortress Funds fall into the following business segments in which Fortress operates:

1) Private equity:
a) General buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America and Western Europe; and
b) Entities which Fortress collectively refers to as "permanent capital vehicles" which includes (i) publicly traded companies that are externally managed by Fortress pursuant to management agreements (the "publicly traded permanent capital vehicles") and (ii) a private fund (the "private permanent capital vehicle"). The publicly traded permanent capital vehicles invest in a wide variety of real estate related assets, including securities, loans, real estate properties and mortgage servicing related assets and media assets and the private permanent capital vehicle invests in transportation and infrastructure assets. Fortress expects the private fund will become a publicly traded company externally managed by Fortress.

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

In January 2014, Fortress announced that it is launching an affiliated manager platform. The first fund to join the new platform will be the Fortress Asia Macro Funds. Pending certain regulatory approvals, over the course of 2014, the Fortress Asia Macro Funds and related managed accounts will be transitioned to Graticule Asset Management Asia, L.P. ("Graticule Asset Management"), a new asset management business in which Fortress will have a non-controlling equity interest. Fortress will retain a perpetual minority interest in Graticule Asset Management amounting up to approximately 42.5% of earnings during 2014 and declining to approximately 27% of earnings over time. Fortress expects to receive additional fees for providing infrastructure services (technology, back office, and other services) to Graticule Asset Management. Upon completing the transition, Fortress will record this interest at its fair value, and expects to record a resulting gain and related compensation expense.

In January 2014, Fortress acquired software and technology-related assets which were accounted for as a business combination. These assets facilitate trading within Fortress's liquid hedge funds segment. The purchase price was

$26.0 million and has all been allocated to the acquired software and technology related assets which have an expected useful life of five years.

3) Credit funds:

a) Credit hedge funds, which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance, on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and

b) Credit private equity ("PE") funds which are comprised of a family of "credit opportunities" funds focused on investing in distressed and undervalued assets, a family of "long dated value" funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of "real assets" funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based global opportunities fund, and a family of real estate opportunities funds, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector.

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

Investment Company - Consolidated VIEs

In 2014, Fortress formed a new liquid hedge fund and new private equity fund. Fortress determined that these funds qualify as variable interest entities and that it was the primary beneficiary and therefore consolidates these funds. For the new liquid hedge fund, the fund's unrelated limited partners or members have the substantive ability to liquidate the fund or otherwise remove Fortress as general partner or managing member without cause based on a simple unaffiliated majority vote. The new liquid hedge fund also allows investors to redeem their interests on a periodic basis at their net asset value. Fortress expects to deconsolidate the liquid hedge fund when sufficient third party capital is raised.

During the second quarter of 2014, certain credit hedge funds formed new investment vehicles. Fortress is the sub-advisor to the new entities but does not have a direct interest in the entities. Fortress determined that these investment vehicles qualify as variable interest entities and that it was the primary beneficiary and therefore consolidates the entities. The investment vehicles entered into a warehouse financing agreement with a third party lender which has agreed to lend the investment vehicles up to €300.0 million. As of September 30, 2014, the investment vehicles did not hold any assets or have any debt outstanding. Any debt obligations of the investment vehicles would not be cross collateralized with the debt obligations of the Investment Manager. Fortress has no obligation to satisfy the liabilities of the investment vehicles. Similarly, Fortress does not have the right to make use of the assets of the investment vehicles to satisfy its obligations. Any debt obligations of the investment vehicles would not have an impact on the Investment Manager's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.

Under U.S. generally accepted accounting principles ("GAAP"), the funds and investment vehicles referred to above are investment companies and, as required, Fortress has retained the specialized accounting of these entities. Consequently, Fortress's financial statements include the assets, liabilities, related operations and cash flows of these consolidated entities (collectively, the "Investment Company"). The ownership interests in the Investment Company which are not owned by Fortress and which are redeemable by an investor are reflected as Redeemable Non-controlling Interests in the accompanying consolidated financial statements.

The following table represents the activity in Redeemable Non-controlling Interests as presented in the consolidated balance sheets:

	Nine Months Ended September 30, 2014
Beginning balance	$—
Capital contributions	36,772

Redeemable Non-controlling Interests in income (loss) of Investment Company	(1,885	)
	$34,887	

The assets, liabilities, related operations and cash flows of Fortress’s asset management business and the Investment Company (as described above) are disclosed under the Investment Manager caption in the consolidated financial statements and accompanying footnotes; the consolidated Investment Company's related amounts are included under the Investment Company caption. Fortress also consolidates New Media (as described below) whose assets, liabilities, related operations and cash flows are disclosed under the Non-Investment Manager caption in the consolidated financial statements and accompanying footnotes. The management fees and incentive income earned by Fortress from New Media and the Investment Company (if any) are eliminated in consolidation; however, Fortress’s allocated share of the net income from New Media and the Investment Company are increased by the amount of these eliminated fees. Accordingly, the consolidation of New Media and the Investment Company have no material effect on Fortress’s earnings from New Media and the Investment Company. For a reconciliation between the financial statements and the segment-based financial data that management uses for making operating decisions and assessing performance, see Note 11.

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Fortress has no obligation to satisfy the liabilities of New Media or the Investment Company. Similarly, Fortress does not have the right to make use of New Media or the Investment Company's assets to satisfy its obligations.

Non-Investment Manager

Consolidation of New Media

On February 14, 2014, Newcastle Investment Corp. ("Newcastle") (NYSE: NCT) completed the distribution of all of the common shares it held of New Media Investment Group Inc. ("New Media" or the "Media Business") (NYSE: NEWM), publishers of locally based print and online media in the United States, to its stockholders. Fortress entered into a management agreement with New Media and under the terms of the management agreement, Fortress manages the operations of New Media and in return receives a management fee of 1.5% per annum of New Media's Total Equity (as defined in the management agreement) and incentive income. In addition to these fees, in order to compensate Fortress for its successful efforts in raising capital for New Media, Fortress receives options to purchase shares of New Media's common stock in connection with each common stock offering. Fortress determined that New Media qualifies as a variable interest entity and, upon completion of Newcastle's distribution of New Media's common shares, that it was the primary beneficiary and therefore consolidates New Media. The operations of New Media consist of the consolidated operations of GateHouse Media, LLC ("GateHouse") and Local Media Group Holdings LLC ("Local Media"). Although New Media’s operating results impact net income, they do not have a material impact on the net income (loss) attributable to Fortress’s Class A shareholders, Class A basic and diluted earnings per share, or total Fortress’s shareholders’ equity, as substantially all of the operating results of New Media are attributable to non-controlling interests. As of September 30, 2014, Fortress owned approximately 0.20% of New Media’s outstanding common stock.

The fiscal year of New Media ends on the Sunday closest to December 31. Fiscal year 2014 includes 52 weeks. New Media's third fiscal quarter ended on September 28, 2014, as such, all references to September 30, 2014 reflect New Media's interim consolidated financial statements as of September 28, 2014, for the three months ended September 28, 2014 or for the period from February 14, 2014 to September 28, 2014, as applicable.

New Media is one of the largest publishers of locally based print and online media in the United States as measured by the number of daily publications. New Media operates in 372 markets across 27 states. New Media’s portfolio of products includes 450 community publications, 372 websites, 365 mobile sites, and six yellow page directories. New Media reaches over 14 million people per week and serves over 130,000 business customers.

For accounting purposes, the consolidation of New Media was treated as a business combination. The New Media assets and liabilities were recorded at their estimated fair values as of the date of consolidation. Any excess estimated New Media fair value was allocated to goodwill.

Significant assumptions used in estimating fair values included the following:

- Intangible assets - The estimated fair values of the acquired subscriber relationships, advertiser relationships and customer relationships were determined based on an excess earnings approach, a form of the income approach, which values assets based upon associated estimated discounted cash flows.

Masthead, which is a publication's designed title or nameplate as it appears on its front page, fair values were determined based on a relief from royalty method, an income approach.

- Fixed assets - The estimated fair values for fixed assets were determined under three approaches: the cost approach (used for equipment where an active secondary market is not available and building improvements), the direct sales comparison (market) approach (used for land and equipment where an active market is available), and the income approach (used for intangibles). These approaches are based on the cost to reproduce assets, market exchanges for comparable assets and the capitalization of income.

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The following table summarizes the allocation of the estimated New Media fair value to identifiable assets and liabilities as of the date of consolidation:

	As of February 14, 2014
Cash and cash equivalents	$23,845
Fixed assets	266,385
Goodwill	118,847
Intangibles assets	144,664
Other assets	108,072
Total assets	661,813
Less:	
Debt obligations payable	(177,955)
Accrued expenses and other liabilities	(99,858)
Net assets	$384,000
Non-controlling interests in equity of New Media	$383,040

During the period from February 14, 2014 to September 30, 2014, New Media completed four acquisitions of regional media assets (which include publications and newspapers) for a total purchase price of $72.2 million. The related assets and liabilities were recorded at their estimated fair values as of the date of each acquisition.

If New Media and its related acquisitions had been consolidated as of January 1, 2013, total revenue would have increased by approximately $14.8 million and $186.1 million for the three months ended September 30, 2014 and 2013, respectively, and $140.1 million and $553.2 million for the nine months ended September 30, 2014 and 2013, respectively. In addition, net income would have increased by $0.2 million for the three months ended September 30, 2014 and decreased by $137.8 million for the three months ended September 30, 2013, and decreased by $24.5 million and $210.3 million for the nine months ended September 30, 2014 and 2013, respectively.

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Selected Financial Statement Captions	Note Reference	Explanation
Balance Sheet		
Due from Affiliates	7	Generally, management fees, expense reimbursements and incentive income due from Fortress Funds.
Investments and Investments in Options	4	Primarily the carrying value of Fortress’s investments in the Fortress Funds. Also includes investments, at fair value of the Investment Company which Fortress consolidates.
Deferred Tax Asset, net	6	Relates to potential future net tax benefits.
Due to Affiliates	7	Generally, amounts due to the Principals related to their interests in Fortress Operating Group and the tax receivable agreement.
Deferred Incentive Income	3	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	5	The balance outstanding on the Investment Manager's and New Media's credit agreements.
		The debt obligations of New Media and the Investment Company are not cross collateralized with the debt obligations of Fortress. Fortress has no obligation to satisfy the liabilities of New Media or the Investment Company. Similarly, Fortress does not have the right to make use of New Media or the Investment Company's assets to satisfy its obligations.
		New Media and the Investment Company’s debt obligations have no impact on Fortress's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.
Principals' and Others' Interests in Equity of Consolidated Subsidiaries	7	The GAAP basis of the Principals' and one senior employee's ownership interests in Fortress Operating Group as well as employees' ownership interest in certain subsidiaries.

Statement of Operations

Management Fees: Affiliates	3	Fees earned for managing Fortress Funds, generally determined based on the size of such funds.
Management Fees: Non-Affiliates	3	Fees earned from managed accounts and our traditional fixed income asset management business, generally determined based on the amount managed.
Incentive Income: Affiliates	3	Income earned from Fortress Funds, based on the performance of such funds.
Incentive Income: Non- Affiliates	3	Income earned from managed accounts, based on the performance of such accounts.
Compensation and Benefits	8	Includes equity-based, profit-sharing and other compensation to employees.
Gains (Losses)	4	The result of asset dispositions or changes in the fair value of investments or other financial instruments which are marked to market (including the publicly traded permanent capital vehicles and publicly traded portfolio companies).
Tax Receivable Agreement Liability Adjustment	6	Represents a change in the amount due to the Principals under the tax receivable agreement.
Earnings (Losses) from Equity Method Investees	4	Fortress's share of the net earnings (losses) of the Fortress Funds resulting from its investments in these funds.

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Selected Financial Statement Captions	Note Reference	Explanation
Income Tax Benefit (Expense)	6	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. Income tax benefit (expense) for the Investment Manager and Media Business are calculated separately and the taxable income (loss) of the Media Business does not impact the amount of income tax benefit (expense) for the Investment Manager (and vice versa).
Principals' and Others' Interests in (Income) Loss of Consolidated Subsidiaries	7	Primarily the Principals' and employees' share of Fortress's earnings based on their ownership interests in subsidiaries, including Fortress Operating Group.
Earnings Per Share	9	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	9	A summary of dividends and distributions, and the related outstanding shares and units, is provided.
Distributable Earnings	11	A presentation of our financial performance by segment (fund type) is provided, on the basis of the operating performance measure used by Fortress's management committee.

In May 2014, the FASB issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. This standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The entity will recognize revenue to reflect the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The new standard is effective for Fortress beginning January 1, 2017 and early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. Fortress is currently evaluating the impact on its consolidated financial statements upon the adoption of this new standard.

In August 2014, the FASB issued an accounting standard update on measuring the financial assets and financial liabilities of a consolidated collateralized financing entity ("CFE"). The standard provides an entity with an election to measure the financial assets and financial liabilities of a consolidated CFE to be measured on the basis of either the fair value of the CFE’s financial assets or financial liabilities, whichever is more observable. The effective date of the consensus will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 for public companies and early adoption will be permitted. Fortress is currently evaluating the impact on its consolidated financial statements.

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

The accompanying consolidated financial statements and related notes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Fortress’s financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Fortress’s consolidated financial statements for the year ended December 31, 2013 and notes thereto included in Fortress’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2014. Certain disclosures have been expanded to include information related to the consolidation of New Media (as described above) in accordance with GAAP. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's consolidated financial statements for the year ended December 31, 2013.

All significant intercompany accounts and transactions have been eliminated.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Basis of Accounting and Consolidation - The accompanying consolidated financial statements have been prepared in accordance with GAAP. The accompanying financial statements include the accounts of Fortress and its consolidated subsidiaries, which are comprised of (i) entities in which it has an investment of 50% or more and has control over significant operating, financial and investing decisions of the entity, (ii) variable interest entities ("VIEs") in which it is the primary beneficiary as described below and (iii) non-VIE partnerships in which it is the general partner where the limited partners do not have rights that would overcome the presumption of control by the general partner.

For those entities in which it has a variable interest, Fortress first determines whether the entity is a VIE. This determination is made by considering whether the entity's equity investment at risk is sufficient and whether the entity's at-risk equity holders have the characteristics of a controlling financial interest. A VIE must be consolidated by its primary beneficiary.

The primary beneficiary of a VIE is generally defined as the party who, considering the involvement of related parties and de facto agents, has (i) the power to direct the activities of the VIE that most significantly affect its economic performance, and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. This evaluation is updated continuously.

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

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

Redeemable Non-controlling Interests represent the ownership interests in the Investment Company which are redeemable by an investor and not owned by Fortress.

Non-controlling interests in equity of Investment Company represents the ownership interests in the Investment Company which are not redeemable and are held by entities or persons other than Fortress.

Principals' and others' interests in consolidated subsidiaries represent the ownership interests in certain consolidated subsidiaries held by entities or persons other than Fortress. This is primarily related to the Principals' interests in Fortress Operating Group (Note 1). Non-Fortress interests also include employee interests in majority owned and controlled fund advisor and general partner entities.

Non-controlling interests in equity of Non-Investment Manager represent the interests in New Media that are not owned by Fortress.

For entities over which Fortress exercises significant influence but which do not meet the requirements for consolidation, Fortress uses the equity method of accounting whereby it records its share of the underlying income of these entities. These entities include the Fortress Funds. Virtually all of the Fortress Funds are, for GAAP purposes, investment companies. As required, Fortress has retained the specialized accounting of these funds. The Fortress Funds record realized and unrealized gains (losses) resulting from

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changes in the fair value of their investments as a component of current income. Additionally, these funds generally do not consolidate their majority-owned and controlled investments (the “Portfolio Companies”).

Distributions by Fortress and its subsidiaries are recognized when declared.

Risks and Uncertainties - In the normal course of business, Fortress encounters primarily two significant types of economic risk: credit and market. Credit risk is the risk of default on Fortress’s or the Fortress Funds’ investments in debt securities, loans, leases, derivatives and other financial instruments that results from a borrower's, lessee’s or counterparty's inability or unwillingness to make required or expected payments. Market risk reflects changes in the value of investments due to changes in interest rates, credit spreads or other market factors. Credit risk is enhanced in situations where Fortress or a Fortress Fund is investing in distressed assets, as well as unsecured or subordinate loans or securities, which is a material part of its business.

Fortress makes investments outside of the United States. Fortress’s non-U.S. investments are subject to the same risks associated with its U.S. investments as well as additional risks, such as fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, heightened risk of political and economic instability, difficulties in managing non-U.S. investments, potentially adverse tax consequences and the burden of complying with a wide variety of foreign laws.

Fortress is exposed to economic risk concentrations insofar as it is dependent on the ability of the Fortress Funds to compensate it for the services which Fortress provides to these funds. Further, the incentive income component of this compensation is based on the ability of the Fortress Funds to generate adequate returns on their investments. In addition, substantially all of Fortress’s net assets, after deducting the portion attributable to non-controlling interests, are comprised of Fortress's investments in, or receivables from, these funds.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Revenue Recognition

Investment Manager

Management Fees and Expense Reimbursements - Management fees are recognized in the periods during which the related services are performed and the amounts have been contractually earned. Fortress is entitled to certain expense reimbursements pursuant to its management agreements. Fortress selects the vendors, incurs the expenses, and is the primary obligor under the related arrangements. Fortress is considered the principal under these arrangements and is required to record the expense and related reimbursement revenue on a gross basis. Expense reimbursements are recognized in the periods during which the related expenses are incurred and the reimbursements are contractually earned.

Stock Options Received - Fully vested stock options are issued to Fortress by certain of the publicly traded permanent capital vehicles as compensation for services performed in raising capital for these entities. These options are recognized by Fortress as management fees at their estimated fair value at the time of issuance. Fair value was estimated using an option valuation model. Since the publicly traded permanent capital vehicles' option plans have characteristics significantly different from those of traded options, and since the assumptions used in such models, particularly the volatility assumption, are subject to significant judgment and variability, the actual value of the options could vary materially from this estimate. Fortress has elected to account for these options at fair value with changes in fair value recognized in current income as Gains (Losses).

Incentive Income - Incentive income is calculated as a percentage of the profits earned by the Fortress Funds subject, in certain cases, to the achievement of performance criteria. Incentive income from certain funds is subject to contingent repayment based on the applicable Fortress Fund achieving earnings in excess of a specified minimum return. Incentive income that is not subject to contingent repayment is recognized as contractually earned. Incentive income subject to contingent repayment may be paid to Fortress as particular investments made by the funds are realized. However, if upon liquidation of each fund the aggregate amount paid to Fortress as incentive income exceeds the amount actually due to Fortress based upon the aggregate performance of each fund, the excess is required to be repaid by Fortress (i.e. “clawed back”) to that fund. Fortress has elected to adopt the preferred method of recording incentive income subject to contingencies, whereby it does not recognize incentive income subject to contingent repayment until the termination of the related fund, or when and to the extent distributions from the fund exceed the point at which

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a clawback of a portion or all of the historic incentive income distributions could no longer occur due to the related contingencies being resolved. Recognition of incentive income allocated or paid to Fortress prior to that date is deferred and recorded as deferred incentive income liability.

Other Revenues and Other Income - Fortress recognizes security transactions on the trade date. Gains and losses are recorded based on the specific identification method and generally include gains (losses) on investments in securities, derivatives, foreign exchange transactions, and contingent consideration accrued in business combinations. Dividend income is recognized on the ex-dividend date, or in the absence of a formal declaration, on the date it is received. Interest income is recognized as earned on an accrual basis.

Non-Investment Manager

Media Revenues - Advertising income from the publication of newspapers is recognized when advertisements are published in newspapers or placed on digital platforms or, with respect to certain digital advertising, each time a user either clicks on or views certain ads, net of commissions and provisions for estimated sales incentives including rebates, rate adjustments, and discounts.

Circulation revenue includes single-copy and subscription revenues. Circulation income is based on the number of copies of the printed newspaper (through home-delivery subscriptions and single-copy sales) and digital subscriptions sold and the rates charged to the respective customers. Single-copy income is recognized based on date of publication, net of provisions for related returns. Proceeds from subscription income are deferred at the time of sale and are recognized in earnings on a pro rata basis over the terms of the subscriptions.

Other revenue is recognized when the related service or product has been delivered.

Billings to clients and payments received in advance of the performance of services or delivery of products are recorded as deferred revenue in the consolidated balance sheets until the services are performed or the product is delivered.

Balance Sheet Measurement

Investment Manager

Cash and Cash Equivalents - Fortress considers all highly liquid short term investments with maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts on deposit with major financial institutions exceed insured limits.

Cash and Cash Equivalents, Investment Company - Cash held at the Investment Company that is not available to fund the general liquidity needs of Fortress as Investment Manager.

Due from/to Affiliates - For purposes of classifying amounts, Fortress considers its principals, employees, all of the Fortress Funds, and the Portfolio Companies to be affiliates. This definition is broader than the strict GAAP definition of affiliates. Amounts due from and due to affiliates are recorded at their contractual amount, subject to an allowance for uncollectible amounts if collection is not deemed probable.

Other Assets and Other Liabilities:

Other assets are presented net of allowances for uncollectible amounts of $2.3 million as of September 30, 2014 and $3.3 million as of December 31, 2013, respectively, and changes thereto were recorded as General and Administrative expense. Other assets and liabilities are comprised of the following:

- Fixed Assets, Depreciation and Amortization - Fixed assets consist primarily of leasehold improvements, furniture, fixtures and equipment, and computer hardware and software, and are recorded at cost less accumulated depreciation. Depreciation and amortization are calculated using the straight-line method over the assets' estimated useful lives, which are the life of the related lease for leasehold improvements, and three to seven years for other fixed assets.

- Deferred Charges - Deferred charges consist primarily of costs incurred in obtaining financing, which are amortized over the term of the financing generally using the effective interest method.

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- Equity Securities - Equity securities consist primarily of investments in unaffiliated publicly traded companies, which are valued based on quoted market prices.

- Digital Currency (Bitcoin) - Represents Fortress's holdings of digital currency which is recorded at the lower of cost or fair value. If fair value is below cost, Fortress records an unrealized loss measured as the excess of cost over fair value of the digital currency. Subsequently, to the extent that fair value increases, Fortress records an unrealized gain but shall not report digital currency above cost. Fortress determines fair value based on estimated exit value using significant observable inputs as of the balance sheet date. During the three months ended September 30, 2014, Fortress recognized an impairment charge of $11.5 million. From purchase date through June 30, 2014, Fortress recorded a cumulative unrealized loss of $6.0 million and a $5.5 million loss in the third quarter of 2014.

- Prepaid Compensation - Prepaid compensation consists of profit sharing compensation payments previously made to employees which are not considered probable of being incurred as expenses and would become receivable back from employees at the termination of the related funds.

- Goodwill and Intangibles - Goodwill and intangibles represent amounts recorded in connection with business combinations. Goodwill is not amortized but is tested for impairment at least annually. Other intangible assets are amortized over their estimated useful lives.

- Deferred Rent - Rent expense is recognized on a straight-line basis based on the total minimum rent required throughout the lease period. Deferred rent represents the difference between the rent expense recognized and cash paid to date.

- Derivatives and Hedging Activities - All derivatives are recognized as either assets or liabilities in the balance sheet and measured at fair value. Any unrealized gains or losses on derivatives not designated as hedges are recorded in Gains (Losses). Net payments under these derivatives are similarly recorded, but as realized. Fortress did not have any derivatives designated as hedges for the nine months ended September 30, 2014 and 2013.

Derivatives, Investment Company - Derivatives held by the Investment Company are entered into as part of its trading and investment strategy. These derivatives are measured at fair value and any changes in fair value are recorded in Investment Company Gains (Losses). Derivative assets held by the Investment Company are included in Investments, at fair value and derivative liabilities are included in Other Liabilities. Derivatives can be exchange-traded or over the counter ("OTC") contracts. Derivatives include options, swap contracts, forward foreign currency contracts and futures contracts.

Receivables from/Due to Brokers and Counterparties, Investment Company - Securities transactions of the Investment Company are primarily maintained, cleared and held by registered U.S. broker-dealers pursuant to prime broker account agreements. As of September 30, 2014, the receivables from/due to brokers balances in the consolidated balance sheets include cash at and due to brokers and the net receivable/payable for investment transactions pending settlement. The cash at brokers includes proceeds received from securities sold, not yet purchased which is subject to certain restrictions until the securities are purchased. Substantially all investments owned are held as collateral by the brokers against various margin obligations and as collateral for securities sold, not yet purchased. The cash at brokers earns interest at the prevailing market rates.

Securities Sold Not Yet Purchased, At Fair Value, Investment Company - These are securities that the Investment Company sold but did not own prior to the sale. In order to facilitate short sales, the Investment Company borrows securities from another party and delivers them to the buyer. The Investment Company is required to "cover" short sales by purchasing securities in the market at the prevailing market prices and delivering them to the counterparties from which it borrowed. The Investment Company is exposed to losses to the extent that the security price increases during the time from when the Investment Company borrows the securities to when it purchases them in the market to cover the short sales. Changes in the value of these securities are reflected as gains (losses) in the accompanying consolidated statements of operations.

Comprehensive Income (Loss) - Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. For Fortress’s purposes, comprehensive income represents net income, as presented in the accompanying consolidated statements of operations, adjusted for unrealized gains or losses on securities available for sale and on derivatives designated as cash flow hedges, as well as net foreign currency translation adjustments, including Fortress’s relative share of these items from its equity method investees.

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Foreign Currency - Assets and liabilities relating to foreign investments are translated using the exchange rates prevailing at the end of each reporting period. Results of foreign operations are translated at the weighted average exchange rate for each reporting period. Translation adjustments are included in current income to the extent that unrealized gains and losses on the related investment are included in income, otherwise they are included as a component of accumulated other comprehensive income until realized. Foreign currency gains or losses resulting from transactions outside of the functional currency of a consolidated entity are recorded in income as incurred and were not material during the nine months ended September 30, 2014 and 2013.

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 or other amounts 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 an 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, the private permanent capital vehicle and credit PE funds, where incentive income is received as investments are realized but is subject to clawback (see "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.

Fortress's 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 which 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. In some cases, this accrual is subject to reversal based on a determination that the expense is no longer probable of being incurred (in other words, that a clawback is probable).

Fortress may withhold a portion of the profit sharing payments relating to private equity fund, private permanent capital vehicle or credit PE fund incentive income as a reserve against contingent repayment (clawback) obligations to the funds. Employees may opt to have these withheld amounts invested in either a money market account or in one of a limited group of Fortress Funds.

Equity-Based Compensation - Fortress currently has several categories of equity-based compensation, which are accounted for as described in Note 8. Generally, the grant date fair value of equity-based compensation granted to employees or directors is expensed ratably over the required service period (or immediately if there is no required service period). Equity-based compensation granted to non-employees, primarily to employees of certain Portfolio

Companies, is expensed ratably over the required service period based on its fair value at each reporting date.

Income Taxes - FIG Corp., a subsidiary of the Registrant, is a corporation for tax purposes. As a result, a substantial portion of Fortress's income earned by FIG Corp. is subject to U.S. federal and state income taxation, taxed at prevailing rates. The remainder of Fortress's income is allocated directly to its shareholders and is not subject to a corporate level of taxation. Certain subsidiaries of Fortress are subject to the New York City unincorporated business tax ("UBT") on their U.S. earnings based on a statutory rate of 4%. Certain subsidiaries of Fortress are subject to income tax of the foreign countries in which they conduct business. Interest and penalties, if any, are treated as additional taxes.

Fortress accounts for these taxes using the liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These temporary differences are expected to result in taxable or deductible amounts in future years and the deferred tax effects are measured using enacted tax rates and laws that will be in effect when such differences are expected to reverse. A valuation allowance is established when management believes it is more likely than not that a deferred tax asset will not be realized.

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Fortress is party to a tax receivable agreement whereby the Principals will receive payments from Fortress related to tax savings realized by Fortress in connection with certain transactions entered into by the Principals.

Non-Investment Manager

Purchase Accounting - In determining the allocation of the purchase price between net tangible and intangible assets and liabilities, management made estimates of the fair value of the tangible and intangible assets and liabilities using information obtained as a result of pre-acquisition due diligence and independent valuations and appraisals. Management allocates the purchase price to net tangible and identified intangible assets and liabilities based on their fair values. The determination of fair value involves the use of significant judgment and estimation. Acquisition costs in excess of the fair value of tangible and identifiable intangible net assets is recorded as goodwill.

Fixed Assets - Fixed assets are recorded at cost. Routine maintenance and repairs are expensed as incurred. Depreciation is calculated under the straight-line method over the estimated useful lives, principally 21 to 40 years for buildings, 3 to 10 years for buildings improvements, 1 to 20 years for machinery and equipment, and 1 to 7 years for furniture, fixtures and computer software. Leasehold improvements are amortized under the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Fixed assets for New Media consisted of the following:

	September 30, 2014
Land	$25,940
Buildings and improvements	127,497
Machinery and equipment	143,431
Furniture, fixtures, and computer software	14,187
Construction in progress and other non-depreciating assets	1,350
	$312,405
Less: accumulated depreciation	(21,924)
Total	$290,481

Depreciation expense related to fixed assets of New Media for the three months ended September 30, 2014 and for the period from February 14, 2014 to September 30, 2014, was $9.2 million and $22.0 million, respectively.

Goodwill and Intangibles - Intangible assets related to the Media Business consist of advertiser, customer and subscriber relationships, mastheads and trade names. These intangible assets are recorded at fair value at the date of acquisition. New Media estimates the fair value of the advertiser, customer and subscriber relationships and the trade names using the multi-period excess earnings method under the income approach. This valuation method is based on first forecasting revenue for the existing customer base and then applying expected attrition rates. Mastheads are not amortized because it has been determined that the useful lives of such mastheads are indefinite.

Amortization of intangible assets is included within depreciation and amortization on the consolidated statements of operations and is calculated using the straight-line method based on the following estimated useful lives:

Advertiser relationships	14 - 16 years
Customer relationships	14 - 16 years

Subscriber relationships	13 - 16 years
Trade names	10 years

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Goodwill and intangible assets related to New Media consisted of the following:

	September 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Advertiser relationships	$62,325	$(2,437)	$59,888
Customer relationships	7,763	(245)	7,518
Subscriber relationships	38,016	(1,470)	36,546
Trade name	262	(17)	245
Total	$108,366	$(4,169)	$104,197
Nonamortized intangible assets:			
Mastheads			50,936
Total intangible assets, net			$155,133
Goodwill			$125,407

As of September 30, 2014, the weighted average amortization periods for amortizable intangible assets are 15.8 years for advertiser relationships, 15.9 years for customer relationships, 15.9 years for subscriber relationships and 10.0 years for trade names. The weighted average amortization period in total for all amortizable intangible assets is 15.8 years.

Amortization expense related to amortizable intangible assets of New Media for the three months ended September 30, 2014 and for the period from February 14, 2014 to September 30, 2014 was $1.7 million and $4.2 million, respectively. Estimated future amortization expense as of September 30, 2014, is as follows:

October 1, 2014 to December 31, 2014	$1,755
2015	7,022
2016	7,022
2017	7,022
2018	7,022
Thereafter	74,354
Total	$104,197

Goodwill and intangible assets with indefinite lives are tested for impairment annually or when events indicate that an impairment could exist which may include an economic downturn in a market, a change in the assessment of future operations or a decline in New Media’s stock price. An annual impairment assessment is performed on each of New Media's reporting units. The fair value of the applicable reporting unit is compared to its carrying value. Calculating the fair value of a reporting unit requires significant estimates and assumptions. Fair value is estimated by applying third-party market value indicators to projected cash flows and/or projected earnings before interest, taxes, depreciation, and amortization. In applying this methodology, the company relies on a number of factors, including current operating results and cash flows, expected future operating results and cash flows, future business plans, and market data. If the carrying value of the reporting unit exceeds the estimate of fair value, the amount of impairment is calculated as the excess of the carrying value of goodwill over its implied fair value. In June 2014, New Media performed an impairment assessment of its goodwill and intangible assets for each of its reporting units. Based on its assessment, no impairment was identified.

The recoverability of its long-lived assets, including fixed assets and definite lived intangible assets, is estimated whenever events or changes in business circumstances indicate the carrying amount of the assets, or related group of assets, may not be fully

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recoverable. Impairment indicators include significant under performance relative to historical or projected future operating losses, significant changes in the manner of use of the acquired assets or the strategy for New Media’s overall business, and significant negative industry or economic trends. The assessment of recoverability is based on management’s estimates by comparing the sum of the estimated undiscounted cash flows generated by the underlying asset, or other appropriate grouping of assets, to its carrying value to determine whether an impairment existed at its lowest level of identifiable cash flows. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment is recognized to the extent the carrying value of such asset exceeds its fair value.

The newspaper industry and New Media have experienced declining same store revenue and profitability over the past several years. Should general economic, market or business conditions decline, and have a negative impact on estimates of future cash flow and market transaction multiples, this may require impairment charges to be recorded in the future.

Cash Equivalents - Cash equivalents represent highly liquid certificates of deposit which have original maturities of three months or less.

Deferred Revenue - Billings to clients and payments received in advance of the performance of services or delivery of products are recorded as deferred revenue until services are performed or the product is delivered.

Other Assets and Other Liabilities - Other assets are presented net of allowances for uncollectible amounts of $4.7 million as of September 30, 2014, which were recorded as general, administrative and other. Other assets and liabilities of the Non-Investment Manager are comprised of the following:

	Other Assets September 30, 2014		Other Liabilities September 30, 2014
Accounts receivable, net	$73,303	Accounts payable	$8,638
Inventory	11,106	Accrued expenses	46,287
Prepaid expenses	7,298	Pension and postretirement benefit obligations	9,094
Miscellaneous assets	25,186	Miscellaneous liabilities	8,160
	$116,893		$72,179

- Accounts Receivable - Accounts receivable are stated at amounts due from customers, net of an allowance for uncollectible accounts. Allowance for uncollectible accounts is based upon several factors including the length of time the receivables are past due, historical payment trends and current economic factors. New Media generally does not require collateral.

- Inventory - Inventory consists principally of newsprint, which is valued at the lower of cost or market. Cost is determined using the first-in, first-out (“FIFO”) method. In 2014, New Media expects to purchase approximately 95% of newsprint from one vendor.

- Pension and Other Postretirement Benefit Obligations - Pension plan obligations and expense is based on a number of actuarial assumptions. Two critical assumptions are the expected long-term rate of return on plan assets and the discount rate applied to pension plan obligations. For other postretirement benefit plans, which provide for certain health care and life insurance benefits for qualifying retired employees and which are not funded, critical assumptions in determining other postretirement benefit obligations and expense are the discount rate and the assumed health care cost-trend rates.

New Media maintains a legacy pension plan and legacy postretirement medical and life insurance plans which cover qualifying employees of its subsidiaries. The pension plan and postretirement medical and life insurance plans are closed to new participants and the pension plan was frozen to all future benefit accruals. Also, medical and life insurance benefits for a select group of active employees are frozen and the plan limits future benefits.

The accrued benefit actuarial method is used and best estimate assumptions are used to determine pension costs, liabilities and other pension information for defined benefit plans.

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The following provides information on the components of net periodic benefit cost (income) for the pension plans and postretirement medical and life insurance plans for the three months ended September 30, 2014 and for the period from February 14, 2014 to September 30, 2014:

	Three Months Ended September 30, 2014		Period from February 14, 2014 to September 30, 2014	
	Pension	Postretirement	Pension	Postretirement
Service cost	$75	$9	$225	$25
Interest cost	295	63	885	190
Expected return on plan assets	(406)	—	(1,218)	—
Net periodic benefit cost (income)	$(36)	$72	$(108)	$215

The following assumptions were used to calculate the net periodic benefit cost (income) for New Media’s defined benefit pension and postretirement plans:

	Pension	Postretirement
Weighted average discount rate	5.0%	4.5%
Expected return on assets	8.0%	N/A
Current year trend	N/A	7.8%
Ultimate year trend	N/A	4.8%
Year of ultimate trend	N/A	2025

Since the pension plan was frozen to all future benefit accruals and the medical and life insurance benefit plans limit future benefits, management assumed no rate of increase in future compensation levels.

3. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

Investment Manager

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

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Management Fees, Incentive Income and Related Profit Sharing Expense

Fortress recognized management fees and incentive income as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Private Equity				
Private Equity Funds				
Management fees: affil.	$33,585	$33,686	$104,228	$99,221
Management fees: non-affil.	53	123	364	345
Incentive income: affil.	—	6,433	22,094	21,742
Permanent Capital Vehicles				
Management fees: affil.	16,021	13,884	45,288	43,600
Management fees, options: affil.	1,742	—	3,346	36,470
Management fees: non-affil.	667	643	2,358	2,959
Incentive income: affil.	8,887	4,178	32,142	5,378
Liquid Hedge Funds				
Management fees: affil.	29,263	24,313	86,328	61,373
Management fees: non-affil.	4,470	6,324	17,045	18,008
Incentive income: affil.	700	10,886	1,686	17,350
Incentive income: non-affil.	—	1,138	44	3,625
Credit Funds				
Credit Hedge Funds				
Management fees: affil.	28,755	25,455	84,044	75,284
Management fees: non-affil.	41	26	85	151
Incentive income: affil.	8,282	10,756	26,015	31,330
Credit PE Funds				
Management fees: affil.	23,540	23,633	71,799	71,115
Management fees: non-affil.	31	35	99	104
Incentive income: affil.	13,072	8,681	43,697	27,376
Incentive income: non-affil.	343	769	986	1,145
Logan Circle				
Management fees: affil.	768	622	2,167	1,894
Management fees: non-affil.	11,512	8,210	32,161	23,964
Total				
Management fees: affil.	$133,674	$121,593	$397,200	$388,957
Management fees: non-affil.	$16,774	$15,361	$52,112	$45,531
Incentive income: affil. (A)	$30,941	$40,934	$125,634	$103,176
Incentive income: non-affil.	$343	$1,907	$1,030	$4,770

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

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Deferred Incentive Income

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

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the nine months ended September 30, 2014 and 2013. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, $77.1 million and $185.9 million of additional incentive income would have been recognized during the nine months ended September 30, 2014 and 2013, respectively. Incentive income based on achieving annual performance criteria that has not yet been recognized, if any, is not recorded on the balance sheet and is included as “undistributed” deferred incentive income in the table below.

During the nine months ended September 30, 2014 and 2013, Fortress recognized $43.7 million and $27.4 million, respectively, of incentive income distributions from its credit PE funds which represented “tax distributions.” These tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

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

	Distributed-Gross	Distributed-Recognized (A)	Distributed-Unrecognized (B)	Undistributed, net of intrinsic clawback (C) (D)
Deferred incentive income as of December 31, 2013	$ 1,015,084	$ (767,528)	$ 247,556	$ 696,333
Fortress Funds which matured (no longer subject to clawback)	—	—	N/A	N/A
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	365,164
Distribution of private equity funds and credit PE funds incentive income	102,541	N/A	102,541	(102,541)
	217	N/A	217	(217)

Distribution of private permanent capital vehicle incentive income						
Recognition of previously deferred incentive income	N/A		(66,778)	(66,778)	N/A	
Changes in foreign exchange rates	148		—	148	N/A	
Deferred incentive income as of September 30, 2014	$1,117,990	(E)	$ (834,306)	$ 283,684	$958,739	(E)
Deferred incentive income including Fortress Funds which matured	$1,171,646		$ (887,962)			

(A) All related contingencies have been resolved.

(B) Reflected on the consolidated balance sheet.

(C) At September 30, 2014, the net undistributed incentive income is comprised of $1,025.6 million of gross undistributed incentive income, net of $66.9 million of intrinsic clawback. The net undistributed incentive income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on September 30, 2014 at their net asset values.

(D) From inception to September 30, 2014, Fortress has paid $507.3 million of compensation expense under its employee profit sharing arrangements (Note 8) in connection with distributed incentive income, of which $21.5 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 individuals. As of September 30, 2014, Fortress has recovered $6.4 million from individuals relating to their clawback obligations. If the $1,025.6 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional $484.0 million of compensation expense.

(E) See detailed reconciliations of Distributed-Gross and Undistributed, net of intrinsic clawback below.

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The amounts set forth under Distributed-Gross can be reconciled to the incentive income threshold tables (on the following pages) as follows:

	September 30, 2014	
Distributed incentive income - Private Equity Funds	$846,671	
Distributed incentive income - Private Equity Funds in Investment or Commitment Period	—	
Distributed incentive income - Credit PE Funds	479,987	
Distributed incentive income - Credit PE Funds in Investment or Commitment Period	119,773	
Distributed incentive income - Private Permanent Capital Vehicle in Investment or Commitment Period	744	
Less:		
Fortress Funds which are not subject to a clawback provision:		
— NIH	(94,513	)
— GAGACQ Fund	(51,476	)
Portion of Fund I distributed incentive income that Fortress is not entitled to (see footnote K of incentive income threshold tables)	(183,196	)
Distributed-Gross	$1,117,990	

The amounts set forth under Undistributed, net of intrinsic clawback can be reconciled to the incentive income threshold tables (on the following pages) as follows:

	September 30, 2014	
Undistributed incentive income - Private Equity Funds	$13,922	
Undistributed incentive income - Private Equity Funds in Investment or Commitment Period	1,828	
Undistributed incentive income - Credit PE Funds	561,176	
Undistributed incentive income - Credit PE Funds in Investment or Commitment Period	283,159	
Undistributed incentive income - Private Permanent Capital Vehicle in Investment or Commitment Period	4,755	
Undistributed incentive income - Hedge Funds (total)	160,624	
Undistributed incentive income - Logan Circle	178	
Less: Gross intrinsic clawback per incentive income threshold tables - Private Equity Funds	(66,903	)
Undistributed, net of intrinsic clawback	$958,739	

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The following tables summarize information with respect to the Fortress Funds and their related incentive income thresholds as of September 30, 2014:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions	Net Asset Value (“NAV”)	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)	C In C (J
Private Equity Funds											
NIH (1998)	In Liquidation	$415,574	$(823,588)	$—	$ N/A	$—	$ N/A	$—	$94,513	$—	$-
Fund I (1999) (K)	Closed May-13	1,015,943	(2,847,929)	—	N/A	—	N/A	—	344,939	—	—
Fund II (2002)	In Liquidation	1,974,298	(3,442,900)	2,734	1,471,336	—	N/A	540	288,840	—	—
Fund III (2004)	Jan-15	2,762,992	(2,138,525)	1,572,491	948,024	1,958,669	1,010,645	—	66,903	66,903	66
Fund III Coinvestment (2004)	Jan-15	273,649	(225,188)	74,901	26,440	232,209	205,769	—	—	—	—
Fund IV (2006)	Jan-17	3,639,561	(1,310,031)	2,957,210	627,680	2,632,585	2,004,905	—	—	—	—
Fund IV Coinvestment (2006)	Jan-17	762,696	(257,537)	449,513	(55,646)	562,167	617,813	—	—	—	—
Fund V (2007) (K)	Feb-18	4,103,713	(785,298)	4,943,372	1,624,957	2,363,286	741,289	1,776	—	—	—
Fund V Coinvestment (2007) (K)	Feb-18	990,480	(90,665)	588,129	(311,686)	622,196	933,882	—	—	—	—
GAGACQ Fund (2004) (GAGFAH)	Closed Nov-09	545,663	(595,401)	N/A	N/A	N/A	N/A	N/A	51,476	N/A	N
FRID (2005) (GAGFAH)	In Liquidation	1,220,229	(1,199,599)	2,775	(17,855)	941,358	959,213	—	—	—	—
FRIC (2006) (Brookdale)	In Liquidation	328,754	(289,768)	1,602	(37,384)	271,601	308,985	—	—	—	—
FICO (2006) (Intrawest)	Jan-17	724,525	(5)	(62,120)	(786,640)	579,458	1,366,098	—	—	—	—
FHIF (2006) (Holiday)	Jan-17	1,543,463	(532,805)	1,936,940	926,282	1,124,702	198,420	—	—	—	—
FECI (2007) (Florida East Coast Railway/Florida East Coast	Feb-18	982,779	(311)	1,028,944	46,476	718,131	671,655	—	—	—	—

Industries)											
MSR Opportunities Fund I A (2012)	Aug-22	328,882	(92,979)	332,176	96,273	32,336	N/A	9,293	—	—	—
MSR Opportunities Fund I B (2012)	Aug-22	79,748	(22,521)	80,368	23,141	7,831	N/A	2,313	—	—	—
								$13,922	$846,671	$66,903	$
Private Equity Funds in Investment or Commitment Period											
MSR Opportunities Fund II A (2013)	Jul-23	$50,605	$(4,623)	$55,932	$9,950	$3,037	$ N/A	$1,470	$—	$—	$
MSR Opportunities Fund II B (2013)	Jul-23	722	(66)	792	136	43	N/A	20	—	—	—
MSR Opportunities II MA I (2013)	Jul-23	11,609	(1,061)	12,833	2,285	697	N/A	338	—	—	—
Italian NPL Opportunities (2013)	Sep-24	15,631	—	13,354	(2,277)	334	2,611	—	—	—	—
								$1,828	$—	$—	$

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FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2014
(dollars in tables in thousands, except share data)

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions (C)	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Di Inc Inc Su to Cla (I)
Credit PE Funds										
Long Dated Value Fund I (2005)	Apr-30	$267,325	$(89,874)	$300,739	$123,288	$141,875	$18,587	$—	$—	$—
Long Dated Value Fund II (2005)	Nov-30	274,280	(147,790)	201,357	74,867	111,423	36,556	—	412	—
Long Dated Value Fund III (2007)	Feb-32	343,156	(272,641)	207,266	136,751	—	N/A	18,908	6,473	—
LDVF Patent Fund (2007)	Nov-27	42,457	(39,584)	36,895	34,022	—	N/A	1,715	1,471	—
Real Assets Fund (2007)	Jun-17	359,024	(335,000)	141,121	117,097	—	N/A	13,004	5,285	—
Credit Opportunities Fund (2008)	Oct-20	5,542,293	(6,723,137)	1,374,412	2,555,256	—	N/A	200,517	301,802	129
Credit Opportunities Fund II (2009)	Jul-22	2,262,185	(2,164,437)	1,192,006	1,094,258	—	N/A	144,303	70,318	15.
FCO Managed Account (2010)	Jun-22	574,352	(496,165)	367,510	289,323	—	N/A	42,587	12,347	—
SIP Managed Account (2010)	Sep-20	11,000	(33,700)	10,872	33,572	—	N/A	2,174	4,540	—
Japan Opportunity Fund (2009)	Jun-19	988,462	(1,031,344)	838,452	881,334	—	N/A	118,261	64,953	16.
Net Lease Fund I (2010)	Feb-20	152,721	(221,668)	4,959	73,906	—	N/A	303	9,396	6,3
Real Estate Opportunities Fund (2011)	Sep-24	533,698	(212,539)	431,176	110,017	—	N/A	8,402	1,202	63
Global Opportunities Fund (2010)	Sep-20	304,304	(157,541)	212,464	65,701	—	N/A	11,002	1,788	1,7
								$561,176	$479,987	$1
Credit PE Funds in Investment or Commitment Period										
Credit Opportunities Fund III (2011)	Mar-24	$2,592,599	$(1,120,567)	$1,988,145	$516,113	$—	$ N/A	$84,579	$16,459	$3

FCO Managed Accounts (2008-2012)	Apr-22 to Mar-27	3,637,284	(2,624,911)	2,138,941	1,126,568	—	N/A	140,757	81,856	40.
Japan Opportunity Fund II (Yen) (2011)	Dec-21	616,578	(202,364)	615,513	201,299	—	N/A	31,563	9,312	—
Japan Opportunity Fund II (Dollar) (2011)	Dec-21	562,041	(164,458)	579,285	181,702	—	N/A	23,569	11,462	—
Life Settlements Fund (2010)	Dec-22	390,760	(299,330)	68,279	(23,151)	71,057	94,208	—	—	—
Life Settlements Fund MA (2010)	Dec-22	31,978	(24,482)	5,380	(2,116)	5,836	7,952	—	—	—
Real Estate Opportunities REOC Fund (2011)	Oct-23	49,472	(18,840)	47,593	16,961	—	N/A	2,691	684	