Fortress Investment Group LLC
Form 10-K
February 27, 2014

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

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
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)

Registrant's telephone number, including area code: (212) 798-6100
Securities registered pursuant to Section 12 (b) of the Act:

Title of each class:	Name of exchange on which registered:
Class A shares	New York Stock Exchange (NYSE)

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
x Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
o Yes x No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. x

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 x

The aggregate market value of the Class A shares held by non-affiliates as of June 30, 2013 (computed based on the closing price on such date as reported on the NYSE) was $1.53 billion.

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: 180,192,207 outstanding as of February 25, 2014.
Class B shares: 249,534,372 outstanding as of February 25, 2014.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's definitive proxy statement for the registrant's 2014 annual meeting, to be filed within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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

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

(i) the capital commitments or invested capital (or net asset value, "NAV," if lower) of our private equity funds and credit PE funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with private equity funds raised after March 2006 includes the mark-to-market value of public securities held within the funds,
(ii) the contributed capital of our publicly traded 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 principal investments in funds as well as investments in funds by our principals, directors and employees.

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

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

“Fortress Funds” and “our funds” refers to the private investment funds, 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 principal investments. The public company controls the Fortress Operating Group through wholly owned subsidiaries that serve as the general partner of each FOG entity.

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

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

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

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Part I, Item 1, “Business,” Part I, Item 1A, “Risk Factors,” Part II, Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” and elsewhere in this Annual Report on Form 10-K 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,” “predict “plans,” “estimates,” “anticipates” or the negative 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 Annual Report on Form 10 K, 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 Annual Report on Form 10 K and the company’s other public filings, which are available without charge through the SEC’s website at http://www.sec.gov. See “Business - Where Readers Can Find Additional Information.”
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

Item 1. Business.

Fortress Investment Group LLC (NYSE listed under the symbol “FIG”) is a leading, highly diversified global investment management firm with approximately $61.8 billion in AUM as of December 31, 2013. Fortress applies its deep experience and specialized expertise across a range of investment strategies - private equity, credit, liquid markets and traditional fixed income - on behalf of our over 1,500 institutional clients and private investors worldwide. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our alternative investment funds, and investment income (loss) from our principal investments.

Fortress was founded in 1998 as an asset-based investment management firm with a fundamental philosophy premised on alignment of interests with the investors in our funds. Our managed funds primarily employ absolute return strategies - we strive to have positive returns regardless of the performance of the markets. Investment performance is our cornerstone - as an investment manager, we earn more if our investors earn more. In keeping with our fundamental philosophy, Fortress invests capital in each of its alternative investment businesses. As of December 31, 2013, Fortress's investments in and commitments to our funds were $1.5 billion, consisting of the net asset value of Fortress's principal investments of $1.3 billion, and unfunded commitments to private equity funds and credit PE funds of $0.2 billion.

As of December 31, 2013, we had 1,074 asset management employees, including approximately 276 investment professionals, at our headquarters in New York and our affiliate offices around the globe. Additionally, we had 1,250 employees at the senior living properties that we manage (whose compensation expense is reimbursed to us by the owners of the facilities).

We plan to grow our fee paying assets under management and will continue to seek to generate superior risk-adjusted investment returns in our funds over the long term. We are guided by the following key objectives and values:

- introducing new investment products, while remaining focused on, and continuing to grow, our existing lines of business;
- maintaining our disciplined investment process and intensive asset management; and
- adhering to the highest standards of professionalism and integrity.

Recent Developments

- Fortress's board of directors has increased our base quarterly dividend to $0.08 per share, effective for the dividend related to the fourth quarter of 2013, resulting in total dividends of $0.26 per share related to 2013.
- On February 13, 2014, Fortress entered into a purchase agreement with Nomura Investment Managers U.S.A. (“Nomura”) to acquire 60,568,275 Class A shares for an aggregate purchase price of $363.4 million (or $6.00 per share) paid in cash. All of the purchased Class A shares were canceled and ceased to be outstanding.
- On January 24, 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. Over the course of 2014, the Fortress Asia Macro Funds and a related managed account is expected to transition into being managed by a new asset management business, to be named Graticule Asset Management Asia, L.P. ("Graticule Asset Management"), in which Fortress will have a non-controlling equity interest. Fortress will retain a perpetual minority interest in Graticule Asset Management amounting to 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.
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During 2013, we raised $6.5 billion of new third-party capital and launched six new funds. As of December 31, 2013, we had $7.1 billion of capital commitments from investors to our funds that will be included in AUM if called, of which $4.9 billion is in newer vintage funds and is available for general investment purposes. In addition, we had net client inflows in our traditional asset management business of $4.8 billion in 2013.

- In July 2013, Fortress repaid its promissory note due to a former principal in full, plus accrued interest, and had no outstanding borrowings as of December 31, 2013.

Key Performance Indicators

As mentioned above, we earn management fees, incentive income, and investment income (loss). From these earnings we pay compensation and other expenses, as well as taxes, to arrive at our net operating performance.

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Net Income and Distributable Earnings

Our net income reflects our operating performance pursuant to generally accepted accounting principles (“GAAP”). We also use pre-tax distributable earnings, which is a non-GAAP measure, as a measure of our operating performance and to report segment results. For more information on these performance measures, please refer to Part II, Item 8 “Financial Statements and Supplementary Data.” Pre-tax distributable earnings is specifically addressed in “Note 11 - Segment Reporting” within those financial statements.

Assets Under Management

Our management fees are typically earned as a percentage of the amount of capital we manage, which is referred to as management fee paying assets under management, or AUM. For more information on our AUM, please refer to Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Assets Under Management.” For more information on our management fee rates, please refer to Part II, Item 8 “Financial Statements and Supplementary Data - Note 3 - Management Agreements and Fortress Funds.”

Fund Performance

Our incentive income is typically earned as a percentage of the profits of our alternative investment funds. In certain cases, we earn incentive income only if a fund’s investments meet specified performance thresholds. We therefore monitor our funds’ proximity to such performance thresholds. For more information on our funds’ performance, please refer to Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Performance of our Funds.” For more information on our funds’ incentive income terms and their proximity to their various performance thresholds, please refer to Part II, Item 8 “Financial Statements and Supplementary Data - Note 3 - Management Agreements and Fortress Funds.” For more information on embedded incentive income, which has not yet been distributed to us by our funds, and the portion thereof that has not yet been recognized in distributable earnings, please refer to Part II, Item 8 "Financial Statements and Supplementary Data - Note 11 - Segment Reporting - Embedded Incentive Income."

Investment Performance

The investment income (loss) from our principal investments is recorded currently (i.e., whether or not realized) in net income (loss), generally based on the net asset values of the funds in which we have invested (our “principal investments”). For segment reporting purposes, investment income (loss) is recorded only when income (loss) from a fund investment becomes realized or realizable, as applicable. Therefore, for segment reporting purposes, investment income (loss) does not reflect unrealized gains or losses embedded in certain of our investments. For more information on the investment income (loss) included in net income (loss), please refer to Part II, Item 8 “Financial Statements and Supplementary Data - Note 4 - Investments and Fair Value.” For more information on the unrealized gains (losses) currently embedded in our principal investments for segment reporting purposes, please refer to Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Segment Analysis - Principal Investments.”

Our Current Businesses

Our current offering of alternative investment products includes private equity funds, liquid hedge funds and credit funds. In addition, we offer traditional investment products. Private equity funds generally require fund investors to commit capital over a period of time, do not allow redemptions of capital and make long term, relatively illiquid investments. Hedge funds allow periodic contributions and redemptions of capital by investors and make relatively shorter-term, more liquid investments. Our credit funds share certain of the characteristics of both private equity and hedge funds. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Understanding the Asset Management Business." We refer to these investment products, collectively, as the Fortress Funds. As of December 31, 2013, we managed the following businesses:

Private Equity - a business that manages approximately $15.6 billion of AUM comprised of two business segments: (i) general buyout and sector-specific funds focused on control-oriented investments in North America and Western Europe; and (ii) publicly traded permanent capital vehicles that invest in a wide variety of real estate related assets including securities, loans, real estate properties and mortgage servicing related assets.

Liquid Hedge Funds - a business that manages approximately $7.4 billion of AUM. These funds invest globally in fixed income, currency, equity and commodity markets, and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments; and a fund that seeks to generate returns by executing a positively convex investment strategy.

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Credit Funds - a business that manages approximately $13.4 billion of AUM comprised of two business segments: (i) credit hedge funds, which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and (ii) credit private equity ("PE") funds which are comprised of a family of "credit opportunities" funds focused on investing in distressed and undervalued assets, a family of ''long dated value'' funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of "real assets" funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based global opportunities fund, and a family of real estate opportunities funds, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector.

Logan Circle - our traditional asset management business, which has approximately $25.4 billion of AUM, provides institutional clients actively managed investment solutions across a broad spectrum of fixed income and growth equity strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt. In April 2013, Logan Circle launched a growth equities investment business focused on investing and managing concentrated portfolios of publicly traded U.S. equities.

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

Principal Sources of Revenue

The following table provides our management fees and incentive income, on a segment reporting basis, from each of our core businesses for the previous three fiscal years (in thousands):

	2013	2012	2011
Private Equity Funds			
Management Fees	$136,406	$119,492	$131,898
Incentive Income (A)	13,738	10,993	(1,748)
Permanent Capital Vehicles			
Management Fees	58,970	56,255	53,357
Incentive Income	17,574	242	—
Liquid Hedge Funds			
Management Fees	110,622	77,531	108,873
Incentive Income	150,700	67,645	3,787
Credit Funds			
Hedge Funds			
Management Fees	101,890	101,194	121,835
Incentive Income	190,846	130,305	78,460
PE Funds			
Management Fees	95,925	98,393	73,273
Incentive Income (A)	120,137	68,568	117,598
Logan Circle			

Management Fees	35,833	26,796	20,050

(A) Net of reserves for future clawback, as applicable.

Certain of our segments are comprised of, and dependent on the performance of, a limited number of Fortress Funds. Each of these funds is material to the results of operations of its segment and the loss of any of these funds would have a material adverse impact on the segment. Moreover, the revenues we earned from certain funds individually exceeded 10% of our total revenues for each of the periods presented. For additional information regarding our segments, the information presented above, our total assets and our distributable earnings (as defined below), please see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Segment Analysis” and Part II, Item 8, “Financial Statements and Supplementary Data.”

Private Equity Funds

Fortress Investment Funds

Our private equity business is comprised of (i) a series of diversified funds referred to as the “Fortress Investment Funds” and organized to make control-oriented investments in cash flow generating, asset-based businesses in North America and Western Europe and (ii) various sector focused funds organized to invest in specific opportunities in sectors where Fortress has proven expertise. Sector focused funds include: Worldwide Transportation & Infrastructure Investors, the MSR Opportunities Funds and the Italian NPL Opportunities Fund. Investors in our private equity funds contractually commit capital at the outset of a fund, which is then drawn down as investment opportunities become available, generally over a two to three year investment period. Proceeds are returned to investors as investments are realized, generally over eight to ten years. Management fees between 1.0% and 1.5% are generally charged on committed or invested capital (or NAV, if lower). We also generally earn between 10% and 20% of the profits on each realized investment in a fund - our incentive income - subject to the fund's achieving a minimum return as a whole, that is, taking into account all gains and losses on all investments in the fund.

Permanent Capital Vehicles

As of December 31, 2013, we managed three publicly traded permanent capital vehicles: Newcastle Investment Corp. ("Newcastle"; NYSE: NCT), New Residential Investment Corp. ("New Residential"; NYSE: NRZ) and Eurocastle Investment Limited ("Eurocastle"; Euronext, Amsterdam: ECT). These permanent capital vehicles were raised with broad investment mandates to make investments in a wide variety of real estate related assets, including securities, loans and real estate properties. Pursuant to our management agreements, we earn management fees from each permanent capital vehicle equal to 1.5% of the company's equity (as defined in such agreements). In addition, we earn incentive income equal to 25% of the company's applicable supplemental measure of operating performance, in excess of specified returns to the company's shareholders. In addition to these fees, we also receive, for services provided, options to purchase shares of their common stock in connection with each of their common stock offerings.

Fortress has a senior living property management subsidiary and has agreements to manage 17 senior living properties, including 15 which are owned by Newcastle and two which are owned by third parties. Fortress receives management fees of between 6.0% and 7.0% of revenues (as defined in the agreements).

Liquid Hedge Funds

Overview

The liquid hedge funds, which invest daily in markets around the globe, seek to exploit opportunities in global currency, interest rate, equity and commodity markets and their related derivatives. Investment opportunities are evaluated and rated on a thematic and an individual basis to determine appropriate risk-reward and capital allocations.

Fortress Macro Funds

The Fortress Macro Funds, and related managed accounts, apply an investment process based on macroeconomic fundamental, market momentum and technical analysis to identify strategies offering a favorable risk-return profile. The funds' investment strategies are premised on the belief that imbalances in various financial markets are created from time to time by the influence of economic, political and capital flow factors. Directional and relative value strategies are applied to exploit these conditions. The funds have the flexibility to allocate capital dynamically across a wide range of global strategies, markets and instruments as opportunities change, and are designed to take advantage of a wide variety of sources of market, economic and pricing data to generate trading ideas.

The funds invest primarily in major developed markets; they also invest in emerging markets if market conditions present opportunities for attractive returns. Overall, the funds pursue global macro directional and relative value strategies, although capital is allocated within the funds to particular strategies to provide incremental returns and diversity.

Management fees are charged based on the AUM of the Fortress Macro Funds and related managed accounts at a rate between 1.5% and 2.0% annually, depending on the investment and liquidity terms elected by investors. We generally earn incentive income of between 15% and 25% of the fund's profits, generally payable annually, depending on the investment and liquidity terms elected by investors, and subject to achieving cumulative positive returns since the prior incentive income payment. In other words, an incentive income payment establishes a “high water mark” such that the fund must earn a cumulative positive return from that point forward in order for Fortress to earn incentive income. Investors in the Fortress Macro Funds and related managed accounts may invest with the right to redeem without paying any redemption fee either monthly, quarterly, or annually after three years. Some investors with three-year liquidity may redeem annually before three years, subject to an early redemption fee payable to the funds.

Fortress Asia Macro Funds

The Fortress Asia Macro Funds and related managed account invest in global fixed income, commodities, currency and equity markets, and their related derivatives, thematically related to the Asia-Pacific region through a fundamental macroeconomic strategy that focuses on liquid investments. Their investment program focuses on global trading and capital flows that affect one or more of the Asian countries and/or are affected by them and the region as a whole. Management fee rates for these funds range from 1.5% to 2.0% and we earn incentive income generally between 20% and 25% of their profits, subject to achieving cumulative positive returns since the prior incentive income payment. Over the course of 2014, the Fortress Asia Macro Funds and related managed account are expected to transition into being managed by a new asset management business in which Fortress will retain a non-controlling equity interest. See " - Recent Developments" and Part II, Item 8, "Financial Statements and Supplementary Data - Note 12 - Subsequent Events."

Fortress Partners Funds

The Fortress Partners Funds invest with a broad mandate, similar to endowment portfolios of large universities. Investments are made both in Fortress Funds and in funds managed by other managers, and in direct investments that are sourced either by Fortress personnel or by third parties with whom we have relationships. Our endowment strategy funds are designed to blend our direct bottom up investing style with third party managers to create excellent risk adjusted returns with an emphasis on capital preservation. Management fee rates for these funds range from 1.0% to 1.5% and we earn incentive income generally equal to 20% of the profits from direct investments only, subject to achieving cumulative positive returns since the prior incentive income payment.

Convex Asia Funds

The Convex Asia Funds' principal investment objective is to generate a superior total return on its capital over multi-year market cycles by executing a positively convex investment strategy in the Asia-Pacific fixed income, commodities, currency, credit and equity markets, and their related derivatives or similar markets globally that are thematically related to the Asia-Pacific region. The management fee rate for these funds is 1.25% and we earn incentive income of 18% of their profits, subject to achieving cumulative positive returns since the prior incentive income payment.

Credit Funds

Credit Hedge Funds

Our credit hedge funds are designed to exploit pricing anomalies that exist between the public and private finance markets. These investment opportunities are often found outside the traditional broker-dealer mediated channels in which investments that are efficiently priced and intermediated by large financial institutions are typically presented to the private investment fund community. We have developed a proprietary network comprised of internal and external resources to source transactions for the funds.

The funds are able to invest in a wide array of financial instruments, ranging from 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. All of these investments are based on fundamental bottom up analysis and are typically event driven. The funds' diverse and situation-specific investments require significant infrastructure and asset management experience to fully realize value. We have developed a substantial asset management infrastructure with expertise in managing the funds' investments in order to be able to maximize the net present value of investments on a monthly basis. In addition to the funds noted below, Fortress has been retained as a manager of certain non-Fortress originated funds as part of an advisory business that forms part of the credit hedge funds business.

Drawbridge Special Opportunities Funds

The Drawbridge Special Opportunities Funds form the core of our credit hedge fund investing strategy. The funds opportunistically acquire a diversified portfolio of investments primarily throughout the United States, Western Europe and the Pacific region. The funds' investment program incorporates complementary investment strategies, focusing on direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance. The majority of the funds’ investments are relatively illiquid, and the funds generally make investments that are expected to liquidate or be realized within a five year period.

Management fees are charged based on the AUM of the Drawbridge Special Opportunities Funds at a rate generally equal to 2.0% annually. We generally earn incentive income of 20% of the fund's profits, payable annually, and subject to achieving cumulative positive returns since the prior incentive income payment. Investors in the Drawbridge Special Opportunities Funds may redeem annually on December 31. Because of the illiquid nature of the funds' investments, rather than paying out redemption requests immediately, the fund may elect to pay out redeeming investors as and when the particular investments held by the fund at the time of redemption are realized.

Worden Funds

The Worden Funds invest in a diversified portfolio of undervalued and distressed investments primarily in North America and Western Europe, but also in Australia, Asia and elsewhere on an opportunistic basis. These funds seek to achieve their investment objectives primarily through investments in loans and asset-based investments, including portfolios of consumer and commercial receivables and asset-backed financial instruments of undervalued or financially troubled companies. Management fees of 1.75% to 2.0% are generally charged based on the AUM of the Worden Funds. We earn incentive income of 20% of the funds’ profits, payable annually, subject to achieving cumulative positive returns since the prior incentive income payment.

Japan Income Fund

We launched the Japan Income Fund in December 2013 to invest in a diversified portfolio consisting primarily of long-term, stable, income-generating assets in Japan. The fund primarily targets investments in real estate subject to long-term leases, capital assets and renewable energy projects. The fund is structured as an open ended fund with periodic subscription and redemption rights. A management fee rate of 1.0% is charged on the AUM of the Japan Income Fund, as well as acquisition and disposition fees. We will earn incentive income of 20% on the fund's distributions in excess of a 4% dividend yield.

Credit PE Funds

Our credit PE funds are primarily comprised of families of funds as described below, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector. They generally have management fee rates between 1.0% and 1.5% and generate incentive income of between 10% and 20% of a fund’s profits subject to the fund achieving a minimum return as a whole.

Credit Opportunities Funds

Fortress established the Fortress Credit Opportunities Funds to make opportunistic credit-related investments. Their investment objective is to generate significant current income and long-term capital appreciation through investments in a range of distressed and undervalued credit investments, including but not limited to residential loans and securities, commercial mortgage loans and securities, opportunistic corporate loans and securities, and other consumer or commercial assets and asset-backed securities.

Long Dated Value Funds

The Long Dated Value family of funds was established to focus on making investments with long dated cash flows that may be undervalued because of the lack of current cash flows or because the investment is encumbered by a long term lease or financing. We believe that these investments provide the potential for significant capital appreciation over the long term. The Long Dated Value Funds have an investment life of 25 years, reflecting the funds' longer-term investment profiles. In addition, incentive income is distributed to us after all of a fund's invested capital has been returned, rather than as each investment is realized.

Real Assets Funds

Fortress established the Real Assets Funds seeking to generate superior risk adjusted returns by opportunistically investing in tangible and intangible assets with the potential to achieve significant value generally within a three-to-ten year time horizon. The investment program of these funds focuses on direct investments in four principal investment categories: real estate, capital assets, natural resources and intellectual property. The funds may also make indirect investments in the form of interests in real estate investment trusts ("REITs"), master limited partnerships, corporate securities, debt securities and debt obligations, including those that provide equity upside, as well as options, royalties, residuals and other call rights that provide these funds with the potential for significant capital appreciation. The investments are located primarily in North America and Western Europe, but may also include opportunities in Australia, Asia and elsewhere on an opportunistic basis.

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Asia Funds

We launched the Fortress Japan Opportunity Funds in 2009 to take advantage of the significant distressed opportunities that had emerged in Japan similar to those witnessed after the 1997 Asian financial crisis. The funds primarily invest in certain Japanese real estate-related performing, sub-performing and non-performing loans, securities and similar instruments. In addition, we launched the Fortress Global Opportunities (Yen) Fund in the second half of 2010 to make opportunistic investments in distressed and undervalued credits for investors that wish to invest in a Yen denominated fund. This fund invests primarily in North America and Western Europe, but may also invest in Australia, Asia and elsewhere on an opportunistic basis.

Real Estate Opportunities Funds

Fortress established the Real Estate Opportunities Funds primarily to make opportunistic commercial real estate investments. The investment objective of the funds is to generate superior risk adjusted returns by opportunistically investing in commercial real estate and real estate-related (collectively, "CRE") assets, equity investments, loans, securities, and other investments that we believe have the potential to achieve significant total returns generally within a three-to-seven year time horizon. The funds intend to make value-oriented investments throughout the capital structure of CRE assets.

Logan Circle

Logan Circle primarily provides traditional separate account investment management services to institutional clients, including corporate entities, pension plans, mutual funds, private funds, and foundations, as well as public and government entities. Logan Circle also provides investment advisory services to private funds that are sponsored or managed by Logan Circle or its affiliates. Management fee rates average 0.16% of AUM and may be tiered based on the amount of AUM of the account.

Competition

The investment management industry is intensely competitive, and we expect the competition may intensify in the future. We face competition in the pursuit of outside investors for our investment funds, acquiring investments in attractive portfolio companies, divesting our investments and other investment opportunities. Competition is based on a number of factors, including: investment performance; investor perception of investment managers' drive, focus and alignment of interest; terms of investment, including the level of fees and expenses charged for services; our actual or perceived financial condition, liquidity and stability; the quality and mix of services provided to, and the duration of relationships with, investors; and our business reputation. Depending on the investment, we expect to face competition primarily from other investment management firms, private equity funds, hedge funds, other financial institutions, sovereign wealth funds, corporate buyers and other parties. Many of our competitors are substantially larger and may have greater financial and technical resources than we possess. Several of these competitors have recently raised, or are expected to raise, significant amounts of capital and many of them have similar investment objectives to us, which may create additional competition for investment opportunities. Some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities. Some of these competitors may have higher risk tolerances, make different risk assessments or have lower return thresholds, which could allow them to consider a wider variety of investments, bid more aggressively than we bid for investments that we want to make or accept legal or regulatory limitations or risks we would be unable or unwilling to accept. Corporate buyers may be able to achieve synergistic cost savings with regard to an investment that may provide them with a competitive advantage relative to us when bidding for an investment. Moreover, an increase in the allocation of capital to alternative investment strategies by institutional and individual investors could lead to a reduction in the size and duration of pricing inefficiencies that many of our investment funds seek to exploit. Alternatively, a decrease in the allocation of capital to alternative investments strategies could intensify competition for that capital and lead to fee reductions and redemptions, as well as difficulty in raising new capital. Lastly, the market for qualified investment professionals is intensely competitive. Our ability to continue to compete effectively will also depend upon our ability to attract, retain and motivate our employees.

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Structure

The diagram below depicts our organizational structure as of December 31, 2013.

(1) The principals generally hold almost all of the Class B shares, which represent approximately 50.9% of the total combined voting power (i.e., combined voting power of Class A shares and Class B shares) in Fortress Investment Group LLC. The Class B shares are held by the principals and one senior employee. The Class B shares have no economic interest in Fortress Investment Group LLC.

(2) Represents approximately 49.1% of the limited partner interests (Class A Common Units) and a 100% general partner interest in each of the Operating Entities and in Principal Holdings. We refer to a collection of one limited partner interest in each such entity as a Fortress Operating Group unit, or FOGU.

(3) FOGU is the term we use to refer to a collection of one limited partner interest in each Fortress Operating Group entity. Represents approximately 50.9% of the limited partner interests (Class B Common Units) in each of the Operating Entities and in Principal Holdings.

(4) Excludes the effect of equity interests to be granted under our equity incentive plan to employees and directors.

Subsequent to Fortress's repurchase from Nomura and cancellation of 60,568,275 Class A Shares on February 13, 2014, the Class A shareholders and Class B shareholders hold approximately 41.9% and 58.1%, respectively, of the limited partner interests in each Fortress Operating Group entity.

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Performance Graph

The following graph compares the cumulative total return for our Class A shares (stock price change plus reinvested dividends) with the comparable return of four indices: Russell 3000, S&P 500, S&P Financial Services, and SNL Asset Manager Index. The graph assumes an investment of $100 in the Company's Class A shares and in each of the indices on December 31, 2008, and that all dividends were reinvested. The past performance of our Class A shares is not an indication of future performance.

	Period Ending					
Index	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
Fortress Investment Group LLC	100.00	445.00	570.00	338.00	462.08	931.16
SNL Asset Manager Index	100.00	162.23	186.74	161.52	207.23	318.46
Russell 3000	100.00	128.34	150.07	151.61	176.49	235.71
S&P 500	100.00	126.46	145.51	148.59	172.37	228.19
S&P Financial Services	100.00	113.69	118.89	75.83	114.59	155.22

Where Readers Can Find Additional Information

Fortress Investment Group, LLC is a Delaware limited liability company that was formed on November 6, 2006. Our principal executive offices are located at 1345 Avenue of the Americas, New York, New York 10105.

Fortress files annual, quarterly and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the ‘‘Exchange Act’’), with the Securities and Exchange Commission (“SEC”). Readers may read and copy any document that Fortress files at the SEC’s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our SEC filings are also available to the public from the SEC’s internet site at http://www.sec.gov. Copies of these reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, U.S.A.

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Our internet site is http://www.fortress.com. We will make available free of charge through our internet site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website in the ‘‘Public Shareholders - Corporate Governance’’ section are charters for the company’s Audit Committee, Compensation Committee and Nominating, Corporate Governance and Conflicts Committee as well as our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and employees. Information on, or accessible through, our website is not a part of, and is not incorporated into, this report.

Item 1A. Risk Factors

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

Risks Related to Our Business

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

The success of our business depends on the efforts, judgment and personal reputations of our principals, Peter Briger, Wesley Edens, Randal Nardone and Michael Novogratz. One of our principals, Randal Nardone, was appointed Chief Executive Officer of the company in addition to his other duties. Our principals' reputations, expertise in investing, relationships with our investors and relationships with members of the business community on whom our funds depend for investment opportunities and financing, are each critical elements in operating and expanding our businesses. We believe our performance is strongly correlated to the performance of these individuals. Accordingly, the retention of our principals is crucial to our success. In addition, if any of our principals were to join or form a competitor, some of our investors could choose to invest with that competitor rather than in our funds. The loss of the services of any of our principals could have a material adverse effect on us, including our ability to retain and attract investors and raise new funds, and the performance of our funds. Two or more of our principals occasionally travel together, which concentrates the potential impact of an accident on our company. We do not carry any “key man” insurance that would provide us with proceeds in the event of the death or disability of any of our principals.

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

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

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

Certain of our existing funds have key person provisions relating to our principals or senior employees other than our principals, and the resignation or termination of any such senior employee could result in a material adverse effect on the applicable fund or funds and on us.

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

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The loss of Mr. Novogratz or his inability to perform his services for 90 days could result in substantial withdrawal requests from investors in our Fortress Macro Funds. The loss of the chief investment officer of the Fortress Macro Funds and chief investment officer of the Fortress Asia Macro Funds, Adam Levinson, also could result in withdrawal requests. Over the course of 2014, the Fortress Asia Macro Funds will transition into an autonomous business with Fortress as a non-control partner, which will reduce our overall economics from these funds and could result in withdrawal requests. Mr. Levinson will also continue to invest for Fortress managed funds. Substantial withdrawals would have a material adverse effect on the Fortress Macro Funds, Fortress Asia Macro Funds, related managed accounts, and us by reducing our management fees from those funds. Further, such withdrawals could possibly lead to the liquidation of the funds and a corresponding elimination of our management fees and potential to earn incentive income from those funds. The loss of Mr. Novogratz , could, therefore, ultimately result in a loss of a material portion of our earnings attributable to our liquid hedge fund business segment.

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

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

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

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

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

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

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

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

We face operational risk from errors made in the negotiation, execution, confirmation or settlement of transactions. We also face operational risk from transactions not being properly recorded, valued, evaluated or accounted for in our funds. In particular, our liquid hedge and, to a lesser extent, credit fund businesses are highly dependent on our ability to process, value and evaluate, on a daily basis, transactions across markets and geographies in a time-sensitive, efficient and accurate manner. Consequently, we rely heavily on our financial, accounting and other data processing systems. For example, the efficacy of investment and trading strategies depends largely on the ability to establish and maintain an overall market position in a combination of financial instruments. If a fund's trading orders are not executed in a timely and efficient manner due to systems failures, human error or otherwise, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position. In addition, new investment products have created, and future investment products may create, a significant risk that our existing systems may not be adequate to identify or control the relevant risks in the investment strategies employed by such new investment products. If any of these systems do not operate properly, are inadequately designed, disabled, or are the target of a cyber security attack (which we are subject to from time to time), we could suffer financial loss, disruption of our businesses, liability to our funds and their investors, regulatory intervention and reputational damage.

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

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

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

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

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

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

The terms of our funds generally give either the general partner of the fund or the fund's board of directors the right to terminate our investment management agreement with the fund. However, insofar as we control the general partner of our funds that are limited partnerships, the risk of termination of any investment management agreement for such funds is limited, subject to our fiduciary or contractual duties as general partner. This risk is more significant for our offshore hedge funds for which we do not serve as the general partner and represent a significant portion of our hedge fund AUM. In addition, the boards of directors of certain hedge funds and our permanent capital vehicles have the right under certain circumstances to terminate the investment management agreements or otherwise attempt to renegotiate the terms of such agreements with the applicable fund or permanent capital vehicle. Termination of these agreements, or revisions to the terms that are detrimental to the manager, could affect the fees we earn from the relevant funds or permanent capital vehicles, which could have a material adverse effect on our results of operations.

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

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

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

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

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

Certain of our consolidated subsidiaries have potentially unlimited liability for the obligations of various Fortress Funds under applicable partnership law principles, because they act as general partners of such funds. In the event that any such fund was to fall into a negative net equity position, the full amount of the negative net equity would be recorded as a liability on the balance sheet of the general partner entity. Such liability would be recorded on our balance sheet in consolidation until the time such liability was legally resolved.

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”), so-called “whistleblower” provisions have been enacted that will entitle persons who report alleged wrongdoing to the SEC to cash rewards and the SEC has recently awarded a significant cash award to a whistleblower. We anticipate that these provisions will result in a significant increase in whistleblower claims across our industry, and dealing with such claims could generate significant expenses and take up significant management time, even for frivolous and non-meritorious claims. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Such investigations may impose additional expense on us, may require the attention of senior management and may result in fines and/or reputational damage whether or not any of our funds are deemed to have violated any regulations.

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The U.S. government's increased focus on the regulation of the financial services industry may adversely affect our business.

Our business may be adversely affected by new or revised legislation or regulations imposed by the U.S. government, the SEC or other U.S. governmental regulatory bodies or self-regulatory organizations that supervise the financial markets. We may also be adversely affected by changes in the interpretation or enforcement of existing laws and rules. Dodd-Frank imposes significant new rules on almost every aspect of the U.S. financial services industry, including aspects of our business and the markets in which we operate, which may adversely affect our business. These rules address, among other things, the following topics:

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

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

In December 2010, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from various countries, including the United States, finalized a comprehensive set of capital and liquidity standards, commonly referred to as "Basel III," for internationally active banking organizations. These new standards will require banks to hold more capital, predominately in the form of common equity, than under the current capital framework. In July 2013, U.S. federal banking agencies issued a final rule to comprehensively revise the regulatory capital framework for the U.S. banking sector, which implements many aspects of Basel III as well as changes required by Dodd-Frank. Compliance with the new standards may result in significant costs to banks, which in turn may result in higher borrowing costs for the private sector, including our funds and portfolio companies, and reduced access to certain types of credit.

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

Potential regulatory compliance failures pose a significant risk to our reputation and thereby to our business. Our business is subject to extensive regulation in the United States and in the other countries in which our investment activities occur. The SEC
oversees our activities as a registered investment adviser under the Investment Advisers Act of 1940. We are subject to regulation under the Securities Exchange Act of 1934, the Investment Company Act of 1940, and various other statutes. We are subject to regulation by the Department of Labor under the Employee Retirement Income Security Act of 1974 (“ERISA”). We and our permanent capital vehicles, as public companies, are subject to applicable stock exchange regulations, and we and certain of our

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permanent capital vehicles are subject to the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"). The variable interest entity that we will consolidate beginning in February 2014, New Media Investment Group ("New Media", NYSE: NEWM), is also a public company subject to stock exchange regulations and Sarbanes-Oxley. A number of portfolio companies are also publicly traded and/or are subject to significant regulatory oversight. For example, Springleaf Finance Inc. is in the consumer finance industry and Nationstar Mortgage is in the mortgage servicing industry, both of which have recently been the focus of extensive regulation. Moreover, some of our portfolio companies are subject to regulation from non-financial bodies (such as our senior living and railroad investments). For example, as a manager of senior living facilities we are subject to regulations applicable to operators of independent living and assisted living facilities, as well as laws designed to protect Medicaid. As an affiliate of a registered broker-dealer, we are subject to certain rules promulgated by the Financial Industry Regulatory Authority (“FINRA”) and the SEC. A number of our investing activities, such as our lending business, are subject to regulation by various U.S. state regulators. In the United Kingdom, we are subject to regulation by the U.K. Financial Conduct Authority. Our other European operations, and our investment activities in Singapore, Australia, Japan and other parts of the globe, are subject to a variety of regulatory regimes that vary by country.

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

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

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

Our results of operations may also be negatively impacted if certain proposed tax legislation is enacted. If legislation were to be enacted by the U.S. Congress to treat carried interest as ordinary income rather than as capital gain for U.S. federal income tax purposes, such legislation would materially increase the amount of taxes that we and possibly our equity holders are required to pay, thereby reducing the value of our Class A shares and adversely affecting our ability to recruit, retain and motivate our current and future professionals. President Obama has publicly stated that he supports similar changes to the tax code. See "-Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis" and "-Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis."

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

Similar to the United States, our business may be adversely affected by new or revised legislation or regulation imposed by governmental regulators and other authorities in Europe. European regulators have approved legislation (the Alternative Investment

Fund Managers Directive, or "AIFMD") requiring fund managers to comply with new rules regarding their activities in the EU, including the marketing of fund interests to EU-domiciled investors. AIFMD additionally covers topics such as periodic reporting to fund investors, disclosures to shareholders of EU companies targeted for acquisition or disposition, limitations on dividends by fund-controlled EU companies, monitoring the use of leverage, and imposition of remuneration guidelines. The legislation came into effect in July 2013 although the implementation of the rules will be staggered over the next five years. Once fully implemented the laws could impose additional costs on the operation of our business in the EU, limit our operating flexibility and generally hamper our ability to grow our business in Europe. In addition, similar to Dodd-Frank, European regulators have adopted the European Market Infrastructure Regulation for reporting of many derivative transactions.

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

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

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

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

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

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

The alternative investment management business is intensely competitive.

The alternative investment management business is intensely competitive and competition is based on a number of factors, including: investment performance; investor perception of investment managers' drive, focus and alignment of interest; terms of investment, including the level of fees and expenses charged for services; our actual or perceived financial condition, liquidity and stability; the quality and mix of services provided to, and the duration of relationships with, investors; and our business reputation. We compete in all aspects of our business with a large number of investment management firms, private equity fund sponsors, hedge fund sponsors and other financial institutions.

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

A number of factors increase our competitive risks:

- some of our funds may not perform as well as competitor funds or other available investment products;
- investors' liquidity and willingness to invest;
- changing decision making processes of investors, including concerns that we will allow a business to grow to the detriment of its performance or a preference to invest with an investment manager that is not publicly traded;
- investors may reduce their investments with us or not make additional investments with us based upon dissatisfaction with our investment performance, market conditions, their available capital or their perception of the health of our business;
- some of our competitors have greater capital, lower cost of capital, better access to financing, lower targeted returns or greater sector or investment strategy specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;
- some of our competitors may have greater technical, marketing and other resources than we possess;

- some of our competitors may perceive risk differently than we do, which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;
- some of our competitors may agree to more restrictive terms or policies (such as those related to electoral donations or a different standard of care), which would allow them to compete for the capital being invested by entities wishing to impose such terms;
- some of our competitors are corporate buyers and may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment, particularly if conditions in the debt markets increase our financing costs or make debt financing generally unavailable or cost prohibitive; and
- other industry participants continuously seek to recruit our investment professionals, particularly our top performers, away from us.

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

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

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

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

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of Sarbanes-Oxley. While management has certified that our internal controls over financial reporting were effective as of December 31, 2013, 2012 and 2011, because internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules, we cannot assure you that our internal control over financial reporting will be effective in the future. For example, we will be required to consolidate certain variable interest entities that we manage, including New Media beginning in February 2014, and therefore document and test effective controls over financial reporting of any of these entities that we consolidate in accordance with Section 404, which will be new public companies, and any failure to implement required controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. In addition, the FASB has proposed changes to the rules for consolidating entities in financial statements, which, if enacted with respect to our funds, may require us to consolidate entities that we do not currently consolidate, and, therefore, to document and test effective internal controls over the financial reporting of these entities in accordance with Section 404, which we may be unable to do. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm would not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable New York Stock Exchange listing rules, and result in a breach of the covenants under our credit agreement. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline in our share price and impairing our ability to raise capital.

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

Our continued growth creates significant demands on our legal, accounting and operational infrastructure, and results in increased expenses. The complexity of these demands, and the expense required to address them, is a function not simply of our growth, but also of significant differences in the investing strategies of our different businesses and of the differences between lines of business. For example, in April 2010, we acquired Logan Circle, which requires operational infrastructure that differs from the infrastructure used in our alternative asset management business, which we were not familiar with prior to the acquisition, and in April 2013, Logan Circle launched a growth equities investment business. In July 2012, our workforce grew significantly when we became the manager of several senior living facilities (the compensation expense of which is reimbursed to us by the owners of the facilities), which has placed significant demands on our human resources and other infrastructure.

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

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

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

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

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

In addition, generally, there are few limitations on the execution of our funds' investment strategies, which are, in some cases, subject to the sole discretion of the management company or the general partner of such funds. The execution of a particular fund's strategy - for example, a strategy involving the enforcement of intellectual property rights through litigation, or a strategy of purchasing pools of tax liens on residential properties or pools of life settlements - may negatively impact one or more other Fortress funds whether due to reputational or other concerns.

We have historically been subjected to intermittent protests by groups affiliated with an animal rights movement related to a particular investment. Although no Fortress Fund continues to hold the investment targeted by such protestors, the protest activity may nevertheless have a negative effect on our reputation.

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

We experience significant variations in revenues and profitability during the year and among years because, among other reasons, we are paid incentive income from certain funds only when investments are realized, rather than periodically on the basis of increases in the funds' NAVs. The timing and receipt of incentive income generated by our private equity funds and credit PE funds is event driven and thus highly variable, which contributes to the volatility of our segment revenue, and our ability to realize incentive income from our private equity funds and credit PE funds may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized. We cannot predict when, or if, any realization of investments will occur. If we were to have a realization event in a particular quarter, it may have a significant impact on our segment revenues and profits for that particular quarter that may not be replicated in subsequent quarters. In addition, our private equity fund and credit PE fund investments are adjusted for accounting purposes to their NAV at the end of each quarter, resulting in income (loss) attributable to our principal investments, even though we receive no cash distributions from our private equity funds and credit PE funds, which could increase the volatility of our quarterly earnings. The terms of the operating documents of our private equity funds and credit PE funds generally require that if any investment in a particular fund has been marked down below its initial cost basis, the aggregate amount of any such markdowns (plus the amount of the accrued preferred return on the capital used to make such investments) be factored into the computation of the amount of any incentive income we would otherwise collect on the realization of other investments within the same fund. This provision generally will result in an overall lower level of incentive income being collected by the company in the near term for any private equity fund or credit PE fund that has investments that are carried both above and below their cost basis. To the extent that our principal investments in our private equity funds or credit PE funds (or direct investments in private equity transactions) are marked down, such mark-downs will flow through our statements of operations as a GAAP loss, even in circumstances where we have a long investment horizon and have no present intention of selling the investment.

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

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

Furthermore, we earn investment income from our principal investments. Certain investments may be more speculative and more likely to result in loss of capital than other investments, which may contribute to volatility of our income. For example, investments in digital currencies differ from traditional currencies, commodities or securities, and its value is entirely market-based, which subjects the investment to increased risks.

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

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

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

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

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

and the value of our AUM fluctuates due to a variety of factors, including mark-to-market valuations of certain assets, other market factors, and our net capital raised or returned.

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

A failure by us to comply with the covenants in our credit agreement could result in an event of default under the agreement, which would give the lenders under the agreement the right to terminate their commitments to provide additional loans under our revolving credit facility and to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, the lenders would have the right to proceed against the collateral we granted to them, which would consist of substantially all our assets. If the debt under our credit agreement were accelerated, we might not have sufficient cash on hand or be able to sell sufficient collateral to repay this debt, which could have an immediate material adverse effect on our business, results of operations and financial condition. For more detail regarding our current credit agreement and the status of our compliance with the related covenants, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources," "-Debt Obligations," and "-Covenants."

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

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

Under our current credit agreement, as of December 31, 2013, we have a $150.0 million revolving credit facility (including a $15.0 million letter of credit subfacility). As of December 31, 2013, $147.3 million was available to be drawn; we had no loans outstanding thereunder and $2.7 million of letters of credit were outstanding. In February 2014, we borrowed $75.0 million under our revolving credit facility. Borrowings under our revolving credit facility mature in February 2016. As we approach the maturity date of a facility, we may seek to enter into new facilities or issue new debt, which could result in higher borrowing costs, or to issue equity, which would dilute existing shareholders. We could also repay a facility by using cash on hand (if available) or cash from the sale of our assets. No assurance can be given that we will be able to enter into new facilities, issue new debt or issue equity in the future on attractive terms, or at all.

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

The business of the variable interest entity that we consolidate and the industry in which it operates may have a material adverse effect on our results of operations.

We may be required to consolidate certain variable interest entities that we manage though they are majority-owned by third parties. New Media was spun off by Newcastle to its stockholders on February 13, 2014 and immediately after the spin-off, New Media became a publicly traded company independent from Newcastle. As a result, Fortress consolidated New Media beginning February 13, 2014 and, therefore, New Media's income (loss) will impact our net income (loss), but will not have an impact on our net income (loss) attributable to Class A shareholders or total

Fortress shareholders' equity. New Media is focused on investing in a diversified portfolio of local media assets and also has an online advertising and digital marketing business. Risks related to New Media's business and industry, including the economies and demographics of the local communities it serves and general economic conditions, may have a material adverse impact on their business and results, which in turn could impact our net income.

In addition, as a public company, New Media will be required to maintain effective internal control over financial reporting in accordance with Section 404 of Sarbanes-Oxley. To the extent that any material weakness or significant deficiency exists in New Media's internal control over financial reporting, it may adversely effect our ability to provide timely and reliable information necessary for the conduct of our business and satisfaction of our obligations under federal securities laws. See "Failure to maintain effective internal control over financial reporting in accordance with Section 404 of Sarbanes-Oxley Act could have a material adverse effect on our business and stock price."

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Risks Related to Our Funds

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

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

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

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

- the historical performance of our funds should not be considered indicative of the future results that should be expected from such funds or from any future funds we may raise;
- our funds' returns have benefited historically from investment opportunities and general market conditions that currently may not exist and may not repeat themselves, and there can be no assurance that our current or future funds will be able to avail themselves of profitable investment opportunities;
- the performance of a number of our funds that is calculated on the basis of NAV of the funds' investments reflects unrealized gains that may never be realized;
- several of our private equity portfolio companies have become public companies and have experienced significant subsequent decreases in their public market value. There can be no assurance that we will be able to realize such investments at profitable sale prices, particularly if market conditions are weak or the market perceives that the companies will perform less well when a Fortress fund reduces its investment in them; and
- Certain of the funds are newly established funds without any operating history or are managed by management companies or general partners who do not have a significant track record as an independent manager.

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

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

In situations where we have deferred the receipt of management or other fees in order to provide liquidity to one or more of our managed funds, amounts that we have receivable from those funds may be difficult to collect in the future (or may take longer than anticipated to collect) if such funds have continued liquidity problems or if fund investors raise objections to such collections.

As of December 31, 2013, the aggregate amount of management fees that various of our managed funds owed but had not yet paid was approximately $38.0 million, excluding $12.2 million which has been fully reserved by us, and the aggregate amount of advances made by the public company on behalf of various of our managed funds to cover expenses was approximately $16.7 million, excluding $6.3 million which has been fully reserved by us. Subsequent to December 31, 2013, $6.4 million of past due management fees from one fund was collected. The amount of deferred management fees and reimbursements may increase in the future.

In addition, as a result of the performance of our funds or other factors, hedge fund investors may redeem their investments in our funds, while investors in private equity funds and credit PE funds may decline to invest in future funds we raise. Our liquid hedge funds received redemption requests from fee-paying investors for a total of $1.0 billion, $1.5 billion and $2.4 billion during the years ended December 31, 2013, 2012 and 2011 respectively, and our credit hedge funds received return of capital requests from fee-paying investors for a total of $0.2 billion, $0.2 billion and $0.8 billion during the periods ended December 31, 2013, 2012 and 2011, respectively. Our liquid hedge fund redemptions for 2012 include $0.7 billion of capital returned to investors in the Fortress Commodities Funds which closed in the second quarter of 2012. The annual return of capital request date for our flagship credit hedge fund occurs in October.

If, as a result of poor performance of investments in a private equity fund or credit PE fund, the fund does not achieve total investment returns that exceed a specified investment return threshold for the life of the fund, we will be obligated to repay the amount by which incentive income that was previously distributed to us exceeds the amounts to which we are ultimately entitled. We have contractually agreed to guarantee the payment in certain circumstances of such "clawback" obligations for our managed investment funds that are structured as private equity funds and credit PE funds. If all of our existing private equity funds and credit PE funds were liquidated at their NAV as of December 31, 2013, the cumulative clawback obligation to investors in these funds would be approximately $55.1 million (net of amounts that would be due from employees pursuant to profit sharing arrangements, and without regard to potential tax adjustments).

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

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

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

The 2008 financial crisis adversely affected our operating performance in a number of ways, and if the economy were to re-enter a period of recession, it may cause our revenue, results of operations and financial condition to decline by causing:

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

- investor redemptions, resulting in lower fees and potential increased difficulty in raising new capital; and
- decreases in the carrying value of our principal investments.

The deterioration of market conditions in the future, particularly another failure of one or more major financial institutions, a default or serious deterioration in the financial condition of one or more sovereign nations, or another severe contraction of available debt or equity capital, would have a negative impact on our funds, which could materially reduce our revenue and adversely affect our results of operations. Furthermore, while difficult market conditions may increase opportunities to make certain distressed asset investments, our ability to take advantage of these opportunities may depend on our access to debt and equity capital and these trends may also be disadvantageous to us, for example such conditions also increase the risk of default with respect to debt investments held by our funds, in particular the mortgage opportunities funds and certain of our permanent capital vehicles.

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

The governing agreements of our funds contain limited investment restrictions and limited requirements as to diversification of fund investments, whether by geographic region or asset type. Many of our private equity funds have significant investments in

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particular companies whose assets are concentrated in certain industries, and from time to time we establish funds that target particular asset classes, such as our MSR Opportunities Fund, Real Estate Opportunities Fund, Japan Opportunity Fund and LDVF Patent and Life Settlements. Sectors in which our funds have significant investments include transportation and infrastructure, financial services (particularly loan servicing and consumer finance), gaming, real estate (including Florida commercial real estate and German residential real estate) and senior living. If these sectors, or any other sector in which our funds have concentrated investments, were adversely affected by market conditions or other factors, certain of our funds may perform poorly. For example, if the commercial real estate operating environment in Florida remains challenging or deteriorates further, our fund investments in Flagler Development Group could decline in value and potentially have a material adverse effect on overall fund performance. Moreover, poor performance by our private equity and credit businesses could harm our reputation, which could make it difficult for us to raise capital for our other businesses. For a description of the consequences to us of poor fund performance, see "-Poor performance of our funds would cause a decline in our revenue and results of operations, could obligate us to repay incentive income previously paid to us, and could adversely affect our ability to raise capital for future funds."

Certain of our permanent capital vehicles and funds could be adversely affected by a contraction of the structured finance and mortgage markets.

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

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

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

Our funds enter into numerous types of financing arrangements with counterparties globally, including loans, hedge contracts, swaps, repurchase agreements and other derivative and non-derivative contracts. The terms of these contracts are often customized and complex, and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight. Generally, funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. In particular, some of our funds utilize prime brokerage arrangements with a relatively limited number of counterparties, which has the effect of concentrating the transaction volume (and related counterparty default risk) of these funds with these counterparties. Our funds may also experience counterparty concentration risk with respect to partners in coinvestments.

Our funds are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur rapidly and without notice to us.

Moreover, if a counterparty defaults, we may be unable to take action to cover our exposure, either because we lack the contractual ability or because market conditions make it difficult to take effective action. This inability could occur in times of market stress, which are precisely the times when defaults may be most likely to occur. In the event of a counterparty default, particularly a default by a major investment bank, one or more of our funds could incur material losses, and the resulting market impact of a major counterparty default could harm our business, results of operations and financial condition. In the event that one of our counterparties becomes insolvent or files for bankruptcy, our ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding.

Our funds are also exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is increased for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. The absence of a regulated market to facilitate settlement may increase the potential for losses.

In addition, our funds' risk-management models may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not take sufficient action to reduce our risks effectively. Although each of our funds monitors its credit exposures, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

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

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

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

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

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

Investors in our hedge funds may generally redeem their investments on an annual or quarterly basis, subject to the applicable fund's specific redemption provisions, and our flagship liquid markets hedge fund has a monthly redemption class. Investors may decide to move their capital away from us to other investments for any number of reasons in addition to poor investment performance. Factors that could result in investors leaving our funds include the need to increase available cash reserves or to fund other capital commitments, changes in interest rates that make other investments more attractive, the publicly traded nature of the indirect parent of their manager, changes in investor perception regarding our focus or alignment of interest, dissatisfaction with changes in or broadening of a fund's investment strategy, changes in our reputation, and departures or changes in responsibilities of key investment professionals. In a declining financial market, the pace of redemptions and consequent reduction in our fee paying assets under management could accelerate. The decrease in our revenues that would result from significant redemptions in our hedge fund business would have a material adverse effect on our business.

Our liquid hedge funds received redemption requests from fee-paying investors for a total of $1.0 billion, $1.5 billion and $2.4 billion during the years ended December 31, 2013, 2012 and 2011, respectively. Our liquid hedge fund redemptions for 2012 include $0.7 billion of capital returned to investors in the Fortress Commodities Funds which closed in the second quarter of 2012. Investors in our credit hedge funds are permitted to request that their capital be returned generally on an annual basis, and such returns of capital may be paid over time as the underlying investments are liquidated, in accordance with the governing documents of the applicable funds. Our credit hedge funds received $0.2 billion, $0.2 billion and $0.8 billion return of capital requests from fee-paying investors during the periods ended December 31, 2013, 2012 and 2011, respectively. The annual return of capital request date for our flagship credit hedge fund occurs in October.

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

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

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

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

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

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

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

Our funds may make investments or hold trading positions in markets that are volatile and which may be illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which we may be a party, and changes in industry and government regulations. When a fund holds a security or position it is vulnerable to price and value fluctuations and may experience losses to the extent the value of the position decreases and it is unable to timely sell, hedge or transfer the position. Therefore, it may be impossible or costly for our funds to liquidate positions rapidly, particularly if the relevant market is moving against a position or in the event of trading halts or daily price movement limits on the market or otherwise. Alternatively, it may not be possible in certain circumstances for a position to be purchased or sold promptly, particularly if there is insufficient trading activity in the relevant market or otherwise.

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

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

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

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

Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, the fair values of such investments as reflected in a fund's NAV do not necessarily reflect the prices that would actually be obtained by us on behalf of the fund when such investments are sold. The SEC has announced that it is undertaking a significant review of valuation practices within the private equity industry and has instituted enforcement actions against private equity fund advisers for misleading investors about valuation, so there will be increased regulatory scrutiny in the future. Realizations at values significantly lower than the values at which investments have been reflected in fund NAVs would result in losses for the applicable fund, a decline in management fees and the loss of potential incentive income. Also, a situation where asset values turn out to be materially different than values reflected in fund NAVs could cause investors to lose confidence in us, which would, in turn, result in redemptions from our hedge funds or difficulties in raising additional private equity funds and credit PE funds.

Certain of our funds utilize special situation, distressed debt, mortgage-backed and short-selling investment strategies that involve significant risks.

Our private equity and credit funds invest in obligors and issuers with weak financial conditions, poor operating results, substantial financial needs, negative net worth, and/or special competitive problems. These funds also invest in obligors and issuers that are involved in bankruptcy or reorganization proceedings. It may be difficult to obtain complete information as to the exact financial and operating conditions of these obligors and issuers. Additionally, the fair values of such investments are subject to abrupt and erratic market movements and significant price volatility if they are widely traded securities and significant uncertainty in general if they are not widely traded securities or have no recognized market. A fund's exposure to such investments may be substantial in relation to the market for those investments, and the assets are likely to be illiquid and difficult to sell or transfer. As a result, it may take a number of years for the fair value of such investments to ultimately reflect their intrinsic value as perceived by us. For example, several of our funds from time to time make significant investments in mortgage-backed securities and other investments that are directly or indirectly related to the value of real estate in various locations globally, particularly in the United States. As a result, the results of a number of our funds have been, and may continue to be affected, in some cases materially, by fluctuations in the value of real estate and real estate related investments. Such fluctuations could have a meaningful impact on the performance of the applicable fund and potentially on our operating results.

A central feature of our distressed investment strategy is our ability to successfully predict the occurrence of events such as mortgage default rates, mortgage prepayment rates, the amounts of any prepayments, maturity extensions, interest rates for mortgage-backed securities and similar instruments as well as corporate events such as capital raises, restructurings, reorganizations, mergers and other transactions. Predicting any of these data points is difficult and subject to uncertainty, and if our analyses are inaccurate, the actual results of such investments could be materially lower than expected and the applicable fund's investment results could decline sharply.

In addition, these investments could subject our private equity, credit PE funds and hedge funds to certain potential additional liabilities that may exceed the value of their original investment. Under certain circumstances, payments or distributions on certain investments may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. In addition, under certain circumstances, a lender that has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated or disallowed, or may be found liable for damages suffered by parties as a result of such actions. In the case where the investment in securities of troubled companies is made in connection with an attempt to influence a restructuring proposal or plan of reorganization in bankruptcy, our funds may become involved in substantial litigation.

Furthermore, our funds may engage in short-selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.

If our risk management systems for our fund business are ineffective, we may be exposed to material unanticipated losses.

In our fund business, we continue to refine our risk management techniques, strategies and assessment methods. However, our risk management techniques and strategies do not fully mitigate the risk exposure of our funds in all economic or market environments, or against all types of risk, including risks that we might fail to identify or anticipate. Some of our strategies for managing risk in our funds are based upon our use of historical market behavior statistics. We apply statistical and other tools to these observations to measure and analyze the risks to which our funds are exposed. Any failures in our risk management techniques and strategies to accurately quantify such risk exposure could limit our ability to manage risks in the funds or to seek adequate risk-adjusted returns. In addition, any risk management failures could cause fund losses to be significantly greater than the historical measures predict. Further, our mathematical modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses.

We participate in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments.

Our private equity funds participate in large transactions from time to time. The increased size of these investments involves certain complexities and risks that may not be encountered in small- and medium-sized investments. For example, larger transactions may be more difficult to finance and complete, and exiting larger deals may present challenges in many cases. In addition, larger transactions may entail greater scrutiny by regulators, labor unions, political bodies and other third parties and greater risk of litigation. Any of these factors could increase the risk that our larger investments could be unsuccessful. The consequences to our investment funds of an unsuccessful larger investment could be more severe than those of a smaller investment.

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Our investment funds often make investments in companies that we do not control and the new affiliated manager platform will involve having interests in funds that we do not control.

Investments by most of our investment funds will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our investment funds through trading activities or through purchases of securities from the issuer. In addition, our private equity funds and credit funds may acquire debt investments or minority equity interests and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the investment funds retaining a minority investment. In addition, we launched a new affiliated manager platform that involves taking an economic interest in funds we do not control under a fee-for-services model for infrastructure services. Over the course of 2014, the Fortress Asia Macro Funds will transition into an autonomous business with Fortress as a non-control partner and provider of infrastructure services. Although this model will be flexible on structure, the typical platform participant will pay fees to Fortress for support services in addition to Fortress having a significant minority ownership stake in the general partner. Those investments will be subject to increased risk that the company or fund in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company or fund may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of investments by our investment funds and the fees we earn from the affiliated manager business could decrease, and our financial condition, results of operations and cash flow could suffer as a result.

Some of our funds invest in foreign countries and securities of issuers located outside of the United States, which involves foreign exchange, political, social, regulatory and economic uncertainties and risks.

Some of our funds invest a portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, which may entail risks that are not typically associated with an investment in a U.S. issuer. In addition to business uncertainties, such investments may be affected by changes in currency exchange values, including currencies in the Asia-Pacific region and the euro. Recently, the instability of the euro zone, including fears of sovereign debt defaults, and stagnant growth of certain euro zone member states have resulted in concerns regarding the suitability of a shared currency for the region, which could lead to the reintroduction of individual currencies for member states. If this were to occur, euro-denominated assets and liabilities of certain of our funds would be redenominated to such individual currencies, which could result in a mismatch in the values of assets and liabilities and expose us and certain of our funds to additional currency risks. Even if the euro is maintained, continued concerns regarding the stability of the euro zone and the potential effects of government intervention intended to address it could materially adversely affect our business.

Foreign investments may also expose us to political, social, regulatory and economic uncertainties affecting a country or region, or to political hostility to investments by foreign or private equity investors. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher in those markets than in more developed markets. The legal and regulatory environment may also be different, particularly with respect to bankruptcy and reorganization, and may afford us less protection as a creditor than we may be entitled to under U.S. law. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

Restrictions imposed or actions taken by foreign governments could include exchange controls, seizure or nationalization of foreign deposits and adoption of other governmental restrictions which adversely affect the prices of securities or the ability to repatriate profits on investments or even the capital invested, which may adversely impact the value of our fund investments. In addition, income received by our funds from sources in some countries may be reduced by withholding and other taxes. Any such taxes paid by a fund will reduce the net income or return from such investments. While we will take these factors into consideration in making investment decisions, including when hedging positions, no assurance can be given that the funds will be able to fully avoid these risks or generate sufficient risk-adjusted returns.

Investments by our funds will frequently rank junior to investments made by others in the same company.

In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our fund's investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of our investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our fund's investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency,

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the ability of our investment funds to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

Fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives.

Fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing “daily price fluctuation limits” or “daily limits,” the existence of which may reduce liquidity or effectively curtail trading in particular markets. Dodd-Frank will also give rise to a substantial set of new rules focused on the use of derivatives, which when fully formulated and enacted may lead to requirements to post additional capital or which may otherwise make our use of derivatives less efficient.

We have been engaged as the investment manager of third-party investment funds and managed accounts, and we may be engaged as the investment manager of other third-party investment funds or managed accounts in the future, and each such engagement exposes us to a number of potential risks.

Changes within the alternative asset management industry may cause investors of some funds to replace their existing fund or managed account managers or may cause certain such managers to resign. In such instances, we may seek to be engaged as investment manager of these funds or accounts. For example, in 2009, we became the investment manager of certain investment funds and accounts previously managed by D.B. Zwirn & Co., L.P.

While being engaged as investment manager of third-party funds or accounts potentially enables us to grow our business, it also entails a number of risks that could harm our reputation, results of operations and financial condition. For example, we may choose not to, or be unable to, conduct significant due diligence of the fund and its investments, and any diligence we undertake may not reveal all relevant facts that may be necessary or helpful in evaluating such engagement. We may be unable to complete such transactions, which could harm our reputation and subject us to costly litigation. We may willingly or unknowingly assume actual or contingent liabilities for significant expenses, we may become subject to new laws and regulations with which we are not familiar, and we may become subject to increased risk of litigation, regulatory investigation or negative publicity. For example, we have been named as a defendant in various lawsuits relating to the Zwirn portfolio, and as part of our role as manager, we may incur time and expense in defending these and any similar future litigation. In addition to defending against litigation, being engaged as investment manager may require us to invest significant capital and other resources for various other reasons, which could detract from our existing funds or our ability to capitalize on future opportunities. In addition, being engaged as investment manager may require us to integrate complex technological, accounting and management systems, which may be difficult, expensive and time-consuming and which we may not be successful in integrating into our current systems. If we include the financial performance of funds for which we have been engaged as the investment manager in our public filings, we are subject to the risk that, particularly during the period immediately after the engagement, this information may prove to be inaccurate or incomplete. The occurrence of any of these negative integration events could negatively impact our reputation with both regulators and investors, which could, in turn, subject us to additional regulatory scrutiny and impair our relationships with the investment community. The occurrence of any of these problems could negatively affect our reputation, financial condition and results of operations.

We are subject to risks in using prime brokers, custodians and other financial intermediaries.

The funds in our hedge fund business depend on the services of prime brokers and custodians to carry out certain securities transactions. In the event of the insolvency of a prime broker and/or custodian, the funds might not be able to recover equivalent assets in full as they will rank among the prime broker's and custodian's unsecured creditors in relation to assets which the prime broker or custodian borrows, lends or otherwise uses. In addition, the funds' cash held with a prime broker or custodian will not be segregated from the prime broker's or custodian's own cash, and the funds will therefore rank as unsecured creditors in relation to the cash they have deposited. In addition, credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This “systemic risk” may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, investment banks, securities firms and exchanges) with which the funds interact on a daily basis.

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Risks Related to Our Organization and Structure

Control by our principals of the combined voting power of our shares and holding their economic interest through Fortress Operating Group may give rise to conflicts of interests.

Our principals control a majority of the combined voting power of our Class A and Class B shares. Accordingly, our principals have the ability to elect all of the members of our board of directors and thereby to control our management and affairs. In addition, they are able to determine the outcome of all matters requiring shareholder approval and are able to cause or prevent a change of control of our company or a change in the composition of our board of directors, and could preclude any unsolicited acquisition of our company. The control of voting power by our principals could deprive Class A shareholders of an opportunity to receive a premium for their Class A shares as part of a sale of our company, and might ultimately affect the market price of the Class A shares.

In addition, the shareholders agreement among us and the principals provides the principals, who are then employed by the Fortress Operating Group and who hold shares representing greater than 50% of the total combined voting power of all shares held by such principals, so long as the principals and their permitted transferees continue to hold more than 40% of the total combined voting power of our outstanding Class A and Class B shares, with approval rights over a variety of significant corporate actions, including:

- ten percent indebtedness: any incurrence of indebtedness, in one transaction or a series of related transactions, by us or any of our subsidiaries in an amount in excess of approximately 10% of the then existing long-term indebtedness of us and our subsidiaries;
- ten percent share issuance: any issuance by us, in any transaction or series of related transactions, of equity or equity-related securities that would represent, after such issuance, or upon conversion, exchange or exercise, as the case may be, at least 10% of the total combined voting power of our outstanding Class A and Class B shares other than (1) pursuant to transactions solely among us and our wholly owned subsidiaries, or (2) upon conversion of convertible securities or upon exercise of warrants or options, which convertible securities, warrants or options are either outstanding on the date of, or issued in compliance with, the shareholders agreement;
- investment of $250 million or more: any equity or debt commitment or investment or series of related equity or debt commitments or investments in an entity or related group of entities in an amount equal to or greater than $250 million;
- new business requiring investment in excess of $100 million: any entry by us or any of our controlled affiliates into a new line of business that does not involve investment management and that requires a principal investment in excess of $100 million;
- the adoption of a shareholder rights plan;
- any appointment of a chief executive officer or co-chief executive officer; or
- the termination without cause of the employment of a principal with us or any of our material subsidiaries.

Furthermore, the principals have certain consent rights with respect to structural changes involving our company.

Because our principals primarily hold their economic interests in our business directly through Fortress Operating Group, rather than through the public company, they may have conflicting interests with holders of Class A shares. For example, our principals may have different tax positions from us, which could influence their decisions regarding whether and when to dispose of assets, and whether and when to incur new or refinance existing indebtedness, especially in light of the tax receivable agreement. In addition, the structuring of future transactions may take into consideration the principals' tax considerations even where no similar benefit would accrue to us. Moreover, any distribution by Fortress Operating Group to us to satisfy our tax obligations or to make payments to our principals under the tax receivable agreement will result in a corresponding pro rata distribution to our principals. Our principals are also entitled to distributions on their Fortress Operating Group units in respect of their tax obligations as holders of Fortress Operating Group units. As a result of the foregoing, amounts may be distributed to the holders of the Fortress Operating Group units that are greater in the aggregate, or are distributed earlier in time, than distributions that are made to holders of Class A shares (on a per share basis).

Our ability to pay regular dividends may be limited by our holding company structure; we are dependent on distributions from the Fortress Operating Group to pay dividends, taxes and other expenses. Our ability to pay dividends is also subject to not defaulting on our credit agreement.

As a holding company, our ability to pay dividends is subject to the ability of our subsidiaries to provide cash to us. When we declare a dividend on our Class A shares, we generally expect to cause Fortress Operating Group to make distributions to its unitholders, including our wholly-owned subsidiaries, pro rata in an amount sufficient to enable us to pay such dividends to our Class A shareholders. However, no assurance can be given that such distributions will or can be made. Our board can reduce or eliminate our dividend at any time, in its discretion. For example, our board determined not to pay any dividend to our Class A shareholders from the third quarter of 2008 through the third quarter of 2011. Our board has elected to resume quarterly dividends, beginning with the fourth quarter of 2011. In addition, Fortress Operating Group is required to make minimum tax distributions to its unitholders. See also “- Risks Related to Taxation - There can be no assurance that amounts paid as dividends on Class A shares will be sufficient to cover the tax liability arising from ownership of Class A shares.” If Fortress Operating Group has insufficient funds, we may have to borrow additional funds or sell assets, which could materially adversely affect our liquidity and financial condition. In addition, Fortress Operating Group's earnings may be insufficient to enable it to make required minimum tax distributions to unitholders.

We are also subject to certain contingent repayment obligations that may affect our ability to pay dividends. We earn incentive income - generally 20% of the profits - from each of our private equity funds and credit PE funds based on a percentage of the profits earned by the fund as a whole, provided that the fund achieves specified performance criteria. We generally receive, however, our percentage share of the profits on each investment in the fund as it is realized, before it is known with certainty that the fund as a whole will meet the specified criteria. As a result, the incentive income paid to us as a particular investment made by the funds is realized is subject to contingent repayment (or “clawback”) if, upon liquidation of the fund, the aggregate amount paid to us as incentive income exceeds the amount actually due to us based upon the aggregate performance of the fund. If we are required to repay amounts to a fund in order to satisfy a clawback obligation, any such repayment will reduce the amount of cash available to distribute as a dividend to our Class A shareholders. While the principals have personally guaranteed, subject to certain limitations, this "clawback" obligation related to certain funds, pursuant to our shareholders agreement we have agreed to indemnify the principals for all amounts that the principals pay pursuant to any of these personal guarantees in favor of our private equity funds and credit PE funds. Consequently, any requirement to satisfy a clawback obligation could impair our ability to pay dividends on our Class A shares.

There may also be circumstances under which we are restricted from paying dividends under applicable law or regulation (for example due to Delaware limited partnership or limited liability company act limitations on making distributions if liabilities of the entity after the distribution would exceed the value of the entity's assets). In addition, under our credit agreement, the ability of the loan parties thereunder and certain of our other subsidiaries to make cash distributions is subject to certain restrictions, including the following restriction: no default exists at the time of declaration or event of default exists at the time of payment or immediately after giving effect thereto. Such restrictions on certain of our subsidiaries may in turn limit our ability to make cash distributions. The events of default under the credit agreement are typical of such agreements and include payment defaults, failure to comply with credit agreement covenants (including a leverage covenant that is negatively affected by realized losses), cross-defaults to material indebtedness, bankruptcy and insolvency and change of control. Our lenders may also attempt to exercise their security interests over substantially all of the assets of the Fortress Operating Group upon the occurrence of an event of default.

Tax consequences to the principals may give rise to conflicts of interests.

As a result of unrealized built-in gain attributable to the value of our assets held by the Fortress Operating Group entities at the time of our initial public offering, or as a result of other differences between the tax attributes of our principals and the Fortress Operating Group entities, upon the sale, refinancing or disposition of the assets owned by the Fortress Operating Group entities, our principals will incur different and significantly greater tax liabilities as a result of the disproportionately greater allocations of items of taxable income and gain to the principals upon a realization event. As the principals will not receive a corresponding greater distribution of cash proceeds, they may, subject to applicable fiduciary or contractual duties, have different incentives regarding the appropriate pricing, timing and other material terms of any sale, refinancing, or disposition, or whether to sell such assets at all. Decisions made with respect to an acceleration or deferral of income or deductions or the sale or disposition of assets may also influence the timing and amount of payments that are received by an exchanging or selling principal under the tax receivable agreement. All other factors being equal, earlier disposition of assets following a transaction will tend to accelerate such payments and increase the present value of the tax receivable agreement, and disposition of assets before a transaction will increase a principal's tax liability without giving rise to any rights to receive payments under the tax receivable agreement. Decisions made regarding a change of control also could have a material influence on the timing and amount of payments received by the principals pursuant to the tax receivable agreement.

We are required to pay our principals for most of the tax benefits we realize as a result of the tax basis step-up we receive in connection with taxable exchanges by our principals of units held in the Fortress Operating Group entities or our acquisitions of units from our principals.

At any time and from time to time, each of our principals and one senior employee (who is not a principal) has the right to exchange his Fortress Operating Group units for our Class A shares in a taxable transaction. These taxable exchanges, as well as our acquisitions of units from our principals, may result in increases in the tax depreciation and amortization deductions, as well as an increase in the tax basis of other assets, of the Fortress Operating Group that otherwise would not have been available. These increases in tax depreciation and amortization deductions, as well as the tax basis of other assets, may reduce the amount of tax

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that FIG Corp. and any other corporate taxpayers would otherwise be required to pay in the future, although the IRS may challenge all or part of increased deductions and tax basis increase, and a court could sustain such a challenge.

We have entered into a tax receivable agreement with our principals that provides for the payment by the corporate taxpayers to our principals of 85% of the amount of tax savings, if any, that the corporate taxpayers actually realize (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change of control, as discussed below) as a result of increases in tax deductions and tax basis of the Fortress Operating Group caused by such transactions with the principals. The payments that the corporate taxpayers may make to our principals could be material in amount.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, our principals will not reimburse the corporate taxpayers for any payments that have been previously made under the tax receivable agreement. As a result, in certain circumstances, payments could be made to our principals under the tax receivable agreement in excess of the corporate taxpayers' cash tax savings. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under this agreement, will depend upon a number of factors, including the timing and amount of our future income.

In addition, the tax receivable agreement provides that, upon a merger, asset sale or other form of business combination or certain other changes of control, the corporate taxpayers' (or their successors') obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control) would be based on certain assumptions, including that the corporate taxpayers would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement.

If we were deemed an investment company under the Investment Company Act of 1940, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business and the price of our Class A shares.

We do not believe that we are an "investment company" under the Investment Company Act of 1940 because the nature of our assets and the sources of our income exclude us from the definition of an investment company pursuant to Rule 3a-1 under the Investment Company Act of 1940. In addition, we believe we are not an investment company under Section 3(b)(1) of the Investment Company Act because we are primarily engaged in a non-investment company business. If one or more of the Fortress Operating Group entities ceased to be a wholly owned subsidiary of ours as such term is defined in the Investment Company Act, our interests in those subsidiaries could be deemed an "investment security" for purposes of the Investment Company Act of 1940. Generally, a person is an "investment company" if it owns investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the Investment Company Act of 1940, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and would have a material adverse effect on our business and the price of our Class A shares.

Risks Related to Our Class A Shares

The market price and trading volume of our Class A shares may be volatile, which could result in rapid and substantial losses for our shareholders.

The market price of our Class A shares may be highly volatile. In addition, the trading volume in our Class A shares may fluctuate and cause significant price variations to occur, which may limit or prevent investors from readily selling their Class A shares and may otherwise negatively affect the liquidity of our Class A shares. If the market price of our Class A shares declines significantly, holders may be unable to resell their Class A shares at or above their purchase price, if at all. We cannot provide any assurance that the market price of our Class A shares will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our Class A shares or result in fluctuations in the price or trading volume of our Class A shares include:

- variations in our quarterly operating results or dividends, or a reversal of our decision to resume quarterly dividends;
- failure to meet analysts' earnings estimates;
- sales by the company, key executives or other shareholders of a significant amount of our equity securities, including sales to cover withholding taxes with respect to equity-based compensation;
- difficulty in complying with the provisions in our credit agreement such as financial covenants;
- publication of research reports or press reports about us, our investments or the investment management industry or the failure of securities analysts to cover our Class A shares;
- additions or departures of our principals and other key management personnel or lack of certainty about our principals' employment agreements, whose term ends in January 2017;

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- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- actions by shareholders;
- changes in market valuations and performance or share price of other alternative asset managers;
- speculation in the press or investment community;
- changes or proposed changes in laws or regulations or differing interpretations thereof affecting our business or enforcement of these laws and regulations, or announcements relating to these matters;
- litigation or governmental investigations or regulatory activities;
- poor performance or other complications affecting our funds or current or proposed investments;
- adverse publicity about the asset management industry generally, our specific funds or investments, or individual scandals, specifically;
- general market and economic conditions; and
- dilution resulting from the issuance of equity-based compensation to employees.

In addition, when the market price of a stock has been volatile in the past, holders of that stock have, at times, instituted securities class action litigation against the issuer of the stock. If any of our shareholders brought a lawsuit against us, we may be required to incur substantial costs defending any such suit, even those without merit. Such a lawsuit could also divert the time and attention of our management from our business and lower our Class A share price.

Our Class A share price may decline due to the large number of shares eligible for future sale and for exchange into Class A shares.

The market price of our Class A shares could decline as a result of sales of a large number of our Class A shares or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. As of December 31, 2013, we had 509,519,258 outstanding Class A shares on a fully diluted basis, including 87,853,694 resulting from vested equity compensation granted pursuant to our equity incentive plan, 19,242,966 restricted Class A share units granted to employees and affiliates pursuant to our equity incentive plan (net of forfeitures) and 955,744 restricted Class A shares granted to directors pursuant to our equity incentive plan. In addition, as of December 31, 2013, we had 65,366,830 Class A shares that remained available for future grant under our equity incentive plan. The Class A shares reserved under our equity incentive plan is increased on the first day of each fiscal year during the plan's term by the lesser of (x) the excess of (i) 15% of the number of outstanding Class A and Class B shares of the company on the last day of the immediately preceding fiscal year over (ii) the number of shares reserved and available for issuance under our equity incentive plan as of such date or (y) 60,000,000 shares. In January 2014, 2013, and 2012, the number of shares reserved for issuance pursuant to this calculation increased by 8,174,614, zero, and 9,389,280 shares, respectively. We may issue and sell in the future additional Class A shares or any securities issuable upon conversion of or exchange or exercise for, Class A shares (including Fortress Operating Group units) at any time.

As of December 31, 2013, our principals directly owned an aggregate of 249,227,229 Fortress Operating Group units and also owned an aggregate of 1,544,928 Class A shares. Each principal has the right to exchange each of his directly owned Fortress Operating Group units for one of our Class A shares at any time, subject to the exchange agreement. These Class A shares and Fortress Operating Group units are eligible for resale from time to time, subject to certain contractual restrictions and Securities Act limitations.

Our principals are parties to shareholders agreements with us. The principals have the ability to cause us to register the Class A shares they acquire upon exchange for their Fortress Operating Group units. On February 13, 2014, we repurchased and canceled the 60,568,275 Class A shares held by Nomura.

Concentrated ownership of our Class B shares and anti-takeover provisions in our charter documents and Delaware law could delay or prevent a change in control.

Our principals (and one senior employee) beneficially own all of our Class B shares. Class B shares represent a majority of the total combined voting power of our outstanding Class A and Class B shares. As a result, if they vote all of their shares in the same manner, they will be able to exercise control over all matters requiring the approval of shareholders and will be able to prevent a change in control of our company. In addition, provisions in our operating agreement may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our shareholders. For example, our operating agreement provides for a staggered board, requires advance notice for proposals by shareholders and nominations, places limitations on convening shareholder meetings, and authorizes the issuance of preferred shares that could be issued by our board of directors to thwart a takeover attempt. In addition, certain provisions of Delaware law may delay or prevent a transaction that could cause a change in our control. The market price of our Class A shares could be adversely affected to the extent that our principals' control over us, as well as provisions of our operating agreement, discourage potential takeover attempts that our shareholders may favor.

There are certain provisions in our operating agreement regarding exculpation and indemnification of our officers and directors that differ from the Delaware General Corporation Law in a manner that may be less protective of the interests of our Class A shareholders.

Our operating agreement provides that, to the fullest extent permitted by applicable law, our directors or officers will not be liable to us. However, under the Delaware General Corporate Law (“DGCL”), a director or officer would be liable to us for (i) breach of duty of loyalty to us or our shareholders, (ii) intentional misconduct or knowing violations of the law that are not done in good faith, (iii) improper redemption of shares or declaration of dividend, or (iv) a transaction from which the director or officer derived an improper personal benefit. In addition, our operating agreement provides that we indemnify our directors and officers for acts or omissions to the fullest extent provided by law. However, under the DGCL, a corporation can only indemnify directors and officers for acts or omissions if the director or officer acted in good faith, in a manner he reasonably believed to be in the best interests of the corporation, and, in a criminal action, if the officer or director had no reasonable cause to believe his conduct was unlawful. Accordingly, our operating agreement may be less protective of the interests of our Class A shareholders as compared to the DGCL, insofar as it relates to the exculpation and indemnification of our officers and directors.

We have elected to become a “controlled company” within the meaning of the New York Stock Exchange rules and, as a result, will qualify for, and may rely on, exemptions from certain corporate governance requirements.

A company of which more than 50% of the voting power is held by an individual, a group or another company is a “controlled company” within the meaning of the New York Stock Exchange rules and may elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including requirements that:

- a majority of our board of directors consist of independent directors;
- we have a nominating/corporate governance committee that is composed entirely of independent directors; and
- we have a compensation committee that is composed entirely of independent directors.

We have elected to become a “controlled company” within the meaning of the New York Stock Exchange rules, and we intend to rely on one or more of the exemptions listed above. For example, our board is not currently, and likely in the future will not be, comprised of a majority of independent directors. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange.

Risks Related to Taxation

Class A shareholders may be subject to U.S. federal income tax on their share of our taxable income, regardless of whether they receive any cash dividends from us.

So long as we are not required to register as an investment company under the Investment Company Act of 1940 and 90% of our gross income for each taxable year constitutes “qualifying income” within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”), on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Class A shareholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on their allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within their taxable year, regardless of whether or not they receive cash dividends from us. They may not receive cash dividends equal to their allocable share of our net taxable income or even the tax liability that results from that income.

In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation ("CFC") and a Passive Foreign Investment Company ("PFIC"), may produce taxable income prior to the receipt of cash relating to such income, and holders of our Class A shares will be required to take such income into account in determining their taxable income. Under our operating agreement, in the event of an inadvertent partnership termination in which the Internal Revenue Service ("IRS") has granted us limited relief, each holder of our Class A shares also is obligated to make such adjustments as are required by the IRS to maintain our status as a partnership. Such adjustments may require persons who hold our Class A shares to recognize additional amounts in income during the years in which they hold such shares. We may also be required to make payments to the IRS.

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Our subsidiary, FIG Corp., is subject to corporate income taxation in the United States, and we may be subject to additional taxation in the future.

A significant portion of our investments and activities may be made or conducted through FIG Corp. Dividends paid by FIG Corp. from time to time will, as is usual in the case of a U.S. corporation, then be included in our income. Income received as a result of investments made or activities conducted through our subsidiary FIG Asset Co. LLC (but excluding through its taxable corporate affiliates) is not subject to corporate income taxation in our structure, but we cannot provide any assurance that it will not become subject to additional taxation in the future, which would negatively impact our results of operations.

There can be no assurance that amounts paid as dividends on Class A shares will be sufficient to cover the tax liability arising from ownership of Class A shares.

Any dividends paid on Class A shares will not take into account a shareholder's particular tax situation (including the possible application of the alternative minimum tax) and, therefore, because of the foregoing as well as other possible reasons, may not be sufficient to pay their full amount of tax based upon their share of our net taxable income. In addition, the actual amount and timing of dividends will always be subject to the discretion of our board of directors. In particular, the amount and timing of dividends will depend upon a number of factors, including, among others:

- our actual results of operations and financial condition;
- restrictions imposed by our operating agreement or applicable law;
- restrictions imposed by our credit agreements;
- reinvestment of our capital;
- the timing of the investment of our capital;
- the amount of cash that is generated by our investments or to fund liquidity needs;
- levels of operating and other expenses;
- contingent liabilities; or
- factors that our board of directors deems relevant.

Even if we do not distribute cash in an amount that is sufficient to fund a shareholder's tax liabilities, they will still be required to pay income taxes on their share of our taxable income.

Tax gain or loss on disposition of our Class A shares could be more or less than expected.

Upon a sale of Class A shares the shareholder will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those shares. Prior distributions to such shareholder in excess of the total net taxable income allocated to such shareholder, which decreased the tax basis in its Class A shares, will increase the gain recognized upon a sale when the Class A shares are sold at a price greater than such shareholder's tax basis in those shares, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be treated as ordinary income to such shareholder.

We currently do not intend to make an election under Section 754 of the Internal Revenue Code to adjust our asset basis, so a holder of our Class A shares could be allocated more taxable income in respect of those shares prior to disposition than if such an election were made.

We currently do not intend to make an election under Section 754 of the Internal Revenue Code to adjust our asset basis. If no Section 754 election is made, there will generally be no adjustment to the basis of our assets in connection with our initial public offering, or upon a subsequent transferee's acquisition of Class A shares from a prior holder of such shares, even if the purchase price for those shares is greater than the portion of the aggregate tax basis of our assets attributable to those shares immediately prior to the acquisition. Consequently, upon our sale of an asset, gain allocable to a holder of Class A shares could include built-in gain in the asset existing at the time such holder acquired such shares, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

If we are treated as a corporation for U.S. federal income tax purposes, the value of the Class A shares would be adversely affected.

We have not requested, and do not plan to request, a ruling from the IRS on our treatment as a partnership for U.S. federal income tax purposes, or on any other matter affecting us. As of the date of the consummation of our initial public offering, under then current law and assuming full compliance with the terms of our operating agreement (and other relevant documents) and based upon factual statements and representations made by us, our outside counsel opined, as of that date, that we would be treated as a partnership, and not as an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes. However, opinions of counsel are not binding upon the IRS or any court, and the IRS may challenge this conclusion and a court may sustain such a challenge. The factual representations made by us upon which our outside counsel relied related to our organization, operation, assets, activities, income, and present and future conduct of our operations. In general, if an entity that would otherwise be classified as a partnership for U.S. federal income tax purposes is a "publicly traded partnership" (as defined in the Code) it will be nonetheless treated as a corporation for U.S. federal income tax purposes, unless the exception described below, and upon which we intend to rely, applies. A publicly traded partnership will, however, be treated as a partnership, and not as a corporation for U.S. federal income tax purposes, so long as 90% or more of its gross income for each taxable year constitutes "qualifying income" within the meaning of the Code and it is not required to register as an investment company under the Investment Company Act of 1940. We refer to this exception as the "qualifying income exception."

Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We expect that our income generally will consist of interest, dividends, capital gains and other types of qualifying income, including dividends from FIG Corp. and interest on indebtedness from FIG Corp. No assurance can be given as to the types of income that will be earned in any given year. If we fail to satisfy the qualifying income exception described above, items of income and deduction would not pass through to holders of our Class A shares, and holders of our Class A shares would be treated for U.S. federal (and certain state and local) income tax purposes as shareholders in a corporation. In such a case, we would be required to pay income tax at regular corporate rates on all of our income. In addition, we would likely be liable for state and local income and/or franchise taxes on all of such income. Dividends to holders of our Class A shares would constitute ordinary dividend income taxable to such holders to the extent of our earnings and profits, and the payment of these dividends would not be deductible by us. Taxation of us as a publicly traded partnership taxable as a corporation could result in a material adverse effect on our cash flow and the after-tax returns for holders of our Class A shares and thus could result in a substantial reduction in the value of our Class A shares.

Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. federal income tax treatment of holders of the Class A shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Readers should be aware that the U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the IRS, and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in the Class A shares may be modified by administrative, legislative or judicial interpretation at any time, possibly on a retroactive basis, and any such action may affect investments and commitments previously made. For example, changes to the U.S. federal tax laws and interpretations thereof could make it more difficult or impossible to meet the qualifying income exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation, affect or cause us to change our investments and commitments, change the character or treatment of portions of our income (including, for instance, treating carried interest as ordinary fee income rather than capital gain), affect the tax considerations of an investment in us and adversely affect an investment in our Class A shares. See " - Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis."

Our organizational documents and agreements permit the board of directors to modify our operating agreement from time to time, without the consent of the holders of our Class A shares, in order to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all of the holders of our Class A shares. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders in a manner that reflects such holders' beneficial ownership of partnership items, taking into account variation in ownership interests during each taxable year because of trading activity. However, these assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated, or disallowed, in a manner that adversely affects holders of the Class A shares.

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We cannot match transferors and transferees of our Class A shares, and we have therefore adopted certain income tax accounting positions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our Class A shares.

Because we cannot match transferors and transferees of our Class A shares, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our common unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of our Class A shares and could have a negative impact on the value of our Class A shares or result in audits of and adjustments to our shareholders' tax returns.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes. We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination would, among other things, result in the closing of our taxable year for all shareholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

FIG Asset Co. LLC may not be able to invest in certain assets, other than through a taxable corporation.

In certain circumstances, FIG Asset Co. LLC or one of its subsidiaries may have an opportunity to invest in certain assets through an entity that is characterized as a partnership for U.S. federal income tax purposes, where the income of such entity may not be "qualifying income" for purposes of the publicly traded partnership rules. In order to manage our affairs so that we will meet the qualifying income exception, we may either refrain from investing in such entities or, alternatively, we may structure our investment through an entity classified as a corporation for U.S. federal income tax purposes. If the entity were a U.S. corporation, it would be subject to U.S. federal income tax on its operating income, including any gain recognized on its disposal of its interest in the entity in which the opportunistic investment has been made, as the case may be, and such income taxes would reduce the return on that investment.

Complying with certain tax-related requirements may cause us to forego otherwise attractive business or investment opportunities or enter into acquisitions, borrowings, financings or arrangements that we may not have otherwise entered into.

In order for us to be treated as a partnership for U.S. federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation, we must meet the qualifying income exception discussed above on a continuing basis, and we must not be required to register as an investment company under the Investment Company Act of 1940. In order to effect such treatment we (or our subsidiaries) may be required to invest through foreign or domestic corporations, forego attractive business or investment opportunities or enter into borrowings or financings we may not have otherwise entered into. This may adversely affect our ability to operate solely to maximize our cash flow. Our structure also may impede our ability to engage in certain corporate acquisitive transactions because we generally intend to hold all of our assets through the Fortress Operating Group. In addition, we may be unable to participate in certain corporate reorganization transactions that would be tax-free to our holders if we were a corporation. To the extent we hold assets other than through the Fortress Operating Group, we will make appropriate adjustments to the Fortress Operating Group agreements so that distributions to principals and us would be the same as if such assets were held at that level.

The IRS could assert that we are engaged in a U.S. trade or business, with the result that some portion of our income would be properly treated as effectively connected income with respect to non-U.S. holders. Moreover, certain REIT dividends and other stock gains may be treated as effectively connected income with respect to non-U.S. holders.

While we expect that our method of operation will not result in a determination that we are engaged in a U.S. trade or business, there can be no assurance that the IRS will not assert successfully that we are engaged in a U.S. trade or business, with the result that some portion of our income would be properly treated as effectively connected income with respect to non-U.S. holders. Moreover, dividends paid by an investment that we make in a REIT that is attributable to gains from the sale of U.S. real property interests will, and sales of certain investments in the stock of U.S. corporations owning significant U.S. real property may, be treated as effectively connected income with respect to non-U.S. holders. To the extent our income is treated as effectively connected income, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable shares of income effectively connected with such trade or business, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income. Non-U.S. holders may also be subject to a 30% branch profits tax on such income in the hands of non-U.S. holders that are corporations.

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An investment in Class A shares will give rise to UBTI to certain tax-exempt holders.

We will not make investments through taxable U.S. corporations solely for the purpose of limiting unrelated business taxable income, or UBTI, from "debt-financed" property and, thus, an investment in Class A shares will give rise to UBTI to certain tax-exempt holders. For example, FIG Asset Co. LLC will invest in or hold interests in entities that are treated as partnerships, or are otherwise subject to tax on a flow-through basis, that will incur indebtedness. FIG Asset Co. LLC may borrow funds from FIG Corp. or third parties from time to time to make investments. These investments will give rise to UBTI from "debt-financed" property. However, we expect to manage our activities to avoid a determination that we are engaged in a trade or business, thereby limiting the amount of UBTI that is realized by tax-exempt holders of our Class A shares.

We may hold or acquire certain investments through an entity classified as a PFIC or CFC for U.S. federal income tax purposes.

Certain of our investments may be in foreign corporations or may be acquired through a foreign subsidiary that would be classified as a corporation for U.S. federal income tax purposes. Such an entity may be a PFIC or a CFC for U.S. federal income tax purposes. U.S. holders of Class A shares indirectly owning an interest in a PFIC or a CFC may experience adverse U.S. tax consequences.

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

In May 2010, the U.S. House of Representatives passed H.R. 4213, the American Jobs and Closing Tax Loopholes Act of 2010. That proposed legislation contains a provision that, if enacted, would have the effect of treating some or all of the income recognized from "carried interests" as ordinary income. While the proposed legislation, if enacted in its current form, would explicitly treat such income as nonqualifying income under the publicly traded partnership rules, thereby precluding us from qualifying for treatment as a partnership for U.S. federal income tax purposes, the proposed legislation provides for a 10-year transition period before such income would become nonqualifying income. In addition, the proposed legislation could, upon its enactment, prevent us from completing certain types of internal reorganization transactions, or converting to a corporation, on a tax free basis and acquiring other asset management companies on a tax free basis. The proposed legislation may also increase the ordinary income portion of any gain realized from the sale or other disposition of a Class A Share.

On February 26, 2014, the House Ways and Means Committee Chairman proposed the Tax Reform Act of 2014. The proposed legislation, if enacted, would limit the definition of qualifying income under the publicly traded partnership rules to income from activities relating to mining and natural resources effective in tax years beginning after 2016. Based on our current income, this change would thereby preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes. Therefore, this results in us being subject to taxation as a U.S. corporation, which would have a material adverse effect on our net income. It is not possible to predict whether this or similar legislation will be enacted in the future.

Other legislative proposals previously considered would subject our offshore funds to significant U.S. federal income taxes and potentially state and local taxes, which would adversely affect our ability to raise capital from foreign investors and certain tax-exempt investors.

In addition, as a result of widespread budget deficits, several states are evaluating proposals to subject partnerships to state entity level taxation through the imposition of state income, franchise or other forms of taxation. If any version of any of these legislative proposals were to be enacted into law in the form in which it was introduced, or if other similar legislation were enacted or any other change in the tax laws, rules, regulations or interpretations were to preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly-traded partnership rules or otherwise impose additional taxes, Class A shareholders would be negatively impacted because we would incur a material increase in our tax liability as a public company from the date any such changes became applicable to us, which could result in a reduction in the value of our Class A shares.

Item 1B. Unresolved Staff Comments

We have no unresolved staff comments.

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Item 2. Properties.

We and our affiliates have the following leases in place with respect to our headquarters in New York City and global offices of our affiliates:

Location	Square Footage	Lease Expiration	Current Annual Rent (thousands)
New York	191,718	Dec-2016	$13,031
Other			
Atlanta	3,256	Nov-2016	64
Berlin	1,753	Mar-2014	31
Cologne	2,271	Mar-2014	37
Dallas	12,430	Apr-2017	282
Dubai	334	May-2014	82
Durham	419	Apr-2014	8
Frankfurt	12,312	Sep-2014	604
Hong Kong	283	Nov-2014	156
Luxembourg City	3,219	Aug-2015	30
London	19,115	May-2017	3,025
Los Angeles	6,987	Nov-2017	383
Munich	689	Mar-2014	33
New Canaan	3,356	Jan-2018	168
Philadelphia	20,903	Jul-2017	548
Plano	6,125	Nov-2017	122
Portland	8,541	Dec-2015	195
San Francisco	21,747	Dec-2016	1,555
Singapore	3,654	Nov-2016	203
Summit	4,450	Jan-2019	196
Sydney	4,080	Dec-2018	375
Tampa	4,726	Apr-2019	38
Tel Aviv	1,689	Jun-2014	73
Tokyo	12,851	Sep-2015	1,328
Temporary Space	1,048	Various	116
Disaster Recovery	n/a	Aug-2016	1,207
Total Other	156,238		10,859
Total	347,956		$23,890

We believe our current facilities are adequate for our current needs and that suitable additional space will be available as and when needed.

Item 3. Legal Proceedings

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

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Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our Class A shares have been listed and are traded on the New York Stock Exchange ("NYSE") under the symbol "FIG" since our initial public offering in February 2007. The following table sets forth, for the periods indicated, the high, low and last sale prices in dollars on the NYSE for our Class A shares and the dividends per share we declared with respect to the periods indicated.

	High	Low	Last Sale	Dividends Declared (A)
2013				
First Quarter	$6.99	$4.41	$6.40	$0.06
Second Quarter	$7.66	$5.61	$6.56	$0.06
Third Quarter	$8.19	$6.57	$7.94	$0.06
Fourth Quarter	$9.10	$7.26	$8.56	$0.08
2012				
First Quarter	$4.44	$3.37	$3.56	$0.05
Second Quarter	$3.86	$2.86	$3.37	$0.05
Third Quarter	$4.58	$3.38	$4.42	$0.05
Fourth Quarter	$4.83	$3.73	$4.39	$0.06

(A) Represents amounts our board of directors declared as dividends based on earnings and liquidity with respect to the specified periods. The actual declaration dates occurred in the following quarter.

We make quarterly dividends to Class A shareholders based upon our annual distributable earnings. Any dividend declared by us will be subject to the need to: maintain prudent working capital reserves to provide for the conduct of our business, make investments in our businesses and funds, and comply with applicable law and our credit agreement covenants and other obligations.

Since annual distributable earnings are not finalized until the end of a given year, we base the first three quarterly dividends for any given year upon management fee revenues net of related expenses, subject to the reserves discussed above. We base the final quarterly dividend for each year upon this amount plus an adjustment based on full-year incentive income.

We increased our base quarterly dividend to $0.06 per share, effective for the fourth quarter of 2012 and first three quarters of 2013. This supplements the investment made in the fourth quarter of 2012 to repurchase nearly 10% of our outstanding dividend paying shares. We increased our base quarterly dividend to $0.08 per share, effective for the fourth quarter of 2013 and full year 2014. This supplements the investment made in February 2014 to repurchase approximately 12% of our then outstanding dividend paying shares.

Dividend declarations are announced concurrently with earnings releases. The declaration and payment of any dividends will be made in the sole discretion of our board of directors, which may decide to change our dividend policy at any time. No assurance can be given that any dividends, whether quarterly or otherwise, will or can be paid. Actual dividends paid to Class A shareholders depend upon the board's assessment of a number of factors, including general economic and business conditions, our strategic plans and prospects, business and investment opportunities, our financial condition, liquidity and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, including fulfilling our current and future capital commitments, legal, tax and regulatory restrictions and other factors that our board of directors may deem relevant. The amount of dividends we are able to pay may be limited by the covenants under our credit agreement, as described under Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Covenants."

On February 19, 2014, the closing price for our Class A shares, as reported on the NYSE, was $8.54. As of February 19, 2014, there were approximately 26 record holders of our Class A shares. This figure does not reflect the beneficial ownership of shares held in nominee name, nor does it include holders of our Class B shares, restricted Class A shares, restricted Class A share units or restricted partnership units.

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Item 6. Selected Financial Data.

The selected historical financial information set forth below as of, and for the years ended, December 31, 2013, 2012, 2011, 2010, and 2009 has been derived from our audited historical consolidated financial statements.

The information below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except share data)				
Operating Data					
Revenues					
Management fees, incentive income, expense reimbursements and other revenues	$1,264,983	$969,869	$858,628	$950,245	$584,095
Expenses	897,603	908,220	1,954,908	1,817,994	1,583,836
Other Income (Loss)					
Gains (losses)	53,933	48,921	(30,054)	2,997	25,373
Tax receivable agreement liability adjustment	(8,787)	(8,870)	3,098	22,036	(55)
Earnings (losses) from equity method investees	136,866	156,530	41,935	115,954	60,281
	182,012	196,581	14,979	140,987	85,599
Income (loss) before income taxes	549,392	258,230	(1,081,301)	(726,762)	(914,142)
Income tax benefit (expense)	(65,801)	(39,408)	(36,035)	(54,931)	5,000
Net Income (Loss)	$483,591	$218,822	$(1,117,336)	$(781,693)	$(909,142)
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	$283,144	$140,538	$(685,821)	$(497,082)	$(654,527)
Net Income (Loss) Attributable to Class A Shareholders	$200,447	$78,284	$(431,515)	$(284,611)	$(254,615)
Dividends declared per Class A share	$0.24	$0.20	$—	$—	$—
Earnings Per Class A Share - Fortress Investment Group					
Net income (loss) per Class A share, basic	$0.83	$0.29	$(2.34)	$(1.79)	$(2.08)
Net income (loss) per Class A share, diluted	$0.79	$0.27	$(2.36)	$(1.83)	$(2.08)
Weighted average number of Class A shares outstanding, basic	236,246,296	214,399,422	186,662,670	164,446,404	125,740,897
Weighted average number of Class A shares					

outstanding, diluted	500,631,423	524,900,132	493,392,235	467,569,571	125,740,897

	As of December 31,				
	2013	2012	2011	2010	2009
Balance Sheet Data					
Investments, including options	$1,357,604	$1,249,761	$1,079,777	$1,012,883	$867,215
Cash and cash equivalents	364,583	104,242	333,166	210,632	197,099
Total assets	2,674,432	2,155,678	2,220,686	2,076,695	1,660,267
Debt obligations payable	—	149,453	261,250	277,500	397,825
Deferred incentive income	247,556	231,846	238,658	198,363	160,097
Total liabilities	1,059,527	939,028	1,158,294	1,147,280	1,060,953
Shareholders' equity, including accumulated other comprehensive income (loss)	825,067	626,471	487,431	411,464	261,217
Principals' and others' interests in equity of consolidated subsidiaries	789,838	590,179	574,961	517,951	338,097
Total Equity	1,614,905	1,216,650	1,062,392	929,415	599,314

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

Overview

Our Business

Fortress is a leading, highly diversified global investment management firm with approximately $61.8 billion in AUM as of December 31, 2013. Fortress applies its deep experience and specialized expertise across a range of investment strategies — private equity, credit, liquid markets and traditional fixed income — on behalf of our over 1,500 institutional clients and private investors worldwide. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our alternative investment funds, and investment income (loss) from our principal investments. We invest capital in each of our alternative investment businesses.

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

As of December 31, 2013, we managed the following businesses:

Private Equity — a business that manages approximately $15.6 billion of AUM comprised of two business segments: (i) general buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America and Western Europe; and (ii) publicly traded permanent capital vehicles that invest in a wide variety of real estate related assets including securities, loans, real estate properties and mortgage servicing related assets.

Liquid Hedge Funds — a business that manages approximately $7.4 billion of AUM. These funds invest globally in fixed income, currency, equity and commodity markets and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments; and a fund that seeks to generate returns by executing a positively convex investment strategy.

Credit Funds — a business that manages approximately $13.4 billion of AUM comprised of two business segments: (i) credit hedge funds which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and (ii) credit private equity ("PE") funds which are comprised of a family of "credit opportunities" funds focused on investing in distressed and undervalued assets, a family of "long dated value" funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of “real assets” funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based global opportunities fund, and a family of real estate opportunities funds, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector.

Logan Circle — our traditional asset management business, which has approximately $25.4 billion of AUM, provides institutional clients actively managed investment solutions across a broad spectrum of fixed income and growth equity strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt. In April 2013, Logan Circle launched a growth equities investment business focused on investing and managing concentrated portfolios of publicly traded U.S. equities.

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

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Understanding the Asset Management Business

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

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

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

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

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

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

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

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

Each of these objectives is discussed below.

Assets Under Management

Management fee paying assets under management, or AUM, fluctuate based on four primary factors:

•

- Capital raising: AUM increases when we receive more capital from our fund investors to manage on their behalf. Typically, fund investors make this decision based on: (a) the amount of capital they wish, or are able, to invest in the types of investments a certain manager or fund makes, and (b) the reputation and track record of the manager and its key investment employees.
- Realization of private equity investments and return of capital distributions: In “closed-end” funds, AUM decreases when we return capital to fund investors as investments are realized. Investments are realized when they are sold or otherwise converted to cash by the manager. Similarly, AUM decreases in publicly traded investment vehicles when return of capital distributions are made to investors.
- Redemptions: In “open-end” funds, AUM decreases after fund investors ask for their capital to be returned, or “redeemed,” at periodic intervals. Typically, fund investors make this decision based on the same factors they used in making the original investment, which may have changed over time or based on circumstances, as well as on their liquidity needs.
- Fund performance: AUM increases or decreases in accordance with the performance of fund investments.

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

We disclose the changes in our assets under management below, under "— Assets Under Management"

Performance

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

- Fund returns: Fund returns express the rate of return a fund earns on its investments in the aggregate. They can be compared to the returns of other managers, to returns offered by other investments or to broader indices. They can also be compared to the performance hurdles necessary to generate incentive income. We disclose our fund returns below, under "— Performance of Our Funds."
- Proximity to incentive income threshold: This is a measure of a fund's performance relative to the performance criteria it needs to achieve in order for us to earn incentive income.

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

- We generally earn incentive income from hedge funds based on a straight percentage of the returns of each fund investor, since fund investors may enter the fund at different times. Incentive payments are made periodically, typically annually for the Fortress hedge funds. Once an incentive payment is made, it is not refundable. However, if a particular fund investor suffers a loss on its investment, either from the date of the Fund's inception or since the last incentive payment to the manager, this establishes a "high water mark" for that investor, meaning a threshold that has to be exceeded in order for us to begin earning incentive income again from that fund investor. Investors in the same fund could have different high water marks, in terms of both percentage return and dollar amount.
- Since it is impractical to disclose this information on a fund investor-by-investor basis, it may be disclosed based on the following metrics: the percentage of fund investors who have a high water mark, and the aggregate dollar difference between the value of those fund investors' investments and their applicable aggregate high water mark. The investments held by fund investors who do not have a high water mark are eligible to generate incentive income for us on their next dollar earned.
- We generally earn incentive income from private equity style funds based on a percentage of the returns of the fund, subject to the achievement of a minimum return (the "preferred" return) to fund investors. Incentive income is generally paid as each investment in a fund is realized, subject to a "clawback." At the termination of a fund, a computation is done to determine how much incentive income we should have earned based on the fund's overall performance, and any incentive income payments received by us in excess of the amount we should have earned must be returned by us (or "clawed back") to the fund for distribution to fund investors. Certain of our private equity style funds pay incentive income only after all of the fund's invested capital has been returned.

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

PE Style Fund Status			Key Disclosures
	In a liquidation of the fund's assets at their estimated fair value as of the reporting date:		
Has the fund made incentive income payments to us?	Would the fund owe us incentive income?	Would we owe a clawback of incentive income to the fund?	(Refer to Note 3 to our consolidated financial statements)
Yes	Yes	No	- The amount of previously distributed incentive income. - The amount of "undistributed incentive income," which is the amount of incentive income that would be due to us upon a liquidation of the fund's remaining assets at their current estimated fair value.
Yes	No	Yes	- The amount of previously distributed incentive income. - The "intrinsic clawback," which is the amount of incentive income that we would have to return to the fund upon a liquidation of its remaining assets at their current estimated fair value. - The amount by which the total current fund value would have to increase as of the reporting date in order to reduce the intrinsic clawback to zero such that we would be in a position to earn additional incentive income from the fund in the future.
No	Yes	N/A	- The amount of "undistributed incentive income," which is the amount of incentive income that would be due to us upon a liquidation of the fund's remaining assets at their current estimated fair value.
No	No	N/A	- The amount by which the total current fund value would have to increase as of the reporting date such that we would be in a position to earn incentive income from the fund in the future.

We disclose each of these performance measures, as applicable, for all of our funds in Note 3 to our consolidated financial statements contained herein.

Liquidity, Debt and Expense Management

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

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

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

- Profit sharing means that when profits increase, either of Fortress as a whole or of a specified component (such as a particular fund) of Fortress, employees receive increased compensation. In this way, employees' interests are aligned

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with Fortress's, employees can receive significant compensation when performance is good, and we are able to reduce expenses when necessary.

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

Our liquidity is discussed below, under "— Liquidity and Capital Resources". Our compensation expenses, including profit sharing and equity-based compensation, are discussed in Note 8 to our consolidated financial statements contained herein. Our segment operating margin, which we define as the ratio of our fund management distributable earnings to our segment revenues, and which is a measure of our profitability, is discussed in Note 11 to our consolidated financial statements contained herein.

Understanding our Financial Statements

Balance Sheet

Our assets consist primarily of the following:
1) Investments in our funds, recorded generally based on our share of the funds' underlying net asset value, which in turn is based on the estimated fair value of the funds' investments.
2) Cash.
3) Amounts due from our funds for fees and expense reimbursements.
4) Deferred tax assets, which relate to potential future tax benefits. This asset is not tangible - it was not paid for and does not represent a receivable or other claim on assets.

Our liabilities consist primarily of the following:
1) Debt owed under our credit facility or other debt obligations (if any).
2) Accrued compensation, generally payable to employees shortly after year-end.
3) Amounts due to our Principals under the tax receivable agreement. These amounts partially offset the deferred tax assets and do not become payable to the Principals until the related future tax benefits are realized.
4) Deferred incentive income, which is incentive income that we have already received in cash but is subject to contingencies and may have to be returned ("clawed back") to the respective funds if certain performance hurdles are not met.

Management, in considering the liquidity and health of the company, mainly focuses on the following aspects of the balance sheet:
1) Expected cash flows from funds, including the potential for incentive income.
2) Cash on hand.
3) Collectibility of receivables.
4) Current amounts due under our credit facility or other debt obligations (if any).
5) Other current liabilities, primarily accrued compensation.
6) Financial covenants under our debt obligations.
7) Likelihood of clawback of incentive income.

Income Statement

Our revenues and other income consist primarily of the following:
1)

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

2) Returns on our investments in the funds.

Our expenses consist primarily of the following:

1) Employee compensation paid in cash, including profit sharing compensation.
2) Equity-based compensation, which is not paid in cash but has a dilutive effect when it vests because it results in additional shares being issued. (This amount is broken out from total compensation in the compensation footnote in our consolidated financial statements.)
3) Principals agreement compensation (prior to December 31, 2011), which had no economic effect on us and was not considered by management in assessing our performance.
4) Other general and administrative expenses and interest expenses.
5) Taxes

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

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

In addition, in February 2014, Newcastle distributed all of the common shares of New Media to its shareholders. Fortress entered into a management agreement with New Media in which it receives an annual management fee of 1.5% of the company's equity (as defined in the agreement) and incentive compensation (as defined in the agreement). Fortress determined that New Media qualifies as a variable interest entity and, upon the completion of Newcastle's distribution of New Media's common shares, Fortress determined that it was the primary beneficiary. As a result, Fortress consolidated New Media beginning in February 2014. The consolidation of New Media will not have a material impact on net income attributable to Class A shareholders and total Fortress shareholders' equity as substantially all of the operating results of New Media will be attributable to non-controlling interests. For additional information please see Part II, Item 8 " Financial Statements and Supplementary Data - Note 12 - Subsequent Events."

Managing Business Performance

We conduct our management and investment business through the following primary segments: (i) private equity funds, (ii) permanent capital vehicles, (iii) liquid hedge funds, (iv) credit hedge funds, (v) credit PE funds, (vi) Logan Circle, and (vii) principal investments in those funds, as well as cash that is available to be invested. These segments are differentiated based on their varying strategies and, secondarily, on fund investor terms.

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

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

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

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

Market Considerations

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

Our ability to execute our business strategy depends upon a number of market conditions, including:

The strength and liquidity of the U.S. and global equity and debt markets and related financial and economic conditions.

U.S. and global financial and economic conditions have a substantial impact on the success of our business strategy, including our ability to effect realizations and make new investments. In addition, equity market conditions impact the ability of our private equity-style funds to increase the value, and effect realizations, of their portfolio company investments and the ability of our funds to generate positive investment returns. The condition of the debt markets also has a meaningful impact on our business. Several of our funds are directly and indirectly exposed to the debt markets: we invest in debt instruments, our funds borrow money to make investments and our funds utilize leverage in order to increase investment returns, which ultimately drive the performance of our funds. Our portfolio companies also require access to financing for their operations and refinancing of their debt. Furthermore, from time to time, we utilize debt to finance our investments in our funds and for working capital purposes. In general, strong financial and economic conditions including equity and debt markets enable us to execute our business strategy and generate attractive returns while dampening distressed investment strategies, and periods of weakening economies and markets and increased volatility can also present opportunities to invest at reduced valuations and in distressed asset classes, while negatively impacting fees and realizations. For example, a significant decline in the value of our funds' investments would require that our funds satisfy minimum return or "high water mark" requirements before generating incentive income and could subject us to "clawback" payments relating to incentive income previously collected. For hedge funds and certain other funds, opportunities to generate returns depend on their investment strategies, which may benefit from market declines or volatility.

Global markets continue to focus on the path of U.S. monetary policy as an indicator of the likely direction of global interest rates. Concerns over potential Federal Reserve tapering of its monetary stimulus caused significant market corrections starting in late spring and lasting well into the summer. After the Federal Reserve announced its intention to continue its bond purchasing program, U.S. equity markets improved significantly. In December, the Federal Reserve announced that it would begin tapering in 2014 but not necessarily tightening monetary policy, which contributed to market improvements, particularly as better than expected growth and employment data was also reported. Various factors could affect the pace of tapering, which began in January 2014, including weaker growth and inflation. Although the U.S. economy appears to be recovering, the recovery has been subject to intermittent disruptions, such as the U.S. government shutdown in the fall of 2013. These disruptions, in addition to inconsistent economic data points, have made the recovery's progress more difficult to assess. However, the Federal Reserve's announcement contributed to record-high levels in U.S. equity markets and, together with the strengthening of the U.S. dollar, we believe these are trends that may continue as markets adjust to more robust U.S. growth and less quantitative support from the Federal Reserve, though market volatility is also expected.

The Eurozone has slowly started to recover from its recession, though growth and economic recovery remains uneven across regions and, in general, behind that of the U.S. Although we believe sovereign risk has reduced in the Eurozone, slow growth together with a weak labor market and lower levels of inflation continue to hinder gradual recovery in Europe. The European Central Bank may retain its explicit easing bias and forward guidance language in the near term in order to support overall recovery. Prospects for a more politically-stable Eurozone are moving in a positive direction, with the potential for political crisis largely on the regional level. The broader Eurozone, however, will likely face difficult discussions around support packages and restructuring of financial institutions. Our hedge funds hold actively-traded long and short positions, with frequently changing levels of exposure, in the debt of several European sovereignties. Based on the positions held by our funds as of December 31, 2013, there was not a material risk to the performance of the company under typical market stress scenarios. However, the investments held by certain of our funds could be material to the individual performance of such funds and, therefore, our reputation.

In Japan, the "Abenomics" plan to reflate the economy, which included substantial quantitative and qualitative easing alongside initial fiscal stimulus, yielded results in 2013, boosting growth and business confidence levels, as well as improving equity valuations and inflation conditions. We believe the current government will continue to implement this loose monetary policy and stimulus strategy as well as further easing measures. Economic improvement and wage inflation could decrease the government's dependence on a weaker Japanese Yen. However, the success of structural reforms aimed at improving growth through private investment remains uncertain and markets are likely to fluctuate based on whether such reforms are implemented, as well as whether Japan reaches and is able to sustain its inflation target.

Market conditions over the last several years have impacted our business in several ways:

- Volatility in the markets since the financial crisis in 2008 increased the importance of maintaining sufficient liquidity without relying upon additional infusions of capital from the equity and debt markets. Based on cash balances, committed financing and short-term operating cash flows, in the judgment of management we have sufficient liquidity in the current market environment. The maintenance of sufficient liquidity may limit our ability to make investments, distributions, or engage in other strategic transactions.

- Improved economic conditions over the last several years, including relatively low interest rates, have benefitted our business in a number of ways, including, but not limited to, a strong financing environment that has enabled our private equity funds and their portfolio companies to secure long-term financing, refinance debt at attractive levels, raise public and private equity capital and improve portfolio company profitability. Improving economic conditions and higher valuations in private equity funds have also contributed to their ability to launch new investment vehicles and raise capital for them. While improved conditions have created a more challenging environment for identifying new investments, we continue to deploy meaningful amounts of new capital.

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- Following a period of deleveraging, where a general reduction in the value of assets, and capital availability led to refinancing at a significantly lower level of leverage, that resulted in significant opportunities for investors with sufficient capital to acquire assets at reduced prices, near-term investment opportunities have become more sporadic in nature given pricing and market dynamics. However, potential opportunities exist, particularly where access to capital is restricted and in Europe where economies may continue to decline.

- Despite the uncertain economic recovery, our funds continue to make investments on an opportunistic basis, and we continue to raise new funds as discussed above and illustrated in the AUM table below.

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

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

The strength of the alternative asset management industry is dependent upon the investment returns alternative asset managers can provide relative to other investment options. This factor depends, in part, on returns available from traditional investment products, and to a lesser extent on interest rates and credit spreads (which represent the yield demanded on financial instruments by the market in comparison to a benchmark rate, such as the relevant U.S. Treasury rate or LIBOR) available on other investment products. This is because as interest rates rise and/or spreads widen, returns available on such investments would tend to increase and, therefore, become more attractive relative to the returns of investment products offered by alternative asset managers.

Solving for funding gaps and historically low interest rates have caused pension plans and other institutional investors to look to alternative investments in order to increase the yield on their investments. As a result, the amount of capital being invested into the alternative investment sector appears to have increased significantly in 2013. However, certain investors appear to have become increasingly focused on the liquidity and redemption terms of alternative investment funds and have expressed a desire to have the ability to redeem or otherwise liquidate their investments in a more rapid timeframe than what is permitted under the terms of many existing funds. Investors in long-term, locked-up (i.e., “private equity style”) funds have engaged in longer, more intensive and detailed due diligence procedures prior to making commitments to invest in such funds, which has led to the general perception across the alternative asset management industry that capital raising for long-term capital will require longer time periods, a greater commitment of capital raising resources and will generally be more difficult overall than it was previously. Moreover, some investors are increasingly shifting to managed accounts with fee structures that are less favorable to us.

The factor which most directly impacts our results is our investment performance relative to our competitors, including products offered by other alternative asset managers. As illustrated in “- Performance of Our Funds” below, we have generated solid returns across most of our funds, and the performance of our more recent vintage private equity funds has rebounded significantly since 2008, with significant increases in value recorded in 2013. As a result, as illustrated in “- Assets Under Management” below, we have been able to raise meaningful additional capital in various funds, including newly formed funds and permanent capital vehicles. However, our ongoing ability to raise capital for new and existing funds will be a function of investors' assessment of our investment performance relative to that of our competition in the current market environment, as well as other factors.

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

Our private equity funds, as well as certain of our managed accounts, currently have significant investments in companies whose assets are concentrated in the following industries and sectors: financial services (particularly loan servicing and consumer finance), transportation and infrastructure, gaming, real estate (including Florida commercial real estate and German residential real estate), and senior living. The overall performance of our funds may be affected by market conditions and trends related to these industries and sector-specific trends. Within the financial services industry, regulatory pressures on the banks combined with a gradually improving economy resulted in a positive market for non-regulated financial institutions domestically. Worldwide growth in trade and transportation continued to expand in 2013 albeit at a more measured pace than in the prior year. Industry dynamics in the senior living sector were also positive, benefiting from a recovery in housing prices, demand outpacing inventory growth and significant growth in the senior population. Challenging European markets have resulted in opportunities for distressed investments in country specific markets such as Italy.

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

Our macro liquid hedge funds actively trade in global markets. Performance in 2013 has been favorable, led by positions that profited from weakening of the Japanese Yen, strengthening in global equity markets and rising U.S. interest rates. During the period from the end of May through August, losses were sustained in global foreign exchange and emerging market fixed income positions as the U.S. Dollar weakened and emerging markets interest rates rose. Towards the end of the third quarter and in the fourth quarter, our funds posted gains primarily driven by equity positions, which profited from the new highs reached this year. Global market conditions and trends formed around them are always subject to change, however, as are the positions held by our liquid hedge funds.

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Assets Under Management

We measure AUM by reference to the fee paying assets we manage. Our AUM has changed as a result of the factors set forth in the table below (in millions):

	Private Equity		Liquid	Credit (I)			
	Funds (I)	Permanent Capital Vehicles	Liquid Hedge Funds	Hedge Funds	PE Funds	Logan Circle	Total
2011							
AUM January 1, 2011	$11,923	$3,037	$6,355	$6,773	$4,817	$11,708	$44,613
Capital raised (A)	—	220	1,318	309	190	—	2,037
Increase in invested capital	237	—	25	107	3,123	—	3,492
Redemptions (B)	—	—	(1,708)	(145)	—	—	(1,853)
RCA distributions (C)	—	—	—	(1,222)	—	—	(1,222)
Return of capital distributions (D)	(317)	(19)	—	(140)	(1,854)	—	(2,330)
Adjustment for capital reset (E) (J)	(1,997)		—	—	—	—	(1,997)
Crystallized incentive income (F)	—	—	(69)	(91)	—	—	(160)
Net client flows (traditional)	—	—	—	—	—	841	841
Income (loss) and foreign exchange (G)	(561)	(57)	(406)	385	(44)	975	292
AUM December 31, 2011	$9,285	$3,181	$5,515	$5,976	$6,232	$13,524	$43,713
2012							
Capital raised (A)	—	450	993	247	1,058	—	2,748
Increase in invested capital	163	—	7	21	2,817	—	3,008
Redemptions (B)	—	—	(2,045)	(37)	—	—	(2,082)
RCA distributions (C)	—	—	—	(1,100)	—	—	(1,100)
Return of capital distributions (D)	(1,036)	—	(93)	(233)	(1,964)	—	(3,326)
Adjustment for capital reset (E) (J)	—	—	—	—	(331)	—	(331)
Crystallized incentive income (F)	—	—	(3)	(76)	—	—	(79)
Net client flows (traditional)	—	—	—	—	—	5,710	5,710
Income (loss) and foreign exchange (G)	2,199	29	686	867	(63)	1,451	5,169
AUM December 31, 2012	$10,611	$3,660	$5,060	$5,665	$7,749	$20,685	$53,430
2013							
Capital raised (A)	—	1,398	2,546	505	—	—	4,449
Increase in invested capital	541	—	3	—	2,236	—	2,780
Redemptions (B)	—	—	(850)	(83)	—	—	(933)
RCA distributions (C)	—	—	—	(1,020)	—	—	(1,020)
Return of capital distributions (D)	(1,008)	—	(122)	(20)	(2,150)	—	(3,300)
Adjustment for capital reset (E) (J)	—	(1,492)	—	—	(6)	—	(1,498)
Crystallized incentive income (F)	—	—	(87)	(168)	—	—	(255)
Net client flows (traditional)	—	—	—	—	—	4,753	4,753
	1,892	(19)	848	977	(302)	(52)	3,344

Income (loss) and foreign exchange (G)							
AUM December 31, 2013 (H)	$12,036	$3,547	$7,398	$5,856	$7,527	$25,386	$61,750

(A) Includes offerings of shares by our permanent capital vehicles, if any.

(B) Excludes redemptions which reduced AUM subsequent to December 31, as of each respective year end. Redemptions are further detailed below.

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

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

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(E) The reset date of certain private equity or credit PE funds is an event determined by the earliest occurrence of (i) the first day following the expiration of the capital commitment period of a fund, (ii) a successor fund or entity draws capital contributions or charges management fees (not applicable to credit PE funds) or (iii) the date on which all unpaid capital obligations have been canceled. For the period commencing with the initial closing of or contribution to the fund and ending on the last day of the semi-annual or quarterly period ending on or after the reset date, certain funds generate management fees as a percentage of the fund's capital commitments and certain funds generate management fees as a percentage of the fund's aggregate capital contributions. Thereafter, such funds generally generate management fees as a percentage of the aggregate capital contributed adjusted for the fair value of each investment that is below the associated investment's contributed capital.

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

(G) Represents the change in AUM resulting from realized and unrealized changes in the reported value of the funds. For certain private equity funds, also includes the impact of a change in AUM basis from invested capital to fair value for certain portfolio companies which became publicly traded.

(H) AUM is presented mainly in reference to Fortress's ability to generate management fees. Note 3 to our consolidated financial statements, contained herein, provides further information regarding incentive income, and Note 4 provides further information regarding Fortress's investments in the funds, including gains and losses thereon. The percentage of capital invested by Fortress across different funds varies.

(I) As of December 31, 2013, the private equity and credit funds had approximately \$2.2 billion and \$4.9 billion of uncalled and recallable capital, respectively, that will become assets under management if deployed/called, of which an aggregate of \$2.2 billion is only available for follow-on investments, management fees and other fund expenses.

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

Redemptions

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

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

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

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

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

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

Redemption Notices / Return of Capital Requests Received and Outstanding through December 31, 2013 (in thousands):

Notice Receipt Period	Liquid Hedge Fund Redemption Notices Received	Payments Made with Respect to those Notices - Inception to Date	Liquid Hedge Fund Remaining Outstanding Notices		Credit Hedge Fund Return of Capital Requests Received	Payments Made with Respect to those Requests - Inception to Date (C)	Credit Hedge Fund Remaining Outstanding Notices	
2013	$957,414	$466,056	$510,051		$157,251	$36,250	$121,001	
2012	1,482,907	1,483,319	—		248,402	170,923	108,690	
2011	2,382,209	2,291,242	—		785,831	616,092	312,444	
Prior			—	(A)			254,900	(A)
			$510,051	(B)			$797,035	(B)

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

(B) For liquid hedge funds, reflects $510.1 million to be paid primarily in the first quarter of 2014. For credit hedge funds, reflects $767.9 million in RCAs to be paid as the underlying investments are realized and $29.1 million to be paid primarily in the first quarter of 2014. Excludes any notices received from investors whose status has changed from fee-paying to non-fee-paying subsequent to notice receipt.

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

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

Performance of Our Funds

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

Name of Fund	Inception Date	Maturity Date (A)	AUM December 31, 2013	2012	2011	Returns (B) Inception to December 31, 2013		2012		2011	
Private Equity											
Private Equity Funds that Report IRR’s											
Fund I	Nov-99	Closed May-13	$—	$—	$—	25.7	%	25.7	%	25.7	%
Fund II	Jul-02	(A)	—	—	—	35.5	%	35.6	%	35.4	%
Fund III	Sep-04	Jan-15	1,099	1,288	1,286	6.9	%	5.8	%	0.8	%
Fund III Coinvestment	Nov-04	Jan-15	90	118	85	1.8	%	1.1	%	(0.7	)%
Fund IV	Mar-06	Jan-17	2,859	2,790	2,437	3.1	%	2.4	%	(3.0	)%
Fund IV Coinvestment	Apr-06	Jan-17	460	485	567	(0.7	)%	(0.8	)%	(4.7	)%

Fund V (E)	May-07	Feb-18	4,069	2,891	2,441	4.1 %	(1.0)%	(5.1)%
Fund V Coinvestment (E)	Jul-07	Feb-18	515	603	541	(7.2)%	(9.6)%	(15.6%)
GAGACQ Coinvestment Fund (GAGFAH)	Sep-04	Permanent	—	—	—	19.4 %	19.2 %	14.4 %
FRID (GAGFAH)	Mar-05	Apr-15	652	606	304	(0.9)%	(3.2)%	(14.1)%
FRIC (Brookdale)	Mar-06	May-16	164	153	105	(3.7)%	(5.1)%	(11.9)%
FICO (Intrawest)	Aug-06	Jan-17	—	—	—	(100.0)%	(100.0)%	(100.0)%
FHIF (Holiday)	Dec-06	Jan-17	1,083	1,083	1,067	6.8 %	7.6 %	7.1 %
FECI (Florida East Coast/Flagler)	Jun-07	Feb-18	436	443	443	(0.3)%	(1.6)%	(4.0)%
WWTAI	Jul-11	Jan-25	175	101	9	(C)	(C)	(C)
MSR Opportunities Fund I A	Aug-12	Aug-22	255	—	—	(C)	N/A	N/A
MSR Opportunities Fund I B	Aug-12	Aug-22	64	—	—	(C)	N/A	N/A
MSR Opportunities Fund II A	Jul-13	Jul-23	36	—	—	(C)	N/A	N/A
MSR Opportunities Fund II B	Jul-13	Jul-23	—	—	—	(C)	N/A	N/A
MSR Opportunities MA I	Jul-13	Jul-23	8	—	—	(C)	N/A	N/A

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	Inception		AUM December 31,			Returns (B)			
Name of Fund	Date	Maturity Date (A)	2013	2012	2011	Inception to Date (D)	2013	2012	2011
Private Equity - Permanent Capital Vehicles									
Newcastle Investment Corp.	Jun-98	Permanent	1,795	1,729	1,294	N/A	7.0%	10.1%	12.9%
New Residential Investment Corp.	May-13	Permanent	1,196	—	—	N/A	10.5%	N/A	N/A
Eurocastle Investment Limited	Oct-03	Permanent	556	1,931	1,887	N/A	6.7%	N/A	N/A
Liquid Hedge Funds									
Drawbridge Global Macro Funds (A)	Jun-02	Redeemable	284	357	392	9.0%	13.7%	16.9%	(10.5)%
Fortress Macro Funds	May-09	Redeemable	1,546	1,566	1,962	8.8%	14.1%	17.8%	(9.3)%
Fortress Macro MA1	Nov-11	Redeemable	359	177	50	15.0%	14.7%	17.9%	(C)
Fortress Commodities Funds	Jan-08	Closed May-12	—	—	724	(1.4)%	N/A	(12.5)%	(8.0)%
Fortress Commodities Fund MA1 Ltd	Nov-09	Closed Apr-12	—	—	95	(4.7)%	N/A	(6.6)%	(7.8)%
Fortress Partners Fund LP (A)	Jul-06	Redeemable	566	691	780	2.7%	4.8%	8.0%	0.5%
Fortress Partners Offshore Fund LP (A)	Nov-06	Redeemable	669	706	676	3.1%	6.7%	7.7%	(2.1)%
Fortress Asia Macro Funds	Mar-11	Redeemable	1,697	433	208	14.5%	17.1%	21.2%	(C)
Fortress Convex Asia Funds	May-12	Redeemable	96	50	—	(5.0)%	(3.3)%	(C)	N/A
Fortress Redwood Fund LTD	Aug-13	Redeemable	613	N/A	N/A	(C)	(C)	N/A	N/A
Credit Hedge Funds									
Drawbridge Special Opp's Fund LP (F)	Aug-02	PE style redemption	3,898	3,793	4,040	11.7%	18.4%	17.9%	10.9%
Drawbridge Special Opp's Fund LTD (F)	Aug-02	PE style redemption	1,317	1,117	877	11.6%	15.6%	16.6%	11.5%
Worden Fund	Jan-10	PE style redemption	201	209	191	12.8%	13.7%	17.6%	5.8%
Worden Fund II	Aug-10	PE style redemption	31	40	21	11.2%	12.4%	13.2%	7.3%
Value Recovery Funds and related assets	(G)	Non-redeemable	402	496	811	(G)	(G)	(G)	(G)

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Name of Fund	Inception Date	Maturity Date (A)	AUM December 31, 2013	2012	2011	Returns (B) Inception to December 31, 2013	2012	2011
Credit PE Funds								
Credit Opportunities Fund	Jan-08	Oct-20	692	997	1,307	25.8 %	26.9 %	27.7 %
Credit Opportunities Fund II	Jul-09	Jul-22	745	1,014	1,148	18.3 %	18.5 %	15.7%
Credit Opportunities Fund III	Sep-11	Mar-24	1,400	795	322	(C)	(C)	(C)
FCO Managed Accounts	Sep-08 to Oct-10	Oct-21 to Jun-24	1,172	1,027	950	20.0 %	23.1%(H)	24.9%(H)
FCO Managed Accounts (C)	Apr-12 to Jun-12	Jul-24 - Mar-27	457	514	258	(C)	(C)	(C)
Long Dated Value Fund I	Apr-05	Apr-30	185	186	193	5.0 %	4.3 %	4.0 %
Long Dated Value Fund II	Nov-05	Nov-30	142	153	157	3.7 %	2.6 %	3.8 %
Long Dated Value Fund III	Feb-07	Feb-32	87	128	197	8.6 %	8.0 %	6.2 %
LDVF Patent Fund	Nov-07	Nov-27	3	16	16	12.7 %	9.7 %	14.7 %
Real Assets Fund	Jun-07	Jun-17	77	88	112	8.5 %	9.3 %	8.7 %
Japan Opportunity Fund	Jun-09	Jun-19	364	587	958	22.2 %	20.5 %	17.4%
Japan Opportunity Fund II (Dollar)	Dec-11	Dec-21	713	713	—	(C)	(C)	N/A
Japan Opportunity Fund II (Yen)	Dec-11	Dec-21	696	845	—	(C)	(C)	N/A
Net Lease Fund I	Jan-10	Feb-20	33	80	62	22.8 %	(C)	(C)
Global Opportunities Fund	Sep-10	Sep-20	255	310	350	(C)	(C)	(C)
Life Settlements Fund	Dec-10	Dec-22	261	210	172	(C)	(C)	(C)
Life Settlements Fund MA	Dec-10	Dec-22	23	19	15	(C)	(C)	(C)
Real Estate Opportunities Fund	May-11	Sep-24	187	47	—	(C)	(C)	N/A
Real Estate Opportunities REOC Fund	Oct-11	Oct-23	29	13	8	(C)	(C)	N/A
Subtotal - all funds			34,712	31,598	29,518			
Managed accounts			1,652	1,147	671			
Total - Alternative Investments			36,364	32,745	30,189			
Logan Circle			25,386	20,685	13,524			
Total (I)			$61,750	$53,430	$43,713			

(A)

For funds with a contractual maturity date, maturity date represents the final contractual maturity date including the assumed exercise of extension options, which in some cases require the approval of the applicable fund advisory board. Fund II has passed its contractual maturity date and is in the process of an orderly wind down. Our permanent capital vehicles have permanent equity as they have an indefinite life and no redemption terms. Investor capital in the liquid hedge funds and the Fortress Partners Funds is generally redeemable at the option of the fund investors; however, a substantial portion of the Drawbridge Global Macro Funds' and Fortress Partner Funds' investor capital is not redeemable by its investors and such capital will only be distributed as underlying assets are realized, in accordance with their governing documents. The Drawbridge Special Opportunities Funds and Worden Funds may pay redemptions over time, as the underlying investments are realized, in accordance with their governing documents ("PE style redemption"). The Value Recovery Funds generally do not allow for redemptions, but are in the process of realizing their remaining investments in an orderly liquidation. Management notes that funds which had a term of three years or longer at inception, funds which have permanent equity, funds which have a PE style redemption and funds which do not allow for redemptions aggregated approximately 79% of our alternative investment AUM as of December 31, 2013.

(B) Represents the following:

For private equity funds and credit PE funds, returns represent net annualized internal rates of return to limited partners after management fees and incentive allocations, and are computed on an inception to date basis consistent with industry standards. Incentive allocations are computed based on a hypothetical liquidation of the net assets of each fund as of the balance sheet date. Returns are calculated for the investors as a whole. The computation of such returns for an individual investor may vary from these returns based on different management fee and incentive arrangements, and the timing of capital transactions.

For permanent capital vehicles, returns represent the current dividend yield which is calculated by annualizing the most recently declared base dividend and dividing the result by the closing stock price for the period. Excludes the impact of special dividends declared in connection with REIT compliance, which may increase returns.

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

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

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

(E) Fund V includes Fund V (GLPI Sisterco) and Fund V Coinvestment includes Fund V Coinvestment (GLPI Sisterco).

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

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

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

(I) In addition to the funds listed, Fortress manages NIH, FPRF and Mortgage Opportunities Funds I and II. Such funds are excluded from the table because they did not include any fee paying assets under management at the end of the periods presented. Fund I, Fund II, GAGACQ Coinvestment Fund and FICO (Intrawest), had zero AUM as of December 31, 2013, 2012 and 2011, but for purposes of continuity of presentation, the returns of these funds have been left in the table.

Results of Operations

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

	Year Ended December 31,			Variance	
	2013	2012	2011	2013/2012	2012/2011
Revenues					
Management fees: affiliates	$520,283	$456,090	$464,305	$64,193	$(8,215)
Management fees: non-affiliates	62,795	45,617	58,096	17,178	(12,479)
Incentive income: affiliates	419,828	246,438	155,303	173,390	91,135
Incentive income: non-affiliates	44,383	26,162	1,917	18,221	24,245
Expense reimbursements: affiliates	206,452	186,592	169,282	19,860	17,310
Expense reimbursements: non-affiliates	7,209	4,580	4,057	2,629	523
Other revenues	4,033	4,390	5,668	(357)	(1,278)
	1,264,983	969,869	858,628	295,114	111,241
Expenses					
Interest expense	5,382	15,781	18,526	(10,399)	(2,745)
Compensation and benefits	741,761	750,359	706,060	(8,598)	44,299
Principals agreement compensation (expired in 2011)	—	—	1,051,197	—	(1,051,197)
General, administrative and other expense (including depreciation, amortization and impairment)	150,460	142,080	179,125	8,380	(37,045)
	897,603	908,220	1,954,908	(10,617)	(1,046,688)
Other Income (Loss)					
Gains (losses)	53,933	48,921	(30,054)	5,012	78,975
Tax receivable agreement liability adjustment	(8,787)	(8,870)	3,098	83	(11,968)
Earnings (losses) from equity method investees	136,866	156,530	41,935	(19,664)	114,595
	182,012	196,581	14,979	(14,569)	181,602

Income (Loss) Before Income Taxes	549,392	258,230	(1,081,301)	291,162	1,339,531
Income tax benefit (expense)	(65,801)	(39,408)	(36,035)	(26,393)	(3,373)
Net Income (Loss)	$483,591	$218,822	$(1,117,336)	$264,769	$1,336,158
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	$283,144	$140,538	$(685,821)	$142,606	$826,359
Net Income (Loss) Attributable to Class A Shareholders	$200,447	$78,284	$(431,515)	$122,163	$509,799

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Factors Affecting Our Business

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

•changes in our AUM;
•level of performance of our funds; and
•changes in the size of our fund management and investment platform and our related compensation structure.

Each of these factors is described below.

Average Management Fee Paying AUM

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

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

	Private Equity			Credit			
Year Ended	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Hedge Funds	PE Funds	Logan Circle	Total
December 31, 2013	$11,295	$3,308	$ 6,266	$5,714	$7,191	$22,597	$56,371
December 31, 2012	10,295	3,409	4,838	5,831	6,388	17,806	48,567
December 31, 2011	10,135	3,192	6,132	6,376	5,228	12,712	43,775

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

Management Fees

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

In July 2012, Fortress formed a consolidated senior living property management subsidiary and has agreements to manage certain senior living properties, most of which are owned by Newcastle. For these services, Fortress receives management fees based on a percentage of revenues from the properties.

Incentive Income

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

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

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Fund Management and Investment Platform

In order to accommodate the demands of our funds' investment portfolios, we have created investment platforms, which are comprised primarily of our people, financial and operating systems and supporting infrastructure. Expansion of our investment platform historically required increases in headcount, consisting of newly hired investment professionals and support staff, as well as leases and associated improvements to corporate offices to house the increasing number of employees, and related augmentation of systems and infrastructure. Our headcount changed from 979 asset management employees as of December 31, 2011, to 975 asset management employees as of December 31, 2012, and then changed to 1,074 asset management employees as of December 31, 2013. Additionally, we had 1,250 employees as of December 31, 2013 at the senior living properties that we manage (whose compensation expense is reimbursed to us by the owners of the facilities) compared to 1,021 such employees as of December 31, 2012.

Revenues

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Total revenues were $1,265.0 million for the year ended December 31, 2013, a net increase of $295.1 million, compared to $969.9 million for the year ended December 31, 2012. The increase in revenues was attributable to (i) increases of $64.2 million and $17.2 million in management fees from affiliates and non-affiliates, respectively, (ii) increases of $173.4 million and $18.2 million in incentive income from affiliates and non-affiliates, respectively, and (iii) increases of $19.9 million and $2.6 million in expense reimbursements from affiliates and non-affiliates, respectively.

The increase in management fees from affiliates of $64.2 million was primarily due to increases in average management fee paying AUM, based on a simple quarterly average, in our private equity funds and liquid hedge funds, of $1.0 billion and $0.8 billion, respectively, and an increase of $21.0 million in management fees resulting from Newcastle and Eurocastle options granted to Fortress during the year ended December 31, 2013 as compared to the prior period.

The increase in management fees from non-affiliates of $17.2 million was primarily related to an increase in average management fee paying AUM, based on a simple quarterly average, of $0.6 billion and $3.8 billion in our liquid hedge fund managed accounts and Logan Circle, respectively.

The increase in incentive income from affiliates of $173.4 million was primarily attributable to (i) an increase of $62.1 million in incentive income primarily earned from the Drawbridge Special Opportunities Funds as a result of an increase in incentive earned on RCA distributions, which represent accounts where investors have provided withdrawal notices and receive payout as underlying fund investments are realized and due to an increase in the average capital eligible for incentive income primarily attributable to higher returns during the year ended December 31, 2013 in the non-RCA accounts, which crystallizes annually, (ii) an increase of $22.9 million of incentive income recognized from Fund II primarily as a result of a realization event and the fund reaching its maturity date during the year ended December 31, 2013, which resulted in the recognition of income as certain contingencies for repayment were resolved, (iii) an increase of $15.7 million in crystallized incentive income recognized from our permanent capital vehicles, (iv) a net increase of $64.4 million in incentive income recognized from our liquid hedge funds primarily as a result of a transfer of interest between two of our funds during August 2013, redemptions and an increase in the average capital eligible for incentive income primarily attributable to higher returns during the year ended December 31, 2013, (v) an increase of $2.2 million of incentive income recognized primarily from the liquidation of Fund I in May 2013, (vi) an increase of $1.7 million of incentive income recognized from the Worden

Funds and (viii) a net increase of $4.4 million in incentive income from our credit PE funds primarily due to an increase in deemed tax distributions, which are no longer subject to clawback, for the year ended December 31, 2013, as compared to the prior period.

The $18.2 million increase in incentive income from non-affiliates was primarily related to an increase of $18.7 million in crystallized incentive income from our liquid hedge funds managed accounts, slightly offset by a decrease of $0.3 million in incentive income from our credit PE managed accounts.

The increase in expense reimbursements from affiliates of $19.9 million was primarily related to an increase in operating expenses eligible for reimbursement from our funds, the most significant of which related to the full year effect of the formation of the senior living property management business in July 2012, for the year ended December 31, 2013, as compared to the prior period.

Year Ended December 31, 2012 compared to the Year Ended December 31, 2011

Total revenues were $969.9 million for the year ended December 31, 2012, a net increase of $111.2 million, compared to $858.6 million for the year ended December 31, 2011. The increase in revenues was attributable to increases of $91.1 million and $24.2

million in incentive income from affiliates and non-affiliates, respectively, and an increase of $17.3 million in expense reimbursements from affiliates. These increases were partially offset by decreases of $8.2 million and $12.5 million in management fees from affiliates and non-affiliates, respectively, and a decrease of $1.3 million in other revenues.

The decrease in management fees from affiliates of $8.2 million was primarily due to (i) a decrease in management fees from our private equity funds as a result of a decrease in AUM of approximately $2.0 billion related to the expiration of the capital commitment periods of Fund V, Fund V Coinvestment and FECI in 2011, and (ii) decreases of $1.3 billion and $0.5 billion in average fee paying AUM, based on a simple quarterly average, in our liquid and credit hedge funds, respectively. These decreases were offset by an increase of $8.9 million in management fees due to Newcastle options granted to Fortress during the year ended December 31, 2012 as compared to the prior comparative period and an increase of $1.2 billion in average fee paying AUM in our credit PE funds.

The decrease in management fees from non-affiliates of $12.5 million was primarily related to a decrease of $14.7 million due to an advisory agreement that concluded in the third quarter of 2011 and a decrease of $4.6 million primarily due to the termination of a managed account in the fourth quarter of 2011. These decreases were partially offset by an increase of $6.7 million in management fees from non-affiliates from Logan Circle as a result of an increase of $5.1 billion in average fee paying AUM.

The increase in incentive income from affiliates of $91.1 million was primarily attributable to (i) a net increase of $40.3 million in crystallized incentive income recognized from certain of our liquid hedge funds, primarily due to higher returns, (ii) a $53.5 million increase in incentive income earned from our credit hedge funds primarily due to higher returns from non-redeeming capital accounts (or “non-RCA”), which represents accounts where investors have not provided withdrawal notices, and crystallized incentive income from our Worden Funds, and (iii) an increase of $2.6 million of incentive income from our credit PE funds, which was realized as a result of deemed tax distributions and the dissolution of a fund and, therefore, is no longer subject to clawback. These increases were partially offset by $5.1 million in incentive income recognized from Fund II during the year ended December 31, 2011 which was related to distributions of capital to investors. These distributions resulted in the recognition of income as certain contingencies for repayment were resolved.

The $24.2 million increase in incentive income from non-affiliates was primarily related to crystallized incentive income from our liquid managed accounts.

The increase in expense reimbursements from affiliates of $17.3 million is primarily related to an increase in operating expenses eligible for reimbursement from our funds, including expenses related to our senior living property manager, for the year ended December 31, 2012 as compared to the prior comparative period.

Expenses

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Expenses were $897.6 million for the year ended December 31, 2013, a net decrease of $10.6 million, compared to $908.2 million for the year ended December 31, 2012. The decrease was attributable to a decrease of $8.6 million in compensation and benefits, and a decrease of $10.4 million in interest expense. These decreases were partially offset by a net increase of $8.4 million in general, administrative and other expenses.

Total compensation and benefits decreased due to a $174.0 million decrease in equity-based compensation primarily due to the final vesting of RSUs issued in connection with our IPO and RPUs in January 2013. This decrease was substantially offset by (i) a $108.8 million increase in profit-sharing expenses primarily related to our liquid hedge funds, credit PE funds, credit hedge funds, and Principal Performance Payments, (ii) a $34.2 million increase in other payroll, taxes, and benefits (including wages), and (iii) a $22.4 million increase in discretionary bonuses. Changes in profit sharing expense are a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective periods. The $34.2 million increase in other payroll, taxes and benefits was the result of an increase in headcount and the full year effect of the formation of the senior living property management business in July 2012. The increase of $22.4 million in discretionary bonuses is primarily related to increased headcount and improved performance of the Company.

The decrease in interest expense of $10.4 million primarily relates to a decrease in the average outstanding debt balance and average interest rate for the year ended December 31, 2013, as compared to the prior period.

The increase in general, administrative and other expenses was primarily due to (i) an increase of $3.4 million in professional fees (ii) an increase of $3.2 million in other general and other expenses and (iii) an increase of $1.8 million in recruitment fees.

Year Ended December 31, 2012 compared to the Year Ended December 31, 2011

Expenses were $908.2 million for the year ended December 31, 2012, a net decrease of $1,046.7 million, compared to $1,954.9 million for the year ended December 31, 2011. The decrease was attributable to decreases of (i) $2.7 million in interest expense, (ii) $1,051.2 million in principals agreement compensation, and (iii) $37.0 million in general, administrative and other expenses. These decreases were partially offset by a net increase of $44.3 million in compensation and benefits.

Principals agreement compensation decreased as a result of the expiration of the agreement in December 2011.

The decrease in general, administrative and other expenses was primarily due to (i) the impairment of goodwill and other intangible assets related to Logan Circle ($20.1 million) during the year ended December 31, 2011, (ii) a decrease in allowances for potentially uncollectible expense reimbursements in connection with a certain fund experiencing liquidity shortfalls ($4.5 million), (iii) a decrease in operating expenses related to an advisory agreement that concluded in the third quarter of 2011 ($7.6 million), and (iv) a decrease in professional fees ($6.0 million).

Total compensation and benefits increased primarily due to a $12.7 million increase in other payroll, taxes and benefits, a $13.0 million increase in discretionary bonuses, and a $57.8 million increase in profit-sharing expenses related to our credit hedge funds, liquid hedge funds, Principal Performance Payments, and permanent capital vehicles, partially offset by a $19.6 million decrease in profit-sharing expenses related to our credit PE funds and private equity funds, and a $19.6 million decrease in equity-based compensation. The increases in other payroll, taxes and benefits were primarily due to an increase in wages, severance and related taxes for the year ended December 31, 2012 as compared to the prior comparative period as a result of increased headcount and the formation of a senior living property management subsidiary. The $19.6 million decrease in equity-based compensation was primarily due to (i) a $15.9 million decrease due to the STIP agreement entered into by one of the Principals with a senior employee which impacted 2011 but not 2012, (ii) a $6.2 million decrease related to the net impact of changes in actual forfeiture activity and changes in the forfeiture assumptions associated with the RSUs, and (iii) a $5.3 million decrease related to lower grant date valuations of RSUs granted during 2012 in comparison to RSUs granted during the comparable period in 2011. These decreases were partially offset by a $2.4 million increase related to the departure of our former CEO during the year ended December 31, 2012 and a $5.4 million increase in expense associated with the Principal Performance Payments. Changes in profit sharing expense are a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective periods.

Current and Future Compensation Expense

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

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

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

In future periods, we will further recognize non-cash compensation expense on our non-vested equity-based awards outstanding as of December 31, 2013 of $44.0 million with a weighted average recognition period of 2.1 years.

Profit-sharing compensation is awarded, generally upon fund formation and, in certain cases, subject to vesting, based on certain employees' roles within the fund businesses, and serves to motivate these employees and align their interests with both our and our funds' investors. Private equity and credit PE profit-sharing expense is generally based on a percentage of realized fund incentive income. Liquid and credit hedge fund profit sharing expense may be based on a percentage of fund incentive income, a percentage of fund “net management fees” (management fees less related expenses), or a percentage of the incentive income generated by an individual trader (regardless of overall fund performance). The actual expense is based on actual performance within the funds and is detailed by segment in Note 8 to our consolidated financial statements contained herein. We note the following with respect to profit-sharing expense:

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

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

Principals Agreement Compensation

As a result of the Principals Agreement, which expired in December 2011, $4,763.0 million was charged to compensation expense on a straight-line basis over the approximately five-year vesting period. Fortress was not a party to this agreement. It was an agreement between our principals to further incentivize them to remain with Fortress. This GAAP expense had no economic effect on Fortress or its shareholders. As a result, management did not include this expense in any of its analyses of performance. When Fortress recorded this non-cash expense, it recorded a corresponding increase in capital. In August 2011, our principals agreed to extend their employment for a new five-year term effective January 1, 2012, on substantially similar terms and conditions as their prior employment agreements. In order to align the termination of the Principals Agreement with the effective date of their new employment agreements, our principals agreed to amend the expiration date of the Principals Agreement to December 31, 2011; as a result, all of the remaining expense related to this agreement, including $99.1 million that would otherwise have been recognized in 2012, has been recorded as principals agreement compensation during the year ended December 31, 2011.

Other Income (Loss)

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Other Income (Loss) was $182.0 million for the year ended December 31, 2013, a net decrease of $14.6 million, compared to $196.6 million for the year ended December 31, 2012. This decrease was primarily attributable to (i) a net decrease of $19.7 million in earnings from equity method investees primarily related to the performance of our private equity funds and liquid hedge funds, slightly offset by an increase in performance of our credit PE funds for the twelve months ended December 31, 2013 relative to the prior period, (ii) unrealized losses of $3.7 million associated with the fair value of our holdings of digital currency and (iii) a decrease of $1.1 million in the fair value on affiliate investments and options. This decrease was partially offset by an increase of $8.1 million in the fair value of the derivatives held, primarily Japanese Yen foreign exchange contracts, and a $3.0 million increase in the fair value of equity securities, for the year ended December 31, 2013 as compared to the prior period.

Year Ended December 31, 2012 compared to the Year Ended December 31, 2011

Other Income (Loss) was $196.6 million for the year ended December 31, 2012, a net increase of $181.6 million, compared to $15.0 million for the year ended December 31, 2011. This increase was primarily attributable to (i) significant increases in net unrealized gains primarily related to our direct investments in GAGFAH and Newcastle and (ii) better performance resulting in an increase in earnings from equity method investees with respect to our investments in our private equity funds, credit PE funds, liquid hedge funds and credit hedge funds for the year ended

December 31, 2012 relative to the prior comparative period. These increases were partially offset by an increase in the expense associated with the tax receivable agreement liability.

Income Tax Benefit (Expense)

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

For the years ended December 31, 2013, 2012 and 2011 Fortress recognized income tax expense (benefit) of $65.8 million, $39.4 million and $36.0 million respectively. The primary reasons for changes in income tax expense (benefit) are (i) changes in annual taxable income and related foreign and state income taxes (and forecasts thereof which are used to calculate the tax provision during interim periods), (ii) changes in the mix of businesses producing income, which may be subject to tax at different rates, and related changes in our structure, and (iii) the tax impact of RSUs and RPUs that vested and were delivered at a value substantially less than their original value.

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

	Comparative Years	
	2013 vs. 2012	2012 vs. 2011
Change in pre-tax income applicable to Class A Shareholders (A)	$52,021	$40,642
Change in foreign and state income taxes	3,247	(6,900)
Change in mix of business (B)	(5,240)	(17,151)
Change in deferred tax asset-impact of equity compensation vesting (C)	(3,659)	2,410
Change in deferred tax asset valuation allowance and related adjustments	(21,186)	(4,052)
Write off of deferred tax asset related to options in affiliates (D)	—	(11,464)
Other	1,210	(112)
Total change	$26,393	$3,373

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

(B) From 2011 to 2012, a lesser proportion of our total income was subject to corporate tax. In 2012, we generated more unrealized gains and certain other income, which income is passed directly to shareholders, increasing the proportion of our total income which was not subject to corporate tax and thereby reducing the proportion which was subject to corporate income tax. There was a similar change from 2012 to 2013.

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

(D) This portion of the deferred tax asset was fully reserved in the valuation allowance during 2011.

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

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries increased from $140.5 million to $283.1 million, an increase of $142.6 million, primarily attributable to (i) an increase of $155.9 million resulting from a $291.0 million increase in Fortress Operating Group consolidated net income during the year ended December 31, 2013 as compared to the year ended December 31, 2012, (ii) a decrease of $1.1 million resulting from Others' interests in the net income of consolidated subsidiaries of Fortress Operating Group offset by (iii) a decrease of $12.2 million resulting from the dilution of noncontrolling interests in Fortress Operating Group caused by the delivery of restricted stock and restricted partnership awards.

Year Ended December 31, 2012 compared to the Year Ended December 31, 2011

Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries increased from ($685.8) million to $140.5 million, an increase of $826.3 million, primarily attributable to (i) an increase of $842.5 million resulting from a $1.4 billion increase in Fortress Operating Group consolidated net income during the year ended December 31, 2012 as compared to the year ended December 31, 2011, (ii) a decrease of $18.6 million resulting from the dilution of noncontrolling interests in Fortress Operating Group caused by the delivery of restricted stock and restricted partnership awards, and (iii) an increase of $2.4 million resulting from Others' interests in the net income of consolidated subsidiaries of Fortress Operating Group.

Segment Analysis

Fortress conducts its management and investment business through the following primary segments: (i) private equity funds, (ii) permanent capital vehicles, (iii) liquid hedge funds, (iv) credit hedge funds, (v) credit PE funds, (vi) Logan

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

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

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

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Distributable earnings is described in Note 11 to Part II, Item 8, "Financial Statements and Supplementary Data — Segment Reporting," which includes a complete discussion of distributable earnings basis impairment and reserves, including the methodology used in estimating the amounts as well as the amounts incurred in the relevant periods.

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

Incentive Income

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

Other Income

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

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

Expenses

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

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

(vi) adding or subtracting, as necessary, any changes in the fair value of contingent consideration payable with respect to the acquisition of a business, to the extent management intends to pay it in equity and it is recorded on the statement of operations under GAAP,

(vii) adding back the amortization of intangible assets and any impairment of goodwill or intangible assets recorded under GAAP,

(viii) adding back compensation expense recorded in connection with the forfeiture arrangements entered into among the principals, which expired in December 2011 (Note 8),

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

(x)

adding back income tax benefit or expense and any income or expense recorded in connection with the tax receivable agreement (Note 6).

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Private Equity Funds

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

	Year Ended December 31,			Variance	
	2013	2012	2011	2013/2012	2012/2011
Segment revenues					
Management Fees	$136,406	$119,492	$131,898	$16,914	$(12,406)
Incentive Income	13,738	10,993	(1,748)	2,745	12,741
Segment revenues - total	$150,144	$130,485	$130,150	$19,659	$335
Pre-tax distributable earnings	$94,461	$85,389	$92,813	$9,072	$(7,424)

Year Ended December 31, 2013 compared to Year Ended December 31, 2012

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

Management fees were $136.4 million for the year ended December 31, 2013, a net increase of $16.9 million, compared to $119.5 million for the year ended December 31, 2012. Management fees increased by $16.9 million due to (i) a net increase of $9.8 million in management fees primarily from Fund IV, Fund V, and FRID primarily as a result of an increase in the market values of certain portfolio companies, some of which were below their invested capital in prior periods, which impacted the computation of fees for the year ended December 31, 2013, (ii) an increase of $3.5 million in management fees from the MSR Opportunities Funds which called initial capital in January 2013 (MSR Opportunities Fund I) and September 2013 (MSR Opportunities Fund II), (iii) an increase of $1.7 million in management fees from WWTAI due to an increase in investor commitments and net capital inflows, and (iv) an increase of $1.9 million in management fees from other funds.
Incentive income was $13.7 million for the year ended December 31, 2013, a net increase of $2.7 million, compared to $11.0 million of incentive income recognized for the year ended December 31, 2012. Incentive income increased by $2.7 million due to (i) a $2.2 million increase in the amount of incentive income earned from realization events that occurred in Fund I for the year ended December 31, 2013 as compared to the prior period, and (ii) a $0.5 million increase in the amount of incentive income earned from realization events that occurred in WWTAI for the year ended December 31, 2013 as compared to the prior period.
Expenses

Expenses were $55.7 million for the year ended December 31, 2013, a net increase of $10.6 million, compared to $45.1 million for the year ended December 31, 2012. The net increase of $10.6 million in expenses was primarily attributable to a net increase of $9.7 million in compensation and benefits expense due to increased headcount, as well as a net increase of $0.8 million in profit sharing compensation expense (primarily related to the Fund I realization events mentioned above).
Year Ended December 31, 2012 compared to Year Ended December 31, 2011

Pre-tax distributable earnings decreased by $7.4 million primarily due to:

Revenues

Management fees were $119.5 million for the year ended December 31, 2012, a net decrease of $12.4 million, compared to $131.9 million for the year ended December 31, 2011. Management fees decreased $12.4 million primarily as a result of (i) a decrease of $11.3 million due to the reset of Fund V, Fund V Coinvestment and FECI upon expiration of their respective capital commitment periods in 2011, (ii) a decrease of $1.2 million in management fees in Fund II and Mortgage Opportunities Fund III, which were no longer subject to management fees effective in the third quarter of 2011, and (iii) a decrease of $1.8 million in management fees primarily as a result of a net decrease in market values of certain portfolio companies below their invested capital in prior periods. These decreases were partially offset by an increase of $1.9 million in management fees in Fund IV, FHIF, WWTAI and managed accounts due to net capital inflows and a net increase in market values of certain portfolio companies which were below their invested capital in prior periods, which impacted the computation of management fees for the year ended December 31, 2012.

Incentive income was $11.0 million for the year ended December 31, 2012, a net increase of $12.7 million, compared to ($1.7) million recognized for the year ended December 31, 2011. Incentive income increased $12.7 million primarily as a result of the reversal of $8.4 million of previously recognized reserves for the potential clawback of incentive income from Fund II during the

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year ended December 31, 2012, as compared to the recognition of a $4.5 million incremental reserve for the potential clawback of incentive income from Fund II during the year ended December 31, 2011.

Expenses

Expenses were $45.1 million for the year ended December 31, 2012, a net increase of $7.8 million, compared to $37.3 million for the year ended December 31, 2011. The net increase of $7.8 million in expenses was primarily attributable to a net increase of $10.7 million in compensation and benefits, which includes an increase of $4.6 million in profit sharing compensation expense (primarily related to the clawback reserve reversal mentioned above). This increase in compensation expenses was partially offset by a net decrease of $2.9 million in general and administrative and allocable expenses primarily related to an allowance for uncollectible amounts due from one of our private equity funds recognized in 2011.

Publicly Traded Permanent Capital Vehicles

The following table presents our results of operations for our permanent capital vehicles segment:

	Year Ended December 31,			Variance	
	2013	2012	2011	2013/2012	2012/2011
Segment revenues					
Management Fees	$58,970	$56,255	$53,357	$2,715	$2,898
Incentive Income	17,574	242	—	17,332	242
Segment revenues - total	$76,544	$56,497	$53,357	$20,047	$3,140
Pre-tax distributable earnings	$30,920	$28,809	$24,798	$2,111	$4,011

Year Ended December 31, 2013 compared to Year Ended December 31, 2012

Pre-tax distributable earnings increased by $2.1 million primarily due to:

Revenues

Management fees were $59.0 million for the year ended December 31, 2013, a net increase of $2.7 million, compared to $56.3 million for the year ended December 31, 2012. Management fees increased by $2.7 million primarily as a result of (i) a $15.6 million increase in management fees primarily due to an increase in Newcastle AUM resulting from their equity raises in the second and third quarters of 2012 and the first quarter of 2013, prior to the distribution of New Residential common shares, and the second and fourth quarters of 2013, and (ii) a $2.7 million increase due to fees generated by our senior living property management business which launched in July 2012. These increases were partially offset by a $15.6 million decrease in Eurocastle management fees due to a decrease in AUM as a result of their restructuring process and amended management agreement in April 2013.

Incentive income was $17.6 million for the year ended December 31, 2013, a net increase of $17.3 million, compared to $0.2 million of incentive income recognized for the year ended December 31, 2012. Incentive income increased by $17.3 million primarily as a result of (i) the recognition of incentive income of $15.7 million for the year ended December 31, 2013, and (ii) an increase of $1.7 million in the exercise of our permanent capital vehicle options allocated to employees which resulted in an increase in incentive income for the year ended December 31, 2013 as compared to the prior period.

Expenses

Expenses were $45.6 million for the year ended December 31, 2013, a net increase of $17.9 million, compared to $27.7 million for the year ended December 31, 2012. The increase of $17.9 million in expenses was primarily attributable to (i) a $10.0 million increase in net compensation and benefits expense primarily due to higher headcount in Newcastle, New Residential and the senior living property management business, partially offset by decreased headcount in Eurocastle, (ii) an increase of $4.2 million in profit sharing compensation expense related to the exercise of certain permanent capital vehicle options allocated to employees and the recognition of incentive income mentioned above, (iii) a net increase of $2.5 million in general and administrative and allocable expenses, and (iv) an increase of $1.2 million in accruals for Principal Performance Payments as compared to the prior period.

Year Ended December 31, 2012 compared to Year Ended December 31, 2011

Pre-tax distributable earnings increased by $4.0 million primarily due to:

Revenues

Management fees were $56.3 million for the year ended December 31, 2012, an increase of $2.9 million, compared to $53.4 million for the year ended December 31, 2011. Management fees increased $2.9 million primarily as a result of (i) a $5.3 million increase due to an increase in Newcastle AUM resulting from their equity raises in 2011 and 2012, and (ii) $1.4 million of property management fees for the year ended December 31, 2012. These increases were partially offset by a $3.8 million decrease in management fees from certain investments within our permanent capital vehicles, which were concluded in the first quarter of 2012, as well as changes in foreign currency exchange rates.

Incentive income of $0.2 million for the year ended December 31, 2012 resulted from the exercise of Newcastle options.

Expenses

Expenses were $27.7 million for the year ended December 31, 2012, a net decrease of $0.9 million, compared to $28.6 million for the year ended December 31, 2011. The net decrease of $0.9 million in expense was primarily attributable to a $1.9 million net decrease in general and administrative expenses and allocable expenses primarily as a result of a decrease in overall corporate expenses and a decrease in average headcount within our permanent capital vehicles. This decrease was partially offset by a $1.1 million increase in accruals for Principals Performance Payments.

Liquid Hedge Funds

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

	Year Ended December 31,			Variance	
	2013	2012	2011	2013/2012	2012/2011
Segment revenues					
Management Fees	$110,622	$77,531	$108,873	$33,091	$(31,342)
Incentive Income	150,700	67,645	3,787	83,055	63,858
Segment revenues - total	$261,322	$145,176	$112,660	$116,146	$32,516
Pre-tax distributable earnings	$112,934	$45,284	$13,750	$67,650	$31,534

Year Ended December 31, 2013 compared to Year Ended December 31, 2012

Pre-tax distributable earnings increased by $67.7 million primarily due to:

Revenues

Management fees were $110.6 million for the year ended December 31, 2013, a net increase of $33.1 million, compared to $77.5 million for the year ended December 31, 2012. Management fees increased by $33.1 million primarily due to $21.3 million, $13.0 million, $4.0 million and $0.9 million net increases in management fees earned from the Fortress Asia Macro Funds (including related managed accounts), Fortress Macro Funds (including related managed accounts and Fortress Redwood Fund which launched in August 2013), Fortress Macro MA I Fund and Fortress Convex Asia Funds, respectively, primarily as a result of an increase in net capital inflows. These increases were partially offset by a $3.1 million decrease in management fees due to the closing of the Fortress Commodities

Funds (including related managed accounts) in the second quarter of 2012, and $1.6 million and $1.4 million in net decreases in management fees from the Fortress Partners Funds and Drawbridge Global Macro Funds, respectively, primarily as a result of net capital outflows.

Incentive income, which is determined on a fund-by-fund basis, was $150.7 million for the year ended December 31, 2013, a net increase of $83.1 million, compared to $67.6 million for the year ended December 31, 2012. Incentive income increased by $83.1 million primarily due to increases of $44.8 million, $30.7 million, $4.6 million, and $3.0 million in the incentive income generated by the Fortress Macro Funds (including related managed accounts and Fortress Redwood Fund), Fortress Asia Macro Funds (including related managed accounts), Fortress MA I Fund and Drawbridge Global Macro Funds, respectively, as a result of a higher proportion of capital being eligible for incentive income as substantially all capital met or exceeded its high water mark in 2013 and generated subsequent positive performance for the year ended December 31, 2013 as compared to the prior period.

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Expenses

Expenses were $148.4 million for the year ended December 31, 2013, a net increase of $48.5 million, compared to $99.9 million for the year ended December 31, 2012. The increase of $48.5 million in expenses was primarily attributable to (i) an increase of $30.6 million in profit sharing compensation expense, (ii) an increase of $10.3 million in net compensation and benefits expense, and (iii) an increase of $7.5 million in accruals for Principal Performance Payments.

Year Ended December 31, 2012 compared to Year Ended December 31, 2011

Pre-tax distributable earnings increased by $31.5 million primarily due to:

Revenues

Management fees were $77.5 million for the year ended December 31, 2012, a net decrease of $31.3 million, compared to $108.9 million for the year ended December 31, 2011. Management fees decreased $31.3 million primarily due to net decreases of $18.4 million, $13.9 million and $1.8 million in management fees from the Fortress Commodities Funds (including related managed accounts), Fortress Macro Funds (including related managed accounts), and Fortress Partners Funds, respectively, primarily as a result of net capital outflows and the closing of the Fortress Commodities Funds in May 2012. These decreases were partially offset by (i) a $2.8 million increase in management fees from the Fortress Asia Macro Funds (including related managed accounts), which launched in March 2011, and (ii) a $0.3 million increase in management fees from the Convex Asia Funds, which launched in May 2012.

Incentive income, which is determined on a fund-by-fund basis, was $67.6 million for the year ended December 31, 2012, a net increase of $63.9 million, compared to $3.8 million for the year ended December 31, 2011. Incentive income increased $63.9 million primarily due to (i) a net increase of $52.0 million in the incentive income generated by the Fortress Macro Funds (including related managed accounts) as a result of a higher proportion of capital being eligible for incentive income as certain capital met or exceeded its high water mark in 2012 and generated subsequent positive performance, and (ii) an increase of $14.4 million in the incentive income generated by the Fortress Asia Macro Funds (including related managed accounts) as a result of higher returns and capital as compared to the prior comparative period. These increases in incentive income were partially offset by decreases of $2.2 million and $0.3 million in the incentive income generated by the Fortress Commodities Funds (including related managed accounts), and Fortress Partners Funds, respectively. These decreases were primarily a result of all capital eligible for incentive income remaining below its respective high water mark and the closing of the Fortress Commodities Funds.

Expenses

Expenses were $99.9 million for the year ended December 31, 2012, a net increase of $1.0 million, compared to $98.9 million for the year ended December 31, 2011. The increase of $1.0 million in expenses was primarily attributable to an increase of $5.0 million in accruals for Principal Performance Payments. This increase was partially offset by (i) a decrease of $3.9 million in net general and administrative and allocable expenses, and (ii) a decrease of $0.1 million in net compensation and benefits expense.

Credit Hedge Funds

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

	Year Ended December 31,			Variance	
	2013	2012	2011	2013/2012	2012/2011

Segment revenues					
Management Fees	$101,890	$101,194	$121,835	$696	$(20,641)
Incentive Income	190,846	130,305	78,460	60,541	51,845
Segment revenues - total	$292,736	$231,499	$200,295	$61,237	$31,204
Pre-tax distributable earnings	$120,863	$92,523	$37,217	$28,340	$55,306

Year Ended December 31, 2013 compared to Year Ended December 31, 2012

Pre-tax distributable earnings increased by $28.3 million primarily due to:
Revenues

Management fees were $101.9 million for the year ended December 31, 2013, a net increase of $0.7 million, compared to $101.2 million for the year ended December 31, 2012. Management fees increased by$0.7 million primarily due to (i) a $1.2 million increase in management fees from the Drawbridge Special Opportunities Funds as a result of an increase in average fee paying capital and (ii) a $0.2 million increase in management fees from the Worden Funds as a result of an increase in average fee paying capital. These increases were partially offset by (i) a decrease of $0.5 million in management fees from the Value Recovery Funds and related assets primarily as a result of certain asset structures within the Value Recovery Funds terminating in the third quarter of 2012 and (ii) a decrease of $0.2 million in management fees from the Drawbridge Special Opportunities Managed Accounts.
Incentive income, which is determined on a fund-by-fund basis, was $190.8 million for the year ended December 31, 2013, a net increase of $60.5 million, compared to $130.3 million for the year ended December 31, 2012. Incentive income increased by $60.5 million primarily due to an increase of $62.1 million in incentive income generated by the Drawbridge Special Opportunities Funds, due to higher returns in the onshore fund and increased crystallization due to RCA distributions in 2013, and an increase of $1.7 million in incentive income generated by the Worden Funds. These increases were partially offset by a $3.3 million decrease in incentive income from other investments.
Expenses

Expenses were $171.9 million for the year ended December 31, 2013, a net increase of $32.9 million, compared to $139.0 million for the year ended December 31, 2012. The increase of $32.9 million in expenses was primarily attributable to (i) an increase of $27.8 million in profit sharing compensation expense, (ii) an increase of $5.0 million in accruals for Principal Performance Payments, and (iii) an increase of $0.4 million in compensation and benefits expense. These increases in expenses were partially offset by a $0.3 million decrease in general and administrative expenses and allocable expenses.
Year Ended December 31, 2012 compared to Year Ended December 31, 2011

Pre-tax distributable earnings increased by $55.3 million primarily due to:

Revenues

Management fees were $101.2 million for the year ended December 31, 2012, a net decrease of $20.6 million, compared to $121.8 million for the year ended December 31, 2011. Management fees decreased $20.6 million primarily due to (i) a $14.7 million decrease in management fees from an advisory agreement that concluded in the third quarter of 2011, (ii) a $3.1 million decrease in management fees from the Value Recovery Funds and related assets due to a decrease in investment distributions, and (iii) a $2.6 million net decrease in management fees primarily from the Drawbridge Special Opportunities Funds as a result of net investor distributions.

Incentive income, which is determined on a fund-by-fund basis, was $130.3 million for the year ended December 31, 2012, a net increase of $51.8 million, compared to $78.5 million for the year ended December 31, 2011. Incentive income increased $51.8 million primarily due to net increases of $44.1 million and $7.6 million in incentive income generated by the Drawbridge Special Opportunities Funds and Worden Funds, respectively, primarily due to higher returns in 2012.

Expenses

Expenses were $139.0 million for the year ended December 31, 2012, a net decrease of $24.1 million, compared to $163.1 million for the year ended December 31, 2011. The decrease of $24.1 million in expenses was primarily attributable to (i) a net decrease of $65.1 million in allocable expenses primarily as a result of a change in expense allocation methodology, and (ii) a net decrease of $6.5 million in general and administrative expenses primarily related to the advisory agreement which concluded in the third quarter of 2011. These decreases in expenses were partially offset by (i) a net increase of $33.9 million in compensation and benefits, which includes a net increase of $27.8 million in profit sharing compensation expense, and (ii) $13.5 million of accruals for Principal Performance Payments.

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Credit PE Funds

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

	Year Ended December 31,			Variance	
	2013	2012	2011	2013/2012	2012/2011
Segment revenues					
Management Fees	$95,925	$98,393	$73,273	$(2,468)	$25,120
Incentive Income	120,137	68,568	117,598	51,569	(49,030)
Segment revenues - total	$216,062	$166,961	$190,871	$49,101	$(23,910)
Pre-tax distributable earnings	$56,112	$34,015	$101,169	$22,097	$(67,154)

Year Ended December 31, 2013 compared to Year Ended December 31, 2012

Pre-tax distributable earnings increased by $22.1 million primarily due to:
Revenues

Management fees were $95.9 million for the year ended December 31, 2013, a net decrease of $2.5 million, compared to $98.4 million for the year ended December 31, 2012. Management fees decreased by $2.5 million primarily due to (i) a $8.2 million decrease in management fees in Fortress Credit Opportunities Fund I and Fortress Credit Opportunities Fund II primarily attributable to net capital distributions, (ii) a $4.6 million decrease in management fees in Japan Opportunity Fund due to the expiration of its capital commitment period in June 2012, and (iii) a $1.2 million decrease in management fees in the Long Dated Value Funds and Real Assets Funds, for the year ended December 31, 2013, as compared to the prior period. These decreases in management fees were partially offset by an $11.5 million increase in management fees primarily due to net capital calls or additional commitments made after the first quarter of 2012, most notably in Japan Opportunity Fund II, Credit Opportunities Fund III and FCO Managed Accounts.
Incentive income was $120.1 million for the year ended December 31, 2013, a net increase of $51.5 million, compared to $68.6 million for the year ended December 31, 2012. Incentive income increased by $51.5 million primarily due to (i) a net increase of $48.7 million in incentive income generated primarily by the Credit Opportunities Funds and FCO Managed Accounts, (ii) a net increase of $5.8 million in incentive income generated by Japan Opportunities Fund II, (iii) a net increase of $3.3 million in incentive income generated by the Net Lease Fund, and (iv) a net increase of $3.5 million in incentive income generated from other funds, primarily by the Global Opportunities Fund and the Long Dated Value Funds. All of the increases noted were a result of an increase in distributions generated by realization events. These increases in incentive income were partially offset by a decrease of $9.8 million in incentive income earned from other funds, primarily Japan Opportunity Fund I due to a decrease in distributions as compared to the prior period.

Expenses

Expenses were $159.9 million for the year ended December 31, 2013, a net increase of $27.0 million, compared to $132.9 million for the year ended December 31, 2012. The increase of $27.0 million in expenses was primarily attributable to (i) an increase of $28.7 million in profit sharing compensation expense, (ii) a net increase of $0.6 million in compensation and benefits expense, and (iii) an increase of $0.6 million in accruals for Principal Performance Payments. These increases in expenses were partially offset by a $2.9 million decrease in general and administrative expenses and allocable expenses.
Year Ended December 31, 2012 compared to Year Ended December 31, 2011

Pre-tax distributable earnings decreased by $67.2 million primarily due to:

Revenues

Management fees were $98.4 million for the year ended December 31, 2012, a net increase of $25.1 million, compared to $73.3 million for the year ended December 31, 2011. Management fees increased by $25.1 million primarily due to a $25.9 million net increase in management fees primarily attributable to net capital calls or additional commitments made after 2011, most notably in the Credit Opportunities Funds, FCO Managed Accounts and Japan Opportunity Fund II. These increases in management fees were partially offset by a $0.8 million net decrease in management fees attributable to net capital distributions by the Long Dated Value Funds and Real Assets Funds.

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Incentive income was $68.6 million for the year ended December 31, 2012, a net decrease of $49.0 million, compared to $117.6 million for the year ended December 31, 2011. Incentive income decreased $49.0 million primarily due to (i) a decrease of $74.3 million in incentive income generated primarily by Credit Opportunities Fund I and a certain FCO Managed Account, and (ii) a decrease of $1.8 million in incentive income generated by the Long Dated Value Funds and Real Assets Funds for the year ended December 31, 2012 as compared to the prior comparative period. These decreases were partially offset by increases of $12.7 million and $14.4 million in incentive income generated primarily by the Japan Opportunity Funds and Credit Opportunities Fund II, respectively, for the year ended December 31, 2012 as compared to the prior comparative period.

Expenses

Expenses were $132.9 million for the year ended December 31, 2012, a net increase of $43.2 million, compared to $89.7 million for the year ended December 31, 2011. The increase of $43.2 million in expenses was primarily attributable to (i) a net increase of $66.9 million in allocable expenses primarily related to a change in expense allocation methodology, and (ii) a net increase of $0.6 million in accruals for Principal Compensation Payments. These increases were partially offset by (i) a net decrease of $22.2 million in compensation and benefits expense, which includes a net decrease of $19.5 million in profit sharing compensation expense, and (ii) a net decrease of $2.0 million in general and administrative expenses.

Logan Circle

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

	Year Ended December 31,			Variance	
	2013	2012	2011	2013/2012	2012/2011
Segment revenues					
Management Fees	$35,833	$26,796	$20,050	$9,037	$6,746
Incentive Income	—	—	—	—	—
Segment revenues - total	$35,833	$26,796	$20,050	$9,037	$6,746
Pre-tax distributable earnings (loss)	$(11,819)	$(9,793)	$(17,278)	$(2,026)	$7,485

Year Ended December 31, 2013 compared to Year Ended December 31, 2012

Pre-tax distributable loss increased by $2.0 million primarily due to:
Revenues

Management fees were $35.8 million for the year ended December 31, 2013, a net increase of $9.0 million, compared to $26.8 million for the year ended December 31, 2012. Management fees increased $9.0 million due to an increase in average AUM primarily as a result of net client inflows and positive performance.
Expenses

Expenses were $47.7 million for the year ended December 31, 2013, a net increase of $11.1 million, compared to $36.6 million for the year ended December 31, 2012. The increase of $11.1 million in expenses was primarily attributable to an increase of $6.6 million in net compensation and benefits expense, as well as an increase of $4.5 million in general and administrative expenses and corporate allocable expenses as a result of an increase in average headcount within Logan Circle (including the growth equities business which commenced in April 2013) during the year ended December 31, 2013 as compared to the prior period.
Year Ended December 31, 2012 compared to Year Ended December 31, 2011

Pre-tax distributable loss decreased by $7.5 million primarily due to:

Revenues

Management fees were $26.8 million for the year ended December 31, 2012, a net increase of $6.7 million, compared to $20.1 million for the year ended December 31, 2011. Management fees increased by $6.7 million due to an increase in AUM as a result of net client inflows and positive performance.

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Expenses

Expenses were $36.6 million for the year ended December 31, 2012, a net decrease of $0.7 million, compared to $37.3 million for the year ended December 31, 2011. The decrease of $0.7 million in expenses was primarily attributable to (i) a net decrease of $0.8 million in general and administrative expenses and (ii) a net decrease of $0.8 million in corporate allocable expenses as a result of a decrease in overall corporate expenses and a decrease in average headcount within Logan Circle. These decreases were partially offset by a net increase of $0.9 million in compensation and benefits expense.

Principal Investments

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

	Year Ended December 31,			Variance	
	2013	2012	2011	2013/2012	2012/2011
Pre-tax distributable earnings (loss)	$30,915	$708	$(10,681)	$30,207	$11,389

Year Ended December 31, 2013 compared to Year Ended December 31, 2012

Pre-tax distributable income increased by $30.2 million primarily due to:

- an $18.9 million increase in net investment income from realizations and the performance of our investments in our funds. The $18.9 million net increase in investment income was due to (i) a net increase of $9.3 million in distributions from realization events in our credit PE funds, private equity funds, and special investments in our hedge funds, and (ii) a net increase of $11.3 million in realized gains on investments due to a partial sale of our GAGFAH stock held. These increases were partially offset by a net decrease of $1.7 million attributable to our investments in our hedge funds for the year ended December 31, 2013 as compared to the prior period;
- a $0.2 million increase in net investment income primarily as a result of a decrease in recorded impairments with respect to our special investments in our hedge funds and certain illiquid investments for the year ended December 31, 2013 as compared to the prior period;
- a $10.3 million increase in net investment income due to a decrease in interest expense primarily as a result of a decrease in the average debt balance and average interest rate for the year ended December 31, 2013 as compared to the prior comparable period;
- a $0.6 million increase in net investment income primarily due to the receipt of dividend income earned from a private investment for the year ended December 31, 2013 and an increase in dividend income from our direct investments in Newcastle and New Residential common stock as well as investments held by the new Logan Circle growth equities business for the year ended December 31, 2013, as compared to the prior period;
- a $3.2 million increase in net investment income due to net realized and unrealized gains on our equity securities managed by Logan Circle’s growth equities business; and
- a $1.8 million decrease in net investment income due to our foreign currency hedges and foreign currency translation adjustments.

Year Ended December 31, 2012 compared to Year Ended December 31, 2011

Pre-tax distributable loss decreased by $11.4 million primarily due to:

- a $0.6 million increase in net investment income from realizations and the performance of our investments in our funds. The $0.6 million net increase in investment income was due to a net increase of $5.7 million attributable to our investments in our hedge funds, offset by a net decrease of $5.1 million from realization events in our credit PE funds, private equity funds, and special investments in our hedge funds for the year ended December 31, 2012 as compared to the prior comparative period.

- a $2.2 million increase in net investment income primarily as a result of a decrease in recorded impairments with respect to our special investments in our hedge funds for the year ended December 31, 2012 as compared to the prior comparative period;
- a $2.8 million increase in net investment income due to a net decrease in interest expense primarily driven by a decrease in average debt balance during the year ended December 31, 2012 as compared to the prior comparable period;

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- a $0.4 million decrease in net investment income due to a decrease in dividend income earned primarily from our direct investment in GAGFAH common stock, partially offset by an increase in dividend income earned from our direct investment in Newcastle common stock; and
- a $5.7 million increase in net investment income due to our foreign currency hedges and foreign currency translation adjustments.

The following table reflects all of our investments which are not marked to market through distributable earnings for segment reporting purposes as of December 31, 2013:

Fund	Fortress Share of NAV (A)	Fortress Segment Cost Basis (B)	Excess (C)	(Deficit) (C)
Main Funds				
Fund II	$ 1,215	$ —	$ 1,215	N/A
Fund III and Fund III Coinvestment	13,298	2,288	11,010	N/A
Fund IV and Fund IV Coinvestment	136,481	58,451	78,030	N/A
Fund V and Fund V Coinvestment (D)	178,970	52,021	126,949	N/A
Long Dated Value Funds	20,527	12,557	7,970	N/A
Real Assets Funds	19,305	5,726	13,579	N/A
Credit Opportunities Funds	90,601	50,042	40,564	(5)
Mortgage Opportunities Funds	4,785	—	4,785	N/A
Asia Funds (Japan Opportunity Funds, Global Opportunities Fund)	15,755	10,814	4,941	N/A
WWTAI	3,801	3,323	478	N/A
Real Estate Opportunities Funds	5,227	4,838	389	N/A
MSR Opportunities Funds	713	718	7	(12)
Other Funds (combined)				
GAGFAH (XETRA: GFJ)	9,430	112	9,318	N/A
Brookdale (NYSE: BKD)	35,240	8,136	27,104	N/A
Private investment #1	278,704	207,357	71,347	N/A
Private investment #2	108,601	44,770	63,831	N/A
Permanent capital vehicles				
Eurocastle (EURONEXT: ECT)	2,506	78	2,428	N/A
Newcastle (NYSE: NCT)	5,953	342	5,611	N/A
New Residential (NYSE: NRZ)	6,928	413	6,515	N/A
Other				
Hedge fund side pocket investments	98,273	56,050	44,046	(1,823)
Direct investments - GAGFAH	61,620	20,546	41,074	N/A
Direct investments- Other	69,868	25,428	46,474	(2,034)
Total	$ 1,167,801	$ 564,010	$ 607,665	$ (3,874)

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

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

(C)

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

(D) Includes Fund V (GLPI Sisterco) and Fund V Coinvestment (GLPI Sisterco).

Sensitivity

For an analysis of the sensitivity of segment revenues to changes in the estimated fair value of the Fortress Fund investments, see Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

Liquidity and Capital Resources

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

The receipt of management fees generally occurs on a fixed and fairly predictable schedule, subject to changes in the NAV of the Fortress Funds (due to performance or capital transactions). From time to time, we may elect, in our discretion, to defer the receipt of management or other fees or reimbursements, to which we are legally entitled, in order to optimize the operations of the underlying funds. As of December 31, 2013, the aggregate amount of management fees that various of our managed funds owed but had not yet paid was approximately $38.0 million, excluding $12.2 million which has been fully reserved by us, and the ultimate timing of their payment is currently uncertain. In addition, $16.7 million of private equity general and administrative expenses had been advanced on behalf of certain funds, excluding $6.3 million which has been fully reserved by Fortress. Subsequent to December 31, 2013, $6.4 million of past due management fees from one fund were collected. The amount of deferred management fees and reimbursements may increase in the future. Also, while we still believe that we will receive these amounts, if these deferrals continue or increase, they could meaningfully constrain our liquidity in the future.

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

We expect that our cash on hand and our cash flows from operating activities, capital receipts from balance sheet investments and available financing will be sufficient to satisfy our liquidity needs with respect to expected current commitments relating to investments and with respect to our debt obligations over the next twelve months. We estimate that our expected management fee receipts over the next twelve months, a portion of which may be deferred, will be sufficient (along with our cash on hand of $364.6 million at December 31, 2013, our available draws under our credit facility of $147.3 million as of December 31, 2013, and capital receipts from our balance sheet investments) to meet our operating expenses (including compensation and lease obligations), required debt payments, tax distribution requirements, incentive income clawback obligations (if any), and fund capital commitments, in each case to be funded during the next twelve months (see obligation tables below). From time to time, we evaluate alternative uses for excess cash resources, including debt prepayments, payment of recurring or special dividends, funding investments or share repurchases, which may be subject to approval by our board of directors and will depend on various factors.

These uses of cash would not (barring changes in other relevant variables, such as EBITDA and Consolidated EBITDA, as defined in our credit agreement) cause us to violate any of our financial covenants under our credit agreement. We believe that the compensation we will be able to pay from these available sources will be sufficient to retain key employees and maintain an effective workforce. We may elect, if we deem it appropriate, to defer certain payments due to our principals and affiliates or raise capital to enable us to make payments required under our credit agreement or for other working capital needs.

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

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

As of December 31, 2013, our material cash commitments and contractual cash requirements were related to our capital commitments to our funds, lease obligations and debt obligations. Our potential liability for the contingent repayment of incentive income is discussed under “— Contractual Obligations” below.

Capital Commitments

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

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

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Our capital commitments to our funds with outstanding commitments as of December 31, 2013 consisted of the following.

	Outstanding Commitment
Private Equity Funds	
Fund III Coinvestment	$2
Fund IV	4,053
Fund IV Coinvestment	3
Fund V (A)	6,143
Fund V Coinvestment (A)	2
FRID (GAGFAH)	812
FHIF (Holiday)	8,089
FECI (Florida East Coast / Flagler)	1,551
WWTAI	4,271
MSR Opportunities Fund I A	20
MSR Opportunities Fund I B	20
MSR Opportunities Fund II A	12,179
MSR Opportunities Fund II B	96
MSR Opportunities MA I	2,918
A&K Global Health	250
Credit PE Funds	
Credit Opportunities Fund	6,439
Credit Opportunities Fund II	6,357
Credit Opportunities Fund III	11,882
FCO Managed Accounts	43,091
Long Dated Value Fund I	460
Long Dated Value Fund II	1,640
Long Dated Value Fund III	160
LDVF Patent Fund	96
Real Assets Fund	21,088
Japan Opportunity Fund	2,876
Japan Opportunity Fund II	14,119
Net Lease Fund I	486
Global Opportunities Fund	1,843
Life Settlements Fund	65
Life Settlements Fund MA	43
Real Estate Opportunities Fund	1,296
Real Estate Opportunities REOC Fund	116
Karols Development Co	7,745
Other	245
Total	$160,456

(A) Fund V includes Fund V (GLPI Sisterco) and Fund V Coinvestment includes Fund V Coinvestment (GLPI Sisterco).

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Lease Obligations

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

Year Ending December 31,	
2014	$24,681
2015	21,879
2016	20,349
2017	3,160
2018	791
Thereafter	38
Total	$70,898

Debt Obligations

As of December 31, 2013, our debt obligations consisted of our credit agreement, as described below.

In February 2013, we entered into a new $150.0 million revolving credit facility (the “Credit Agreement”) with a $15.0 million letter of credit subfacility. The Credit Agreement generally bears interest at an annual rate equal to LIBOR plus an applicable rate that fluctuates depending upon our credit rating, and a commitment fee on undrawn amounts that fluctuates depending upon our credit rating, as well as other customary fees. In connection with the closing of the Credit Agreement, approximately $2.4 million of fees and expenses were incurred. In January 2014, in connection with the launch of the affiliated manager platform with the Fortress Asia Macro Funds, we entered into an amendment, consent, and waiver to the Credit Agreement. Pursuant to the amendment, the required lenders under the Credit Agreement consented to the Fortress Asia Macro Funds transaction and conforming amendments, primarily certain definitions relating to the financial covenants in order to account for the portion of the business in which we will retain an economic interest.

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

The following table presents information regarding our debt obligations:

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

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

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

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

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

In February 2014, we borrowed $75.0 million from our existing revolving credit facility.

During the year ended December 31, 2013, the average face amount of our outstanding debt was approximately $68.5 million and the highest face amount outstanding at one time during this period was $149.5 million. During this period, we did not incur any new short-term borrowings other than the promissory note described below.

On December 21, 2012, one of our Principals retired and we agreed to purchase all of his 2,082,684 Class A shares and his 49,189,480 Fortress Operating Group units at $3.50 per share, or an aggregate of $179.5 million. In connection with this purchase, we paid $30.0 million of cash and issued a $149.5 million promissory note to the former Principal, which bore interest at 5%. In July 2013, Fortress repaid the promissory note in full, plus accrued interest. As such, this note is no longer outstanding.

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As a result of our initial public offering and related transactions, secondary public offerings, and other transactions, FIG Asset Co. LLC lent aggregate excess proceeds of approximately $588.1 million to FIG Corp., pursuant to a demand note. As of December 31, 2013, the outstanding balance was approximately $493.2 million, including unpaid interest. This intercompany debt is eliminated in consolidation.

Covenants

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

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

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

- Permit AUM (as defined as Management Fee Earning Assets in the Credit Agreement) to be less than $25.0 billion as of the end of any calendar month;
- Permit the Consolidated Leverage Ratio (a measure of Adjusted Net Funded Indebtedness compared to Consolidated EBITDA, each such term as defined in the Credit Agreement) to be greater than 2.00 to 1.0 as of the end of any fiscal quarter for the four quarter period ending on such date; or
- Permit the Consolidated Interest Coverage Ratio (a measure of Consolidated EBITDA compared to Consolidated Interest Charges, each such term as defined in the Credit Agreement) to be less than 4.00 to 1.0 as of the end of any fiscal quarter for the four quarter period ending on such date.

The following table sets forth the financial covenant requirements under the Credit Agreement as of December 31, 2013.

	December 31, 2013 (dollars in millions)			
	Requirement		Actual	Notes
AUM, as defined	≥	$25,000	$44,725	(A)
Consolidated Leverage Ratio	≤	2.00	—	(B)
Consolidated Interest Coverage Ratio	≥	4.00	75.71	(B)

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

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

	December 31, 2013 (in millions)
Outstanding debt	$—
Plus: Outstanding letters of credit	2.7
Less: Cash (up to $50 million)	(2.7)
Adjusted Net Funded Indebtedness	$—

	Year Ended December 31, 2013 (in millions)
Fortress Investment Group LLC net income	$200.4
Depreciation and amortization, interest expense and income taxes	84.9
Extraordinary or non-recurring gains and losses	0.1
Incentive Income Adjustment	21.4
Other Income Adjustment	(234.1)
Compensation expenses recorded in connection with the assignment of certain permanent capital vehicle Options and Stock Based Compensation	45.9
Non-controlling interest and tax receivable agreement adjustments at FIG Corp.	285.5
(Income) loss of excluded entities (as defined in the Credit Agreement)	0.8
Consolidated EBITDA	$404.9
Interest charges	$5.3

The foregoing summary is not complete and is qualified in its entirety by reference to the Credit Agreement, which is filed as an exhibit hereto.

Dividends / Distributions

2013

On February 26, 2014 Fortress declared a fourth quarter cash dividend of $0.08 per Class A share. This dividend is payable on March 14, 2014 to holders of record of our Class A shares on March 11, 2014. The aggregate amount of this dividend payment is approximately $14.4 million. In connection with this dividend, dividend equivalent payments of approximately $0.9 million will be paid to holders of restricted Class A share units.

On October 30, 2013, Fortress declared a third quarter cash dividend of $0.06 per Class A share. The dividend was payable on November 15, 2013 to holders of record of our Class A shares on November 12, 2013. The aggregate amount of this dividend payment was approximately $14.4 million. In connection with this dividend, dividend equivalent payments of approximately $0.4 million were paid to holders of restricted Class A share units.

On July 31, 2013, we declared a second quarter cash dividend of $0.06 per Class A share. The dividend was payable on August 16, 2013 to shareholders of record of our Class A shares on August 13, 2013. The aggregate amount of this dividend payment was approximately $14.3 million. In connection with this dividend, dividend equivalent payments of approximately $0.4 million were paid to holders of restricted Class A share units.

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

During the year ended December 31, 2013, Fortress Operating Group declared distributions of $77.9 million to the principals and one senior employee.

2012

On February 26, 2013, we declared a fourth quarter cash dividend of $0.06 per Class A share. The dividend was payable on March 15, 2013 to holders of record of our Class A shares on March 12, 2013. The aggregate amount of this dividend payment was approximately $13.4 million. In connection with this dividend, dividend equivalent payments of approximately $0.5 million were paid to holders of restricted Class A share units.

On November 1, 2012, we declared a third quarter cash dividend of $0.05 per Class A share. The dividend was payable on November 19, 2012 to holders of record of our Class A shares on November 14, 2012. The aggregate amount of this dividend payment was approximately $11.0 million. In connection with this dividend, dividend equivalent payments of approximately $0.3 million were paid to holders of restricted Class A share units.

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On August 1, 2012, we declared a second quarter cash dividend of $0.05 per Class A share. The dividend was payable on August 20, 2012 to holders of record of our Class A shares on August 15, 2012. The aggregate amount of this dividend payment was approximately $11.0 million. In connection with this dividend, dividend equivalent payments of approximately $0.3 million were paid to holders of restricted Class A share units.

On May 2, 2012, we declared a first quarter cash dividend of $0.05 per Class A share. The dividend was payable on May 21, 2012 to holders of record of our Class A shares on May 16, 2012. The aggregate amount of this dividend payment was approximately $10.7 million. In connection with this dividend, dividend equivalent payments of approximately $0.4 million were paid to holders of restricted Class A share units.

During the year ended December 31, 2012, Fortress Operating Group declared distributions of $48.4 million to the principals and one senior employee.

2011

On February 28, 2012, we declared a fourth quarter 2011 cash dividend of $0.05 per Class A share. The dividend was payable on March 15, 2012 to holders of record of our Class A shares on March 12, 2012. The aggregate amount of this dividend payment was $9.6 million. In connection with this dividend, dividend equivalent payments of approximately $0.7 million were paid to holders of restricted Class A share units.

During the year ended December 31, 2011, Fortress Operating Group declared distributions of $48.0 million to the principals and one senior employee in connection with tax obligations.

Cash Flows

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

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

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

Operating Activities

Our net cash flow provided by (used in) operating activities was $432.9 million, $142.0 million and $168.2 million during the years ended December 31, 2013, 2012 and 2011, respectively.

Operating Activities — Comparative — 2013 vs. 2012

Cash received for affiliate and non-affiliate management fees decreased by $14.1 million from $541.3 million in 2012 to $527.2 million in 2013. Management fees are based on average fee paying AUM, which, based on a simple quarterly average, increased within our alternative and traditional investment businesses from 2012 to 2013 (private equity funds increased by $1.0 billion, permanent capital vehicles decreased by $(0.1) billion, liquid hedge funds increased by $1.4 billion, credit hedge funds decreased by $(0.1) billion, credit PE funds increased by $0.8 billion, and Logan Circle increased by $4.8 billion) as a result of capital raising, including new fund formation, and returns, offset by redemptions, capital distributions, and losses. The average management fee rate earned by Logan Circle is significantly lower than that earned by Fortress's alternative asset management businesses. In addition to changes in AUM, management fee receipts were impacted by approximately $38.0 million of management fees that were past due at December 31, 2013, as opposed to $31.5 million at December 31, 2012, as discussed in "— Liquidity and Capital Resources" above.

Incentive income is calculated as a percentage of returns, or profits, earned by the Fortress Funds and non-affiliates or is based on profitable realization events within private equity funds and credit PE funds and based on cash realizations in Value Recovery Funds. A $78.0 million increase in cash incentive income received was mainly due to increased realizations within the credit PE funds in 2013.

Cash received as Distributions of Earnings from Equity Method Investments increased $24.8 million from 2012 as a result of realization events within certain funds.

Cash paid for compensation decreased by $210.4 million from the twelve months ended December 31, 2012 to December 31, 2013. Bonuses and profit sharing payments are generally paid in January or February of the year following the year in which they are earned, so the amounts paid in 2013 and 2012 primarily related to bonuses and profit sharing earned in 2012 and 2011, respectively. However, a portion (approximately $176.2 million) of the bonuses and profit sharing earned in 2012 were also paid in 2012.

Cash paid for interest decreased $10.1 million primarily due to a lower average debt balance of $68.5 million in 2013 compared to $167.8 million in 2012.

The receipt in 2012 of prior period receivables for expense reimbursements resulted in a $65.2 million decrease in 2013 for cash received.

In addition, Fortress made a payment of $21.8 million under the tax receivable agreement during the twelve months ended December 31, 2013, compared to $34.4 million during the twelve months ended December 31, 2012.

Operating Activities - Comparative - 2012 vs. 2011

Cash received for affiliate and non-affiliate management fees increased by $73.8 million from $467.5 million in 2011 to $541.3 million in 2012. The primary driver of the increase was the receipt in 2012 of prior period receivables, mainly resulting from realization events within certain Fortress funds that were previously experiencing liquidity issues. Management fees are based on average fee paying AUM, which, based on a simple quarterly average, increased within our alternative and traditional investment businesses from 2011 to 2012 (private equity funds increased by $0.2 billion, permanent capital vehicles increased by $0.2 billion, liquid hedge funds decreased by $(1.3) billion, credit hedge funds decreased by $(0.5) billion, credit PE funds increased by $1.2 billion, and Logan Circle increased by $5.1 billion) as a result of capital raising, including new fund formation, and returns, offset by redemptions, capital distributions, and losses. The average management fee rate earned by Logan Circle is significantly lower than that earned by Fortress's alternative asset management businesses. In addition to changes in AUM, management fee receipts were impacted by the collection of past due fees and the termination of an advisory agreement. Approximately $31.5 million of management fees were past due at December 31, 2012, as opposed to $95.2 million at December 31, 2011, as discussed in "- Liquidity and Capital Resources" above. In addition, management fees decreased $14.7 million related to an advisory agreement that concluded in 2011.

The receipt in 2012 of prior-period receivables described above also resulted in a $91.0 million increase in cash received for expense reimbursements.

Incentive income is calculated as a percentage of profits earned by the Fortress Funds and non-affiliates or is based on profitable realization events within private equity funds and credit PE funds and based on cash realizations in Value Recovery Funds. A $68.2 million decrease in cash incentive income received was mainly due to reduced realizations within the credit PE funds in 2012.

Cash received as Distributions of Earnings from Equity Method Investments increased $36.1 million from 2011 as a result of realization events within certain funds.

Cash paid for compensation increased by $157.2 million in the year ended December 31, 2012 compared to December 31, 2011. Bonuses and profit sharing payments are generally paid in January or February of the year following the year in which they are earned, so the amounts paid in 2012 and 2011 primarily related to bonuses and profit sharing earned in 2011 and 2010, respectively. However, a portion (approximately $176.2 million) of the bonuses and profit sharing earned in 2012 were also paid in 2012.

Cash paid for interest decreased approximately $2.4 million primarily due to a lower average debt balance of $167.8 million in 2012 compared to $273.7 million in 2011.

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Investing Activities

Our net cash flow provided by (used in) investing activities was $211.7 million, $66.5 million and $80.5 million during the years ended December 31, 2013, 2012 and 2011 respectively. Our investing activities primarily included: (i) contributions to equity method investees of $(37.1) million, $(63.8) million and $(82.6) million during the years ended December 31, 2013, 2012 and 2011 respectively, (ii) distributions of capital from equity method investees of $281.5 million, $140.7 million and $180.9 million during these periods, respectively, (iii) the purchase of $40.0 million of equity securities and digital currency during 2013, (iv) proceeds from the sale of a portion of our GAGFAH direct investment of $18.9 million during 2013 and, (v) purchases of fixed assets, net of proceeds from the disposal of fixed assets, of $(11.5) million, $(10.4) million and $(17.7) million during these periods, respectively.

Financing Activities

Our net cash flow provided by (used in) financing activities was $(384.3) million, $(437.4) million and $(126.2) million during the years ended December 31, 2013, 2012 and 2011, respectively. Our financing activities primarily included (i) distributions made to principals and one senior employee, including those classified within “principals’ and others’ interests in consolidated subsidiaries,” of $(104.7) million, $(45.8) million and $(61.5) million during these periods, respectively, (ii) distributions to employees and others related to their interests in consolidated subsidiaries of $(70.2) million, $(48.8) million and $(62.0) million during these periods, respectively, (iii) contributions from employees and others related to their interests in consolidated subsidiaries of $0.4 million, $0.4 million and $13.5 million during these periods, respectively, (iv) dividend and dividend equivalent payments of $(57.9) million, $(44.2) million and $0.0 million, during these periods, respectively, and (v) our net borrowing and debt repayment, including payments for deferred financing costs. In addition, in 2012, Fortress paid $7.8 million of withholding tax on behalf of employees with respect to the delivery of RSUs, effectively repurchasing Class A shares, and paid $30.0 million to a former Principal in exchange for all of his Class A shares, Class B shares and Fortress Operating Group units.

Critical Accounting Policies

Consolidation

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

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

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

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

As of December 31, 2013, the investment vehicles in which Fortress held an interest were comprised of 47 VIEs and 126 voting interest entities. For a more detailed discussion about our VIEs and other unconsolidated entities please see Note 4 to Part II, Item 8, "Financial Statements and Supplementary Data - Investments and Fair Value."

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Revenue Recognition on Incentive Income

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

Profit Sharing Arrangements

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

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

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

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

For further information on amounts paid and payable in the future under our profit sharing arrangements, please see Note 3 to Part II, Item 8, “Financial Statements and Supplementary Data — Management Agreements and Fortress Funds.”

Valuation of Investments

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

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

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

Private Equity Funds

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

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

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

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

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

Liquid Hedge Funds

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

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

Credit Hedge Funds

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

Private loans - The most common method used to value private loans is a discounted cash flow analysis. In this method, the estimated future payments to be made by the borrower under the loan agreement are discounted to the present using a discount rate appropriate to the risk level of the borrower and current market interest rates.
If it is likely that a borrower will not be able to repay a loan in full, the loan may be valued by estimating how much the borrower will be able to repay based on obtaining refinancing from a new lender. Under this method, the borrower's business must be examined in detail, and then compared to known loans in the market to estimate how much the borrower will likely be able to borrow, and therefore repay under the existing loan. If the amount likely to be able to be refinanced is less than the total payments due under the loan, the fair value of the loan will be reduced.

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

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

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

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

Credit PE Funds

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

Traditional Asset Management Business

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

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Sensitivity

Changes in the fair value of our funds' investments would impact our results of operations as described in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

As discussed above, the determination of investment fair values involves management's judgments and estimates. The degree of judgment involved is dependent upon the availability of quoted market prices or observable market parameters. The following table summarizes the investments held by the Fortress Funds by valuation methodology as of December 31, 2013. As of December 31, 2013, operations of our traditional asset management business are not material to our operations and are therefore not included in the analysis below.

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

			Liquid Hedge Funds (B)											
	Private Equity		Fortress Partners		Other Funds				Credit Hedge		Credit PE		Total Investment Company	
Basis for Determining Fair Value	Funds		Funds		Long		Short		Funds		Funds		Holdings	
1. Quoted market prices	10	%	5	%	82	%	87	%	5	%	4	%	11	%
2. Other observable market parameters	30	%	19	%	14	%	13	%	9	%	9	%	19	%
3. Significant unobservable market parameters (A)	60	%	76	%	4	%	—	%	86	%	87	%	70	%
Total	100	%	100	%	100	%	100	%	100	%	100	%	100	%

(A) A substantial portion of our funds' level 3 investment valuations are based on third party pricing services, broker quotes, or third party fund manager statements, in addition to internal models. In particular, approximately, 99% and 98% of our credit hedge funds' and credit PE funds', respectively, level 3 valuations were based on such sources.

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

As of December 31, 2013, $10.0 billion of investments in our private equity funds, $1.1 billion of investments in our liquid hedge funds, $8.2 billion of investments in our credit hedge funds, and $8.1 billion of investments in our credit PE funds are valued with significant unobservable market parameters. A 10% increase or decrease in the value of investments held by the Fortress Funds valued at level 3 would have had the following effects on our results of operations on an unconsolidated basis for the year ended December 31, 2013, consistent with the table above:

	Private Equity Funds	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds
Management fees, per annum on a prospective basis	$3.6 million or ($3.3 million) (A)	$1.0 million or ($1.0 million)	$15.2 million or ($15.2 million)	$0.1 million or ($1.6 million) (A)
Incentive income	N/A (B)	$0.0 million or ($0.0 million)	$70.5 million or ($71.4 million)	N/A (B)
Earnings from equity method investees	$57.0 million or ($57.0 million)	$8.5 million or ($8.5 million)	$3.3 million or ($3.3 million)	$13.0 million or ($13.0 million)

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

(A) Private equity fund and credit PE fund management fees would be generally unchanged as, for investments in non-publicly traded securities, they are generally not based on the value of the funds, but rather on the amount of capital invested in the funds. However, if the NAV of a portfolio company of certain private equity funds or credit PE funds is reduced below its invested capital, there would be a reduction in management fees. As of December 31, 2013, $3.2 billion of such portfolio companies valued at level 3 were carried at or below their invested capital and are in funds which are no longer in their commitment period. Management fees are generally calculated as of certain reset dates. The amounts disclosed show what the estimated effects would be to management fees over the next year assuming December 31, 2013 is the current reset date.

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

Income Taxes

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

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

We project that we will have sufficient future taxable ordinary income in the normal course of business without any projected significant change in circumstances to fully realize the portion of the deferred tax asset that would be realized in connection with future ordinary income. Our projections do not include material changes in AUM or incentive income from the current levels. However, the projections do contain an estimated marginal growth assumption. Based on our historical and projected taxable income, we have concluded that the realization of the portion of the deferred tax asset that would be realized in connection with future taxable ordinary income is more likely than not. If our estimates change in the future and it is determined that it is more likely than not that some portion, or all, of this portion of the deferred tax asset will not be realized, a valuation allowance would be recorded for that portion. However, in most cases, any tax expense recorded in connection with the establishment of a valuation allowance or the reversal of a deferred tax asset would be partially offset by other income recorded in connection with a corresponding reduction of a portion of the tax receivable agreement liability (see below). The following table sets forth our federal taxable income for historical periods before deductions relating to the establishment of the deferred tax assets, other than deferred tax assets arising from equity-based compensation, as well as the average of ordinary income needed over the approximate period of the deductibility (approximately 15 years from the date of establishment, based on the amortization period of the tax basis intangible assets recorded) in order to fully realize the portion of the deferred tax asset that would be realized in connection with future ordinary income (in millions):

2009	$24.8
2010	77.6
2011	53.5
2012	80.9
2013: Estimated	77.7
2014 - 2021: Average Required	$80.7

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

For further information on our effective tax rate, and the tax receivable agreement, see Note 6 to our financial statements in Part II, Item 8, “Financial Statements and Supplementary Data — Income Taxes and Tax Related Payments.” Our effective tax rate for GAAP reporting purposes may be subject to significant variation from period to period. In addition, legislation has been introduced in the United States, which, if enacted in its current or similar form, could cause us to incur a material increase in our tax liability. See Part I, Item 1A, “Risk Factors — Risks Related to Taxation — Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis.”

Equity-Based Compensation

We currently have several categories of equity-based compensation which are described in Note 8 to Part II, Item 8, “Financial Statements and Supplementary Data — Equity-Based and Other Compensation.” The aggregate fair value of each of the RSU grants that are subject to service conditions is reduced by an estimated forfeiture factor (that is, the estimated amount of awards which will be forfeited prior to vesting). The estimated forfeiture factor is based upon historic turnover rates within our company adjusted for the expected effects of the grants on turnover, if any, and other factors in the judgment of management. The estimated forfeiture factor is updated at each reporting date.

The risk-free discount rate assumptions used in valuing certain awards were based on the applicable U.S. Treasury rate of like term. The dividend yield assumptions used in valuing certain awards were based on our actual dividend rate at the time of the award; the dividend growth rate used with respect to one type of award was based on management's judgment and expectations.

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

- the determination of the grant date;
- the estimated forfeiture factor;
- the discount related to RSUs which do not entitle the recipients to dividend equivalents prior to the delivery of Class A shares. This discount was based on the estimated present value of dividends to be paid during the service period, which in turn was based on an estimated initial dividend rate, an estimated dividend growth rate and a risk-free discount rate of like term;

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

Recent Accounting Pronouncements

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

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

Market Risks

Our predominant exposure to market risk is related to our role as investment manager for the Fortress Funds and the sensitivities to movements in the fair value of their investments on management fee and incentive income revenue, as well as on returns on our principal investments in such funds. For a discussion of the impact of market risk factors on our financial instruments refer to Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk" and “— Critical Accounting Policies — Valuation of Investments” above.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

See Note 10 to Part II, Item 8 “Financial Statements and Supplementary Data” for a discussion of our commitments and contingencies.

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Contractual Obligations

As of December 31, 2013, our material contractual obligations are our lease obligations, our tax receivable agreement obligations, and our capital commitments to our funds as described above. Furthermore, we have potential clawback obligations with respect to our private equity deferred incentive income received to date. Fixed and determinable payments due in connection with these obligations are as follows:

	Payments due by period				
Contractual Obligations	Total	2014	2015 and 2016	2017 and 2018	Thereafter
Operating lease obligations (1)	$70,898	$24,681	$42,228	$3,951	$38
Deferred incentive income (2)	83,350	—	83,350	—	—
Service contracts	41,634	30,180	11,125	267	62
Tax receivable agreement obligations (3)	241,006	26,481	42,991	43,171	128,363
Capital commitments to Fortress Funds (4)	160,456	160,456	—	—	—
Total	$597,344	$241,798			