Fortress Investment Group LLC
Form 10-Q
May 01, 2014

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

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-33294
Fortress Investment Group LLC
(Exact name of registrant as specified in its charter)

Delaware	20-5837959
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1345 Avenue of the Americas, New York, NY	10105
(Address of principal executive offices)	(Zip Code)

(212) 798-6100
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.
Class A Shares: 204,347,285 outstanding as of April 25, 2014.
Class B Shares: 226,331,513 outstanding as of April 25, 2014.

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

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

(i) the capital commitments or invested capital (or net asset value, "NAV," if lower) of our private equity funds and credit PE funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with private equity funds raised after March 2006 includes the mark-to-market value of public securities held within the funds,
(ii) the contributed capital of our publicly traded 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 II, Item 1A, “Risk Factors,” Part I, Item 2, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” Part I, Item 3, “Quantitative and Qualitative Disclosures About Market Risk” and elsewhere in this Quarterly Report on Form 10-Q may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. Readers can identify these forward-looking statements by the use of forward-looking words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or th version of those words or other comparable words. Any forward-looking statements contained in this report are based upon the historical performance of us and our subsidiaries and on our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these statements. Accordingly, you should not place undue reliance on any forward-looking statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

SPECIAL NOTE REGARDING EXHIBITS

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

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Investment Manager		
Cash and cash equivalents	$184,648	$364,583
Due from affiliates	143,603	407,124
Investments	1,249,685	1,253,266
Investments in options	99,558	104,338
Deferred tax asset, net	391,970	354,526
Other assets	165,836	190,595
	2,235,300	2,674,432
Non-Investment Manager - consolidated VIE		
Cash and cash equivalents	21,947	—
Fixed assets, net	267,289	—
Goodwill	119,502	—
Intangible assets, net	146,098	—
Other assets, net	108,409	—
	663,245	—
Total Assets	$2,898,545	$2,674,432
Liabilities and Equity		
Investment Manager		
Accrued compensation and benefits	$129,205	$417,309
Due to affiliates	352,160	344,832
Deferred incentive income	284,200	247,556
Debt obligations payable	125,000	—
Other liabilities	125,621	49,830
	1,016,186	1,059,527
Non-Investment Manager - consolidated VIE		
Deferred revenue	31,985	—
Debt obligations payable	181,978	—
Accrued expenses and other liabilities	67,258	—
	281,221	—
Total Liabilities	1,297,407	1,059,527

Commitments and Contingencies

Continued on next page.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	March 31, 2014 (Unaudited)	December 31, 2013
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 204,347,285 and 240,741,920 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	—	—
Class B shares, no par value, 750,000,000 shares authorized, 226,331,513 and 249,534,372 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	—	—
Paid-in capital	2,060,626	2,112,720
Retained earnings (accumulated deficit)	(1,448,152)	(1,286,131)
Accumulated other comprehensive income (loss)	(1,834)	(1,522)
Total Fortress shareholders' equity	610,640	825,067
Principals' and others' interests in equity of consolidated subsidiaries	610,192	789,838
Non-controlling interests in equity of Non-Investment Manager - consolidated VIE	380,306	—
Total Equity	1,601,138	1,614,905
Total Liabilities and Equity	$2,898,545	$2,674,432

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

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

	Three Months Ended March 31,	
	2014	2013
Revenues		
Investment Manager		
Management fees: affiliates	$ 128,945	$ 143,602
Management fees: non-affiliates	17,622	14,815
Incentive income: affiliates	34,251	31,357
Incentive income: non-affiliates	643	1,429
Expense reimbursements: affiliates	51,186	50,666
Expense reimbursements: non-affiliates	2,448	1,371
Other revenues (affiliate portion disclosed in Note 7)	1,250	1,115
	236,345	244,355
Non-Investment Manager - consolidated VIE		
Advertising	43,836	—
Circulation	22,144	—
Commercial printing and other	7,841	—
	73,821	—
Total Revenues	310,166	244,355
Expenses		
Investment Manager		
Compensation and benefits	188,519	181,079
General, administrative and other	37,823	33,998
Depreciation and amortization	4,301	3,239
Interest expense	691	2,295
	231,334	220,611
Non-Investment Manager - consolidated VIE		
Operating costs	43,573	—
General, administrative and other	25,116	—
Depreciation and amortization	5,213	—
Interest expense	2,134	—
	76,036	—
Total Expenses	307,370	220,611

Continued on next page.

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FORTRESS INVESTMENT GROUP LLC

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

	Three Months Ended March 31,	
	2014	2013
Other Income (Loss)		
Investment Manager		
Gains (losses) (affiliate portion disclosed in Note 4)	(11,244)	41,275
Tax receivable agreement liability adjustment	—	(7,739)
Earnings (losses) from equity method investees	20,374	36,302
Total Other Income (Loss)	9,130	69,838
Income (Loss) Before Income Taxes	11,926	93,582
Income tax benefit (expense) - Investment Manager	(5,994)	(26,276)
Income tax benefit (expense) - Non-Investment Manager - consolidated VIE	239	—
Total Income Tax Benefit (Expense)	(5,755)	(26,276)
Net Income (Loss)	$6,171	$67,306
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	$5,969	$52,977
Non-Controlling Interests in Income (Loss) of Non-Investment Manager - consolidated VIE	$(2,734)	$—
Net Income (Loss) Attributable to Class A Shareholders	$2,936	$14,329
Dividends declared per Class A share	$0.08	$0.06
Earnings (Loss) Per Class A share		
Net income (loss) per Class A share, basic	$0.01	$0.06
Net income (loss) per Class A share, diluted	$0.01	$0.05
Weighted average number of Class A shares outstanding, basic	216,934,917	227,287,102
Weighted average number of Class A shares outstanding, diluted	229,033,778	496,294,600

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

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

	Three Months Ended March 31,	
	2014	2013
Comprehensive income (loss) (net of tax)		
Net income (loss)	$6,171	$67,306
Investment Manager		
Foreign currency translation	(1,032)	(2,856)
Comprehensive income (loss) from equity method investees	—	4,225
Total comprehensive income (loss)	$5,139	$68,675
Comprehensive income (loss) attributable to principals' and others' interests	$5,310	$53,834
Comprehensive income (loss) attributable to non-controlling interests in Non-Investment Manager - consolidated VIE	$(2,734)	$—
Comprehensive income (loss) attributable to Class A shareholders	$2,563	$14,841

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE THREE MONTHS ENDED MARCH 31, 2014
(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders' Equity	Principals' and Others' Interests in Equity of Consolidated Subsidiaries	Non-Controlling Interests in Equity of Non-Investment Manager	Total E
Equity - December 31, 2013	240,741,920	249,534,372	$2,112,720	$(1,286,131)	$(1,522)	$825,067	$789,838	$—	$1,614,
Contributions from principals' and others' interests in equity	—	—	—	—	—	—	30,440	—	30,440
Distributions to principals' and others' interests in equity (net of tax)	—	—	—	—	—	—	(43,684)	—	(43,684
Consolidation of New Media	—	—	—	—	—	—	—	383,040	383,040
Dividends declared	—	—	(14,492)	—	—	(14,492)	—	—	(14,492
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(254)	—	—	(254)	(455)	—	(709
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	1,369	—	—	1,369	—	—	1,369
Director restricted share grant	18,562	—	74	—	—	74	86	—	160
Capital increase related to	952,219	—	8,499	—	—	8,499	9,881	—	18,380

equity-based compensation, net									
Dilution impact of equity transactions (Note 7)	—	—	(47,290)	—	61	(47,229)	47,229	—	—
Public offering of Class A shares	23,202,859	—	186,551	—	—	186,551	—	—	186,551
Repurchase of Class A shares (Note 9)	(60,568,275)	—	—	(164,957)	—	(164,957)	(228,453)	—	(393,41
Repurchase of Class B shares (Note 9)	—	(23,202,859)	(186,551)	—	—	(186,551)	—	—	(186,55
Comprehensive income (loss) (net of tax)									
Net income (loss)	—	—	—	2,936	—	2,936	5,969	(2,734)	6,171
Foreign currency translation	—	—	—	—	(373)	(373)	(659)	—	(1,032
Comprehensive income (loss) from equity method investees	—	—	—	—	—	—	—	—	—
Total comprehensive income (loss)						2,563	5,310	(2,734)	5,139
Equity - March 31, 2014	204,347,285	226,331,513	$2,060,626	$(1,448,152)	$(1,834)	$610,640	$610,192	$380,306	$1,601,

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

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

	Three Months Ended March 31,	
	2014	2013
Cash Flows From Operating Activities		
Net income (loss)	$6,171	$67,306
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Investment Manager		
Depreciation and amortization	4,301	3,239
Other amortization and accretion (included in interest expense)	195	288
(Earnings) losses from equity method investees	(20,374)	(36,302)
Distributions of earnings from equity method investees	25,784	18,411
(Gains) losses	11,244	(41,275)
Deferred incentive income	(29,503)	(26,795)
Deferred tax (benefit) expense	2,486	36,207
Options received from affiliates	—	(26,374)
Tax receivable agreement liability adjustment	—	7,739
Equity-based compensation	8,673	9,597
Options in affiliates granted to employees	4,553	6,356
Other	44	85
Non-Investment Manager - consolidated VIE		
Depreciation and amortization	5,213	—
Amortization of deferred financing costs (included in interest expense)	230	—
Other	(46)	—
Cash flows due to changes in		
Investment Manager		
Due from affiliates	39,640	(15,226)
Other assets	40,358	11,192
Accrued compensation and benefits	(263,426)	5,463
Due to affiliates	(32,690)	(14,593)
Deferred incentive income	63,458	48,323
Other liabilities	35,553	32,007
Non-Investment Manager - consolidated VIE		
Other assets	824	—
Deferred revenue	37	—
Accrued expenses and other liabilities	(1,254)	—
Net cash provided by (used in) operating activities	(98,529)	85,648

Continued on next page.

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FORTRESS INVESTMENT GROUP LLC

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

	Three Months Ended March 31,	
	2014	2013
Cash Flows From Investing Activities		
Investment Manager		
Contributions to equity method investees	(7,031)	(237)
Distributions of capital from equity method investees	231,158	167,083
Purchase of fixed assets	(1,797)	(2,334)
Purchase of software and technology-related assets	(14,965)	—
Non-Investment Manager - consolidated VIE		
Existing cash on consolidation date	23,845	—
Purchase of fixed assets	(310)	—
Acquisitions, net of cash acquired	(8,026)	—
Net cash provided by (used in) investing activities	222,874	164,512
Cash Flows From Financing Activities		
Investment Manager		
Repayments of debt obligations	—	(40,000)
Borrowings under debt obligations	125,000	—
Payment of deferred financing costs	—	(2,054)
Proceeds from public offering (Note 9)	186,551	—
Repurchase of Class B shares (Note 9)	(186,551)	—
Repurchase of Class A shares (Note 9)	(363,410)	—
Dividends and dividend equivalents paid	(15,359)	(13,907)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	1,191	320
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(33,590)	(52,804)
Excess tax benefits from delivery of RSUs	425	—
Non-Investment Manager - consolidated VIE		
Repayments under current portion of long-term debt	(68)	—
Borrowings under debt obligations	4,068	—
Payment of debt issuance costs	(590)	—
Net cash provided by (used in) financing activities	(282,333)	(108,445)
Net Increase (Decrease) in Cash and Cash Equivalents	(157,988)	141,715
Cash and Cash Equivalents, Beginning of Period	364,583	104,242
Cash and Cash Equivalents, End of Period	$206,595	$245,957
Cash and Cash Equivalents - Investment Manager, End of Period	$184,648	$245,957
Cash and Cash Equivalents - Non-Investment Manager - consolidated VIE, End of Period	$21,947	$—
Supplemental Disclosure of Cash Flow Information		
Investment Manager		
Cash paid during the period for interest	$—	$1,658
Cash paid during the period for income taxes	$1,559	$1,309
Non-Investment Manager - consolidated VIE:		
Cash paid during the period for interest	$1,616	$—
Supplemental Schedule of Non-cash Investing and Financing Activities		
Investment Manager		
Employee compensation invested directly in subsidiaries	$29,230	$23,872

Investments of incentive receivable amounts into Fortress Funds	$233,260	$162,647
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	$14,925	$3,611

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
MARCH 31, 2014
(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

Investment Manager

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

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

1) Private equity:
a) General buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America and Western Europe; and
b) Publicly traded companies that are externally managed by Fortress pursuant to a management agreement, which Fortress refers to as “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, and media assets.

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

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

In January 2014, Fortress acquired software and technology-related assets which were accounted for as a business combination. These assets facilitate trading within Fortress's liquid hedge funds segment. The purchase price was $26.0 million of which a remaining $11.0 million was paid in the second quarter of 2014. The purchase price has all been allocated to the acquired software and technology related assets which have an expected useful life of five years.

3) Credit funds:
a)

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

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

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

5) Principal investments in the above described funds.

The assets, liabilities and related operations of Fortress's asset management business (as described above) are disclosed under the Investment Manager caption in the consolidated financial statements and accompanying footnotes. Fortress also consolidates New Media (as described below) whose assets, liabilities and related operations are disclosed under the Non-Investment Manager caption in the consolidated financial statements and accompanying footnotes.

Non-Investment Manager

Consolidation of New Media

On February 14, 2014, Newcastle Investment Corp. ("Newcastle") (NYSE: NCT) completed the distribution of all of the common shares it held of New Media Investment Group Inc. ("New Media" or the "Media Business") (NYSE: NEWM), publishers of locally based print and online media in the United States, to its stockholders. Fortress entered into a management agreement with New Media and under the terms of the management agreement, Fortress manages the operations of New Media and in return receives a management fee of 1.5% per annum of New Media's Total Equity (as defined in the management agreement) and incentive income. Fortress determined that New Media qualifies as a variable interest entity and, upon completion of Newcastle's distribution of New Media's common shares, that it was the primary beneficiary and therefore consolidates New Media. The operations of New Media consist of the consolidated operations of GateHouse Media, LLC ("GateHouse") and Local Media Group Holdings LLC ("Local Media"). Although New Media's operating results impact net income, they do not have a material impact on the net income attributable to Fortress's Class A shareholders, Class A basic and diluted earnings per share, or total Fortress's shareholders' equity, as substantially all of the operating results of New Media are attributable to non-controlling interests. As of March 31, 2014, Fortress owned approximately 0.25% of New Media's outstanding common stock.

New Media is one of the largest publishers of locally based print and online media in the United States as measured by the number of daily publications. New Media operates in 356 markets across 24 states. New Media's portfolio of products includes 429 community publications, 356 websites, 346 mobile sites, and six yellow page directories. New Media reaches over 12 million people per week and serves over 130,000 business customers.

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

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

Significant assumptions used in estimating fair values included the following:

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

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

- Fixed assets - The estimated fair values for fixed assets were determined under three approaches: the cost approach (used for equipment where an active secondary market is not available and building improvements), the direct sales comparison (market) approach (used for land and equipment where an active market is available), and the income

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approach (used for intangibles). These approaches are based on the cost to reproduce assets, market exchanges for comparable assets and the capitalization of income.

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

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

If New Media had been consolidated as of January 1, 2013, total revenue would have increased by approximately $68.2 million and $146.1 million, for the three months ended March 31, 2014 and 2013, respectively. In addition, net income would have decreased by approximately $(4.0) million and $(17.6) million for the three months ended March 31, 2014 and 2013, respectively.

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

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

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Selected Financial Statement Captions	Note Reference	Explanation
Income Tax Benefit (Expense)	6	The net tax result related to the current period. Certain of Fortress's revenues are not subject to taxes because they do not flow through taxable entities. Furthermore, Fortress has significant permanent differences between its GAAP and tax basis earnings.
		Income tax benefit (expense) for the Investment Manager and Media Business are calculated separately and the taxable income (loss) of the Media Business does not impact the amount of income tax benefit (expense) for the Investment Manager (and vice versa).
Principals' and Others' Interests in (Income) Loss of Consolidated Subsidiaries	7	Primarily the Principals' and employees' share of Fortress's earnings based on their ownership interests in subsidiaries, including Fortress Operating Group.
Earnings Per Share	9	GAAP earnings per Class A share based on Fortress's capital structure, which is comprised of outstanding and unvested equity interests, including interests which participate in Fortress's earnings, at both the Fortress and subsidiary levels.
Other		
Distributions	9	A summary of dividends and distributions, and the related outstanding shares and units, is provided.
Distributable Earnings	11	A presentation of our financial performance by segment (fund type) is provided, on the basis of the operating performance measure used by Fortress's management committee.

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 and hedging. Some of the proposed changes are significant and could have a material impact on Fortress's financial reporting. Fortress has not yet fully evaluated the potential impact of these proposals, but will make such an evaluation as the standards are finalized.

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

All significant intercompany accounts and transactions have been eliminated.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

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

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

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

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

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

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

For entities over which Fortress exercises significant influence but which do not meet the requirements for consolidation, Fortress uses the equity method of accounting whereby it records its share of the underlying income of these entities. These entities include the Fortress Funds. Virtually all of the Fortress Funds are, for GAAP purposes, investment companies. As required, Fortress has retained the specialized accounting of these funds. The Fortress Funds record realized and unrealized gains (losses) resulting from changes in the fair value of their investments as a component of current income. Additionally, these funds generally do not consolidate their majority-owned and controlled investments (the “Portfolio Companies”).

Distributions by Fortress and its subsidiaries are recognized when declared.

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

Fortress makes investments outside of the United States. Fortress’s non-U.S. investments are subject to the same risks associated with its U.S. investments as well as additional risks, such as fluctuations in foreign currency exchange rates, unexpected changes

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in regulatory requirements, heightened risk of political and economic instability, difficulties in managing non-U.S. investments, potentially adverse tax consequences and the burden of complying with a wide variety of foreign laws.

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

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

Revenue Recognition

Investment Manager

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

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

Incentive Income - Incentive income is calculated as a percentage of the profits earned by the Fortress Funds subject, in certain cases, to the achievement of performance criteria. Incentive income from certain funds is subject to contingent repayment based on the applicable Fortress Fund achieving earnings in excess of a specified minimum return. Incentive income that is not subject to contingent repayment is recognized as contractually earned. Incentive income subject to contingent repayment may be paid to Fortress as particular investments made by the funds are realized. However, if upon liquidation of each fund the aggregate amount paid to Fortress as incentive income exceeds the amount actually due to Fortress based upon the aggregate performance of each fund, the excess is required to be repaid by Fortress (i.e. “clawed back”) to that fund. Fortress has elected to adopt the preferred method of recording incentive income subject to contingencies, whereby it does not recognize incentive income subject to contingent repayment until the termination of the related fund, or when and to the extent distributions from the fund exceed the point at which a clawback of a portion or all of the historic incentive income distributions could no longer occur due to the related contingencies being resolved. Recognition of incentive income allocated or paid to Fortress prior to that date is deferred and recorded as deferred incentive income liability.

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

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Non-Investment Manager

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

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

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

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

Balance Sheet Measurement

Investment Manager

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

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

Other Assets and Other Liabilities:

Other assets and liabilities are comprised of the following. Other assets are presented net of allowances for uncollectible amounts of $3.3 million as of March 31, 2014 and $3.3 million as of December 31, 2013, respectively, which were recorded as General and Administrative expense.

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

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

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

Digital Currency (Bitcoin) - Represents Fortress's holdings of digital currency which is recorded at the lower of cost or fair value. If fair value is below cost, Fortress records an unrealized loss measured as the excess of cost over fair value of the digital currency. Subsequently, to the extent that fair value increases, Fortress records an unrealized gain but shall not report digital currency above cost. Fortress determines fair value based on estimated exit value using significant observable inputs as of the balance sheet date. As of March 31, 2014, Fortress has recorded cumulative unrealized losses of $9.9 million.

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

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

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

- Derivatives and Hedging Activities - All derivatives are recognized as either assets or liabilities in the balance sheet and measured at fair value.

Any unrealized gains or losses on derivatives not designated as hedges are recorded currently in Gains (Losses). Net payments under these derivatives are similarly recorded, but as realized.

In order to reduce interest rate risk, Fortress has and may enter into interest rate hedge agreements. To qualify for cash flow hedge accounting, interest rate swaps must meet certain criteria, including (1) the items to be hedged expose Fortress to interest rate risk, (2) the interest rate swaps or caps are highly effective in reducing Fortress's exposure to interest rate risk, and (3) with respect to an anticipated transaction, the transaction is probable. In addition, the hedging relationship must be properly documented. Effectiveness is periodically assessed based upon a comparison of the relative changes in the fair values or cash flows of the interest rate swaps and the items being hedged.

In order to reduce foreign currency exchange rates risk, Fortress has and may enter into foreign currency related derivatives. To qualify for hedge accounting with respect to a net investment in a foreign operation, the hedging instrument must be highly effective in reducing Fortress's exposure to the risk of changes in foreign currency exchange rates with respect to the investment. In addition, the hedging relationship must be properly documented. Effectiveness is periodically assessed based upon a comparison of the relative changes in the fair values of the hedge and the item being hedged (with respect to changes in foreign currency exchange rates).

The effective portion of any gain or loss, and of net payments received or made, is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction effects earnings. The ineffective portion of any gain or loss, and of net payments received or made, is recognized in current earnings.

Fortress did not have any derivatives designated as hedges for the three months ended March 31, 2014 and 2013.

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

Foreign Currency - Assets and liabilities relating to foreign investments are translated using the exchange rates prevailing at the end of each reporting period. Results of foreign operations are translated at the weighted average exchange rate for each reporting period. Translation adjustments are included in current income to the extent that unrealized gains and losses on the related investment are included in income, otherwise they are included as a component of accumulated other comprehensive income until realized. Foreign currency gains or losses resulting from transactions outside of the functional currency of a consolidated entity are recorded in income as incurred and were not material during the quarters ended March 31, 2014 and 2013.

Profit Sharing Arrangements - Pursuant to employment arrangements, certain of Fortress’s employees are granted profit sharing interests and are thereby entitled to a portion of the incentive income or other amounts realized from certain Fortress Funds, which is payable upon a realization event within the respective funds. Accordingly, incentive income resulting from a realization event

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within a fund gives rise to the incurrence of a profit sharing obligation. Amounts payable under these profit sharing plans are recorded as compensation expense when they become probable and reasonably estimable.

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

For profit sharing plans related to private equity funds and credit PE funds, where incentive income is received as investments are realized but is subject to clawback (see “Incentive Income” above), although Fortress defers the recognition of incentive income until all contingencies are resolved, accruing expense for employee profit sharing is based upon when it becomes probable and reasonably estimable that incentive income has been earned and therefore a profit sharing liability has been incurred. Based upon this policy, the recording of an accrual for profit sharing expense to employees generally precedes the recognition of the related incentive income revenue.

Fortress's determination of the point at which it becomes probable and reasonably estimable that incentive income will be earned and therefore a corresponding profit sharing expense should be recorded is based upon a number of factors, the most significant of which is the level of realized gains generated by the underlying funds which may ultimately give rise to incentive income payments. Accordingly, profit sharing expense is generally recorded upon realization events within the underlying funds. A realization event has occurred when an investment within a fund generates proceeds in excess of its related invested capital, such as when an investment is sold at a gain. In some cases, this accrual is subject to reversal based on a determination that the expense is no longer probable of being incurred (in other words, that a clawback is probable).

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

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

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

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

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

Non-Investment Manager

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

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of significant judgment and estimation. Acquisition costs in excess of the fair value of tangible and identifiable intangible net assets is recorded as goodwill.

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

Fixed assets for New Media consisted of the following:

	March 31, 2014
Land	$23,487
Buildings and improvements	112,272
Machinery and equipment	125,272
Furniture, fixtures, and computer software	9,875
Construction in progress and other non-depreciating assets	741
	$271,647
Less: accumulated depreciation	(4,358)
Total	$267,289

Depreciation expense related to fixed assets of New Media for the period from February 14, 2014 to March 31, 2014, was $4.4 million.

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

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

Advertiser relationships	14 - 16 years
Customer relationships	14 - 16 years
Subscriber relationships	15 - 16 years
Trade names	10 years

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

	March 31, 2014 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Advertiser relationships	$58,461	$(498)	$57,963
Customer relationships	5,769	(49)	5,720
Subscriber relationships	36,081	(306)	35,775
Trade name	262	(2)	260
Total	$100,573	$(855)	$99,718
Nonamortized intangible assets:			
Mastheads			46,380
Total intangible assets, net			$146,098
Goodwill			$119,502

As of March 31, 2014, the weighted average amortization periods for amortizable intangible assets are 15.9 years for advertiser relationships, 15.9 years for customer relationships, 16.0 years for subscriber relationships and 10.0 years for trade names. The weighted average amortization period in total for all amortizable intangible assets is 15.9 years. Amortization expense related to amortizable intangible assets of New Media for the period from February 14, 2014 to March 31, 2014 was $0.9 million. Estimated future amortization expense as of March 31, 2014, is as follows:

April 1, 2014 to December 31, 2014	$4,828
2015	6,438
2016	6,438
2017	6,438
2018	6,438
Thereafter	69,138
Total	$99,718

Goodwill and intangible assets with indefinite lives are tested for impairment annually or when events indicate that an impairment could exist which may include an economic downturn in a market, a change in the assessment of future operations or a decline in New Media’s stock price. An annual impairment assessment is performed on each of New Media's reporting units. The fair value of the applicable reporting unit is compared to its carrying value. Calculating the fair value of a reporting unit requires significant estimates and assumptions. Fair value is estimated by applying third-party market value indicators to projected cash flows and/or projected earnings before interest, taxes, depreciation, and amortization. In applying this methodology, the company relies on a number of factors, including current operating results and cash flows, expected future operating results and cash flows, future business plans, and market data. If the carrying value of the reporting unit exceeds the estimate of fair value, the amount of impairment is calculated as the excess of the carrying value of goodwill over its implied fair value.

The recoverability of its long-lived assets, including fixed assets and definite lived intangible assets, is estimated whenever events or changes in business circumstances indicate the carrying amount of the assets, or related group of assets, may not be fully recoverable. Impairment indicators include significant under performance relative to historical or projected future operating losses, significant changes in the manner of use of the acquired assets or the strategy for New Media’s overall business, and significant negative industry or economic trends. The assessment of recoverability is based on management’s estimates by comparing the

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sum of the estimated undiscounted cash flows generated by the underlying asset, or other appropriate grouping of assets, to its carrying value to determine whether an impairment existed at its lowest level of identifiable cash flows. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment is recognized to the extent the carrying value of such asset exceeds its fair value.
The newspaper industry and New Media have experienced declining same store revenue and profitability over the past several years. Should general economic, market or business conditions decline, and have a negative impact on estimates of future cash flow and market transaction multiples, this may require impairment charges to be recorded in the future.

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

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

Other Assets and Other Liabilities - Other assets and liabilities of the Non-Investment Manager are comprised of the following. Other assets are presented net of allowances for uncollectible amounts of $0.7 million as of March 31, 2014, which were recorded as general, administrative and other.

	Other Assets March 31, 2014		Other Liabilities March 31, 2014
Accounts receivable, net	$61,551	Accounts payable	$8,684
Inventory	8,209	Accrued expenses	42,979
Prepaid expenses	8,439	Pension and postretirement benefit obligations	10,158
Miscellaneous assets	30,210	Miscellaneous liabilities	5,437
	$108,409		$67,258

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

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

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

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

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

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The following provides information on the components of net periodic benefit cost (income) for the pension plans and postretirement medical and life insurance plans for the period from February 14, 2014 to March 31, 2014:

	Pension	Postretirement
Service cost	$75	$9
Interest cost	295	63
Expected return on plan assets	(406)	—
Net periodic benefit cost (income)	$(36)	$72

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

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

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

3. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

Investment Manager

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

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Management Fees, Incentive Income and Related Profit Sharing Expense

Fortress recognized management fees and incentive income as follows:

	Three Months Ended March 31,	
	2014	2013
Private Equity		
Private Equity Funds		
Management fees: affil.	$36,064	$32,784
Management fees: non-affil.	149	104
Incentive income: affil.	—	10,455
Permanent Capital Vehicles		
Management fees: affil.	13,662	16,688
Management fees, options: affil.	—	26,374
Management fees: non-affil.	1,108	1,270
Incentive income: affil.	4,009	—
Liquid Hedge Funds		
Management fees: affil.	27,067	17,522
Management fees: non-affil.	6,411	5,501
Incentive income: affil.	78	1,787
Incentive income: non-affil.	—	1,053
Credit Funds		
Credit Hedge Funds		
Management fees: affil.	26,834	24,530
Management fees: non-affil.	24	31
Incentive income: affil.	1,304	3,151
Incentive income: non-affil.	—	—
Credit PE Funds		
Management fees: affil.	24,608	25,156
Management fees: non-affil.	34	35
Incentive income: affil.	28,860	15,964
Incentive income: non-affil.	643	376
Logan Circle		
Management fees: affil.	710	548
Management fees: non-affil.	9,896	7,874
Total		
Management fees: affil.	$128,945	$143,602
Management fees: non-affil.	$17,622	$14,815

Incentive income: affil. (A)	$34,251	$31,357
Incentive income: non-affil.	$643	$1,429

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

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Deferred Incentive Income

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

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the three months ended March 31, 2014 and 2013. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, $30.5 million and $59.4 million of additional incentive income from affiliates would have been recognized during the three months ended March 31, 2014 and 2013, respectively. Incentive income based on achieving annual performance criteria that has not yet been recognized, if any, is not recorded on the balance sheet and is included as "undistributed" deferred incentive income in the table below.

During the three months ended March 31, 2014 and 2013, Fortress recognized $28.9 million and $16.0 million, respectively, of incentive income distributions from its credit PE funds which represented "tax distributions." These tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

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

	Distributed-Gross	Distributed-Recognized (A)	Distributed-Unrecognized (B)	Undistributed, net of intrinsic clawback (C) (D)
Deferred incentive income as of December 31, 2013	$ 1,015,084	$ (767,528)	$ 247,556	$696,333
Fortress Funds which matured (no longer subject to clawback)	—	—	N/A	N/A
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	146,584
Distribution of private equity incentive income	64,843	N/A	64,843	(64,843)
Recognition of previously deferred incentive income	N/A	(29,503)	(29,503)	N/A

Changes in foreign exchange rates	1,304		—		1,304		N/A	
Deferred incentive income as of March 31, 2014	$ 1,081,231	(E)	$ (797,031	)	$ 284,200		$778,074	(E)
Deferred incentive income including Fortress Funds which matured	$ 1,134,887		$ (850,687	)				

(A) All related contingencies have been resolved.

(B) Reflected on the consolidated balance sheet.

(C) At March 31, 2014, the net undistributed incentive income is comprised of $861.5 million of gross undistributed incentive income, net of $83.4 million of intrinsic clawback. The net undistributed incentive income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on March 31, 2014 at their net asset values.

(D) From inception to March 31, 2014, Fortress has paid $481.8 million of compensation expense under its employee profit sharing arrangements (Note 8) in connection with distributed incentive income, of which $27.9 million has not been expensed because management has determined that it is not probable of being incurred as an expense and will be recovered from the related individuals. If the $861.5 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional $424.2 million of compensation expense.

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

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

	March 31, 2014
Distributed incentive income - Private Equity Funds	$862,263
Distributed incentive income - Private Equity Funds in Investment period	527
Distributed incentive income - Credit PE Funds	434,575
Distributed incentive income - Credit PE Funds in Investment Period	113,051
Less:	
Fortress Funds which are not subject to a clawback provision:	
— NIH	(94,513)
— GAGACQ Fund	(51,476)
Portion of Fund I distributed incentive income that Fortress is not entitled to (see footnote K of incentive income threshold tables)	(183,196)
Distributed-Gross	$1,081,231

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

	March 31, 2014
Undistributed incentive income - Private Equity Funds	$785
Undistributed incentive income - Private Equity Funds in Investment Period	7,414
Undistributed incentive income - Credit PE Funds	493,002
Undistributed incentive income - Credit PE Funds in Investment Period	229,166
Undistributed incentive income - Hedge Funds (total)	131,057
Less: Gross intrinsic clawback per incentive income threshold tables - Private Equity Funds	(83,350)
Undistributed, net of intrinsic clawback	$778,074

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The following tables summarize information with respect to the Fortress Funds and their related incentive income thresholds as of March 31, 2014:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested (C)	Inception to Date Distributions	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)	Gro Intri Clav (J)
Private Equity Funds											
NIH (1998)	In Liquidation	$415,574	$(823,588)	$—	$ N/A	$—	$ N/A	$—	$94,513	$—	$—
Fund I (1999) (K)	Closed May-13	1,015,943	(2,847,929)	—	N/A	—	N/A	—	344,939	—	—
Fund II (2002)	Feb-13	1,974,298	(3,329,950)	111,751	1,467,403	—	N/A	785	287,985	21,240	—
Fund III (2004)	Jan-15	2,762,992	(1,655,025)	1,991,209	883,242	[illegible]	[illegible]	—	66,903	66,903	66,9
Fund III Coinvestment (2004)	Jan-15	273,649	(187,844)	111,899	26,094	[illegible]	[illegible]	—	—	—	—
Fund IV (2006)	Jan-17	3,639,561	(654,859)	3,619,859	635,157	[illegible]	[illegible]	—	—	—	—
Fund IV Coinvestment (2006)	Jan-17	762,696	(161,674)	569,866	(31,156)	[illegible]	[illegible]	—	—	—	—
Fund V (2007) (K)	Feb-18	4,103,713	(509,915)	4,660,659	1,066,861	[illegible]	[illegible]	—	—	—	—
Fund V Coinvestment (2007) (K)	Feb-18	990,480	(89,115)	564,273	(337,092)	[illegible]	[illegible]	—	—	—	—
GAGACQ Fund (2004) (GAGFAH)	Closed Nov-09	545,663	(595,401)	N/A	N/A	N/A	N/A	N/A	51,476	N/A	N/A
FRID (2005) (GAGFAH)	Apr-15	1,220,229	(642,599)	539,180	(38,450)	[illegible]	[illegible]	—	16,447	16,447	16,4
FRIC (2006) (Brookdale)	May-16	328,754	(17,462)	288,044	(23,248)	[illegible]	[illegible]	—	—	—	—
FICO (2006) (Intrawest)	Jan-17	724,525	(5)	(60,886)	(785,406)	[illegible]	[illegible]	—	—	—	—
FHIF (2006) (Holiday)	Jan-17	1,543,463	(169,180)	2,254,394	880,111	[illegible]	[illegible]	—	—	—	—
FECI (2007) (Florida East Coast / Flagler)	Feb-18	982,779	(240)	956,074	(26,465)	[illegible]	[illegible]	—	—	—	—
								$785	$862,263	$104,590	$83

Private Equity Funds in Investment Period

WWTAI (2011)	Jan-25	$306,442	$(45,829)	$290,930	$30,317	$—	N/A	$2,355	$527	$527	$—
MSR Opportunities Fund I A (2012)	Aug-22	302,606	(56,673)	287,949	42,016	—	N/A	4,056	—	—	—
MSR Opportunities Fund I B (2012)	Aug-22	73,294	(13,727)	69,603	10,036	—	N/A	1,003	—	—	—
MSR Opportunities II A (2013)	Jul-23	28,541	—	29,688	1,147	1,319	26	—	—	—	—
MSR Opportunities II B (2013)	Jul-23	407	—	418	11	198		—	—	—	—
MSR Opportunities II MA I (2013)	Jul-23	6,553	—	6,829	276	314	38	—	—	—	—
								$7,414	$527	$527	$—

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Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions (C)	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)
Credit PE Funds										
Long Dated Value Fund I (2005)	Apr-30	$267,325	$(65,557)	$317,425	$115,657	$132,169	$16,512	$—	$—	$—
Long Dated Value Fund II (2005)	Nov-30	274,280	(147,779)	194,884	68,383	104,539	36,156	—	412	—
Long Dated Value Fund III (2007)	Feb-32	343,156	(257,205)	222,808	136,857	—	N/A	20,047	5,042	—
LDVF Patent Fund (2007)	Nov-27	46,280	(42,094)	41,188	37,002	—	N/A	2,839	461	—
Real Assets Fund (2007)	Jun-17	359,024	(296,140)	176,697	113,813	—	N/A	12,451	5,285	—
Credit Opportunities Fund (2008)	Oct-20	5,525,301	(6,631,187)	1,386,490	2,492,376	—	N/A	208,991	280,240	108,779
Credit Opportunities Fund II (2009)	Jul-22	2,253,867	(2,059,899)	1,203,148	1,009,180	—	N/A	140,016	57,901	5,624
FCO Managed Account (2010)	Jun-22	571,154	(465,116)	372,671	266,633	—	N/A	38,783	11,844	—
SIP Managed Account (2010)	Sep-20	11,000	(31,987)	8,953	29,940	—	N/A	1,791	4,197	—
Japan Opportunity Fund (2009)	Jun-19	1,025,368	(963,183)	642,200	580,015	—	N/A	62,827	59,178	13,471
Net Lease Fund I (2010)	Feb-20	151,779	(216,957)	9,341	74,519	—	N/A	685	9,102	6,319
Real Estate Opportunities Fund (2011)	Sep-24	529,947	(109,070)	485,453	64,576	—	N/A	4,572	913	347
								$493,002	$434,575	$134,540
Credit PE Funds in Investment Period										
Credit Opportunities Fund III (2011)	Mar-24	2,156,290	(895,793)	1,672,503	412,006	—	N/A	64,899	15,496	4,757
FCO Managed Accounts	Apr-22 to	3,323,070	(2,440,520)	1,903,426	1,020,876	—	N/A	124,837	77,104	37,542

(2008-2012)	Mar-27									
Japan Opportunity Fund II (Yen) (2011)	Dec-21	537,942	(195,230)	468,878	126,166	—	N/A	17,382	7,982	—
Japan Opportunity Fund II (Dollar) (2011)	Dec-21	466,604	(146,988)	427,298	107,682	—	N/A	10,505	10,225	—
Global Opportunities Fund (2010)	Sep-20	300,822	(149,590)	213,981	62,749	—	N/A	10,691	1,560	1,560
Life Settlements Fund (2010)	Dec-22	383,211	(299,330)	64,909	(18,972)	65,097	84,069	—	—	—
Life Settlements Fund MA (2010)	Dec-22	31,308	(24,482)	5,080	(1,746)	5,348	7,094	—	—	—
Real Estate Opportunities REOC Fund (2011)	Oct-23	41,462	(15,549)	33,638	7,725	—	N/A	852	684	684
								$229,166	$113,051	$44,543

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	Equity Eligible for Incentive (L)	Gain to Cross Incentive Income Threshold (F)	Life-to-Date Incentive Income Crystallized (P)
Permanent capital vehicles			
Newcastle	$1,779,189	(F)	$41,283
Eurocastle Investment Limited ("Eurocastle")	556,031	$145,258	39,217
New Residential Investment Corp. ("New Residential")	1,195,683	—	19,662
New Media (W)	390,449	2,856	—

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	Incentive Income Eligible NAV (L)	Gain to Cross Incentive Income Threshold (M)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (N)		Undistributed Incentive Income (O)	Year to Date Incentive Income Crystallized (P)
Liquid Hedge Funds						
Macro Funds (Q) (T)						
Main fund investments	$1,502,593	$83,993	4.1	%	$95	$—
Single investor funds	907,559	51,899	0.0	%	—	—
Sidepocket investments (R)	17,703	10,061	N/A		370	—
Sidepocket investments - redeemers (S)	169,676	88,039	N/A		2,832	—
Managed accounts	1,106,880	70,310	0.4	%	11	—
Asia Macro Funds (T)						
Main fund investments	2,525,764	62,474	0.0	%	—	—
Managed accounts	310,267	9,965	0.0	%	—	—
Fortress Convex Asia Funds (T)						
Main fund Investments	129,477	6,028	0.0	%	—	—
Fortress Partners Funds (T)						
Main fund investments	34,883	23,214	0.0	%	—	—
Sidepocket investments (R)	144,105	18,439	N/A		5,715	—
Credit Hedge Funds						
Special Opportunities Funds (T)						
Main fund investments	$4,123,937	$—	100.0	%	$28,975	$—
Sidepocket investments (R)	81,391	233	N/A		4,350	—
Sidepocket investments - redeemers (S)	256,542	61,803	N/A		5,939	—
Main fund investments (liquidating) (U)	809,956	—	100.0	%	81,240	1,341
Managed accounts	7,784	44,060	0.0	%	—	—
Worden Funds						
Main fund investments	251,996	19	99.0	%	1,464	—
Fortress Japan Income Fund						
Main fund investments	14,261	N/A	0.0	%	—	—
Value Recovery Funds (V)						

Managed accounts	20,628	4,282	62.5	% 66	—

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(A) Vintage represents the year in which the fund was formed.

(B) Represents the contractual maturity date including the assumed exercise of all extension options, which in some cases may require the approval of the applicable fund advisory board. Private equity funds that have reached their maturity date are included in the table to the extent they have generated incentive income.

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

(D) A NAV deficit represents the gain needed to cross the incentive income threshold (as described in (F) below), excluding the impact of any relevant performance (i.e. preferred return) thresholds (as described in (E) below).

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

(F) Represents the immediate increase in NAV needed for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see (J) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (I) below). For the permanent capital vehicles, represents the immediate increase of the company's applicable supplemental measure of operating performance needed for Fortress to begin earning incentive income. As of March 31, 2014, as a result of Newcastle not meeting the incentive income threshold, Fortress does not expect to earn incentive income from Newcastle for an indeterminate period of time.

(G) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV. The incentive income amounts presented in this table are based on the estimated results of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

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

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

(J) Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. “Gross” and “Net” refer to amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. Fortress remains liable to the funds for these amounts even if it is unable to collect the amounts from employees/affiliates. Fortress withheld a portion of the amounts due to employees under these profit sharing arrangements as a reserve against future clawback; as of March 31, 2014, Fortress held $41.1 million of such amounts on behalf of employees related to all of the private equity funds.

(K) The Fund I distributed incentive income amount is presented for the total fund, of which Fortress was entitled to approximately 50%. Fund V includes Fund V (GLPI Sisterco) and Fund V Coinvestment includes Fund V Coinvestment (GLPI Sisterco).

(L) Represents the portion of a fund’s NAV or trading level that is eligible to earn incentive income. For the permanent capital vehicles, represents the equity basis that is used to calculate incentive income.

(M) Represents, for those fund investors whose NAV is below the performance threshold Fortress needs to obtain before it can earn incentive income from such investors (their “incentive income threshold” or “high water mark”), the amount by which their aggregate incentive income thresholds exceed their aggregate NAVs. The amount by which the NAV of each investor within this category is below their respective incentive income threshold varies and, therefore, Fortress may begin earning incentive income from certain investors before this entire amount is earned back. Fortress earns incentive income whenever the assets of new investors, as well as of investors whose NAV exceeds their incentive income threshold, increase in value. For Fortress Japan Income Fund, Fortress earns incentive income based on investment income, which does not include unrealized and realized gains and losses, earned in excess of a preferred return threshold.

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

(O) Represents the amount of additional incentive income Fortress would earn from the fund if it were liquidated at the end of the period at its NAV. This amount is currently subject to performance contingencies generally until the end of the year or, in the case of sidepocket investments, until such investments are realized. Main Fund Investments (Liquidating) pay incentive income only after all capital is returned. For the Fortress Japan Income Fund, represents the amount of incentive income Fortress would earn from the fund assuming the amount of investment income earned in excess of the preferred return threshold was distributed as of the end of the period. For the Value Recovery Fund managed accounts, Fortress can earn incentive income if aggregate realizations exceed an agreed threshold. The incentive income amounts presented in this table are based on the estimated results of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

(P) Represents the amount of incentive income Fortress has earned in the current period which is not subject to clawback. For the permanent capital vehicles, represents the life-to-date incentive income amount that Fortress has earned and which is not subject to clawback.

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(Q) The Drawbridge Global Macro SPV (the "SPV"), which was established in February 2009 to liquidate illiquid investments and distribute the proceeds to then existing investors, is not subject to incentive income and is therefore not presented in the table. However, realized gains or losses within the SPV can decrease or increase, respectively, the gain needed to cross the incentive income threshold for investors with a corresponding investment in the main fund. The unrealized gains and losses within the SPV at March 31, 2014, as if they became realized, would not materially impact the amounts presented in the table.

(R) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. The performance of these investments may impact Fortress's ability to earn incentive income from main fund investments. For the credit hedge funds and Fortress Partners Funds, realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments. For the Macro Funds, only realized losses from individual sidepockets reduce the incentive income earned from main fund investments. Based on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at March 31, 2014, the undistributed incentive income from the Macro main fund would not be impacted.

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

(T) Includes onshore and offshore funds.

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

(V) Excludes the Value Recovery Funds which had a NAV of $317.8 million at March 31, 2014. Fortress began managing the third party originated Value Recovery Funds in June 2009 and generally does not expect to earn any significant incentive income from the fund investments.

(W) Fortress has a management agreement with New Media whereby it may earn incentive income. New Media is a VIE consolidated by Fortress (see Note 1) and as a result any New Media incentive income earned by Fortress is eliminated in consolidation. However, Fortress has included New Media in the above table solely for informational purposes.

During the three months ended March 31, 2014, Fortress formed a new fixed income fund which had a net asset value of $44.5 million as of March 31, 2014.

Private Equity Funds and Credit PE Funds

During the three months ended March 31, 2014, Fortress formed new Private Equity funds which had capital commitments as follows as of March 31, 2014:

	Private Equity
Fortress	$50
Fortress's affiliates	5,000
Total capital commitments	$5,050

4. INVESTMENTS AND FAIR VALUE

Investment Manager

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

Investments can be summarized as follows:

	March 31, 2014	December 31, 2013
Equity method investees	$1,171,113	$1,174,878
Equity method investees, held at fair value (A)	78,572	78,388
Total equity method investments	$1,249,685	$1,253,266
Options in equity method investees	$99,558	$104,338

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(A) Includes publicly traded private equity portfolio companies, primarily GAGFAH, as well as the permanent capital vehicles (NCT, NRZ and ECT). Does not include New Media which is eliminated in consolidation.

Gains (losses) can be summarized as follows:

	Three Months Ended March 31,	
	2014	2013
Net realized gains (losses)	$(835)	$(596)
Net realized gains (losses) from affiliate investments	(574)	(182)
Net unrealized gains (losses)	(6,803)	3,498
Net unrealized gains (losses) from affiliate investments	(3,032)	38,555
Total gains (losses)	$(11,244)	$41,275

These gains (losses) were generated as follows:

	Three Months Ended March 31,	
	2014	2013
Mark to fair value on affiliate investments and options	$(3,628)	$38,555
Mark to fair value on derivatives	(1,349)	3,173
Mark to fair value on equity securities	77	—
Unrealized gains (losses) on digital currency (Bitcoin)	(6,176)	—
Other	(168)	(453)
Total gains (losses)	$(11,244)	$41,275

Investments in Equity Method Investees

Fortress holds investments in certain Fortress Funds which are recorded based on the equity method of accounting. Fortress's maximum exposure to loss with respect to these entities is generally equal to its investment plus its basis in any options received from such entities, plus any receivables from such entities as described in Note 7. In addition, unconsolidated affiliates also hold ownership interests in certain of these entities. Summary financial information related to these investments is as follows:

	Fortress's Investment		Fortress's Equity in Net Income (Loss)	
	March 31,	December 31,	Three Months Ended March 31,	
	2014	2013	2014	2013
Private equity funds, excluding NIH	$783,622	$789,894	$6,427	$22,885
NIH	—	—	—	86
Publicly traded portfolio companies (A)(B)	64,771	63,001	N/A	N/A
Newcastle (B)	4,874	5,953	N/A	N/A
New Residential (B)	6,710	6,928	N/A	N/A
Eurocastle (B)	2,217	2,506	N/A	N/A
Total private equity	862,194	868,282	6,427	22,971
Liquid hedge funds	156,421	158,920	1,529	5,347
Credit hedge funds	60,035	58,825	2,369	2,429
Credit PE funds	162,616	159,044	10,008	5,650

Other	8,419	8,195	41	(95)
	$1,249,685	$1,253,266	$20,374	$36,302

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

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

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

	Three Months Ended March 31, 2014							
	Private Equity							
	NIH	Other Funds	Publicly Traded Portfolio Companies and Permanent Capital Vehicles (A)	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds	Other	Total
Investment, beginning	$—	$ 789,894	$78,388	$158,920	$58,825	$159,044	$8,195	$1,253,266
Earnings from equity method investees	—	6,427	N/A	1,529	2,369	10,008	41	20,374
Other comprehensive income from equity method investees	—	—	N/A	—	—	—	—	—
Contributions to equity method investees (B)	—	4,129	—	89,273	143,988	7,171	500	245,061
Distributions of earnings from equity method investees	—	(12,445)	N/A	(1,629)	(2,453)	(9,257)	—	(25,784)
Distributions of capital from equity method investees	—	(4,867)	N/A	(91,672)	(142,694)	(4,587)	(107)	(243,927)
Total distributions from equity method investees (B)	—	(17,312)	—	(93,301)	(145,147)	(13,844)	(107)	(269,711)
Mark to fair value - during period (C)	N/A	(72)	999	N/A	N/A	N/A	N/A	927
Translation adjustment	—	—	121	—	—	239	—	360
Dispositions	—	—	—	—	—	(2)	(210)	(212)
Reclassification to Due to Affiliates (D)	—	556	—	—	—	—	—	556
Consolidation of Non-Investment Manager (E)	—	—	(936)	—	—	—	—	(936)
Investment, ending	$—	$ 783,622	$78,572	$156,421	$60,035	$162,616	$8,419	$1,249,685
Ending balance of undistributed earnings	$—	$ 64,788	$ N/A	$399	$1,902	$8,910	$2,017	$78,016

(A) Fortress elected to record these investments at fair value pursuant to the fair value option for financial instruments.
(B) The amounts presented above can be reconciled to the amounts presented on the statement of cash flows as follows:

	Three Months Ended March 31, 2014	
	Contributions	Distributions of Capital
Per consolidated statements of cash flows	$7,031	$(231,158)
Investments of incentive receivable amounts into Fortress Funds	233,260	—
Change in distributions payable out of Fortress Funds	—	(6,988)
Net funded*	4,770	(4,770)
Other	—	(1,011)
Per Above	$245,061	$(243,927)

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

(C) Recorded to Gains (Losses).
(D) Represents a portion of the general partner liability discussed in Note 10.
(E) Represents the elimination of Fortress's direct investment in New Media, a consolidated VIE, as of the date of consolidation.

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

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	Private Equity Funds excluding NIH (B)	
	March 31, 2014	December 31, 2013
Assets	$16,743,571	$17,176,529
Debt	(1,640)	(1,626)
Other liabilities	(153,415)	(185,144)
Equity	$16,588,516	$16,989,759
Fortress's Investment	$783,622	$789,894
Ownership (A)	4.7 %	4.6 %

	Three Months Ended March 31,	
	2014	2013
Revenues and gains (losses) on investments	$(37,008)	$815,775
Expenses	(51,782)	(47,843)
Net Income (Loss)	$(88,790)	$767,932
Fortress's equity in net income (loss)	$6,427	$22,885

	Liquid Hedge Funds		Credit Hedge Funds		Credit PE Funds (B) (C)	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Assets	$11,771,522	$13,167,316	$10,072,389	$10,226,023	$10,247,461	$10,544,754
Debt	—	—	(3,487,825)	(3,918,692)	(107,360)	(161,225)
Other liabilities	(4,813,188)	(6,735,989)	(342,184)	(332,510)	(267,573)	(311,538)
Non-controlling interest	—	—	(8,456)	(6,470)	(3,566)	(3,461)
Equity	$6,958,334	$6,431,327	$6,233,924	$5,968,351	$9,868,962	$10,068,530
Fortress's Investment	$156,421	$158,920	$60,035	$58,825	$162,616	$159,044
Ownership (A)	2.2 %	2.5 %	1.0 %	1.0 %	1.6 %	1.6 %

	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
	2014	2013	2014	2013	2014	2013
Revenues and gains (losses) on investments	$(155,299)	$201,082	$298,810	$291,942	$603,301	$482,052
Expenses	(46,393)	(32,276)	(79,448)	(72,815)	(74,735)	(62,558)
Net Income (Loss)	$(201,692)	$168,806	$219,362	$219,127	$528,566	$419,494
Fortress's equity in net income (loss)	$1,529	$5,347	$2,369	$2,429	$10,008	$5,650

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

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

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

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Investments in Variable Interest Entities and other Unconsolidated Entities

All of Fortress's interests in unconsolidated entities relate to (i) entities in which Fortress has an investment, which are included in Investments on the consolidated balance sheet and described in Note 4, and/or (ii) entities from which Fortress earns fees, which are included in revenues and described in Note 3.

As of March 31, 2014 Fortress had interests in 180 entities, 129 of which were entities, primarily Fortress Funds, classified as voting interest entities. These entities generally provide their limited partners or members unrelated to Fortress with the substantive ability to liquidate the Fortress Fund or otherwise remove Fortress as the general partner.

A significant majority of the 51 entities classified as VIEs were investing vehicles set up on behalf of the Fortress Funds to make investments. A Fortress Fund will generally have a majority ownership and a majority economic interest in the investing vehicles that are VIEs. Most of the remaining VIEs are entities that are majority-owned and controlled by third parties and are insignificant in size.

A Fortress Fund is generally the primary beneficiary of each of these investing vehicles because it is the entity most closely associated with the VIE based on the applicable consolidation guidance. Fortress is not considered the primary beneficiary of, and, therefore, does not consolidate, any of the VIEs in which it holds an interest, except as described below. No reconsideration events occurred during the three months ended March 31, 2014 or 2013, respectively, which caused a change in Fortress's accounting, except as described below.

The following tables set forth certain information as of March 31, 2014 regarding variable interest entities in which Fortress holds a variable interest. The amounts presented below are included in, and not in addition to, the equity method investment tables above.

Entities initially classified as variable interest entities during the three months ended March 31, 2014:

	Fortress is not Primary Beneficiary				
Business Segment	Number of VIEs	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Notes
Credit PE Funds	1	$19,581	$14,136	$ 272	(D)
Logan Circle	1	48,303	—	1	(D)

	Fortress is Primary Beneficiary				
Business Segment	Number of VIEs	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Notes
Private Equity Funds	1	$1,200	$—	$ 12	(F)
Permanent Capital Vehicles	1	663,245	181,978	1,918	(G)

All variable interest entities:

	Fortress is not Primary Beneficiary		
	March 31, 2014	December 31, 2013	
Business Segment			Notes

	Number of VIEs	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Number of VIEs	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	
Private Equity Funds	1	$628	$ —	$ —	1	$789	$ —	$ 155	(C)
Permanent Capital Vehicles	3	13,237,763	9,811,379	127,543	3	13,950,294	9,804,741	145,472	(C)
Liquid Hedge Funds	2	3,217,599	513,478	3,622	2	4,897,650	2,343,406	40,816	(D)
Credit Hedge Funds	6	2,031,350	324,098	5,939	6	1,966,802	370,607	50,945	(D) (E)
Credit PE Funds	34	974,463	353,881	6,795	33	1,229,250	362,642	5,350	(D) (E)
Logan Circle	2	308,637	—	175	1	244,828	—	144	(D)

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	Fortress is Primary Beneficiary								
	March 31, 2014				December 31, 2013				
Business Segment	Number of VIEs	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Number of VIEs	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Notes
Private Equity Funds	2	$35,026	$ —	$ 19,002	1	$52,976	$ —	$ 15,868	(F) (H)
Permanent Capital Vehicles	1	663,245	181,978	1,918	—	—	—	—	(G)

(A) Represents financial obligations of the VIEs, which are not recourse to Fortress. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these VIEs have additional debt within unconsolidated subsidiaries. The debt obligations of the VIEs are not cross collateralized with the debt obligations of Fortress. Fortress has no obligation to satisfy the liabilities of the VIEs. Similarly, Fortress does not have the right to make use of the assets of the VIEs to satisfy its obligations. The VIE’s debt obligations have no impact on Fortress’s cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.

(B) Represents Fortress’s maximum exposure to loss with respect to these entities, which includes direct and indirect investments in these funds, plus any receivables due from these funds. In addition to the table above, Fortress is exposed to potential changes in cash flow and revenues attributable to the management fees and/or incentive income Fortress earns from those entities. For VIEs where Fortress is deemed to be the primary beneficiary, these investments and receivables are eliminated in consolidation but still represent Fortress’s economic exposure to the VIEs.

(C) Includes Fortress Funds that are VIEs because the funds’ at-risk equity holders as a group lack the characteristics of a controlling financial interest because the decision making is through a management contract that is not an at-risk equity investment. Fortress is the investment manager of these funds. Fortress is not the primary beneficiary of these funds because it and its related parties do not absorb a majority of the funds' expected losses or residual returns based on a quantitative analysis.

(D) Includes entities (including investing vehicles, intermediate entities and master funds) that are VIEs because the entity’s at-risk equity holders as a group lack the characteristics of a controlling financial interest because either (i) the group of at-risk equity holders does not have the ability to make decisions or have power over the activities that most significantly affect the success of the entity or impact the entity's economic performance or (ii) the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity’s activities either involve or are conducted on behalf of that investor and its related parties. Among the related party group, a Fortress Fund is determined to be most closely associated with, and thus is the primary beneficiary of, these VIEs because the VIE was designed to act on behalf of the Fortress Fund to make investments. In addition, the activities of the VIE are more significant to the Fortress Fund, and in evaluating exposure to the expected losses or variability associated with the economic performance of the VIEs, in most cases the Fortress Fund holds both a majority ownership and majority economic interest in the VIE.

(E) Includes entities that are VIEs because the entity's equity investment at-risk is determined to be insufficient. Fortress is not the general partner, managing member or investment manager of these entities. The primary beneficiary of these entities is the third party investor who either is the general partner or has a majority ownership interest and a majority economic interest and power over the entity. These entities represent an insignificant portion of the amounts presented in the table.

(F) Includes an entity that is a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity's activities either involve or are conducted on behalf of that investor and its related parties. Fortress is determined to be most closely associated with, and thus is the primary beneficiary of, this VIE.

(G) Includes a Fortress Fund that is a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because the decision making is through a management contract that is not an at-risk equity investment. Fortress is the investment manager of this entity. Fortress is determined to be the primary beneficiary of this entity since it has both power over the activities that most significantly affect the success of the entity or impact the entity's economic performance and has the right to receive benefits from the VIE that potentially could be significant to the entity.

(H) Includes an entity that is a VIE because the entity's equity investment at risk is determined to be insufficient. Fortress, as a result of directing the operations of the entity through its management contracts with certain funds, and providing financial support to the entity, was deemed to be its primary beneficiary.

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Fair Value of Financial Instruments

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

	Fair Value March 31, 2014	December 31, 2013	Valuation Method
Investment Manager			
Assets (within Investments)			
Newcastle, New Residential and Eurocastle common shares	$13,801	$15,387	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies, primarily GAGFAH	64,771	63,001	Level 1 - Quoted prices in active markets for identical assets
Total equity method investments carried at fair value	$78,572	$78,388	
Newcastle, New Residential and Eurocastle options	$99,558	$104,338	Level 2 - Option valuation models using significant observable inputs
Assets (within Other Assets)			
Derivatives	$7,943	$9,749	Level 2 - See below
Equity Securities (A)	$22,981	$23,005	Level 1 - Quoted prices in active markets for identical assets
Liabilities (within Accrued Compensation and Benefits)			
Options in affiliates granted to employees	$(20,942)	$(16,390)	Level 2 - Option valuation models using significant observable inputs
Liabilities (within Other Liabilities)			
Derivatives	$(1,206)	$(1,820)	Level 2 - See below

(A) In June 2013, Fortress made a direct investment in accounts managed by Logan Circle's growth equities business. The equity investments in these accounts are owned on Fortress's behalf and are held at fair value and classified as trading.

See Note 5 regarding the fair value of outstanding debt.

Derivatives

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

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

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

	Balance Sheet	March 31, 2014 (or three months ended)			Maturity
	Location (A)	Fair Value	Notional Amount	Gains/(Losses) (B)	Date
Foreign exchange option contracts	Other Assets	$7,943	¥25,282,049	$(1,067)	Jun 14 - Feb 17
Foreign exchange option contracts	Other Liabilities	$(1,206)	¥6,117,993	$(532)	Jun 14 - Dec 16

(A) Fortress has a master netting agreement with its counterparty.
(B) Reflects unrealized gains (losses) related to contracts existing at period end. Total net foreign exchange gains (losses) from derivatives were $(1.3) million during the three months ended March 31, 2014.

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

5. DEBT OBLIGATIONS

Investment Manager

	Face Amount and Carrying Value		Contractual	Final	March 31, 2014
Debt Obligation	March 31, 2014	December 31, 2013	Interest Rate	Stated Maturity	Amount Available for Draws
Revolving credit agreement (A)(B)	$125,000	$—	LIBOR + 2.50% (C)	Feb 2016	$22,332
Total	$125,000	$—			

(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.

In April 2014, Fortress repaid $50.0 million, plus accrued interest, of debt obligations under its revolving credit facility.

Management believes the fair value of its outstanding debt was approximately $125.5 million as of March 31, 2014 (classified as a level 3 valuation, which is based on internal models using discounted future contractual cash flows and market interest rates).

Fortress was in compliance with all of its debt covenants as of March 31, 2014. The following table sets forth the financial covenant requirements as of March 31, 2014.

	March 31, 2014 (dollars in millions)			
	Requirement		Actual	Notes
AUM, as defined	≥	$25,000	$44,736	(A)
Consolidated Leverage Ratio	≤	2.00	0.32	(B)
Consolidated Interest Coverage Ratio	≥	4.00	105.05	(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 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. 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.

Fortress's compliance with its debt covenants is not impacted by or dependent on the activities of the Media Business or on the terms and conditions of the GateHouse Credit Facilities or the Local Media Group Facility, in each case as defined below.

The debt obligations of the Media Business are not cross collateralized with the debt obligations of the Investment Manager. Fortress has no obligation to satisfy the liabilities of New Media. Similarly, Fortress does not have the right to make use of the assets of New Media to satisfy its obligations.

New Media's debt obligations have no impact on the Investment Manager's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.

Non-Investment Manager

GateHouse Credit Facilities

The Revolving Credit, Term Loan and Security Agreement (the “First Lien Credit Facility”) dated November 26, 2013 by and among GateHouse, GateHouse Media Intermediate Holdco, LLC formerly known as GateHouse Media Intermediate Holdco, Inc. (“GMIH”), certain wholly-owned subsidiaries of GMIH, all of which are wholly owned subsidiaries of New Media (collectively with GMIH and GateHouse, the “Loan Parties”), PNC Bank, National Association, as the administrative agent, Crystal Financial LLC, as term loan B agent, and each of the lenders party thereto provides for (i) a term loan A in the aggregate principal amount of $25.0 million, a term loan B in the aggregate principal amount of $50.0 million, and a revolving credit facility in an aggregate principal amount of up to $40.0 million (of which $22.0 million was drawn as of March 31, 2014). Borrowings under the First Lien Credit Facility bear interest at a rate per annum equal to (i) with respect to the revolving credit facility, the applicable Revolving Interest Rate (as defined the First Lien Credit Facility), (ii) with respect to the term loan A, the Term Loan A Rate (as defined in the First Lien Credit Facility), and (iii) with respect to the term loan B, the Term Loan B Rate (as defined in the First Lien Credit Facility). Amounts outstanding under the term loans and revolving credit facility will be fully due and payable on November 26, 2018.

The Term Loan and Security Agreement (the “Second Lien Credit Facility” and together with the First Lien Credit Facility, the “GateHouse Credit Facilities”) dated November 26, 2013 by and among the Loan Parties, Mutual Quest Fund and each of the lenders party thereto provides for a term loan in an aggregate principal amount of $50.0 million. Borrowings under the Second Lien Credit Facility bear interest, at the Loan Parties’ option, equal to (i) the LIBOR Rate (as defined in the Second Lien Credit Facility) plus 11.00% or (ii) the Alternate Base Rate (as defined in the Second Lien Credit Facility) plus 10.00%. The outstanding principal will be fully due and payable on the maturity date of November 26, 2019. The GateHouse Credit Facilities are secured by a first and second priority security interest in substantially all assets of Loan Parties. In addition, the loans and other obligations of the Loan Parties under the GateHouse Credit Facilities are guaranteed by GateHouse Media, LLC. Under the revolving credit facility, the borrowers will also pay a quarterly commitment fee of 0.50% per annum on the unused portion of the revolving credit facility. For the period from February 14, 2014 to March 31, 2014, the GateHouse Credit Facilities had a weighted average interest rate of 8.2%.

No principal payments are due on the revolving credit facility until the maturity date. Principal amounts outstanding under term loan A and term loan B of the First Lien Credit Facility will be payable in quarterly installments as follows: (I) four consecutive quarterly installments each in the amount of $0.9 million, commencing on January 1, 2014, (II) four consecutive quarterly installments each in the amount of $1.3 million, commencing on January 1, 2015, and (III) twelve consecutive quarterly installments each in the amount $2.0 million, commencing on January 1, 2016, followed by a final payment of all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses which will be fully due and payable on November 26, 2018. The principal payments will be applied against term loan A until fully paid, and then to term loan B. The outstanding principal of the Second Lien Credit Facility will be fully due and payable on the maturity date of November 26, 2019. Only interest payments are due under the Second Lien Credit Facility until maturity. The Loan Parties are required to prepay borrowings under the GateHouse Credit Facilities in an amount equal to: (i) 100% of Excess Cash Flow (as defined in the GateHouse Credit Facilities) earned during any fiscal year quarter if the Leverage Ratio (as defined in the GateHouse Credit Facilities) as of the end of such fiscal quarter was greater than or equal to 2.75 to 1.0; (ii) 50% of Excess Cash Flow earned during any fiscal quarter if the Leverage Ratio of the Loan Parties as of the end of such fiscal quarter was less than 2.75 to 1.0 and greater than or equal to 2.5 to 1.0; and (iii) 0% of Excess Cash Flow earned during any fiscal quarter if the Leverage Ratio of the Loan Parties as of the end of such fiscal quarter was not more than 2.5 to 1.0. In addition, in the event of certain asset sales, borrowings or casualty events, the GateHouse Credit Facilities require the Loan Parties to prepay borrowings with the proceeds.

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The GateHouse Credit Facilities impose upon GateHouse certain financial and operating covenants, including, among others, requirements that GateHouse satisfy certain financial tests, including a minimum fixed charge coverage ratio of not less than 1.0 to 1.0, a maximum leverage ratio of not greater than 3.25 to 1.0, a minimum EBITDA and a limitation on capital expenditures, and restrictions on GateHouse's ability to incur additional debt, incur liens and encumbrances, consolidate, amalgamate or merge with any other person, pay dividends, dispose of assets, make certain restricted payments, engage in transactions with affiliates, materially alter the business it conducts and taking certain other corporate actions.

As of March 31, 2014, GateHouse is in compliance with all of the covenants and obligations under the GateHouse Credit Facilities.

Local Media Credit Facility

Certain of Local Media's subsidiaries (together, the "Borrowers") and Local Media entered into a Credit Agreement, dated as of September 3, 2013, with a syndicate of financial institutions with Credit Suisse AG, Cayman Islands Branch, as administrative agent (the "Local Media Credit Facility").

The Local Media Credit Facility provided for: (a) a $33.0 million term loan facility that matures on September 4, 2018; and (b) a $10.0 million revolving credit facility (of which $4.0 million was drawn as of March 31, 2014), with a $3.0 million sub-facility for letters of credit and a $4.0 million sub-facility for swing loans, that matures on September 4, 2018. The Local Media Credit Facility is secured by a first priority security interest in substantially all assets of the Borrowers and Local Media. In addition, the loans and other obligations of the Borrowers under the Local Media Credit Facility are guaranteed by Local Media Group Holdings LLC.

Borrowings under the Local Media Credit Facility bear interest, at the borrower's option, equal to the LIBOR Rate (as defined in the Local Media Credit Facility) plus 6.5% per annum for a LIBOR Rate Loan (as defined in the Local Media Credit Facility), or the Base Rate (as defined in the Local Media Credit Facility) plus 5.5% per annum for a Base Rate Loan (as defined in the Local Media Credit Facility). Under the revolving credit facility, the Borrowers will also pay a monthly commitment fee of 0.75% per annum on the unused portion of the revolving credit facility and a fee of 6.0% on the aggregate amount of outstanding letters of credit. For the period from February 14, 2014 to March 31, 2014, the revolving credit facility had a weighted average interest rate of 7.5%.

No principal payments are due on the revolving credit facility until the maturity date. Principal payments are due on the term loan facility as follows: (a) $0.2 million at the end of each fiscal quarter beginning with the fiscal quarter ending December 31, 2013 through the fiscal quarter ending September 30, 2015; and (b) $0.4 million beginning with the fiscal quarter ending December 31, 2015 and at the end of each fiscal quarter thereafter with the remaining balance of principal becoming fully due and payable on the maturity date. The Borrowers are required to prepay borrowings under the Local Media Credit Facility in an amount equal to: (i) 100% of expected Excess Cash Flow (as defined in the Local Media Credit Facility) with respect to a fiscal quarter if the Leverage Ratio (as defined in the Local Media Credit Facility) of Local Media and the Borrowers as of the end of such fiscal quarter was greater than or equal to 2.0 to 1.0; (ii) 50% of expected Excess Cash Flow with respect to a fiscal quarter if the Leverage Ratio of Local Media and the Borrowers as of the end of such fiscal quarter was less than 2.0 to 1.0 and greater than or equal to 1.75 to 1.0; and (iii) 0% of expected Excess Cash Flow with respect to a fiscal quarter if the Leverage Ratio of Local Media and the Borrowers as of the end of such fiscal quarter was less than 1.75 to 1.0, in each case subject to an annual audit adjustment. In addition, the Borrowers are required to prepay borrowings under the Local Media Credit Facility with (A) net cash proceeds of certain asset dispositions, (B) 100% of Extraordinary Receipts (as defined in the Local Media Credit Facility), (C) 100% of net cash proceeds of funded indebtedness (other than indebtedness permitted by the Local Media Credit Facility), and (D) 100% of all Specified Equity Contributions (as defined in the Local Media Credit Facility) to Local Media.

The Local Media Credit Facility contains financial covenants that require Local Media and the Borrowers to maintain (a) a Leverage Ratio (as defined in the Local Media Credit Facility) of not more than 2.5 to 1.0 and a Fixed Charge Coverage Ratio (as defined in the Local Media Credit Facility) of at least 2.0 to 1.0, each measured at the end of each fiscal quarter for the four-quarter period then ended. The Local Media Credit Facility contains affirmative and negative covenants applicable to Local Media and the Borrowers customarily found in loan agreements for similar transactions, including, but not limited to, restrictions on their ability to incur indebtedness, create liens on assets, engage in certain lines of business, engage in mergers or consolidations, dispose of assets, make investments or acquisitions, engage in transactions with affiliates, pay dividends or make other restricted payments. The Local Media Credit Facility contains customary events of default, including, but not limited to, defaults based on a failure to pay principal, interest, fees or other obligations, subject to specified grace periods (other than with respect to principal); any material

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inaccuracy of representation or warranty; breach of covenants; default in other material indebtedness; a Change of Control (as defined in the Local Media Credit Facility); bankruptcy and insolvency events; material judgments; certain ERISA events; and impairment of collateral. As of March 31, 2014, Local Media is in compliance with all of the covenants and obligations under the Local Media Credit Facility.

Fair Value

As of March 31, 2014, the estimated fair value of long-term debt under the GateHouse Credit Facilities and Local Media Credit Facility was $146.1 million and $36.8 million, respectively, based on discounted future contractual cash flows and a market interest rate adjusted for necessary risks, including New Media's credit risk as there are no rates currently observable in publicly traded debt markets of risk with similar terms and average maturities. Accordingly, New Media's long-term debt under the GateHouse Credit Facilities and Local Media Credit Facility is classified within Level 3 of the fair value hierarchy.

Payment Schedule

As of March 31, 2014, scheduled principal payments of New Media's outstanding debt are as follows:

	Amount
April 1, 2014 through December 31, 2014	$3,234
2015	5,813
2016	9,625
2017	10,031
2018	104,219
2019	50,000
	182,922
Less: Remaining original issue discount	(944)
Total New Media debt obligations	$181,978

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6. INCOME TAXES AND TAX RELATED PAYMENTS

Investment Manager

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

Fortress recognizes compensation expense from the issuance of RSUs and RPUs (Note 8) over their vesting period. Consequently, Fortress records an estimated income tax benefit associated with RSUs and RPUs. However, Fortress is not entitled to an actual deduction on its income tax returns until a later date when the compensation is considered taxable to the employee. The actual income tax deduction can vary significantly from the amount recorded as an income tax benefit in earlier periods and is based on the value of the stock at the date the compensation is taxable to the employee.

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

For the three months ended March 31, 2014, Fortress recorded $0.4 million of excess tax benefits from RSUs delivered during the period as a financing activity on the consolidated statements of cash flows.

Based on the value of the RSUs and RPUs which vested during the three months ended March 31, 2013, Fortress estimated tax shortfalls of $25.5 million which were charged to income tax expense during the period.

The provision for income taxes consists of the following:

	Three Months Ended March 31,	
	2014	2013
Current		
Federal income tax expense (benefit)	$(68)	$(10,415)
Foreign income tax expense (benefit)	3,138	1,117
State and local income tax expense (benefit)	438	(633)
	3,508	(9,931)
Deferred		
Federal income tax expense (benefit)	1,517	30,118
Foreign income tax expense (benefit)	783	599
State and local income tax expense (benefit)	186	5,490
	2,486	36,207
Total expense (benefit)	$5,994	$26,276

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

	March 31, 2014	December 31, 2013
Total deferred tax assets	$454,007	$421,027
Less:		
Valuation allowance	(49,076)	(49,805)
Deferred tax liabilities (A)	(12,961)	(16,696)
Deferred tax assets, net	$391,970	$354,526

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(A) The deferred tax liabilities primarily relate to timing differences in the recognition of income from compensatory options received from the permanent capital vehicles. Deferred tax assets are shown net of deferred tax liabilities since they are both primarily of similar tax character and tax jurisdiction.

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

Valuation Allowance at December 31, 2013	$49,805	
Changes due to FIG Corp ownership change	(1,365	)
Net decreases (A)	636	
Valuation Allowance at March 31, 2014	$49,076	

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

For the three months ended March 31, 2014, a net deferred income tax provision of $0.2 million was credited to other comprehensive income, primarily related to the equity method investees. A current income tax benefit of $0.2 million was credited to paid-in capital, related to (i) dividend equivalent payments on RSUs (Note 9), as applicable, and (ii) distributions to Fortress Operating Group restricted partnership unit holders (Note 9), which are currently deductible for income tax purposes.

FIG Corp increased its ownership in the underlying Fortress Operating Group entities during the three months ended March 31, 2014 through the delivery of vested RSUs (Note 8) and the offering of Class A shares and the repurchase of an equivalent number of outstanding Fortress Operating Group units and an equal number of Class B shares. As a result of this change in ownership and other factors, the deferred tax asset decreased by $10.3 million with an offsetting decrease of $2.3 million to the valuation allowance. In addition, the deferred tax asset was increased by $49.0 million related to a step-up in tax basis due to the repurchase of Fortress Operating Group units which will result in additional tax deductions, with an offsetting increase of $0.9 million to the valuation allowance, while the liability for the tax receivable agreement was increased by $39.1 million to represent 85% of the expected cash savings resulting from the increase in tax basis deductions. The establishment of these net deferred tax assets, net of the change in the tax receivable agreement liability, also increased additional paid-in capital.

Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the three months ended March 31, 2014, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be $5.0 million.

Non-Investment Manager

Income tax expense (benefit) for the period from February 14, 2014 to March 31, 2014 consisted of:

Current	
Federal income expense (benefit)	$—
State and local income expense (benefit)	—
	—

Deferred	
Federal income expense (benefit)	(191)
State and local income expense (benefit)	(48)
	(239)
Total New Media income tax expense (benefit)	$(239)

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The tax effects of temporary differences that give rise to significant portions of the net deferred tax assets, included in other assets, net on the consolidated balance sheets, as of March 31, 2014 are presented below:

	March 31, 2014
Definite and indefinite lived intangible assets	$95,554
Net operating losses	90,124
Other	21,034
Total deferred tax assets	206,712
Less:	
Valuation allowance	(165,718)
Deferred tax liabilities (A)	(40,755)
Deferred tax assets, net	$239

(A) The deferred tax liabilities primarily relate to timing differences in the recognition of depreciation expense related to fixed assets. Deferred tax assets are shown net of deferred tax liabilities since they are both primarily of similar tax character and tax jurisdiction.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

For the period from February 14, 2014 to March 31, 2014, the valuation allowance increased by $0.9 million.

As of March 31, 2014, New Media had net operating loss carryforwards for federal and state income tax purposes of approximately $90.1 million, which are available to offset future taxable income, if any. These federal and state net operating loss carryforwards begin to expire on various dates from 2019 through 2033. The majority of the operating losses are subject to the limitations of Internal Revenue Code (the “Code”) Section 382. This section provides limitations on the availability of net operating losses to offset current taxable income if significant ownership changes have occurred for Federal tax purposes.

As of March 31, 2014, New Media had uncertain tax positions of $1.1 million which, if recognized, would impact the effective tax rate. New Media did not record significant amounts of interest and penalties related to uncertain tax positions for the period from February 14, 2014 to March 31, 2014.

New Media does not anticipate significant increases or decreases in its uncertain tax positions within the next twelve months. New Media recognizes penalties and interest relating to uncertain tax positions in the provision for income taxes. For the period from February 14, 2014 to March 31, 2014, New Media did not recognize any accrued interest or penalties. As of March 31, 2014, of the accrued uncertain tax positions, New Media has $0.3 million of interest and penalties accrued.

New Media files a U.S. federal consolidated income tax return for which the statute of limitations remains open for the 2010 tax year and beyond. U.S. state jurisdictions have statute of limitations generally ranging from 3 to 6 years.

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7. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES

Investment Manager

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

	Private Equity			Credit			
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Hedge Funds	PE Funds	Other	Total
March 31, 2014							
Management fees and incentive income (A)	$37,341	$9,418	$612	$9,688	$15,379	$607	$73,045
Expense reimbursements (A)	3,189	4,466	7,913	7,952	8,938	138	32,596
Expense reimbursements - FCF (B)	24,733	—	—	—	—	—	24,733
Dividends and distributions	—	328	—	—	—	—	328
Other	1,495	—	—	—	—	11,406	12,901
Total	$66,758	$14,212	$8,525	$17,640	$24,317	$12,151	$143,603

	Private Equity			Credit			
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Hedge Funds	PE Funds	Other	Total
December 31, 2013							
Management fees and incentive income (A)	$41,720	$20,437	$89,400	$144,749	$18,143	$689	$315,138
Expense reimbursements (A)	2,599	4,905	6,437	7,118	14,656	64	35,779
Expense reimbursements - FCF (B)	42,972	—	—	—	—	—	42,972
Dividends and distributions	—	405	—	—	—	—	405
Other	698	—	—	—	4	12,128	12,830
Total	$87,989	$25,747	$95,837	$151,867	$32,803	$12,881	$407,124

(A) Net of allowances for uncollectible management fees and expense reimbursements of $12.2 million and $6.4 million as of March 31, 2014, respectively, and of $12.2 million and $6.3 million as of December 31, 2013, respectively. Allowances are recorded as General and Administrative expenses. As of March 31, 2014, excludes $0.8 million of management fees due from New Media which are eliminated in consolidation (see Note 13).

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

As of March 31, 2014, amounts due from Fortress Funds recorded in Due from Affiliates included $35.4 million of past due management fees, excluding $12.2 million which has been fully reserved by Fortress, and $19.9 million of private equity general and administrative expenses advanced on behalf of certain Fortress Funds, excluding $6.4 million which has been fully reserved by Fortress. Although such funds are currently experiencing liquidity issues, Fortress believes the unreserved portion of these fees and reimbursable expenses will ultimately be collectible. The unreserved amounts are primarily due from two different funds and the amounts represent less than 5% of such funds' NAV, both individually and in the aggregate.

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Due to affiliates was comprised of the following:

	March 31, 2014	December 31, 2013
Principals - tax receivable agreement - Note 6	$280,074	$241,006
Principals - Principal Performance Payments - Note 8	7,062	45,524
Distributions payable on Fortress Operating Group units	14,925	5,160
Other	7,745	11,345
General partner liability - Note 10	42,354	41,797
	$352,160	$344,832

Other Related Party Transactions

For the three months ended March 31, 2014 and 2013, Other Revenues included approximately $0.6 million and $0.5 million, respectively, of revenues from affiliates, primarily interest and dividends.

During 2014, Fortress advanced $3.6 million to two of its senior employees who are not officers. These advances bear interest at LIBOR+4.00%. All principal and interest is due and payable no later than February 2018. In addition, two senior employees repaid advances aggregating $2.9 million.

Principals' and Others' Interests in Consolidated Subsidiaries

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

This balance sheet caption was comprised of the following:

	March 31, 2014	December 31, 2013
Fortress Operating Group units held by the Principals and one senior employee	$528,274	$725,424
Employee interests in majority owned and controlled fund advisor and general partner entities	79,877	62,381
Other	2,041	2,033
Total	$610,192	$789,838

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

	March 31, 2014	December 31, 2013
Fortress Operating Group equity (Note 13)	$1,467,469	$1,489,701
Less: Others' interests in equity of consolidated subsidiaries (Note 13)	(81,918)	(64,414)
Non-controlling interests in equity of Non-Investment Manager - consolidated VIE	(380,306)	—
Total Fortress shareholders' equity in Fortress Operating Group	$1,005,245	$1,425,287
Fortress Operating Group units outstanding (A)	226,331,513	249,534,372
Class A shares outstanding	204,347,285	240,741,920
Total	430,678,798	490,276,292
Fortress Operating Group as a percent of total (B)	52.6%	50.9%
Equity of Fortress Operating Group units held by Principals and one senior employee	$528,274	$725,424

(A) Held by the Principals and one senior employee; exclusive of Class A shares.
(B) As a result, the Registrant owned 47.4% and 49.1% of Fortress Operating Group as of March 31, 2014 and December 31, 2013, respectively.

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

	Three Months Ended March 31,	
	2014	2013
Fortress Operating Group units held by the Principals and one senior employee	$4,950	$50,785
Employee interests in majority owned and controlled fund advisor and general partner entities	1,011	2,170
Other	8	22
Total	$5,969	$52,977

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

	Three Months Ended March 31,	
	2014	2013
Fortress Operating Group net income (loss) (Note 13)	$7,896	$98,169
Less: Others' interests in net income (loss) of consolidated subsidiaries (Note 13)	(1,019)	(2,192)
Adjust: Non-controlling interests in (income) loss of Non-Investment Manager - consolidated VIE	2,734	—
Total Fortress shareholders' net income (loss) in Fortress Operating Group	$9,611	$95,977

Fortress Operating Group as a percent of total (A)	51.5 %	52.9 %
Fortress Operating Group net income (loss) attributable to the Principals and one senior employee	$4,950	$50,785

(A) Represents the weighted average percentage of total Fortress shareholders' net income (loss) in Fortress Operating Group attributable to the Principals and one senior employee.

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

	Three Months Ended March 31,	
	2014	2013
Net Income (loss) attributable to Class A shareholders	$2,936	$14,329
Transfers (to) from the Principals' and Others' Interests:		
Increase in Fortress's shareholders' equity for the conversion of Fortress Operating Group units by the Principals and one senior employee	—	10,143
Increase in Fortress's shareholders' equity for the delivery of Class A shares primarily in connection with vested RSUs and RPUs	417	9,163
Increase in Fortress's shareholders' equity for the public offering of Class A shares and repurchase of Class B shares and FOGUs	53,510	—
Decrease in Fortress's shareholders' equity for the repurchase and cancellation of Class A shares and FOGUs	(101,156)	—
	(47,229)	19,306
Change from net income (loss) attributable to Fortress and transfers (to) from Principals' and Others' Interests	$(44,293)	$33,635

8. EQUITY-BASED AND OTHER COMPENSATION

Investment Manager

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

	Three Months Ended March 31,	
	2014	2013
Equity-based compensation, per below	$8,673	$9,597
Profit-sharing expense, per below	64,323	68,146
Discretionary bonuses	57,438	51,311
Other payroll, taxes and benefits	58,085	52,025
	$188,519	$181,079

Equity-Based Compensation

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

RSUs				Restricted Shares	
Employees		Non-Employees		Issued to Directors	
Number	Value (A)	Number	Value (A)	Number	Value (A)
19,228,466	$4.14	14,500	$3.12	955,744	$5.41

Outstanding at December 31, 2013						
Issued	6,437,321	7.57	—	—	18,562	8.62
Transfers	—	—	—	—	—	—
Converted to Class A shares	(952,219)	5.80	—	—	—	—
Forfeited	(929,908)	3.62	—	—	—	—
Outstanding at March 31, 2014 (B)	23,783,660	$5.02	14,500	$3.12	974,306	$5.47

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	Three Months Ended March 31,	
	2014	2013
Expense incurred (B)		
Employee RSUs	$5,887	$6,977
Non-Employee RSUs	6	125
Principal Performance Payments (C)	2,780	2,495
Restricted Shares (D)	—	—
Total equity-based compensation expense	$8,673	$9,597

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

(B) In future periods, Fortress will further recognize compensation expense on its non-vested equity based awards outstanding as of March 31, 2014 of $70.5 million, with a weighted average recognition period of 2.4 years. This does not include contingent amounts.

(C) Accrued based on year-to-date performance; the actual number of RSUs granted are determined at year end. Based on year-to-date performance, a total of approximately 0.2 million RSUs would be awarded as Principal Performance Payments.

(D) Certain restricted shares granted to directors are recorded in General and Administrative Expense ($0.1 million and $0.1 million for the three months ended March 31, 2014 and 2013, respectively) and therefore are not included above.

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

Fortress's management reviewed the estimated forfeiture factor as of March 31, 2014 and, based on the actual forfeiture rate incurred and the remaining vesting period of certain grants, determined that the forfeiture assumptions for certain grants required adjustment. The result of these changes in estimates did not materially impact equity-based compensation expense.

In January 2014, Fortress granted 3.2 million non-dividend paying RSUs to its employees and affiliates valued at an aggregate of $22.8 million on the grant date. These RSUs generally vest over three years.

In February 2014, Fortress awarded 3.2 million dividend paying RSUs as Principal Performance Payments based on 2013 results valued at an aggregate of $25.8 million on the grant date. These RSUs vest over three years.

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

	Three Months Ended March 31, 2014		
	Equity-Based Compensation	Profit Sharing Expense	Total
Private equity business	$—	$683	$683
Liquid hedge fund business	808	541	1,349
Credit business	1,972	5,674	7,646
Total	$2,780	$6,898	$9,678

Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

	Three Months Ended March 31,	
	2014	2013
Private equity funds	$—	$340
Permanent capital vehicles	4,916	6,356
Liquid hedge funds	2,463	10,223
Credit hedge funds	15,634	18,674
Credit PE funds	34,412	25,183
Principal Performance Payments (A)	6,898	7,370
Total	$64,323	$68,146

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

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Non-Investment Manager

New Media 401(K) Plan

New Media maintains the New Media Investment Group, Inc. Retirement Savings Plan (the “New Media 401(k) Plan”), which is intended to be a qualified defined contribution plan with a cash or deferred arrangement under Section 401(k) of the Code. In general, eligible employees of New Media and participating affiliates who satisfy minimum age and service requirements are eligible to participate. Eligible employees can contribute amounts up to 100% of their eligible compensation to the New Media 401(k) Plan, subject to IRS limitations. The New Media 401(k) Plan also provides for discretionary matching and nonelective contributions that can be made in separate amounts among different allocation groups. For the period ended March 31, 2014, New Media’s matching contributions to the New Media 401(k) Plan was $0.2 million. New Media did not make nonelective contributions for the three months ended March 31, 2014.

Stock Option and Incentive Award Plan

In February 2014, the Board of Directors of New Media adopted the New Media Investment Group Inc. Nonqualified Stock Option and Incentive Award Plan (the “Incentive Plan”).

Also in February 2014, the New Media Board adopted a form of the New Media Investment Group Inc. Non-Officer Director Restricted Stock Grant Agreement (the “Form Grant Agreement”) to govern the terms of awards of restricted stock (“New Media Restricted Stock”) granted under the Incentive Plan to directors who are not officers or employees of New Media (the “Non-Officer Directors”). The Form Grant Agreement provides for the grant of New Media Restricted Stock that vests in equal annual installments on each of the first, second and third anniversaries of the grant date, subject to the Non-Officer Director’s continued service as a member of the New Media Board, and immediate vesting in full upon his or her death or disability. If the non-officer director’s service terminates for any other reason, all unvested shares of New Media Restricted Stock will be forfeited. Any dividends or other distributions that are declared with respect to the shares of New Media Restricted Stock will be paid to the Non-Officer Director at the time such shares vest. On March 14, 2014, a grant of New Media restricted shares totaling 15,870 was made to New Media’s Non-Officer Directors with a grant date fair value of $0.2 million.

9. EARNINGS PER SHARE AND DISTRIBUTIONS

Fortress's potentially dilutive equity instruments fall primarily into two general categories: (i) instruments that Fortress has issued as part of its compensation plan, and (ii) ownership interests in Fortress's subsidiary, Fortress Operating Group, that are owned by the Principals (and one senior employee) and are convertible into Class A shares. Based on the rules for calculating earnings per share, there are two general ways to measure dilution for a given instrument: (a) calculate the net number of shares that would be issued assuming any related proceeds are used to buy back outstanding shares (the treasury stock method), or (b) assume the gross number of shares are issued and calculate any related effects on net income available for shareholders (the if-converted and two-class methods). Fortress has applied these methods as prescribed by GAAP to each of its outstanding equity instruments as shown below.

Substantially all of Fortress's business is conducted at the Fortress Operating Group (“FOG”) level and FOG’s net income (loss) is allocated pro rata between the Fortress Operating Group units held by the Registrant, on the one hand, and the Principals and one senior employee, on the other hand. The FOG income allocated to the Principals and one senior employee is not subject to corporate income tax. A substantial portion of the Registrant’s income is allocated to FIG Corp. and is subject to U.S federal and state income taxation (taxed at prevailing rates), while the remainder of the Registrant’s portion of FOG income is allocated directly to its shareholders and is not subject to a corporate level of taxation.

The primary difference between basic and diluted earnings per share (“EPS”), if any, is income tax related. If the Principals and one senior employee converted all of their Fortress Operating Group units into Class A shares, their portion of FOG’s income would become subject to corporate level taxation. Certain permanent differences in the Registrant’s tax calculation are not based on FIG Corp.’s ownership percentage of FOG. Thus, the effective tax rate changes when more income or loss is allocated to FIG Corp. This change in the effective tax rate results in incremental per share income or loss in the diluted EPS calculation, depending on whether the Registrant has income tax expense or benefit for the period. The comparison of the Registrant’s effective tax rate

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and the if-converted tax rate determines the dilutive or anti-dilutive impact of the Fortress Operating Group units held by the Principals and one senior employee.

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

	Three Months Ended March 31, 2014	
	Basic	Diluted
Weighted average shares outstanding		
Class A shares outstanding	212,061,656	212,061,656
Fully vested restricted Class A share units with dividend equivalent rights	3,899,986	3,899,986
Fully vested restricted Class A shares	973,275	973,275
Fortress Operating Group units exchangeable into Class A shares (1)	—	—
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)	—	1,450,688
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	10,648,173
Total weighted average shares outstanding	216,934,917	229,033,778
Basic and diluted net income (loss) per Class A share		
Net income (loss) attributable to Class A shareholders	$2,936	$2,936
Dilution in earnings due to fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4)	—	—
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(204)	(204)
Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates, attributable to Fortress Operating Group units (1)	—	—
Net income (loss) available to Class A shareholders	$2,732	$2,732
Weighted average shares outstanding	216,934,917	229,033,778
Basic and diluted net income (loss) per Class A share	$0.01	$0.01

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	Three Months Ended March 31, 2013	
	Basic	Diluted
Weighted average shares outstanding		
Class A shares outstanding	219,449,829	219,449,829
Fully vested restricted Class A share units with dividend equivalent rights	6,961,664	6,961,664
Fully vested restricted Class A shares	875,609	875,609
Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1)	—	259,408,447
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)	—	1,268,989
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	8,330,062
Total weighted average shares outstanding	227,287,102	496,294,600
Basic and diluted net income (loss) per Class A share		
Net income (loss) attributable to Class A shareholders	$14,329	$14,329
Dilution in earnings due to RPUs treated as a participating security of Fortress Operating Group and fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4)	—	—
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(121)	(121)
Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates, attributable to Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1)	—	9,245
Net income (loss) available to Class A shareholders	$14,208	$23,453
Weighted average shares outstanding	227,287,102	496,294,600
Basic and diluted net income (loss) per Class A share	$0.06	$0.05

(1) The Fortress Operating Group units and fully vested RPUs not held by Fortress (that is, those held by the Principals and one senior employee) are exchangeable into Class A shares on a one-to-one basis (fully vested RPUs would first have to be exchanged for Fortress Operating Group units and Class B shares). These units and fully vested RPUs are not included in the computation of basic earnings per share. These units and fully vested RPUs enter into the computation of diluted net income (loss) per Class A share when the effect is dilutive using the if-converted method, which includes the income tax effects of nondiscretionary adjustments to the net income (loss) attributable to Class A shareholders from assumed conversion of these units and fully vested RPUs. To the extent charges, particularly tax related charges, are incurred by the Registrant (i.e. not at the Fortress Operating Group level), the effect may be anti-dilutive. The final vesting of the RPUs occurred on January 1, 2013.

(2) Restricted Class A shares granted to directors and certain restricted Class A share units granted to employees are eligible to receive dividend or dividend equivalent payments when dividends are declared and paid on Fortress's

Class A shares and therefore participate fully in the results of Fortress's operations from the date they are granted. They are included in the computation of both basic and diluted earnings per Class A share using the two-class method for participating securities, except during periods of net losses.

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

	Three Months Ended March 31,	
	2014	2013
Share Units	12,436,247	15,747,337

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

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

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

	Weighted Average Three Months Ended March 31,	
	2014	2013
Class A shares (public shareholders)	212,061,656	219,449,829
Restricted Class A shares (directors)	973,275	875,609
Restricted Class A share units (employees) (A)	3,899,986	6,961,664
Restricted Class A share units (employees) (B)	5,997,586	3,540,069
Fortress Operating Group units (Principals and one senior employee)	245,925,038	249,534,372
Fortress Operating Group RPUs (one senior employee)	—	9,874,075
Total	468,857,541	490,235,618

	As of March 31, 2014	As of December 31, 2013
Class A shares (public shareholders)	203,372,979	239,786,176
Restricted Class A shares (directors)	974,306	955,744
Restricted Class A share units (employees) (A)	3,331,300	6,704
Restricted Class A share units (employees) (B)	7,506,633	5,232,536
Fortress Operating Group units (Principals and one senior employee)	226,331,513	249,534,372
Total	441,516,731	495,515,532

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

In January 2014, 4.2 million existing RSUs vested and the related Class A shares were delivered or, in certain cases, will be delivered within six months of vesting pursuant to the plan documents.

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 (and underlying Fortress Operating Group units) were canceled and ceased to be outstanding. As part of the purchase agreement, Fortress agreed for each year, until the third anniversary of the date of the agreement, to engage Nomura and its affiliates to provide certain financial advisory and financing services and/or pay Nomura certain annual sums in lieu thereof equal to the difference, if any, between (i) $12.0 million minus (ii) all fees earned or received by Nomura for the services provided to Fortress and its affiliates during each year.

In connection with the agreement to engage Nomura and its affiliates as described above, Fortress estimated the fair value of the related liability (included in Investment Manager other liabilities on the consolidated balance sheet) to be approximately $30.0 million, which has been recorded as a reduction to equity as part of the repurchase of Class A shares.

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In March 2014, Fortress issued and sold 23,202,859 Class A shares for approximately $186.6 million. Fortress used all of the proceeds from the sale of the Class A shares to purchase from the Principals an equivalent number of outstanding Fortress Operating Group units and an equal number of Class B shares.

Dividends and distributions during the three months ended March 31, 2014 are summarized as follows:

	Declared in Prior Year, Paid in Current Year	Declared in Current Year		Total
		Declared and Paid	Declared but not yet Paid	
Dividends on Class A Shares	$—	$14,492	$—	$14,492
Dividend equivalents on restricted Class A share units (A)	—	867	—	867
Distributions to Fortress Operating Group unit holders (Principals and one senior employee) (B)	5,160	14,803	14,925	29,728
Total distributions	$5,160	$30,162	$14,925	$45,087

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

(B) Fortress Operating Group made tax-related distributions to the FOG unit holders (the Principals and one senior employee).

On April 30, 2014, Fortress declared a first quarter cash dividend of $0.08 per Class A share. The dividend is payable on May 16, 2014 to holders of record of Class A shares on May 13, 2014. The aggregate amount of this dividend payment is approximately $16.3 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.

10. COMMITMENTS AND CONTINGENCIES

Investment Manager

Other than as described below, Fortress's commitments and contingencies remain materially unchanged from December 31, 2013.

General Partner Liability — Certain of Fortress's consolidated subsidiaries act as the general partner of various Fortress Funds and accordingly have potentially unlimited liability for the obligations of the funds under applicable partnership law principles. In the event that any such fund was to fall into a negative net equity position (Note 3), the full amount of the negative net equity would be recorded on the balance sheet of the general partner entity. Such amount would be recorded on the Fortress balance sheet in consolidation until it is legally resolved. While these entities are limited liability companies and generally have no material assets other than their general partner interests, these entities and

Fortress may be subject to litigation in connection with such amounts if fund creditors choose to sue Fortress to seek repayment. See "Litigation" below.

In March 2011, one private equity fund fell into a negative equity position, after considering all of Fortress's interests in such fund and its reserves related thereto. As described above, the amount of the negative equity was recorded, through earnings (losses) from equity method investees, by the general partner entity and is therefore included in the consolidated financial statements of Fortress. When the fund matures and is liquidated, Fortress will record a gain in the event and to the extent it does not fund this negative equity. The amount of negative equity recorded at March 31, 2014 was $42.4 million.

Litigation — Fortress is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions that existed as of March 31, 2014, individually and in the aggregate, will not materially affect Fortress's results of operations, liquidity or financial position.

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

Private Equity Fund and Credit PE Fund Capital Commitments — Fortress has remaining capital commitments, which aggregated $140.9 million as of March 31, 2014, primarily to certain of the Fortress Funds. These commitments can be drawn by the funds on demand.

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

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

April 1, 2014 to December 31, 2014	$18,594
2015	21,982
2016	20,253
2017	3,044
2018	665
2019	51
Thereafter	—
Total	$64,589

Rent expense, including operating expense escalations, for the Investment Manager during the three months ended March 31, 2014 and 2013 was $5.5 million and $6.7 million, respectively, and was included in general, administrative and other expense on the consolidated statements of operations.

Non-Investment Manager

Minimum future rental payments (excluding expense escalations) related to New Media's non-cancelable operating lease commitments are as follows:

April 1, 2014 to December 31, 2014	$3,219
2015	3,738
2016	3,334
2017	3,230
2018	2,319
2019	430
Thereafter	1,475
Total minimum lease payments	$17,745

Rent expense under operating leases for New Media for the period from February 14, 2014 to March 31, 2014 was $0.8 million and was primarily included in operating costs on the consolidated statements of operations.

In addition to minimum lease payments, certain leases require payment of the excess of various percentages of gross revenue or net operating income over the minimum rental payments. The leases generally require the payment of taxes assessed against the leased property and the cost of insurance and maintenance. The lease terms typically range from 1 to 10 years with the longest term of 99 years, and typically, the leases contain renewal options. Certain office space leases provide for rent adjustments relating to changes in real estate taxes and other operating costs. These scheduled rent increases are recognized on a straight-line basis over the term of the lease, resulting in an accrual, which is included in accrued expenses, for the amount by which the cumulative straight-line rent exceeds the contractual cash rent.

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Litigation

New Media becomes involved from time to time in claims and lawsuits incidental to the ordinary course of its business, including with respect to such matters as libel, invasion of privacy, intellectual property infringement, wrongful termination actions, and complaints alleging employment discrimination. In addition, New Media is involved from time to time in governmental and administrative proceedings concerning employment, labor, environmental and other claims. Insurance coverage maintained by New Media mitigates potential loss for certain of these matters. While management is unable to predict the ultimate outcome of any currently outstanding legal actions, it is the opinion of management that it is a remote possibility that the disposition of these matters would have a material adverse effect upon the consolidated results of operations, financial condition or cash flow.

11. SEGMENT REPORTING

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.

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

Incentive Income

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

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

c. adding the incentive income earned by Fortress in connection with the management agreement with New Media, which is eliminated under GAAP as a result of the consolidation of New Media,

Other Income

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

a. for equity method investments in the private equity funds and credit PE funds as well as indirect equity method investments in hedge fund special investment accounts (which generally have investment profiles similar to private equity funds), treating these investments as cost basis investments by adding (a) realizations of income, primarily dividends, from these funds, minus (b) impairment with respect to these funds, if necessary, minus (c) equity method earnings (or losses) recorded in accordance with GAAP,

b. subtracting gains (or adding losses) on stock options held in the permanent capital vehicles,

c. subtracting unrealized gains (or adding unrealized losses) on derivatives, direct investments in publicly traded portfolio companies and in the permanent capital vehicles,

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

(iv) adding the management fee income earned by Fortress in connection with the management agreement with New Media, which is eliminated under GAAP as a result of the consolidation of New Media,

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(v) 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,

(vi) 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),

(vii) 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,

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

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

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

(xi) subtracting the income (or adding the loss) of the Non-Investment Manager allocable to the Class A shareholders, and

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

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

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

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

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

(iii) investment in the Non-Investment Manager and receivables due to Fortress in connection with the related management agreement,

(iv) total assets of the Non-Investment Manager,

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

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

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Distributable Earnings Impairment

Clawback Reserve on Incentive Income for DE Purposes

Fortress had recognized incentive income for DE purposes from certain private equity funds and credit PE funds, which are subject to contingent clawback, as of March 31, 2014:

Fund (A)	Net Intrinsic Clawback (B)	Periods in Intrinsic Clawback	Prior Year End Inception-to-Date Net DE Reserve	Current Year-to-Date Gross DE Reserve (Reversal)	Current Year-to-Date Net DE Reserve (Reversal)	Inception-to-Date Net DE Reserve	Notes
Fund II	$—	N/A	$ 1,334	$(1,999)	$(1,334)	$—	(C)
Fund III	45,108	25 Quarters	45,108	—	—	45,108	(D)
FRID	10,041	27 Quarters	10,041	—	—	10,041	(D)
Total	$55,149		$ 56,483	$(1,999)	$(1,334)	$55,149	

(A) Fortress has recognized incentive income for DE purposes from the following funds, which do not have intrinsic clawback and for which the chief operating decision maker ("CODM") has determined no clawback reserve is necessary: Fund II, WWTAI, Credit Opportunities Fund, Credit Opportunities Fund II, Credit Opportunities Fund III, certain FCO Managed Accounts, Real Estate Opportunities Fund, Real Estate Opportunities REOC Fund, Net Lease Fund I, Japan Opportunity Fund and Global Opportunities Fund.
(B) See Note 3.
(C) The previously recorded reserves with respect to this fund exceeded its net intrinsic clawback by approximately $1.3 million immediately prior to March 31, 2014. Based on the criteria determined by the CODM, management determined that a net reversal of $1.3 million of clawback reserve was appropriate for the three months ended March 31, 2014.
(D) The potential clawback on these funds has been fully reserved in prior periods.

Impairment Determination and Embedded Gain/Loss

During the three months ended March 31, 2014, Fortress recorded less than $0.1 million of impairment on its direct and indirect investments in its funds for segment reporting purposes. As of March 31, 2014, Fortress had $4.5 million of unrealized losses on certain investments that have not been recorded as impairment. As of March 31, 2014, Fortress's share of the net asset value of its direct and indirect investments exceeded its segment cost basis by $619.2 million, representing unrealized gains.

During the three months ended March 31, 2014, Fortress recorded an aggregate net reversal of $1.3 million of clawback reserve for DE purposes.

Fortress expects aggregate returns on its private equity funds and credit PE funds that are in an unrealized investment loss or intrinsic clawback position, after taking reserves into account, to ultimately exceed their carrying amount or breakeven point, as applicable. If such funds were liquidated at their March 31, 2014 NAV (although Fortress has no current intention of doing so), the result would be additional impairment losses and reserves for DE purposes of approximately $4.5 million.

Embedded Incentive Income

As of March 31, 2014, Fortress had $861.5 million of gross undistributed incentive income (Note 3), or $778.1 million net of intrinsic clawback. Of the $861.5 million, $30.5 million has been recognized in distributable earnings. This amount represents accrued hedge fund incentive income recorded during the three months ended March 31, 2014.

In addition, if Fortress had exercised all of its in-the-money Newcastle, New Residential, and Eurocastle options (Note 4) and sold all of the resulting shares at their March 31, 2014 closing price, it would have recorded $96.9 million of gross additional distributable earnings, or $76.3 million net of employee interests.

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FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
MARCH 31, 2014
(dollars in tables in thousands, except share data)

Segment Results of Operations

Summary financial data on Fortress's segments is presented on the following pages, together with a reconciliation to revenues, assets and net income (loss) for Fortress as a whole. Fortress's investments in, and earnings (losses) from, its equity method investees by segment are presented in Note 4.

March 31, 2014 and the Three Months Then Ended

	Private Equity								
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds	PE Funds	Logan Circle	Principal Investments	Unallocated	Fortress Subtotal
Segment revenues									
Management fees	$36,173	$15,285	$33,478	$26,858	$24,642	$10,604	$ —	$ —	$147,040
Incentive income	1,999	4,009	133	31,829	65,955	—	—	—	103,925
Segment revenues - total	$38,172	$19,294	$33,611	$58,687	$90,597	$10,604	$ —	$ —	$250,965
Fund management distributable earnings (loss) before Principal Performance Payments (B)	$24,398	$6,396	$8,480	$26,561	$30,160	$(2,071)	$ —	$ —	$93,924
Fund management distributable earnings (loss)	$24,398	$5,713	$7,939	$22,024	$29,024	$(2,071)	$ —	$ —	$87,027
Pre-tax distributable earnings (loss)	$24,398	$5,713	$7,939						