Fortress Investment Group LLC
Form 10-Q
August 03, 2017
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 June 30, 2017
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	(I.R.S. Employer Identification No.)

or organization)

1345 Avenue of the Americas, New York, NY	10105
(Address of principal executive offices)	(Zip Code)

(212) 798-6100
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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
Emerging growth company o	

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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: 219,367,912 outstanding as of July 28, 2017.
Class B Shares: 169,207,335 outstanding as of July 28, 2017.

FORTRESS INVESTMENT GROUP LLC
FORM 10-Q
INDEX

		PAGE
	PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016	1
	Condensed Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2017 and 2016	2
	Condensed Consolidated Statements of Comprehensive Income (unaudited) for the three and six months ended June 30, 2017 and 2016	3
	Condensed Consolidated Statement of Changes in Equity (unaudited) for the six months ended June, 2017	4
	Condensed Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2017 and 2016	5
	Notes to Condensed Consolidated Financial Statements (unaudited)	7
	Note 1 Organization and Basis of Presentation	7
	Note 2 Management Agreements and Fortress Funds	12
	Note 3 Investments and Fair Value	21
	Note 4 Debt Obligations	27
	Note 5 Income Taxes and Tax Related Payments	28
	Note 6 Related Party Transactions and Interests in Consolidated Subsidiaries	29
	Note 7 Compensation	32
	Note 8 Earnings Per Share and Distributions	35
	Note 9 Commitments and Contingencies	38
	Note 10 Segment Reporting	39
	Note 11 Subsequent Events	45
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	46
	Overview and Understanding the Asset Management Business	46
	Market Considerations	55
	Assets Under Management	59
	Performance of Our Funds	61
	Results of Operations	65
	Liquidity and Capital Resources	85
	Critical Accounting Policies	92
	Contractual Obligations	99
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	100
Item 4.	Controls and Procedures	104

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	105
Item 1A.	Risk Factors	105
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	140
Item 3.	Defaults upon Senior Securities	140
Item 4.	Mine Safety Disclosures	140
Item 5.	Other Information	140
Item 6.	Exhibits	141
SIGNATURES		145

Table of Contents

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 or co-manage, including, as applicable, capital we have the right to call from our investors pursuant to their capital commitments to various funds. In addition, AUM includes management fee paying assets managed by autonomous businesses in which we retain a minority interest. 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 certain private equity funds includes the mark-to-market value of certain public securities held within the funds,
(ii) the contributed capital or book equity (as defined) of our publicly traded permanent capital vehicles,
(iii) the NAV of our hedge funds, including the Value Recovery Funds which pay fees based on realizations,
(iv) the NAV or fair value of our managed accounts, to the extent management fees are charged, and
(v) AUM of the funds related to the affiliated manager and co-managed funds.

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

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

"Fortress," "we," "us," "our," the "company" and the "public company" refer, collectively, to Fortress Investment Group LLC and 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 or co-manage. The Drawbridge Special Opportunities Fund is our flagship credit hedge fund.

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

Economic interests in each FOG entity are represented by Class A common units and Class B common units. Class A common units are (indirectly) owned by the public company, and Class B common units are owned by the principals (defined below). Class B units have, from time to time, also been held by a former senior employee, who exchanged his remaining Class B units, together with his remaining Class B shares of the public company, for Class A shares of the public company in September 2016.

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 and Randal Nardone, collectively, as well as Michael Novogratz until his retirement in January 2016. The principals significantly influence the public company through their ownership of the public company's Class B shares. The Class B shares and the Class A shares are each entitled to one vote per share. 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.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Part II, Item 1A, "Risk Factors," Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," Part I, Item 3, "Quantitative and Qualitative Disclosures About Market Risk" and elsewhere in this Quarterly Report on Form 10-Q may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. Readers can identify these forward-looking statements by the use of forward-looking words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "seeks," "approximately," "predicts," "intends," "plans," "estimates," "anticipates" or the negative version of those words or other comparable words. Any forward-looking statements contained in this report are based upon the historical performance of us and our subsidiaries and on our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy, liquidity and planned transactions. 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 Securities and Exchange Commission's ("SEC") 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.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	$341,712	$397,125
Due from affiliates	231,611	320,633
Investments	849,660	880,001
Investments in options	65,494	53,206
Deferred tax asset, net	417,652	424,244
Other assets	134,983	126,165
Total Assets	$2,041,112	$2,201,374
Liabilities and Equity		
Accrued compensation and benefits	$219,186	$370,413
Due to affiliates	335,662	360,769
Deferred incentive income	380,560	330,354
Debt obligations payable	182,838	182,838
Other liabilities	90,296	69,255
Total Liabilities	1,208,542	1,313,629
Commitments and Contingencies		
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 219,367,912 and 216,891,601 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	—	—
Class B shares, no par value, 750,000,000 shares authorized, 169,207,335 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	—	—
Paid-in capital	1,871,400	1,899,163
Retained earnings (accumulated deficit)	(1,323,171)	(1,333,828)
Accumulated other comprehensive income (loss)	(2,366)	(1,094)
Total Fortress shareholders' equity	545,863	564,241
Principals' and others' interests in equity of consolidated subsidiaries	286,707	323,504
Total Equity	832,570	887,745
Total Liabilities and Equity	$2,041,112	$2,201,374

See notes to condensed consolidated financial statements.

1

Table of Contents

FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues				
Management fees: affiliates	$119,710	$126,388	$245,879	$253,778
Management fees: non-affiliates	14,474	14,192	28,697	27,611
Incentive income: affiliates	55,412	22,160	85,785	53,938
Incentive income: non-affiliates	781	9,411	1,191	9,862
Expense reimbursements: affiliates	54,493	56,148	112,787	111,439
Expense reimbursements: non-affiliates	292	1,649	911	2,806
Other revenues (affiliate portion disclosed in Note 6)	1,827	2,758	3,967	4,889
Total Revenues	246,989	232,706	479,217	464,323
Expenses				
Compensation and benefits	163,400	191,279	345,392	355,484
General, administrative and other	39,580	38,770	92,525	71,896
Depreciation and amortization	4,420	5,821	8,875	12,087
Interest expense	2,226	2,982	4,205	6,019
Total Expenses	209,626	238,852	450,997	445,486
Other Income (Loss)				
Gains (losses) (affiliate portion disclosed in Note 3)	(18,373)	(7,266)	2,066	(23,939)
Tax receivable agreement liability adjustment	—	—	—	(2,699)
Earnings (losses) from equity method investees	26,512	(9,107)	6,644	(29,887)
Total Other Income (Loss)	8,139	(16,373)	8,710	(56,525)
Income (Loss) Before Income Taxes	45,502	(22,519)	36,930	(37,688)
Income tax benefit (expense)	(13,693)	(4,072)	(11,955)	(4,855)
Net Income (Loss)	$31,809	$(26,591)	$24,975	$(42,543)
Allocation of Net Income (Loss):				
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	$17,301	$(12,146)	$13,716	$(19,572)
Net Income (Loss) Attributable to Class A Shareholders	14,508	(14,445)	11,259	(22,971)
	$31,809	$(26,591)	$24,975	$(42,543)
Dividends declared per Class A share	$0.09	$0.20	$0.18	$0.28
Earnings (Loss) Per Class A share				
Net income (loss) per Class A share, basic	$0.06	$(0.07)	$0.05	$(0.11)
Net income (loss) per Class A share, diluted	$0.06	$(0.07)	$0.05	$(0.11)
Weighted average number of Class A shares outstanding, basic	220,259,863	216,733,660	220,377,475	218,790,533
Weighted average number of Class A shares outstanding, diluted	394,838,000	216,733,660	394,226,039	218,790,533

See notes to condensed consolidated financial statements.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Comprehensive income (loss) (net of tax)				
Net income (loss)	$31,809	$(26,591)	$24,975	$(42,543)
Foreign currency translation income (loss)	305	(3,209)	(2,963)	(3,312)
Comprehensive income (loss) from equity method investees	19	(37)	18	(167)
Total comprehensive income (loss)	$32,133	$(29,837)	$22,030	$(46,022)
Allocation of Comprehensive Income (Loss):				
Comprehensive income (loss) attributable to principals' and others' interests	$17,462	$(13,983)	$12,030	$(21,553)
Comprehensive income (loss) attributable to Class A shareholders	14,671	(15,854)	10,000	(24,469)
	$32,133	$(29,837)	$22,030	$(46,022)

See notes to condensed consolidated financial statements.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE SIX MONTHS ENDED JUNE 30, 2017
(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders' Equity	Principals' and Others' Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity - December 31, 2016	216,891,601	169,207,335	$1,899,163	$(1,333,828)	$(1,094)	$564,241	$323,504	$887,745
Cumulative-effect adjustment from adoption of ASU 2016-09 (Note 1)	—	—	—	(602)	—	(602)	(468)	(1,070)
Contributions from principals' and others' interests in equity	—	—	6,735	—	—	6,735	21,451	28,186
Distributions to principals' and others' interests in equity (net of tax)	—	—	—	—	—	—	(68,886)	(68,886)
Class A dividends declared	—	—	(39,242)	—	—	(39,242)	—	(39,242)
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(1,016)	—	—	(1,016)	(786)	(1,802)
Net deferred tax effects resulting from changes in ownership of Fortress Operating Group units	—	—	1,934	—	—	1,934	—	1,934
Director restricted share grant	47,325	—	129	—	—	129	101	230
Capital increase related to equity-based compensation	2,428,986	—	1,936	—	—	1,936	1,509	3,445

(net of tax)								
Dilution impact of equity transactions (Note 6)	—	—	1,761	—	(13)	1,748	(1,748)	—
Comprehensive income (loss) (net of tax)								
Net income (loss)	—	—	—	11,259	—	11,259	13,716	24,975
Foreign currency translation income (loss)	—	—	—	—	(1,269)	(1,269)	(1,694)	(2,963)
Comprehensive income (loss) from equity method investees	—	—	—	—	10	10	8	18
Total comprehensive income (loss)						10,000	12,030	22,030
Equity - June 30, 2017	219,367,912	169,207,335	$1,871,400	$(1,323,171)	$(2,366)	$545,863	$286,707	$832,570

See notes to condensed consolidated financial statements.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash Flows From Operating Activities		
Net income (loss)	$24,975	$(42,543)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	8,875	12,087
Other amortization (included in interest expense)	343	445
(Earnings) losses from equity method investees	(6,644)	29,887
Distributions of earnings from equity method and other investees	35,748	15,316
(Gains) losses	(2,066)	23,939
Deferred incentive income	(24,262)	(44,619)
Deferred tax (benefit) expense	9,015	(2,194)
Options received from affiliates	(8,068)	—
Tax receivable agreement liability adjustment	—	2,699
Equity-based compensation	14,857	14,927
Options in affiliates granted to employees	4,323	3,409
Other	88	612
Cash flows due to changes in		
Due from affiliates	(14,975)	47,239
Other assets	(12,959)	(6,288)
Accrued compensation and benefits	(130,888)	(98,142)
Due to affiliates	(31,268)	(20,943)
Deferred incentive income	63,942	63,595
Other liabilities	27,084	12,687
Purchase of investments by consolidated funds	(35,192)	(39,976)
Proceeds from sale of investments by consolidated funds	21,282	44,907
Receivables from brokers and counterparties	(592)	(1,816)
Due to brokers and counterparties	2,948	2,921
Net cash provided by (used in) operating activities	(53,434)	18,149
Cash Flows From Investing Activities		
Contributions to equity method investees	(12,888)	(7,090)
Distributions of capital from equity method and other investees	141,174	135,641
Proceeds from sale of direct investments	—	933
Purchase of fixed assets	(8,022)	(10,608)
Net cash provided by (used in) investing activities	120,264	118,876

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands)

	Six Months Ended June 30, 2017	2016
Cash Flows From Financing Activities		
Repayments of debt obligations	—	(145,000)
Borrowings under debt obligations	—	175,000
Payment of deferred financing costs	—	(3,451)
Repurchase of Class A shares (Note 8)	(8,434)	(34,047)
Payments to settle RSU statutory withholding tax	(9,580)	(6,594)
Dividends and dividend equivalents paid	(41,238)	(62,920)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	3,715	71
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(66,706)	(120,989)
Net cash provided by (used in) financing activities	(122,243)	(197,930)
Net Increase (Decrease) in Cash and Cash Equivalents	(55,413)	(60,905)
Cash and Cash Equivalents, Beginning of Period	397,125	339,842
Cash and Cash Equivalents, End of Period	$341,712	$278,937
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$3,500	$5,185
Cash paid during the period for income taxes	$14,708	$9,637
Supplemental Schedule of Non-cash Investing and Financing Activities		
Employee compensation invested directly in subsidiaries	$12,506	$39,385
Investments of incentive receivable amounts into Fortress Funds	$111,128	$58,766
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	$—	$3,070
Contribution of interests in a Fortress Fund from certain principals to certain senior employees (Note 7)	$11,963	$—

See notes to condensed consolidated financial statements.

6

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

Fortress Investment Group LLC (the "Registrant," or, together with its subsidiaries, "Fortress,") is a leading, highly diversified global investment management firm. Its primary business is to sponsor the formation of, and provide investment management services for, various investment funds, permanent capital vehicles and related managed accounts (collectively, the "Fortress Funds"). Fortress generally makes investments in these funds.

Proposed Acquisition by SoftBank

On February 14, 2017, Fortress entered into an Agreement and Plan of Merger (the "Merger Agreement") with SB Foundation Holdings LP, a Cayman Islands exempted limited partnership ("Parent"), and Foundation Acquisition LLC, a Delaware limited liability company and wholly owned subsidiary of Parent ("Merger Sub"), pursuant to which, among other things, Merger Sub will merge with and into Fortress, with Fortress surviving as a wholly owned subsidiary of Parent (the "Merger").

At the effective time of the Merger, each Class A share issued and outstanding immediately prior to the effective time (subject to certain exceptions) and each restricted stock unit with respect to the Class A shares outstanding immediately prior to the effective time will be converted into the right to receive $8.08 in cash, without interest, less any applicable taxes required to be withheld. Each Class B share outstanding immediately prior to the effective time will be canceled and retired in exchange for no consideration. There are no appraisal or dissenters' rights available with respect to the Merger. The Merger Agreement also provides that Fortress's shareholders may also receive up to two regular quarterly dividends prior to the closing, each in an amount not to exceed $0.09 per Class A share. On May 5, 2017 and February 27, 2017, Fortress declared quarterly cash dividends of $0.09 per Class A share for the first quarter of 2017 and the fourth quarter of 2016, respectively, and will not pay any dividends with respect to periods ending after March 31, 2017 while the Merger Agreement remains in effect.

Fortress's board of directors, acting on the unanimous recommendation of a special committee consisting entirely of independent and disinterested directors (the "Special Committee"), unanimously approved the terms of the Merger Agreement and unanimously recommended the approval of the Merger by Fortress's shareholders (the "Board Recommendation"). At a Special Meeting of Shareholders held on July 12, 2017, the shareholders of Fortress approved the Merger.

Consummation of the Merger is subject to certain customary conditions, including, without limitation, the approval by the holders of a majority of the Class A shares and Class B shares (voting as one class) and the receipt of certain governmental and regulatory approvals. In addition, the obligations of Parent and Merger Sub to consummate the Merger are subject to, among other conditions, the absence of a Material Adverse Effect (as defined in the Merger Agreement), and the receipt of consent of advisory clients representing at least 87.5% of Base Aggregate Management Fees (as defined in the Merger Agreement).

Fortress has made customary representations and warranties in the Merger Agreement and has agreed to customary covenants, including with respect to, among other things, the operation of the business of Fortress prior to the closing. In addition, the Merger Agreement contains a customary "no shop" provision that, in general, restricts Fortress's ability to solicit alternative acquisition proposals and to provide nonpublic information to and engage in discussions or negotiations regarding alternative acquisition proposals, subject to a customary "fiduciary out" exception.

The Merger Agreement contains certain customary termination rights, including, without limitation, if the Merger is not consummated on or before December 31, 2017. Upon termination of the Merger Agreement under specified circumstances, including with respect to Fortress's entry into an agreement with respect to a Superior Offer (as defined in the Merger Agreement), Fortress will be required to pay Parent a termination fee of $98.4 million. If the Merger Agreement is terminated by Parent or Fortress following withdrawal or modification of the Board Recommendation based on an Intervening Event (as defined in the Merger Agreement), Fortress will be required to pay Parent a termination fee of $131.1 million.

Parent has secured from SoftBank Group Corp. ("SoftBank") committed equity financing for the entire amount of the purchase price payable under the Merger Agreement, and Fortress has received a corresponding limited guarantee from SoftBank that also requires SoftBank to comply with certain specified covenants under the Merger Agreement. The Merger Agreement permits the syndication of a portion of Parent's equity, subject to certain conditions and limitations, provided that no such syndication will reduce SoftBank's obligations under the equity commitment letter or limited guarantee. At the completion of the equity syndication

Table of Contents

period specified under the Merger Agreement, Parent had not entered into any investment agreements with any potential equity investors.

In connection with the Logan Circle Sale Agreement (as defined below), on July 7, 2017, Fortress, Parent and Merger Sub entered into Amendment No. 1 to the Agreement and Plan of Merger (the “Merger Agreement Amendment”), which amends the Merger Agreement. Pursuant to the Merger Agreement Amendment, among other things, Parent consented to the entry into the Logan Circle Sale Agreement and consummation of the transactions contemplated thereby.

On February 14, 2017, concurrently with the entry into the Merger Agreement, Parent entered into a Founders Agreement (the "Founders Agreement") with Fortress, FIG Corp., FIG Asset Co. LLC (together with FIG Corp., the "Buyers"), each of the Principals and the Principals' related parties that own FOGUs (collectively with the Principals, the "Sellers"), pursuant to which, among other things, the Buyers will purchase from the Sellers 100% of the FOGUs that are not already owned by Fortress of each of the FOG entities. At the closing of the transactions contemplated by the Founders Agreement, which is to occur substantially concurrently with the closing of the Merger, each FOGU will be acquired from the Sellers in exchange for $8.08 in cash, subject to reduction for certain items. Each Seller will place 50% of the after-tax proceeds from the sale of its FOGUs into escrow at the closing. These escrowed proceeds and retained investments will be invested in funds and investment vehicles of Fortress or SoftBank, or in stock of SoftBank, among other things. The Closing under the Founders Agreement is subject to certain conditions, including, without limitation, the satisfaction of the conditions to the Merger.

In connection with entering into the Merger Agreement, on February 14, 2017, Parent entered into a Voting and Support Agreement (each, a "Support Agreement") with each Principal and his related parties that own Class A or Class B shares (the "Supporting Members"). The Support Agreements generally require that the Supporting Members vote their Covered Securities (as defined in the Support Agreement) of Fortress that represent, in the aggregate, 34.99% of the total voting power of Fortress, in favor of the adoption of the Merger Agreement and against any competing acquisition proposals, subject to the limitations set forth therein. Subject to certain exceptions, the Support Agreements prohibit transfers by the Supporting Members of any of their Covered Securities.

In connection with entering into the Merger Agreement, on February 14, 2017, FIG Corp. entered into a Waiver Agreement (the "TRA Waiver") with certain other subsidiaries of Fortress and the Principals, effective as of the closing, pursuant to which, among other things, the Principals waive their rights to receive any payments under the tax receivable agreement arising out of the transactions contemplated by the Founders Agreement and other transactions occurring after February 14, 2017. With respect to all previous exchanges for which a tax receivable agreement obligation is still outstanding, the waivers and amendments provided for in the TRA Waiver will generally have the effect of reducing and/or deferring the payments to which the Principals would otherwise have been entitled under the tax receivable agreement.

In connection with their execution of the Founders Agreement, each of the Principals entered into an Amended and Restatement Employment, Non-Competition, and Non-Solicitation Agreement with FIG LLC, an operating subsidiary of Fortress. The employment agreements will become effective on and subject to the closing and will have an initial five-year term.

In connection with entering into the Founders Agreement, the Second Amended and Restated Fortress Investment Group LLC Principal Compensation Plan (the "PCP") will be further amended and restated, effective as of and subject to the closing, to make certain clarifying and conforming changes. Under the PCP, the Principals will continue to receive annual payments based on their respective success in raising and investing new and existing funds and the performance of the Fortress funds during a given fiscal year and, for the credit hedge fund business, on the performance of the existing AUM of Fortress's flagship hedge funds during a given year.

On February 14, 2017, the Board, having determined that it was in the best interests of Fortress and its shareholders to amend Fortress's Fourth Amended and Restated Limited Liability Company Agreement (the "LLC Agreement"), approved an amendment to the LLC Agreement (the "Amendment"). The Amendment amends and restates Section 12.8 of the LLC Agreement, providing that the Court of Chancery of the State of Delaware will be the exclusive forum for any action, claim or proceeding arising out of or relating to the LLC Agreement, Fortress or its business or affairs.

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

Proposed Logan Circle Sale

On July 7, 2017, Fortress Asset Management LLC, a Delaware limited liability company (the "LP Seller"), Fortress Asset Management GP LLC, a Delaware limited liability company (the "GP Seller" and, together with the LP Seller, the "Sellers"), Logan Circle, and Logan Circle Partners GP, LLC, a Pennsylvania limited liability company (the "General Partner"), and in a limited capacity, FIG LLC, a Delaware limited liability company, each of which is an indirect subsidiary of Fortress, entered into a Purchase and Sale Agreement (the "Logan Circle Sale Agreement") with MetLife, Inc., a Delaware corporation (the "Parent Buyer"), pursuant to which, among other things, the Parent Buyer will purchase from the Sellers all of the Sellers' interests in Logan Circle and the General Partner (the "Logan Circle Sale"). The aggregate purchase price is approximately $250.0 million, subject to certain customary closing and post-closing adjustments and an allocation of $55.0 million of the purchase price to an employee long-term incentive plan.

The Logan Circle Sale Agreement contains certain customary representations, warranties and covenants of each party, including, among others, certain customary covenants regarding the conduct of the business of Logan Circle, the General Partner and their respective controlled affiliates during the period between the execution of the Logan Circle Sale Agreement and the consummation of the transactions contemplated thereby. The Logan Circle Sale Agreement also contains certain indemnification provisions.

Consummation of the Logan Circle Sale is subject to various closing conditions, including, among others, (i) the receipt of approval, or the expiration or termination of the waiting period, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, (ii) the absence of any preliminary or permanent injunction or other order preventing the closing, (iii) the revenue run-rate for all investment advisory clients of the business at closing being equal to or greater than 80% of the revenue run-rate for such clients as of March 31, 2017, and (iv) the revenue run-rate for certain specified investment advisory clients of the business at closing being equal to or greater than 75% of the revenue run-rate for such clients as of March 31, 2017.

The Sellers and the Parent Buyer have the right to terminate the Logan Circle Sale Agreement under certain circumstances. Those circumstances include, but are not limited to, (i) mutual consent, (ii) material uncured breach by the other party group, (iii) failure to consummate the transactions by December 31, 2017, or (iv) on account of a final, non-appealable order of any governmental authority that permanently restrains, enjoins or otherwise prohibits the closing. In addition, the Sellers may terminate the Logan Circle Sale Agreement if the closing has not occurred by October 31, 2017.

Fortress's Business

Fortress's primary sources of income from the Fortress Funds are management fees, incentive income, and investment income on its investments in the funds. In addition, Fortress receives certain expense reimbursements pursuant to its management agreements. 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, the Caribbean and Western Europe; and
b)

Entities which Fortress collectively refers to as "permanent capital vehicles" which includes Drive Shack Inc. ("Drive Shack") formerly known as Newcastle Investment Corp., New Residential Investment Corp. ("New Residential"), Eurocastle Investment Limited ("Eurocastle"), New Media Investment Group Inc. ("New Media"), New Senior Investment Group Inc. ("New Senior") and Fortress Transportation and Infrastructure Investors LLC ("FTAI"), which are publicly traded companies that are externally managed by Fortress pursuant to management agreements (collectively referred to as the "publicly traded permanent capital vehicles"). FHC Property Management LLC (together with its subsidiaries, referred to as "Blue Harbor"), a senior living property management business, is also part of the permanent capital vehicles segment. The publicly traded permanent capital vehicles invest in a wide variety of real estate related assets, including securities, loans, real estate properties and mortgage servicing related assets, media assets, senior living properties and transportation and infrastructure assets.

2) 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 or co-manager as part of an advisory business; and

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

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 the following 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.

3) Liquid hedge funds include (i) funds managed by an autonomous asset management business named Graticule Asset Management Asia ("Affiliated Manager" or "Graticule"), an external manager in which Fortress has a minority interest and accounts for using the equity method and (ii) funds which invest in Fortress Funds, an externally managed fund and direct investments.

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 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.

For a reconciliation between the financial statements and the segment-based financial data that management uses for making operating decisions and assessing performance, see Note 10.

All significant intercompany accounts and transactions have been eliminated.

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

The accompanying condensed consolidated financial statements and related footnotes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Fortress's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Fortress's consolidated financial statements for the year ended December 31, 2016 and footnotes thereto included in Fortress's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2017. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's consolidated financial statements for the year ended December 31, 2016.

Recent Accounting Pronouncements

Effective January 1, 2017, Fortress adopted Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 permits a policy election to account for forfeitures as they occur or to continue to estimate the number of awards expected to be forfeited over the requisite service period. Upon adoption of ASU 2016-09, Fortress elected to change its accounting policy to account for forfeitures as they occur, rather than estimating expected forfeitures (see Note 7). The change was applied on a modified retrospective basis with a cumulative-effect adjustment as of January 1, 2017 to (i) decrease total equity by $1.1 million included as a cumulative-effect adjustment from adoption of ASU 2016-09 in Fortress's condensed consolidated statement of changes in equity and (ii) increase total equity by $1.1 million included as a capital increase related to equity-based compensation (net of tax) in Fortress's condensed consolidated statement of changes in equity, resulting in no net impact on total equity. No prior periods were adjusted.

Table of Contents

Upon adoption of ASU 2016-09, Fortress adopted on a prospective basis, as required, that excess tax benefits (“windfalls”) and tax deficiencies (“shortfalls”) related to equity-based compensation be recognized as an income tax benefit or income tax expense, respectively, whereas these items previously were recognized in equity (see Note 5). The guidance also requires that excess tax benefits be reported as cash flows from operating activities, as opposed to financing activities, and Fortress has elected to apply this classification amendment prospectively. As such, no prior periods were adjusted. During the six months ended June 30, 2017, Fortress recorded $0.3 million of net excess tax benefits from delivery of RSUs as a credit to income tax expense in Fortress's condensed consolidated statement of operations and as cash flows from operating activities in Fortress's condensed consolidated statement of cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02") which supersedes Topic 840, Leases. The new standard will require lessees to recognize operating leases on their balance sheet as a right-of-use asset with an offsetting lease liability based on the present value of future lease payments. Currently, only finance leases are recognized on the balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit thresholds. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard under ASU 2014-09. ASU 2016-02 is effective for Fortress beginning January 1, 2019; however, early adoption is permitted. ASU 2016-02 requires a modified retrospective approach which includes a number of optional practical expedients an entity may elect to apply. Fortress is currently evaluating the potential impact of adoption of ASU 2016-02 for its operating leases and expects it will result in an increase in Fortress's total assets and total liabilities.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) ("ASU 2016-01"). ASU 2016-01 will require measuring equity investments (excluding those accounted for under the equity method, those that result in consolidation and certain other investments) at fair value and recognize the changes in fair value in net income. The new standard is effective for Fortress beginning January 1, 2018. Early adoption is permitted only for certain of the amendments. The standard requires a cumulative effect adjustment to the balance sheet as of the beginning of the period of adoption, with the exception of the amendments related to equity securities without readily determinable fair values (including disclosure requirements) which should be applied prospectively. The adoption of ASU 2016-01 is not expected to have a material impact on Fortress's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") which is a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The entity will recognize revenue to reflect the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. In July 2015, the FASB deferred the effective date of the new revenue recognition standard. The new standard is effective for Fortress beginning January 1, 2018. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. Fortress currently recognizes incentive income subject to contingent repayment once all contingencies have been resolved. Whereas ASU 2014-09 requires an entity to recognize such revenue when it concludes that it is probable that a significant reversal in the cumulative amount of revenue recognized will not occur when the uncertainty is resolved. As such, the adoption of ASU 2014-09 may require Fortress to recognize incentive income earlier than as prescribed under current guidance.

The FASB has recently issued or discussed a number of proposed standards. 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.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

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

Management Fees and Incentive Income

Fortress recognized management fees and incentive income as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Private Equity				
Private Equity Funds				
Management fees: affil.	$20,085	$25,732	$40,253	$51,490
Permanent Capital Vehicles				
Management fees: affil.	30,992	26,946	61,172	54,126
Management fees, options: affil.	—	—	8,068	—
Management fees: non-affil.	223	432	493	804
Incentive income: affil.	44,975	12,342	56,686	13,461
Credit Funds				
Credit Hedge Funds				
Management fees: affil.	37,377	36,823	74,537	73,248
Management fees: non-affil.	12	8	14	16
Incentive income: affil.	1,771	3,802	5,607	4,726
Incentive income: non-affil.	19	—	76	—
Credit PE Funds				
Management fees: affil.	30,399	30,807	60,194	61,624
Management fees: non-affil.	—	11	—	36
Incentive income: affil.	8,616	5,898	23,442	34,757
Incentive income: non-affil.	620	9,411	820	9,862
Liquid Hedge Funds				
Management fees: affil.	214	5,464	367	12,100
Incentive income: affil.	50	118	50	994
Logan Circle				

Management fees: affil.	643	616	1,288	1,190
Management fees: non-affil.	14,239	13,741	28,190	26,755
Incentive income: non-affil.	142	—	295	—
Total				
Management fees: affil. (including options)	$119,710	$126,388	$245,879	$253,778
Management fees: non-affil.	$14,474	$14,192	$28,697	$27,611
Incentive income: affil. (A)	$55,412	$22,160	$85,785	$53,938
Incentive income: non-affil.	$781	$9,411	$1,191	$9,862

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

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

Deferred Incentive Income

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

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the six months ended June 30, 2017 and 2016. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, $46.8 million and $33.7 million of additional incentive income would have been recognized during the six months ended June 30, 2017 and 2016, respectively. Incentive income based on achieving annual performance criteria that has not yet been recognized, if any, is not recorded on the balance sheet and is included as "undistributed" deferred incentive income in the table below.

During the six months ended June 30, 2017 and 2016, Fortress recognized $24.3 million and $44.6 million, respectively, of incentive income distributions from its credit PE funds which were non-clawbackable or represented "tax distributions." 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.

Distributed incentive income amounts in the table below do not include incentive income which is not subject to clawback when received from the Fortress Funds. This also does not include any amounts related to third party funds, receipts from which are reflected as Other Liabilities until all contingencies are resolved.

Deferred incentive income from the Fortress Funds was comprised of the following on an inception-to-date basis.

	Distributed-Gross	Distributed-Recognized (A)	Distributed-Unrecognized (B)	Undistributed, net of intrinsic clawback (if any) (C) (D)
Deferred incentive income as of December 31, 2016	$ 1,657,775	$ (1,327,421)	$ 330,354	$ 1,207,881
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	253,212
Distribution of private equity funds and credit PE funds incentive income	70,821	N/A	70,821	(70,821)
Recognition of previously deferred incentive income	N/A	(24,262)	(24,262)	N/A

Changes in foreign exchange rates	3,647		—	3,647	N/A	
Deferred incentive income as of June 30, 2017	$ 1,732,243	(E)	$ (1,351,683)	$ 380,560	$ 1,390,272	(E)
Deferred incentive income including Fortress Funds which are not subject to clawback	$ 1,880,412		$ (1,499,852)			

(A) All related contingencies have been resolved.

(B) Reflected on Fortress's condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016.

(C) At June 30, 2017, no intrinsic clawback exists for any of the Fortress Funds. The net undistributed incentive income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on June 30, 2017 at their net asset values.

(D) From inception to June 30, 2017, Fortress has paid $838.8 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income. If the $1.4 billion of gross undistributed incentive income were realized, Fortress would recognize and pay an additional $566.4 million of compensation.

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

13

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

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

	June 30, 2017
Distributed incentive income - Private Equity Funds	$781,459
Distributed incentive income - Private Equity Funds in Investment Period or Commitment Period	—
Distributed incentive income - Credit PE Funds	1,271,832
Distributed incentive income - Credit PE Funds in Investment Period or Commitment Period	1,094
Distributed incentive income - Permanent Capital Vehicle (see footnote (P) of incentive income threshold tables)	7,043
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	(183,196)

that Fortress is not entitled to (see footnote K of incentive income threshold tables)	
Distributed-Gross	$ 1,732,243

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:

	June 30, 2017
Undistributed incentive income - Private Equity Funds	$ 16,949
Undistributed incentive income - Private Equity Funds in Investment Period or Commitment Period	236,733
Undistributed incentive income - Credit PE Funds	960,165
Undistributed incentive income - Credit PE Funds in Investment Period or Commitment Period	62,172
Undistributed incentive income - Permanent Capital Vehicles	7,408
Undistributed incentive income - Hedge Funds (total)	106,558
Undistributed incentive income - Logan Circle	287
Less:	—

Gross intrinsic clawback per incentive income threshold tables	
Undistributed, net of intrinsic clawback	$1,390,272

14

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

The following tables summarize information with respect to the Fortress Funds and their related incentive income thresholds as of June 30, 2017:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)	G Int Cl (J)
Private Equity Funds											
NIH (1998)	Closed Jun-15	$415,574	$(823,588)	$—	$ N/A	$ N/A	$ N/A	$—	$94,513	$—	$—
Fund I (1999) (K)	Closed May-13	1,015,943	(2,847,929)	—	N/A	N/A	N/A	—	344,939	—	—
Fund II (2002)	Closed Dec-15	1,974,298	(3,446,405)	—	N/A	N/A	N/A	—	289,531	—	—
Fund III (2004)	In Liquidation	2,762,992	(2,221,941)	800,459	259,418	2,736,093	2,476,675	—	—	—	—
Fund III Coinvestment (2004)	In Liquidation	273,649	(243,771)	44,074	14,195	314,456	300,261	—	—	—	—
Fund IV (2006)	(B)	3,639,561	(1,537,150)	2,018,474	(87,924)	3,774,798	3,862,722	—	—	—	—
Fund IV Coinvestment (2006)	(B)	762,696	(323,613)	339,769	(99,314)	805,757	905,071	—	—	—	—
Fund V (2007)	Feb-18	4,103,713	(1,928,729)	3,721,562	1,554,078	3,510,432	1,956,354	—	—	—	—
Fund V Coinvestment (2007)	Feb-18	990,480	(283,431)	334,930	(372,119)	953,504	1,325,623	—	—	—	—
GAGACQ Fund (2004) (GAGFAH)	Closed Nov-09	545,663	(595,401)	—	N/A	N/A	N/A	—	51,476	—	—
FRID (2005) (GAGFAH)	Closed Nov-14	1,220,229	(1,202,153)	—	N/A	N/A	N/A	—	—	—	—
FRIC (2006) (Brookdale)	Closed Dec-14	328,754	(291,330)	—	N/A	N/A	N/A	—	—	—	—
FICO (2006) (Intrawest)	(B)	724,525	—	(68,798)	(792,943)	911,355	1,704,298	—	—	—	—
FHIF (2006) (Holiday)	(B)	1,543,463	(954,223)	827,081	238,361	1,563,891	1,325,530	—	—	—	—
FECI (2007) (Florida East Coast/Flagler)	Feb-18	982,779	(876)	849,019	(132,884)	1,118,379	1,251,263	—	—	—	—

MSR Opportunities Fund I A (2012)	Aug-22	341,135	(250,517	)	239,1482,564	—	N/A	13,502	799	799	—
MSR Opportunities Fund I B (2012)	Aug-22	82,760	(60,502	)	57,961,703	—	N/A	3,368	201	201	—
MSR Opportunities Fund II A (2013)	Jul-23	160,653	(71,590	)	115,28,1451	12,912	446	57	—	—	—
MSR Opportunities Fund II B (2013)	Jul-23	2,291	(997	)	1,6485̶4	386	36	—	—	—	—
MSR Opportunities MA I (2013)	Jul-23	36,868	(16,508	)	26,60,248	—	N/A	22	—	—	—
								$16,949	$781,459	$1,000	$–
Private Equity Funds in Investment or Commitment Period											
Italian NPL Opportunities Fund (2013)	Sep-24	340,585	(124,064	)	478,262,3152	—	N/A	39,042	—	—	—
Fortress Equity Partners (2014)	Mar-24	189,968	—		1,179,88,6,8517	—	N/A	197,691	—	—	—
								$236,733	$—	$—	$–

Continued on next page.

15

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distr Incen Incon Subje to Claw (I)
Credit PE Funds										
Long Dated Value Fund I (2005)	Apr-30	$267,325	$(283,291)	$170,115	$186,081	$52,456	$2,727	$7,749	$—	$—
Long Dated Value Fund II (2005)	Nov-30	274,280	(219,735)	151,768	97,223	149,579	52,356	—	412	—
Long Dated Value Fund III (2007)	Feb-32	343,156	(407,763)	62,804	127,411	—	N/A	10,520	7,904	—
LDVF Patent Fund (2007)	Nov-27	46,633	(35,808)	17,628	6,803	15,482	8,679	—	1,471	—
Real Assets Fund (2007)	In Liquidation	359,024	(442,593)	6,413	89,982	—	N/A	1,117	12,745	5,327
Credit Opportunities Fund (2008)	Oct-20	5,693,422	(7,592,839)	956,541	2,855,958	—	N/A	106,206	452,724	131,7
Credit Opportunities Fund II (2009)	Jul-22	2,384,872	(2,960,948)	825,375	1,401,451	—	N/A	107,788	166,981	67,25
Credit Opportunities Fund III (2011)	Mar-24	3,459,527	(2,681,393)	1,940,255	1,162,121	—	N/A	181,839	45,908	—
FCO Managed Accounts (2008 - 2012)	Apr-22 to Dec-24	5,176,974	(4,934,269)	2,433,623	2,190,918	—	N/A	252,076	166,420	51,56
SIP Managed Account (2010)	Sep-20	11,000	(252,037)	11,393	252,430	—	N/A	2,279	48,207	—
Japan Opportunity Fund (Yen only)(2009)	Jun-19	980,139	(1,970,668)	375,740	1,366,269	—	N/A	83,137	204,927	74,99
Net Lease Fund I (2010)	Closed Dec-15	152,851	(227,108)	—	N/A	N/A	N/A	—	9,743	—
Real Estate Opportunities Fund (2011)	Sep-24	558,541	(672,328)	153,241	267,028	—	N/A	8,921	14,502	8,542
Global Opportunities Fund (2010)	Sep-20	355,822	(291,824)	184,768	120,770	—	N/A	21,220	2,375	2,375
	Dec-21	769,283	(916,477)	710,818	858,012	—	N/A	92,408	75,644	24,84

Japan Opportunity Fund II (Yen) (2011)										
Japan Opportunity Fund II (Dollar) (2011)	Dec-21	685,080	(768,918)	636,646	720,484	—	N/A	82,449	56,802	9,954
Real Estate Opportunities REOC Fund (2011)	Oct-23	58,125	(74,480)	21,451	37,806	—	N/A	2,456	5,067	2,669
CFT Co-invest Fund (CAD) (2015)	Oct-27	14,256	—	14,414	158	1,743	1,585	—	—	—
CFT Co-invest Fund (USD) (2015)	Oct-27	96,798	—	97,830	1,032	11,800	10,768	—	—	—
								$960,165	$1,271,832	$379
Credit PE Funds in Investment Period or Commitment Period										
FCO Managed Accounts (2015)	Mar-25 to Feb-28	$960,900	$(61,084)	$982,991	$83,175	$80,481	$28,126	$—	$—	$—
Life Settlements Fund (2010)	Dec-22	425,910	(299,330)	132,927	6,347	114,580	108,233	—	—	—
Life Settlements Fund MA (2010)	Dec-22	34,995	(24,482)	10,692	179	9,419	9,240	—	—	—
Real Estate Opportunities Fund II (2014)	May-27	705,474	(156,342)	738,190	189,058	—	N/A	36,452	265	265
Japan Opportunity Fund III (Yen) (2014)	Oct-24	349,601	(10,552)	405,828	66,779	—	N/A	13,055	179	—
Japan Opportunity Fund III (Dollar) (2014)	Oct-24	275,615	(4,843)	336,692	65,920	—	N/A	11,986	650	—
Credit Opportunities Fund IV (2015)	Feb-27	1,138,527	(59,800)	1,189,755	111,028	112,555	1,527	152	—	—
Global Opportunities Fund II (2015)	Jul-26	53,164	(2,142)	44,542	(6,480)	2,802	9,282	—	—	—
Secured Lending Fund I (2016)	Mar-24	158,240	(1,179)	160,728	3,667	—	N/A	527	—	—
FJOF3 Residential Coinvestment Fund (Yen) (2017)	Mar-27	53,464	—	53,456	(8)	1,165	1,173	—	—	—
FJOF3 Residential Coinvestment Fund (Dollar) (2017)	Mar-27	111,721	—	113,020	1,299	2,404	1,105	—	—	—
								$62,172	$1,094	$265

Continued on next page.

16

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

	Equity Eligible for Incentive (L)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (O)	Life-to-Date Incentive Income Crystallized (P)
Publicly Traded Permanent Capital Vehicles				
Drive Shack	$752,271	$ (F)	$ N/A	$ 41,283
Eurocastle	337,789	—	7,408	47,551
New Residential	3,827,162	—	N/A	181,804
New Media	718,005	—	N/A	41,461
New Senior	1,019,713	—	N/A	5,542
FTAI	1,020,377	10,705	—	—

Continued on next page.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

	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)
Credit Hedge Funds						
Special Opportunities Funds (S)						
Main fund investments	$4,605,316	$ —	100.0	%	$ 39,005	$ —
Sidepocket investments (Q)	23,196	657	N/A		1,154	—
Sidepocket investments - redeemers (R)	114,248	16,616	N/A		3,272	—
Main fund investments (liquidating) (T)	1,062,697	—	100.0	%	60,624	5,414
Worden Fund						
Main fund investments (liquidating) (T)	102,938	597	94.8	%	1,882	—
Fortress Japan Income Fund (Yen only)						
Main fund investments	160,811	N/A	100.0	%	77	431
Third Party Originated Funds (U)						
Main fund investments	62,471	11,483	0.0	%	—	—
Managed accounts	1,826	6,490	23.6	%	22	22
Liquid Hedge Funds						
Drawbridge Global Macro Funds (S)						
Sidepocket investments (R)	$80,814	$ 73,770	N/A		$ 522	$ 50
Fortress Partners Funds (S)						
Sidepocket investments (R)	2,464	2,464	N/A		—	—
Logan Circle						
Main fund investments	$99,061	$ —	100.0	%	$ 196	$ —
Managed accounts	444,467	—	100.0	%	91	304

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

(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. Although Fund IV, Fund IV Coinvestment, FICO (Intrawest) and FHIF (Holiday) have passed their contractual maturity, Fortress continues to actively manage the funds' portfolio of investments which include various operating companies.

(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) For fund investors whose NAV is below the incentive income threshold, represents the gain needed for these investors to achieve the current relevant performance thresholds, assuming the gain described in (D) above is already achieved.

(F) For fund investors whose NAV is below the incentive income threshold, represents the immediate increase in NAV needed for these investors 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 publicly traded permanent capital vehicles, represents the immediate increase of the entity's applicable supplemental measure of operating performance needed for Fortress to begin earning incentive income. As of June 30, 2017, Fortress does not expect to earn incentive income from Drive Shack 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 undistributed incentive income amounts presented in this table are based on the estimated results of the investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles. As of June 30, 2017, a portion of MSR Opportunities Fund II A, Long Dated Value Fund I and Credit Opportunities Fund IV's capital are above their incentive income threshold.

(H) Represents the amount of net 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 condensed 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. As of June 30, 2017, Fortress has no intrinsic clawback obligation for any of its private equity funds and credit PE funds.

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

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

(M) Such amount represents, for those investors whose NAV is below the performance threshold the amount by which their aggregate incentive income thresholds exceed their aggregate NAVs. "Incentive income threshold" or "high water mark" means the immediate increase in NAV needed for Fortress to begin earning incentive income. 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 (Q) below.

(O) For hedge funds, represents the amount of additional incentive income Fortress would earn from the fund or managed account 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. For Eurocastle and FTAI, the amount disclosed, if any, represents the amount of additional incentive income Fortress would recognize if the measurement period had occurred at the end of the reporting period. The undistributed incentive income amounts presented in this table are based on the estimated results of the investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

(P) For hedge funds, represents the amount of incentive income Fortress has earned which is not subject to clawback. For the publicly traded permanent capital vehicles, represents the life-to-date incentive income amount that Fortress has earned and which is not subject to clawback. All of the capital of WWTAI, formerly a private fund managed by Fortress, was contributed to FTAI which completed its IPO in May 2015. Fortress earned $7.0 million in life-to-date incentive income which is not subject to clawback and was not included in the table above. Of the $7.0 million in incentive income from WWTAI, Fortress received $5.9 million in FTAI common shares based on the share price at IPO. A portion of the incentive income crystallized amounts are based on the estimated results of the investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

(Q) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. For the credit hedge funds, the performance of these investments may impact Fortress's ability to earn incentive income from main fund investments. Realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments.

(R) Represents investments held in sidepockets for investors with no corresponding investment in the related main fund investments.

(S) Includes onshore and offshore funds.

(T) Relates to Redeeming Capital Accounts ("RCA") where investors have provided return of capital notices and are subject to payout as underlying fund investments are realized. Effective January 1, 2017, the main fund investments of the Worden Fund became RCA.

(U) The Third Party Originated Funds include the Value Recovery Funds and JP Funds. Main fund investments exclude certain funds which had total NAV of $562.2 million as of June 30, 2017. Fortress began managing the third party originated Value Recovery Funds and JP Funds in June 2009 and March 2016, respectively, and generally does not expect to earn any significant incentive income from these funds.

Credit PE Funds

During the six months ended June 30, 2017, Fortress formed new credit PE funds which had the following capital commitments as of June 30, 2017:

	Credit PE
Fortress	$12,826
Fortress's affiliates	29,447
Third party investors	438,288
Total capital commitments	$480,561

Credit Hedge Funds

During the six months ended June 30, 2017, Fortress formed a new credit hedge fund which had the following NAV as of June 30, 2017:

	Credit Hedge
Fortress	$8,652

Fortress's affiliates	2,884
Total NAV	$11,536

20

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

3. INVESTMENTS AND FAIR VALUE

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

Investments can be summarized as follows:

	June 30, 2017	December 31, 2016
Equity method and other investees	$823,975	$856,512
Equity method investees, held at fair value (A)	25,685	23,489
Total investments	$849,660	$880,001
Options in equity method investees	$65,494	$53,206

(A) Represents the publicly traded permanent capital vehicles.

Gains (losses) are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net realized gains (losses)	$964	$(2,084)	$5,874	$(1,193)
Net realized gains (losses) from affiliate investments (A)	(704)	57	(1,224)	(16,878)
Net unrealized gains (losses)	5,858	(12,788)	(7,763)	(34,836)
Net unrealized gains (losses) from affiliate investments (A)	(24,491)	7,549	5,179	28,968
Total gains (losses)	$(18,373)	$(7,266)	$2,066	$(23,939)

(A) Includes the impact of the expiration of out of the money options in certain publicly traded permanent capital vehicles in 2017 and 2016.

These gains (losses) were generated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Mark to fair value on affiliate investments and options	$(22,282)	$14,994	$5,803	$11,644
Mark to fair value on derivatives	2,940	(21,643)	(5,148)	(34,876)
Other	969	(617)	1,411	(707)
Total gains (losses)	$(18,373)	$(7,266)	$2,066	$(23,939)

As of June 30, 2017 and December 31, 2016, Fortress's carrying value of its holdings in digital currency was $5.7 million with an estimated fair value of $53.2 million and $20.9 million, respectively. Fortress's holdings in digital currency is included in other assets on the condensed consolidated balance sheet.

Investments

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

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

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

	Six Months Ended June 30, 2017						
	Private Equity						
	Funds	Permanent Capital Vehicles (A)	Credit Hedge Funds	Credit PE Funds	Liquid Hedge Funds (B)	Other	Total
Investments as of December 31, 2016	$530,501	$ 23,489	$59,325	$183,017	$68,127	$15,542	$880,001
Earnings (losses) from equity method and other investees	(9,476)	N/A	2,510	11,502	2,032	76	6,644
Other comprehensive income (loss) from equity method investees	—	N/A	—	—	18	—	18
Contributions to equity method and other investees (C)	82	—	111,153	14,871	5,900	43	132,049
Distributions of earnings from equity method and other investees	(1,199)	N/A	(6,504)	(11,359)	(16,684)	(2)	(35,748)
Distributions of capital from equity method and other investees (C)	(301)	N/A	(113,700)	(5,563)	(29,687)	(26)	(149,277)
Total distributions from equity method and other investees	(1,500)	N/A	(120,204)	(16,922)	(46,371)	(28)	(185,025)
Mark to fair value - during period (D)	(27)	2,010	(19)	N/A	N/A	178	2,142
Net purchases (sales) of investments by consolidated funds	—	N/A	10,856	—	—	699	11,555
Translation adjustment	381	186	—	625	—	—	1,192
Reclassification to Due to Affiliates (E)	1,084	N/A	—	—	—	—	1,084
Investments as of June 30, 2017	$521,045	$ 25,685	$63,621	$193,093	$29,706	$16,510	$849,660
Undistributed earnings - June 30, 2017	$4,609	N/A	$3,858	$11,619	$5,167	$—	$25,253

(A) Fortress elected to record the common shares held in the publicly traded permanent capital vehicles at fair value pursuant to the fair value option for financial instruments.
(B) Includes Fortress's investment in the Affiliated Manager.
(C) The amounts presented above can be reconciled to the amounts presented on the condensed consolidated statement of cash flows as follows:

	Six Months Ended June 30, 2017	
	Contributions	Distributions of Capital
Per Condensed Consolidated Statement of Cash Flows	$12,888	$ (141,174)
Incentive income invested into the Fortress Funds	111,128	—
Change in distributions receivable from the Fortress Funds	—	(50)
Non-cash contribution (distribution)	6,464	(5,925)
Net funded*	1,569	(1,569)

Other	—	(559)
Per Above	$132,049	$ (149,277)

* 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.

(D) Recorded to Gains (Losses).
(E) Represents a portion of the general partner liability (Note 9).

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

The following tables present summarized statements of operations for Fortress's significant equity method investees. The publicly traded permanent capital vehicles and Other are not presented as they are insignificant to Fortress's investments.

	Private Equity Funds (A)		Credit Hedge Funds	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues and gains (losses) on investments	$290,847	$(117,146)	$492,009	$395,868
Expenses	(120,666)	(78,873)	(223,580)	(212,989)
Net Income (Loss)	$170,181	$(196,019)	$268,429	$182,879
Fortress's earnings (losses) from equity method investees	$(9,476)	$(35,767)	$2,510	$1,848

	Credit PE Funds (A)(B)		Liquid Hedge Funds (C)	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues and gains (losses) on investments	$1,083,743	$862,648	$78,755	$50,279
Expenses	(211,595)	(157,787)	(68,304)	(81,224)
Net Income (Loss)	$872,148	$704,861	$10,451	$(30,945)
Fortress's earnings (losses) from equity method investees	$11,502	$12,464	$2,032	$(8,402)

(A) For private equity funds, includes five entities which are recorded on a one quarter lag (i.e. current year balances reflected for these entities are for the six months ended March 31, 2017). 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, as permitted, because they are foreign entities, or they have substantial operations in foreign countries, and do not provide financial reports under GAAP within the reporting time frame necessary for U.S. public entities.

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

(C) Includes the operating results of the Affiliated Manager.

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 on the condensed consolidated balance sheet, and/or (ii) entities from which Fortress earns fees, which are included in revenues and described in Note 2. These entities are primarily Fortress Funds which are voting interest entities ("VOEs") and 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 and/or manager or co-manager.

Consolidation of a certain Fortress Fund

In June 2017, Fortress formed a new credit hedge fund. Fortress determined that the fund qualified as a variable interest entity and that it was the primary beneficiary and therefore consolidates the fund. The fund's unrelated limited partners shall have the substantive ability to liquidate the fund or otherwise remove Fortress as general partner without cause based on a simple unaffiliated majority vote. Fortress expects to deconsolidate the fund when sufficient third party capital is raised. Under GAAP, the fund is an investment company and, as required, Fortress has retained the specialized accounting of the fund. Consequently, Fortress's financial statements reflect the assets, liabilities, related operations and cash flows of the consolidated fund. The ownership interests in the fund which are not owned by Fortress are reflected as non-controlling interests in the accompanying consolidated financial statements. The fund had a net asset value of $11.5 million as of June 30, 2017 and is included in the consolidated balance sheet. Fortress has no obligation to satisfy the liabilities of the consolidated fund. Similarly, Fortress does not have the right to make use of the consolidated fund's assets to satisfy its obligations.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

The following tables set forth certain information as of June 30, 2017 regarding entities initially classified as variable interest entities ("VIEs") during the six months ended June 30, 2017 in which Fortress held variable interests:

	Fortress is not Primary Beneficiary				
Business	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Notes
Credit PE Funds	3	$ 3,509	$ —	$ 92	(D)

	Fortress is Primary Beneficiary				
Business	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Notes
Credit Hedge Funds	1	$ 13,367	$ —	$ 8,652	(F)

The following tables set forth certain information regarding all variable interest entities in which Fortress held a variable interest as of June 30, 2017 and December 31, 2016.

	Fortress is not Primary Beneficiary								
	June 30, 2017				December 31, 2016				
Business	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Notes
Private Equity Funds	1	$1,184,032	$ —	$ 5,350	1	$1,129,646	$ —	$ 334	(D)
Permanent Capital Vehicles	6	30,336,873	19,486,939	174,156	6	25,865,217	16,758,464	146,934	(C)
Credit Hedge Funds	4	1,582,304	283,011	2,897	4	1,891,053	432,078	20,894	(D) (E)
Credit PE Funds	36	1,577,281	532,129	13,369	35	995,592	236,105	12,265	(D) (E)
Liquid Hedge Funds	3	176,810	—	25,112	3	253,646	—	32,836	(D) (E)

	Fortress is Primary Beneficiary								
	June 30, 2017				December 31, 2016				
Business	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Notes
Private Equity Funds	2	$25,437	$ —	$ 10,738	2	$34,118	$ —	$ 10,694	(F) (G)
Credit Hedge Funds	1	13,367	—	8,652	—	—	—	—	(F)
Credit PE Funds	1	400	—	20	1	400	—	20	(F)
Liquid Hedge Funds	1	4,395	—	2,040	1	4,328	—	2,009	(F)

(A) Represents financial obligations of the VIEs which are not recourse to Fortress and assets of the VIEs which Fortress does not have the right to make use of to satisfy its obligations. 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. 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 investments in these entities, plus any receivables due from these entities. 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 permanent capital vehicles that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because the group of at-risk equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance. Fortress is not the primary beneficiary of these entities. Fortress and its related parties under common control as a group, where applicable, do not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to these entities.

(D) Includes entities, primarily investing vehicles set up on behalf of the Fortress Funds to make investments, that are a VIE 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 power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance and/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. Fortress is not the primary beneficiary of these entities. Fortress and its related parties under common control as a group, where applicable, do not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to these entities. During the six months ended June 30, 2017, a credit PE fund entity was liquidated and a reconsideration event occurred at another credit PE fund entity whereby Fortress no longer has a variable interest in the entity.

(dollars in tables in thousands, except share and per share data)

(E) Includes entities that are a VIE because the entity's equity investment at-risk is determined to be insufficient. Fortress is not the primary beneficiary of these entities because Fortress does not have the power to direct the activities that most significantly impact the economic performance of these entities.

(F) Includes entities that are a VIE 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 power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance and/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. Fortress is the investment manager of these entities. Fortress is determined to be the primary beneficiary of these entities 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 or the obligation to absorb losses from the VIE that potentially could be significant to the entity.

(G) 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.

Fair Value of Financial Instruments

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

	Fair Value		
	June 30, 2017	December 31, 2016	Valuation Method
Assets (within Investments)			
Equity method investments, held at fair value (A)	$25,685	$23,489	Level 1 - Quoted prices in active markets for identical assets
Options in equity method investees	$65,494	$53,206	Level 2 - Option valuation models using significant observable inputs
Assets (within Other assets and Due from affiliates)			
Derivatives	$11,027	$19,087	Level 2 - See below
Liabilities (within Accrued compensation and benefits)			
	$(8,633)	$(4,310)	

Options in affiliates granted to employees			Level 2 - Option valuation models using significant observable inputs
Liabilities (within Other liabilities and Due to affiliates)			
Derivatives	$(7,147)	$(5,018)	Level 2 - See below

(A) Represents the publicly traded permanent capital vehicles.

See Note 4 regarding the fair value of outstanding debt.

During the second quarter of 2017, Fortress granted tandem options of 1.6 million in the options it holds in Eurocastle to certain employees, which had a fair value of $2.2 million as of the grant date.

In February 2017, Fortress granted tandem options of 1.2 million, 0.4 million and 0.2 million in the options it holds in Drive Shack, New Residential and New Media, respectively, to certain employees, which had a fair value of $2.2 million, $0.9 million and $0.4 million, respectively, as of the grant date.

In February 2017, New Residential issued 56.5 million shares of its common stock in an offering at a price to the public of $15.00 per share. In connection with this filing, New Residential compensated Fortress for its successful efforts in raising capital for New

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

Residential by granting options to Fortress to purchase 5.7 million shares of New Residential common stock at an exercise price of $15.00 per share, which were valued at $8.1 million as of the grant date. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

Derivatives

Fortress uses derivative instruments to manage its 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 the Level 2 derivative contracts are contractual cash flows and market based parameters such as foreign exchange rates.
The following tables summarize the fair value of Fortress's derivative contracts on a gross basis and any amount of offset as permitted by netting agreements as of June 30, 2017.

	Gross Amounts of Recognized Assets as of	Gross Amounts Offset in the Condensed Consolidated Balance Sheet as of	Net Amounts of Assets Presented in the Condensed Consolidated Balance Sheet as of	Cash Collateral Received as of	Net Amount as of
Offsetting of Derivative Assets	June 30, 2017	June 30, 2017	June 30, 2017	June 30, 2017	June 30, 2017
Foreign exchange option contracts	$ 1,779	$ (694)	$ 1,085	$ —	$1,085
Foreign exchange forward contracts	9,942	—	9,942	—	9,942
	$ 11,721	$ (694)	$ 11,027	$ —	$11,027

	Gross Amounts of Recognized Liabilities as of	Gross Amounts Offset in the Condensed Consolidated Balance Sheet as of	Net Amounts of Liabilities Presented in the Condensed Consolidated Balance Sheet as of	Cash Collateral Pledged as of	Net Amount as of
Offsetting of Derivative Liabilities	June 30, 2017	June 30, 2017	June 30, 2017	June 30, 2017	June 30, 2017
Foreign exchange option contracts	$ (1,658)	$ 372	$ (1,286)	$ —	$(1,286)
Foreign exchange forward contracts	(5,861)	—	(5,861)	—	(5,861)

$ (7,519)	$ 372	$ (7,147)	$ —	$(7,147)

The counterparties on the outstanding derivatives are Citibank, N.A., Bank of America, N.A., Barclays Bank PLC and certain credit PE funds.

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

	Balance Sheet	June 30, 2017 (or six months ended)			Maturity
	Classification	Fair Value	Notional Amount	Gains/(Losses) (B)	Date
Foreign exchange option contracts (JPY) (A)	Other assets	$1,085	$82,195	$ (963)	Sep-17 - Feb-19
Foreign exchange option contracts (JPY) (A)	Other liabilities	$(1,286)	$72,032	$ (829)	Nov-17 - Mar-18
Foreign exchange forward contracts (JPY) (A)	Other assets	$6,161	$179,274	$ (2,084)	Nov-17 - Sep-19
Foreign exchange forward contracts (JPY) (A)	Other liabilities	$(424)	$32,943	$ (614)	Sep-17 - Dec-19
Foreign exchange forward contracts (JPY)	Due to affiliates	$(1,656)	$85,580	$ (1,746)	Nov-17
Foreign exchange forward contracts (CAD) (A)	Other liabilities	$(3,781)	$104,960	$ (3,781)	Oct-17
Foreign exchange forward contracts (CAD)	Due from affiliates	$3,781	$104,960	$ 3,781	Oct-17

(A) Fortress has master netting agreements with its counterparties.

(B) Reflects unrealized gains (losses) for the six months ended June 30, 2017 related to contracts outstanding at period end.

Fortress's average gross notional amount outstanding for the six months ended June 30, 2017 was $647.0 million, of which $271.6 million relates to foreign exchange (JPY) derivative contracts used to economically hedge future estimated incentive income.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

4. DEBT OBLIGATIONS

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

	Face Amount and Carrying Value		Contractual	Final	June 30, 2017
	June 30,	December 31,	Interest	Stated	Amount
Debt Obligation	2017	2016	Rate	Maturity	Available for Draws
Revolving credit agreement (A)(B)	$105,000	$105,000	LIBOR + 2.00% (C)	Jan 2021	$168,091
Promissory note (D)	77,838	77,838	5.00%	Nov 2017	N/A
Total	$182,838	$182,838			

(A) The 2016 Credit Agreement is not collateralized by the assets of Fortress.
(B) The $275.0 million revolving debt facility includes a $15.0 million letter of credit subfacility of which $1.9 million was utilized as of June 30, 2017.
(C) Subject to unused commitment fees of 0.30% per annum.
(D) Issued to a former Principal in exchange for his Fortress Operating Group units and Class B shares in Fortress.

Management believes the fair value of its outstanding debt was $184.0 million as of June 30, 2017 (classified as a level 3 valuation, which is based on internal models using discounted future contractual cash flows and market interest rates).

In connection with the proposed Merger (see Note 1), Fortress will evaluate its various options under the 2016 Credit Agreement, including potentially seeking a waiver of certain non-financial covenants.

Fortress has a $275.0 million senior unsecured revolving credit facility (the "2016 Credit Agreement") with a $15.0 million letter of credit subfacility. The 2016 Credit Agreement is not collateralized by the assets of Fortress. The 2016 Credit Agreement generally bears interest at an annual rate equal to LIBOR plus an applicable rate that fluctuates depending upon the credit rating of the borrower's senior unsecured long-term debt and a commitment fee on undrawn amounts that fluctuates depending upon such credit rating, as well as other customary fees. The 2016 Credit Agreement matures in January 2021.

Fortress was in compliance with all of its debt covenants as of June 30, 2017. The following table sets forth the financial covenant requirements as of June 30, 2017:

	June 30, 2017 (dollars in millions)		
	Requirement	Actual	Notes
AUM, as defined	≥ $30,000	$45,472	(A)
Consolidated Leverage Ratio	≤ 2.50	0.51	(B)
Consolidated Interest Coverage Ratio	≥ 4.00	41.45	(B)

(A) Impacted by capital raised in funds, redemptions from funds, and valuations of fund investments. The AUM presented here is based on the definition of Management Fee Earning Assets contained in the 2016 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 2016 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 (except when paid) or gains and losses, including impairment, on investments.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

5. INCOME TAXES AND TAX RELATED PAYMENTS

Fortress is a publicly traded partnership and has a wholly owned corporate subsidiary. Accordingly, a substantial portion of Fortress's income related to Class A shares is earned by the corporate subsidiary and 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.

The provision for income taxes consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Current				
Federal income tax expense (benefit)	$7,841	$11,389	$(3,452)	$(978)
Foreign income tax expense (benefit)	4,697	5,260	6,493	8,085
State and local income tax expense (benefit)	2,707	1,273	(101)	(58)
	15,245	17,922	2,940	7,049
Deferred				
Federal income tax expense (benefit)	(1,928)	(12,215)	8,247	(3,535)
Foreign income tax expense (benefit)	666	42	(397)	1,926
State and local income tax expense (benefit)	(290)	(1,677)	1,165	(585)
	(1,552)	(13,850)	9,015	(2,194)
Total expense (benefit)	$13,693	$4,072	$11,955	$4,855

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

	June 30, 2017	December 31, 2016
Gross deferred tax assets	$461,202	$460,854
Less:		
Valuation allowance	(32,803)	(27,819)
Deferred tax liabilities (A)	(10,747)	(8,791)
Deferred tax assets, net	$417,652	$424,244

(A) The deferred tax liabilities primarily relate to timing differences in the recognition of income from options received from certain publicly traded 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, 2016	$27,819
Changes due to FIG Corp. ownership change	370
Net increases (A)	4,614
Valuation allowance at June 30, 2017	$32,803

(A)

Primarily related to the change in the portion of the deferred tax asset that would be realized only in connection with future capital gains and therefore required a full valuation allowance.

Fortress recognizes compensation expense from the issuance of RSUs over their vesting period. Consequently, Fortress records an estimated income tax benefit associated with RSUs. 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.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

As a result of the adoption of ASU 2016-09 effective January 1, 2017 (see Note 1), excess tax benefits associated with RSUs are recorded as a credit to income tax expense to the extent that the actual tax benefit is greater than what was previously estimated. Previously, excess tax benefits associated with RSUs were recorded as a credit to stockholders' equity. 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." In accordance with ASU 2016-09, tax shortfalls are charged to income tax expense. Previously, the tax shortfall was only charged to income tax expense to the extent Fortress did not have prior excess tax benefits (i.e., prior actual tax benefits associated with RSUs that were greater than the tax benefit of cumulative compensation cost).
For the six months ended June 30, 2017, Fortress recorded $0.3 million as a credit to income tax expense for excess tax benefits from RSUs delivered during the period and as an operating activity on the condensed consolidated statement of cash flows. Based on the value of RSUs which vested and were delivered during the six months ended June 30, 2016, Fortress had a tax shortfall of $2.4 million which was recorded as a debit to income taxes payable and a credit to paid-in capital.

For the six months ended June 30, 2017, a net deferred income tax provision of $0.9 million was recorded as a credit to other comprehensive income, primarily related to foreign currency translation.

For the six months ended June 30, 2017, changes in FIG Corp.'s ownership and other items resulted in an increase to deferred tax assets of $2.3 million with an offsetting increase to the valuation allowance of $0.4 million. The net increase in deferred tax assets was recorded as a credit to paid-in capital.

Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the six months ended June 30, 2017, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be $11.8 million.

6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

	Private Equity							
	Funds	Permanent Capital Vehicles	Credit Hedge Funds	PE Funds	Liquid Hedge Funds	Logan Circle	Other (A)	Total
June 30, 2017								
Management fees and incentive income	$48,348	$ 72,421	$3,763	$20,036	$ 253	$ 547	$—	$145,368
Expense reimbursements	24,923	8,514	11,533	19,500	326	115	—	64,911
Dividends and distributions	—	259	—	—	—	—	—	259
Other	—	1,783	—	—	—	—	19,290	21,073
Total	$73,271	$ 82,977	$15,296	$39,536	$ 579	$ 662	$19,290	$231,611

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

	Private Equity							
	Funds	Permanent Capital Vehicles	Credit Hedge Funds	PE Funds	Liquid Hedge Funds	Logan Circle	Other (A)	Total
December 31, 2016								
Management fees and incentive income	$46,010	$ 59,001	$109,910	$20,260	$ 41	$1,041	$—	$236,263
Expense reimbursements	30,306	8,417	13,013	14,668	849	108	—	67,361
Dividends and distributions	—	298	—	—	—	—	—	298
Other	—	2,523	—	—	—	—	14,188	16,711
Total	$76,316	$ 70,239	$122,923	$34,928	$ 890	$1,149	$14,188	$320,633

(A) Other includes amounts primarily due from the principals and advances to senior employees (who are not officers).

As of June 30, 2017, amounts due from Fortress Funds recorded in Due from Affiliates included $45.8 million of past due management fees and $11.4 million of private equity general and administrative expenses advanced on behalf of a certain Fortress Fund. Although such fund is currently experiencing a liquidity issue, the past due amounts represent less than 7% of such fund's NAV and Fortress believes these fees and reimbursable expenses will ultimately be collected. Subsequent to June 30, 2017, Fortress received $25.6 million of past due management fees as a result of a realization event at the fund.

Due to affiliates was comprised of the following:

	June 30, 2017	December 31, 2016
Principals - tax receivable agreement - Note 5	$244,496	$244,325
Principals - Principal Performance Payments - Note 7	21,774	36,698
Distributions payable on Fortress Operating Group units - Note 8	—	—
Other	19,822	31,259
General partner liability - Note 9	49,570	48,487
Total	$335,662	$360,769

Other Related Party Transactions

For the six months ended June 30, 2017 and 2016, Other Revenues included $2.2 million and $2.9 million, respectively, of revenues from affiliates, primarily interest and dividends.

During the six months ended June 30, 2017, Fortress advanced $4.0 million to senior employees who are not officers of Fortress. The advances bear interest at rates up to LIBOR+5%. All principal and interest is due and payable no later than February 2021. In addition, during the six months ended June 30, 2017, Fortress received repayments of advances aggregating $1.2 million.

In February 2016, Fortress entered into a sale agreement with Graticule for the sale of certain software and technology-related assets for $1.7 million, with $1.1 million received by Fortress at closing and an additional $0.6 million received in 2017. This resulted in a $1.7 million gain included in gains (losses) on the condensed consolidated statement of operations for the six months ended June 30, 2016.

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

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:

	June 30, 2017	December 31, 2016
Fortress Operating Group units held by the Principals	$264,857	$289,540
Employee interests in majority owned and controlled fund advisor and general partner entities	19,503	32,711
Other	2,347	1,253
Total	$286,707	$323,504

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

	June 30, 2017	December 31, 2016
Fortress Operating Group equity	$630,081	$694,639
Less: Others' interests in equity of consolidated subsidiaries	(21,850)	(33,964)
Total Fortress shareholders' equity in Fortress Operating Group	$608,231	$660,675
Fortress Operating Group units outstanding (A)	169,207,335	169,207,335
Class A shares outstanding	219,367,912	216,891,601
Total	388,575,247	386,098,936
Fortress Operating Group units as a percent of total (B)	43.5 %	43.8 %
Equity of Fortress Operating Group units held by the Principals	$264,857	$289,540

(A) Held by the Principals; exclusive of Class A shares.
(B) As a result, the Registrant owned 56.5% and 56.2% of Fortress Operating Group as of June 30, 2017 and December 31, 2016, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Fortress Operating Group units held by the Principals and a former senior employee (see Note 8)	$17,087	$(12,341)	$13,526	$(20,371)
Employee interests in majority owned and controlled fund advisor and general partner entities	158	220	148	807
Other	56	(25)	42	(8)

Total	$17,301	$(12,146)	$13,716	$(19,572)

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Fortress Operating Group net income (loss)	$39,413	$(27,902)	$31,242	$(45,713)
Adjust:				
Others' interests in net (income) loss of consolidated subsidiaries	(214)	(195)	(190)	(799)
Total Fortress shareholders' net income (loss) in Fortress Operating Group	$39,199	$(28,097)	$31,052	$(46,512)
Fortress Operating Group as a percent of total (A)	43.6 %	43.9 %	43.6 %	43.8 %
Fortress Operating Group net income (loss) attributable to the Principals and a former senior employee (see Note 8)	$17,087	$(12,341)	$13,526	$(20,371)

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

The following discloses the effects of changes in Fortress's ownership interest in Fortress Operating Group on Fortress's equity:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Transfers (to) from the Principals' and Others' Interests:				
Increase in Fortress's shareholders' equity for the delivery of Class A shares primarily in connection with vested RSUs	$911	$92	$1,748	$3,559
Decrease in Fortress's shareholders' equity for the repurchase and cancellation of Class A shares and FOGUs	—	—	—	(3,708)
Dilution impact of equity transactions	911	92	1,748	(149)
Net income (loss) attributable to Class A shareholders	14,508	(14,445)	11,259	(22,971)
Change from transfers (to) from the Principals' and Others' Interests and from net income (loss) attributable to Fortress	$15,419	$(14,353)	$13,007	$(23,120)

7. COMPENSATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Equity-based compensation, per below	$8,457	$6,905	$14,857	$14,927
Profit-sharing expense, per below	27,758	63,185	62,069	92,087

Discretionary bonuses	68,728	58,537	136,672	119,932
Other payroll, taxes and benefits (A)	58,457	62,652	131,794	128,538
	$163,400	$191,279	$345,392	$355,484

(A) During the six months ended June 30, 2017, certain Fortress principals contributed to Fortress interests in a Fortress Fund which were then granted to certain senior employees. These interests are fully vested and were valued at $12.0 million as of the grant date and expensed as other payroll, taxes and benefits during the period with a corresponding credit to contributions from principals' and others' interest in equity in Fortress's condensed consolidated statement of changes in equity.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

Equity-Based Compensation

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

	RSUs			
	Employees		Non-Employees	
	Number	Value (A)	Number	Value (A)
Outstanding at December 31, 2016	17,313,179	$6.37	48,970	$7.61
Issued	2,302,607	$4.95	—	—
Transfers	—	—	—	—
Converted	(3,580,557)	$6.84	(48,970)	$7.61
Forfeited	(86,804)	$3.56	—	—
Outstanding at June 30, 2017 (B)	15,948,425	$6.08	—	$—

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Expense incurred (B)				
Employee RSUs	$5,237	$6,135	$10,047	$13,038
Non-employee RSUs	—	(7)	—	66
Principal Performance Payments (C)	3,184	741	4,739	1,752
Restricted shares (D)	36	36	71	71
Total equity-based compensation expense	$8,457	$6,905	$14,857	$14,927

(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 June 30, 2017 of $54.7 million, with a weighted average recognition period of 3.1 years.
(C) Represents expense associated with RSUs awarded for Principal Performance Payments in relation to 2014, 2015 and 2016. These RSUs vest ratably over a period of three years. In addition, a portion of the expense is related to 2017 performance to date, which would result in approximately 1.0 million Class A shares being granted. These Class A shares would be fully vested on the grant date.
(D) Represents expense associated with restricted shares granted to a director during 2015. These restricted shares will vest over a period of two years with final vesting in July 2017.

During the six months ended June 30, 2017, Fortress granted 1.8 million non-dividend paying RSUs to its employees valued at an aggregate of $8.7 million on the respective grant dates. These RSUs vest over a period of three years.

During the six months ended June 30, 2017, Fortress awarded 0.5 million dividend paying RSUs as Principal Performance Payments based on 2016 results valued at an aggregate of $2.7 million on the grant date. These RSUs vest over a period of three years. Additionally, Fortress issued 1.1 million Class A shares to Principals in connection with the vesting of dividend paying RSUs.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

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

	Six Months Ended June 30, 2017		
	Equity-Based Compensation	Profit Sharing Expense	Total
Private equity businesses	$1,392	$9,796	$11,188
Credit businesses	3,347	8,174	11,521
Total	$4,739	$17,970	$22,709

In November 2016, each of the Principals executed new employment agreements with Fortress. These agreements create new five-year employment terms running from January 1, 2017 through December 31, 2021, and are on the same economic and other terms as the employment agreements which expired on December 31, 2016. The Fortress Board of Directors also approved certain amendments to the Principal Compensation Plan that (i) removes the vesting requirement for future issuances of equity under the plan, which means that any future equity based payments to Principals will be made in the form of Class A shares rather than RSUs, to the extent permitted under IRS regulations and (ii) provides that all awards relating to 2017 and after will be based on 20% of fund management distributable earnings regardless of whether a Principal sponsors a fund or is the named Chief Investment Officer of the fund.

In February 2017, Fortress amended the Logan Circle Compensation Plan. The Logan Circle Compensation Plan provides for annual bonuses which may be paid partially in RSUs, as well as for potential Class A share awards to certain employees related to the years 2017 and 2018. These awards are annual performance-based awards and depend on the future performance of Logan Circle in the specific years to which they relate. Furthermore, the amounts of RSUs or shares to be awarded are not fixed until the respective year is completed. As such, these awards would be expensed over the related service period. If Logan Circle meets the future performance targets under this plan, the amounts to be awarded could be significant. Through June 30, 2017, no compensation expense was recognized under this plan.

Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Private equity funds	$1,877	$—	$1,877	$—
Permanent capital vehicles (A)	(1,449)	5,921	4,652	7,490
Credit hedge funds	6,863	11,154	19,276	14,170
Credit PE funds	11,465	35,283	18,294	55,896
Liquid hedge funds	—	33	—	553
Principal Performance Payments (B)	9,002	10,794	17,970	13,978
Total	$27,758	$63,185	$62,069	$92,087

(A) Includes rights in options held in the publicly traded permanent capital vehicles (tandem options) that are granted to certain Fortress employees. The fair value and changes thereto are recorded as profit sharing compensation expense.

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

Table of Contents

8. 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 a former senior employee through September 2016) 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 a former senior employee, on the other hand. The FOG income allocated to the Principals and a former 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 a former 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 and the if-converted tax rate determines the dilutive or anti-dilutive impact of the Fortress Operating Group units held by the Principals and a former senior employee.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

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

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	217,417,799	217,417,799	217,235,120	217,235,120
Fully vested restricted Class A share units with dividend equivalent rights	1,907,872	1,907,872	2,208,686	2,208,686
Restricted Class A shares	934,192	934,192	933,669	933,669
Fortress Operating Group units exchangeable into Class A shares (1)	—	169,207,335	—	169,207,335
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	5,370,802	—	4,641,229
Total weighted average shares outstanding	220,259,863	394,838,000	220,377,475	394,226,039
Basic and diluted net income (loss) per Class A share				
Net income (loss) attributable to Class A shareholders	$ 14,508	$ 14,508	$ 11,259	$ 11,259
Dividend equivalents declared on non-vested restricted Class A shares and restricted Class A share units (2)	(378)	(378)	(757)	(757)
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)	—	9,372	—	7,767
Net income (loss) available to Class A shareholders	$ 14,130	$ 23,502	$ 10,502	$ 18,269
Weighted average shares outstanding	220,259,863	394,838,000	220,377,475	394,226,039
Basic and diluted net income (loss) per Class A share	$ 0.06	$ 0.06	$ 0.05	$ 0.05

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	215,631,309	215,631,309	217,016,378	217,016,378
Fully vested restricted Class A share units with dividend equivalent rights	291,469	291,469	984,000	984,000
Restricted Class A shares	810,882	810,882	790,155	790,155
Fortress Operating Group units exchangeable into Class A shares (1)	—	—	—	—
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	—	—	—
Total weighted average shares outstanding	216,733,660	216,733,660	218,790,533	218,790,533
Basic and diluted net income (loss) per Class A share				
Net income attributable to Class A shareholders	$ (14,445)	$ (14,445)	$ (22,971)	$ (22,971)
Dividend equivalents declared on non-vested restricted Class A shares and restricted Class A share units (2)	(905)	(905)	(1,272)	(1,272)
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	$ (15,350)	$ (15,350)	$ (24,243)	$ (24,243)

Weighted average shares outstanding	216,733,660	216,733,660	218,790,533	218,790,533
Basic and diluted net income per Class A share	$(0.07)	$(0.07)	$(0.11)	$(0.11)

(1) The Fortress Operating Group units not held by Fortress (that is, those held by (i) the Principals and (ii) a former senior employee through September 2016) are exchangeable into Class A shares on a one-to-one basis. These units are not included in the computation of basic earnings per share. These units enter into the computation of diluted net income (loss) per Class A share when the effect is dilutive using the if-converted method, 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. To the extent charges, particularly tax related charges, are incurred by the Registrant (i.e. not at the Fortress Operating Group level), the effect may be anti-dilutive.

(2) Restricted Class A shares granted to directors and certain restricted Class A share units granted to employees are eligible to receive dividend or dividend equivalent payments when dividends are declared and paid on Fortress's Class A shares and therefore participate fully in the results of Fortress's operations from the date they are granted. They are considered 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

36

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Share Units	8,493,099	9,344,273	8,251,752	9,050,075

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.

In February 2014, Fortress entered into a purchase agreement with Nomura Investment Managers U.S.A. ("Nomura") to acquire 60,568,275 Class A shares for $363.4 million. During the six months ended June 30, 2017, Fortress made a final payment of $8.4 million to Nomura related to the purchase agreement.

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

	Weighted Average Three Months Ended June 30,		Weighted Average Six Months Ended June 30,	
	2017	2016	2017	2016
Class A shares	217,417,799	215,631,309	217,235,120	217,016,378
Restricted Class A shares (directors)	934,192	810,882	933,669	790,155
Restricted Class A share units (employees) (A)	1,907,872	291,469	2,208,686	984,000
Restricted Class A share units (employees) (B)	7,461,953	8,063,715	7,363,765	7,940,803
Fortress Operating Group units (Principals)	169,207,335	169,514,478	169,207,335	169,514,478
Total	396,929,151	394,311,853	396,948,575	396,245,814

	As of June 30, 2017	As of December 31, 2016
Class A shares	218,433,720	216,004,734
Restricted Class A shares (directors)	934,192	886,867
Restricted Class A share units (employees) (A)	—	467,930
Restricted Class A share units (employees) (B)	7,461,953	8,063,715
Fortress Operating Group units (Principals)	169,207,335	169,207,335
Total	396,037,200	394,630,581

(A) Represents 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.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

Dividends and distributions during the six months ended June 30, 2017 are summarized as follows:

	Declared in Prior Year, Paid in Current Year	Declared in Current Year		
		Declared and Paid	Declared but not yet Paid	Total
Dividends on Class A shares	$ —	$39,242	$ —	$39,242
Dividend equivalents on restricted Class A share units	194	1,802	—	1,802
Distributions to Fortress Operating Group unit holders (the Principals) (A)	—	40,359	—	40,359
Total distributions	$ 194	$81,403	$ —	$81,403

(A) Fortress Operating Group made tax-related distributions to the FOG unit holders (the Principals).

On May 5, 2017, Fortress declared a quarterly cash dividend of $0.09 per Class A share for the first quarter of 2017. This dividend was paid on May 26, 2017 to holders of record of Class A shares on May 22, 2017. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was $20.5 million. Fortress will not pay any dividends with respect to periods ending after March 31, 2017 while the Merger Agreement remains in effect, pursuant to the terms thereof.

On February 27, 2017, Fortress declared a quarterly cash dividend of $0.09 per Class A share for the fourth quarter of 2016. The dividend was paid on March 21, 2017 to holders of record of Class A shares on March 15, 2017. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was $20.5 million.

9. COMMITMENTS AND CONTINGENCIES

Other than as described below, Fortress's commitments and contingencies remain materially unchanged from December 31, 2016.

General Partner Liability — Certain of Fortress's consolidated subsidiaries act as the general partner of various Fortress Funds and accordingly have potentially unlimited liability for the obligations of the funds under applicable partnership law principles. In the event that any such fund was to fall into a negative net equity position (Note 2), the full amount of the negative net equity would be recorded on the balance sheet of the general partner entity. Such amount would be recorded on Fortress's 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, a 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 condensed consolidated financial statements of Fortress. When the fund matures and is liquidated, Fortress will record a gain in the event and to the extent it does not fund this negative equity. The amount of negative equity recorded at June 30, 2017 was $49.6 million.

Litigation — Fortress is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions that existed as of June 30, 2017, individually and in the aggregate, will not materially affect Fortress's results of operations, liquidity or financial position.

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.

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

Private Equity Fund, Credit PE Fund and Credit Hedge Fund Capital Commitments — Fortress has remaining capital commitments, which aggregated $169.9 million as of June 30, 2017, 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 as of June 30, 2017 are as follows:

July 1, 2017 to December 31, 2017	$9,874
2018	27,383
2019	27,082
2020	26,131
2021	25,070
2022	23,356
Thereafter	228,516
Total	$367,412

Rent expense, including operating expense escalations, during the six months ended June 30, 2017 and 2016 was $16.6 million and $13.9 million, respectively, and was included in general, administrative and other expense on the condensed consolidated statements of operations.

10. SEGMENT REPORTING

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

The amounts not allocated to a segment consist primarily of expenses incurred by Fortress related to the proposed acquisition by SoftBank for the six months ended June 30, 2017, interest expense, foreign currency transactions and interest income. Assets not allocated to a segment consist primarily of cash and net deferred tax assets.

Management assesses Fortress's segments on a Fortress Operating Group and pre-tax basis and therefore adds back the interests in consolidated subsidiaries related to Fortress Operating Group units (primarily held by the Principals) and income tax expense.

Management assesses the net performance of each segment based on its "distributable earnings" ("DE") and utilizes "fund management distributable earnings" or "fund management DE" as a supplemental measure of segment performance. Neither distributable earnings nor fund management DE is a measure of cash generated by operations which is available for distribution. Rather, they are supplemental measures of operating performance used by management in analyzing its segments and overall results. Neither distributable earnings nor fund management DE should be considered as an alternative to cash flow, in accordance with GAAP, as a measure of Fortress's liquidity, and they are not necessarily indicative of cash available to fund cash needs (including dividends and distributions).

DE is defined by Fortress's chief operating decision maker ("CODM"), which is its management committee. The CODM receives performance reports on Fortress's segments on a DE basis pursuant to their requirements for managing Fortress's business.

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

Incentive Income

(i)	a.	for Fortress Funds which are private equity funds and credit PE funds, adding (a) incentive income paid (or declared as a distribution) to Fortress, less an applicable reserve for potential future clawbacks if the likelihood

39

of a clawback is deemed greater than remote by Fortress's CODM (net of the reversal of any prior such reserves that are no longer deemed necessary), less (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 earned on a quarterly basis, less (b) incentive income recorded in accordance with GAAP,

c. adding the receipt of cash or proceeds from the sale of shares received (a) as incentive income from the publicly traded permanent capital vehicles and (b) pursuant to the exercise of options in the publicly traded permanent capital vehicles, if any, in excess of their strike price,

d. adding incentive income received from third parties which is subject to contingent repayment less incentive income from third parties that is no longer subject to contingent repayment,

Other Income

(ii) with respect to income from certain investments in the Fortress Funds 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, including dividends, from these funds, less (b) impairment with respect to these funds, if necessary, less (c) equity method earnings (or losses) recorded in accordance with GAAP,

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

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

(iii) subtracting management fee income recorded in accordance with GAAP in connection with the receipt of options from the publicly traded permanent capital vehicles, if any,

Expenses

(iv) adding or subtracting the employee profit sharing portion of (a) incentive income described in (i) above to match the timing of the expense with the revenue, (b) unrealized gains (losses) related to foreign exchange derivative contracts used to economically hedge future estimated incentive income and (c) intrinsic clawback, if any, which represents incentive income previously received from a fund that would be clawed back if the fund were liquidated at the end of the period at its NAV,

(v) adding back equity-based compensation expense (including grants to employees of tandem options in the publicly traded permanent capital vehicles, grants to employees of equity interests in Fortress Funds and portfolio company investments, RSUs (including the portion of related dividend and distribution equivalents recorded as compensation expense) and restricted shares),

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

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

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

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

40

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

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) the difference, if any, between the GAAP carrying amount of intangible assets and goodwill and their carrying amount for segment reporting purposes resulting from the distributable earnings adjustments listed above, and
(iv) at interim periods, the accrued incentive income recorded for distributable earnings purposes in relation to the incentive income reconciling item in (i)(b) above.

Embedded Incentive Income

As of June 30, 2017, Fortress had $1.4 billion of gross undistributed incentive income and no intrinsic clawback related to distributed incentive income exists for any of the Fortress Funds (Note 2). Of the $1.4 billion, $46.8 million has been recognized in distributable earnings. This amount represents accrued hedge fund, permanent capital vehicle and Logan Circle incentive income recorded during the six months ended June 30, 2017.

In addition, Fortress has foreign exchange derivative contracts, related to the Japanese Yen, used to economically hedge future estimated incentive income with a net unrealized gain of $3.9 million as of June 30, 2017. If these contracts would have been settled as of June 30, 2017, Fortress would have increased gross distributable earnings by $3.9 million, or by $2.4 million net of employee interests.

Furthermore, if Fortress had (i) exercised all of its in-the-money publicly traded permanent capital vehicle options (Note 3) and sold all of the resulting shares and (ii) sold all of its publicly traded permanent capital vehicle shares which it received as incentive income, it would have recorded $37.4 million of gross additional distributable earnings, or $33.0 million net of employee interests, based on their respective June 30, 2017 closing prices.

Embedded Gain/Loss and Impairment of Investments for DE Purposes

As of June 30, 2017, Fortress's share of the net asset value of its direct and indirect investments exceeded its segment cost basis by $456.4 million, representing a net unrealized gain. During the six months ended June 30, 2017, Fortress recorded less than $0.1 million of impairment on its direct and indirect investments in its funds for segment reporting purposes. As of June 30, 2017, Fortress had $0.2 million of unrealized losses on certain investments that have not been recorded as impairment.

Clawback Reserve on Incentive Income for DE Purposes

As of June 30, 2017, Fortress has no intrinsic clawback obligation for any of its private equity funds and credit PE funds (Note 2). As such, Fortress's CODM has determined no clawback DE reserve is necessary.

Segment Results of Operations

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

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

June 30, 2017 and the Six Months Then Ended

	Private Equity							
	Funds	Permanent Capital Vehicles	Credit Hedge Funds	PE Funds	Liquid Hedge Funds	Logan Circle	Unallocated	Total
Segment revenues								
Management fees	$40,253	$61,165	$75,072	$60,194	$639	$29,478	$—	$266,801
Incentive income	1,000	64,095	46,686	74,862	50	582	—	187,275
Segment revenues - total	$41,253	$125,260	$121,758	$135,056	$689	$30,060	$—	$454,076
Fund management distributable earnings (loss) before earnings from the Affiliated Manager and Principal Performance Payments (B)	$25,510	$72,450	$47,967	$33,772	$(3,833)	$868	$(22,524)	$154,210
Fund management distributable earnings (loss) before Principal Performance Payments (B)	$25,510	$72,450	$47,967	$33,772	$2,690	$868	$(22,524)	$160,733
Fund management distributable earnings (loss)	$25,456	$62,709	$43,042	$30,523	$2,690	$868	$(22,524)	$142,764
Pre-tax distributable earnings (loss)	$25,577	$63,993	$45,803	$35,279	$13,554	$1,198	$(25,195)	$160,209
Total segment assets	$597,878	$180,288	$122,233	$257,143	$73,738	$49,998	$870,115 (A)	$2,151,393

Three Months Ended June 30, 2017

	Private Equity							
	Funds	Permanent Capital Vehicles	Credit Hedge Funds	PE Funds	Liquid Hedge Funds	Logan Circle	Unallocated	Total
Segment revenues								
Management fees	$20,085	$ 30,965	$37,613	$30,399	$322	$14,882	$ —	$134,266
Incentive income	1,000	48,248	14,768	19,928	50	228	—	84,222
Segment revenues - total	$21,085	$ 79,213	$52,381	$50,327	$372	$15,110	$ —	$218,488
Fund management distributable	$13,278	$ 50,235	$18,476	$7,350	$(1,735)	$(300)	$ (1,924)	$85,380

earnings (loss) before earnings from the Affiliated Manager and Principal Performance Payments (B)								
Fund management distributable earnings (loss) before Principal Performance Payments (B)	$13,278	$ 50,235	$18,476	$7,350	$3,652	$(300)	$ (1,924)	$90,767
Fund management distributable earnings (loss)	$13,224	$ 43,872	$16,752	$6,491	$3,652	$(300)	$ (1,924)	$81,767
Pre-tax distributable earnings (loss)	$13,238	$ 44,517	$17,860	$7,781	$5,551	$(100)	$ (2,900)	$85,947

42

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

Six Months Ended June 30, 2016

	Private Equity							
	Funds	Permanent Capital Vehicles	Credit Hedge Funds	PE Funds	Liquid Hedge Funds	Logan Circle	Unallocated	Total
Segment revenues								
Management fees	$51,490	$ 54,430	$74,472	$61,660	$12,100	$27,945	$ —	$282,097
Incentive income	—	15,920	39,759	138,251	994	64	—	194,988
Segment revenues - total	$51,490	$ 70,350	$114,231	$199,911	$13,094	$28,009	$ —	$477,085
Fund management distributable earnings (loss) before earnings from the Affiliated Manager and Principal Performance Payments (B)	$31,556	$ 29,511	$45,214	$68,767	$(4,190)	$2,488	$ —	$173,346
Fund management distributable earnings (loss) before Principal Performance Payments (B)	$31,556	$ 29,511	$45,214	$68,767	$(2,113)	$2,488	$ —	$175,423
Fund management distributable earnings (loss)	$31,539	$ 25,572	$38,792	$65,167	$(2,113)	$2,488	$ —	$161,445
Pre-tax distributable earnings (loss)	$30,721	$ 26,886	$40,443	$75,386	$(3,987)	$2,884	$ (7,237)	$165,096

Three Months Ended June 30, 2016

	Private Equity							
	Funds	Permanent Capital Vehicles	Credit Hedge Funds	PE Funds	Liquid Hedge Funds	Logan Circle	Unallocated	Total
Segment revenues								
Management fees	$25,732	$ 27,128	$37,373	$30,818	$5,464	$14,357	$ —	$140,872
Incentive income	—	13,720	32,563	85,458	(477)	64	—	131,328
Segment revenues - total	$25,732	$ 40,848	$69,936	$116,276	$4,987	$14,421	$ —	$272,200
Fund management distributable earnings (loss) before earnings from the Affiliated Manager and Principal Performance Payments (B)	$15,978	$ 19,979	$29,802	$42,988	$(2,555)	$1,838	$ —	$108,030
Fund management distributable earnings	$15,978	$ 19,979	$29,802	$42,988	$(1,381)	$1,838	$ —	$109,204

(loss) before Principal Performance Payments (B)								
Fund management distributable earnings (loss)	$15,972	$ 17,076	$24,676	$40,229	$(1,381)	$1,838	$ —	$98,410
Pre-tax distributable earnings (loss)	$16,275	$ 17,736	$26,181	$47,274	$(5,433)	$2,109	$ (3,503)	$100,639

(A) Unallocated assets includes cash of $336.0 million and net deferred tax assets of $417.7 million.

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

43

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

Reconciling items between segment measures and GAAP measures:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Fund management distributable earnings	$81,767	$98,410	$142,764	$161,445
Investment income (loss)	6,257	5,079	21,476	9,510
Interest expense	(2,077)	(2,850)	(4,031)	(5,859)
Pre-tax distributable earnings	85,947	100,639	160,209	165,096
Adjust incentive income				
Incentive income received from or declared by private equity funds and credit PE funds, subject to contingent repayment	(20,928)	(85,458)	(75,862)	(138,251)
Incentive income received from third parties, subject to contingent repayment	(264)	(3,058)	(1,442)	(3,058)
Incentive income from private equity funds and credit PE funds, not subject to contingent repayment	9,236	15,309	24,262	44,619
Incentive income from hedge funds, permanent capital vehicles and Logan Circle, subject to annual performance achievement	(15,894)	(25,771)	(46,777)	(33,719)
Incentive income from third parties, not subject to contingent repayment	—	—	—	—
Incentive income received related to the exercise of options	—	—	—	—
	(27,850)	(98,978)	(99,819)	(130,409)
Adjust other income (loss)				
Distributions of earnings from equity method investees*	(3,203)	(7,220)	(16,650)	(10,731)
Earnings (losses) from equity method investees*	19,864	(8,377)	(1,885)	(32,396)
Gains (losses) on options in equity method investees	(22,469)	12,500	4,220	10,005
Gains (losses) on other investments	3,110	(19,559)	(3,204)	(34,084)
Impairment of investments (see discussion above)	12	695	33	2,825
Adjust income from the receipt of options	—	—	8,068	—
	(2,686)	(21,961)	(9,418)	(64,381)
Adjust employee, Principal and director compensation				
Adjust employee, Principal and director equity-based and other compensation expense (including publicly traded permanent capital vehicle options assigned)	(6,673)	(9,761)	(30,910)	(18,537)
Adjust employee portion of incentive income from private equity funds and credit PE funds, accrued prior to the realization of incentive income	(2,664)	8,090	18,208	13,871
	(9,337)	(1,671)	(12,702)	(4,666)
Adjust amortization of intangible assets and impairment of goodwill and intangible assets	(659)	(659)	(1,318)	(1,318)
Adjust non-controlling interests related to Fortress Operating Group units	(17,087)	12,341	(13,526)	20,371
Adjust tax receivable agreement liability	—	—	—	(2,699)
Adjust income taxes and other tax related items	(13,820)	(4,156)	(12,167)	(4,965)
Total adjustments	(71,439)	(115,084)	(148,950)	(188,067)

Net Income (Loss) Attributable to Class A Shareholders	14,508	(14,445)	11,259	(22,971)
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	17,301	(12,146)	13,716	(19,572)
Net Income (Loss) (GAAP)	$31,809	$(26,591)	$24,975	$(42,543)

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

44

Table of Contents

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
JUNE 30, 2017
(dollars in tables in thousands, except share and per share data)

	June 30, 2017
Total segment assets	$2,151,393
Adjust equity investments from segment carrying amount	(51,467)
Adjust investments gross of employees' and others' portion	9,293
Adjust intangible assets	(28,046)
Adjust receivables for incentive income subject to annual performance achievement	(40,061)
Total assets (GAAP)	$2,041,112

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Total segment revenues	$218,488	$272,200	$454,076	$477,085
Adjust management fees	(81)	(292)	(292)	(708)
Adjust incentive income*	(28,030)	(99,757)	(100,300)	(131,188)
Adjust income from the receipt of options	—	—	8,068	—
Adjust other revenues (including expense reimbursements)**	56,612	60,555	117,665	119,134
Total revenues (GAAP)	$246,989	$232,706	$479,217	$464,323

* Incentive income received from third parties, not subject to contingent repayment of $0.2 million and $0.8 million for the three months ended June 30, 2017 and June 30, 2016, respectively, and $0.5 million and $0.8 million for the six months ended June 30, 2017 and June 30, 2016, respectively, are included in segment measures as part of incentive income while included in GAAP as part of other revenues.

** Segment revenues do not include GAAP other revenues, except to the extent they represent management fees or incentive income paid during the current period; such revenues are included elsewhere in the calculation of distributable earnings.

11. SUBSEQUENT EVENTS

These financial statements include a discussion of material events, if any, which have occurred subsequent to June 30, 2017 (referred to as "subsequent events") through the issuance of these condensed consolidated financial statements. Events subsequent to that date have not been considered in these condensed consolidated financial statements.

For additional subsequent events, see Notes 1 and 6.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

Overview

Proposed Acquisition by SoftBank

On February 14, 2017, Fortress entered into an Agreement and Plan of Merger (the "Merger Agreement") with SB Foundation Holdings LP, a Cayman Islands exempted limited partnership ("Parent"), and Foundation Acquisition LLC, a Delaware limited liability company and wholly owned subsidiary of Parent ("Merger Sub"), pursuant to which, among other things, Merger Sub will merge with and into the Company, with the Company surviving as a wholly owned subsidiary of Parent (the "Merger").

At the effective time of the Merger, each Class A share issued and outstanding immediately prior to the effective time (subject to certain exceptions) and each restricted stock unit with respect to the Class A shares outstanding immediately prior to the effective time will be converted into the right to receive $8.08 in cash, without interest, less any applicable taxes required to be withheld. Each Class B share outstanding immediately prior to the effective time will be canceled and retired in exchange for no consideration. There are no appraisal or dissenters' rights available with respect to the Merger. The Merger Agreement also provides that the Company's shareholders may also receive up to two regular quarterly dividends prior to the closing, each in an amount not to exceed $0.09 per Class A share. On May 5, 2017 and February 27, 2017, Fortress declared quarterly cash dividends of $0.09 per Class A share for the first quarter of 2017 and the fourth quarter of 2016, respectively, and will not pay any dividends with respect to periods ending after March 31, 2017 while the Merger Agreement remains in effect .

Our board of directors, acting on the unanimous recommendation of a special committee consisting entirely of independent and disinterested directors (the "Special Committee"), unanimously approved the terms of the Merger Agreement and unanimously recommended the approval of the Merger by the Company's shareholders (the "Board Recommendation"). At a Special Meeting of Shareholders held on July 12, 2017, the shareholders of Fortress approved the Merger.

Consummation of the Merger is subject to certain customary conditions, including, without limitation, the approval by the holders of a majority of the Class A shares and Class B shares (voting as one class) and the receipt of certain governmental and regulatory approvals. In addition, the obligations of Parent and Merger Sub to consummate the Merger are subject to, among other conditions, the absence of a Material Adverse Effect (as defined in the Merger Agreement), and the receipt of consent of advisory clients representing at least 87.5% of Base Aggregate Management Fees (as defined in the Merger Agreement).

The Company has made customary representations and warranties in the Merger Agreement and has agreed to customary covenants, including with respect to, among other things, the operation of the business of the Company and its subsidiaries prior to the closing. In addition, the Merger Agreement contains a customary "no shop" provision that, in general, restricts the Company's ability to solicit alternative acquisition proposals and to provide nonpublic information to and engage in discussions or negotiations regarding alternative acquisition proposals, subject to a customary "fiduciary out" exception.

The Merger Agreement contains certain customary termination rights, including, without limitation, if the Merger is not consummated on or before December 31, 2017. Upon termination of the Merger Agreement under specified circumstances, including with respect to the Company's entry into an agreement with respect to a Superior Offer (as defined in the Merger Agreement), the Company will be required to pay Parent a termination fee of $98.4 million. If the Merger Agreement is terminated by Parent or the Company following withdrawal or modification of the Board Recommendation based on an Intervening Event (as defined in the Merger Agreement), the Company will be required to pay Parent a termination fee of $131.1 million.

Parent has secured from SoftBank Group Corp. ("SoftBank") committed equity financing for the entire amount of the purchase price payable under the Merger Agreement, and the Company has received a corresponding limited guarantee from SoftBank that also requires SoftBank to comply with certain specified covenants under the Merger Agreement. The Merger Agreement permits the syndication of a portion of Parent's equity, subject to certain conditions and limitations, provided that no such syndication will reduce SoftBank's obligations under the equity commitment letter or limited guarantee. At the completion of the equity syndication period specified under the Merger Agreement, Parent had not entered into any investment agreements with any potential equity investors.

In connection with the Logan Circle Sale Agreement (as defined below), on July 7, 2017, Fortress, Parent and Merger Sub entered into Amendment No. 1 to the Agreement and Plan of Merger (the “Merger Agreement Amendment”), which amends the Merger Agreement. Pursuant to the Merger Agreement Amendment, among other things, Parent consented to the entry into the Logan Circle Sale Agreement and consummation of the transactions contemplated thereby.

On February 14, 2017, concurrently with the entry into the Merger Agreement, Parent entered into a Founders Agreement (the "Founders Agreement") with the Company, FIG Corp., FIG Asset Co. LLC (together with FIG Corp., the "Buyers"), each of the Principals and the Principals' related parties that own FOGUs (collectively with the Principals, the "Sellers"), pursuant to which, among other things, the Buyers will purchase from the Sellers 100% of the FOGUs that are not already owned by the Company and its subsidiaries of each of the FOG entities. At the closing of the transactions contemplated by the Founders Agreement, which is to occur substantially concurrently with the closing of the Merger, each FOGU will be acquired from the Sellers in exchange for $8.08 in cash, subject to reduction for certain items. Each Seller will place 50% of the after-tax proceeds from the sale of its FOGUs into escrow at the closing. These escrowed proceeds and retained investments will be invested in funds and investment vehicles of the Company or SoftBank, or in stock of SoftBank, among other things. The Closing under the Founders Agreement is subject to certain conditions, including, without limitation, the satisfaction of the conditions to the Merger.

In connection with entering into the Merger Agreement, on February 14, 2017, Parent entered into a Voting and Support Agreement (each, a "Support Agreement") with each Principal and his related parties that own Class A or Class B shares (the "Supporting Members"). The Support Agreements generally require that the Supporting Members vote their Covered Securities (as defined in the Support Agreement) of the Company that represent, in the aggregate, 34.99% of the total voting power of the Company, in favor of the adoption of the Merger Agreement and against any competing acquisition proposals, subject to the limitations set forth therein. Subject to certain exceptions, the Support Agreements prohibit transfers by the Supporting Members of any of their Covered Securities.

In connection with entering into the Merger Agreement, on February 14, 2017, FIG Corp. entered into a Waiver Agreement (the "TRA Waiver") with certain other subsidiaries of the Company and the Principals, effective as of the closing, pursuant to which, among other things, the Principals waive their rights to receive any payments under the tax receivable agreement arising out of the transactions contemplated by the Founders Agreement and other transactions occurring after February 14, 2017. With respect to all previous exchanges for which a tax receivable agreement obligation is still outstanding, the waivers and amendments provided for in the TRA Waiver will generally have the effect of reducing and/or deferring the payments to which the Principals would otherwise have been entitled under the tax receivable agreement.

In connection with their execution of the Founders Agreement, each of the Principals entered into an Amended and Restatement Employment, Non-Competition, and Non-Solicitation Agreement with FIG LLC, an operating subsidiary of the Company. The employment agreements will become effective on and subject to the closing and will have an initial five-year term.

In connection with entering into the Founders Agreement, the Second Amended and Restated Fortress Investment Group LLC Principal Compensation Plan (the "PCP") will be further amended and restated, effective as of and subject to the closing, to make certain clarifying and conforming changes. Under the PCP, the Principals will continue to receive annual payments based on their respective success in raising and investing new and existing funds and the performance of the Fortress funds during a given fiscal year and, for the credit hedge fund business, on the performance of the existing AUM of Fortress's flagship hedge funds during a given year.

On February 14, 2017, the Board, having determined that it was in the best interests of the Company and its shareholders to amend the Company's Fourth Amended and Restated Limited Liability Company Agreement (the "LLC Agreement"), approved an amendment to the LLC Agreement (the "Amendment"). The Amendment amends and restates Section 12.8 of the LLC Agreement, providing that the Court of Chancery of the State of Delaware will be the exclusive forum for any action, claim or proceeding arising out of or relating to the LLC Agreement, the Company or its business or affairs.

Proposed Logan Circle Sale

On July 7, 2017, Fortress Asset Management LLC, a Delaware limited liability company (the "LP Seller"), Fortress Asset Management GP LLC, a Delaware limited liability company (the "GP Seller" and, together with the LP Seller, the "Sellers"), Logan Circle, and Logan Circle Partners GP, LLC, a Pennsylvania limited liability company (the "General Partner"), and in a limited capacity, FIG LLC, a Delaware limited liability company, each of which is an indirect subsidiary of Fortress, entered into a Purchase and Sale Agreement (the "Logan Circle Sale Agreement") with MetLife, Inc., a Delaware corporation (the "Parent Buyer"), pursuant to which, among other things, the Parent Buyer will purchase from the Sellers all of the Sellers' interests in Logan Circle and the General Partner (the "Logan Circle Sale"). The aggregate purchase price is approximately $250.0 million, subject to certain customary closing and post-closing adjustments and an allocation of $55.0 million of the purchase price to an employee long-term incentive plan.

The Logan Circle Sale Agreement contains certain customary representations, warranties and covenants of each party, including, among others, certain customary covenants regarding the conduct of the business of Logan Circle, the General Partner and their respective controlled affiliates during the period between the execution of the Logan Circle Sale Agreement and the consummation of the transactions contemplated thereby. The Logan Circle Sale Agreement also contains certain indemnification provisions.

Consummation of the Logan Circle Sale is subject to various closing conditions, including, among others, (i) the receipt of approval, or the expiration or termination of the waiting period, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, (ii) the absence of any preliminary or permanent injunction or other order preventing the closing, (iii) the revenue run-rate for all investment advisory clients of the business at closing being equal to or greater than 80% of the revenue run-rate for such clients as of March 31, 2017, and (iv) the revenue run-rate for certain specified investment advisory clients of the business at closing being equal to or greater than 75% of the revenue run-rate for such clients as of March 31, 2017.

The Sellers and the Parent Buyer have the right to terminate the Logan Circle Sale Agreement under certain circumstances. Those circumstances include, but are not limited to, (i) mutual consent, (ii) material uncured breach by the other party group, (iii) failure to consummate the transactions by December 31, 2017, or (iv) on account of a final, non-appealable order of any governmental authority that permanently restrains, enjoins or otherwise prohibits the closing. In addition, the Sellers may terminate the Logan Circle Sale Agreement if the closing has not occurred by October 31, 2017.

Our Business

Fortress is a leading, highly diversified global investment management firm with approximately $72.4 billion in AUM as of June 30, 2017. Fortress applies its deep experience and specialized expertise across a range of investment strategies — private equity, credit, liquid markets and traditional fixed income — on behalf of our over 1,800 institutional clients and private investors worldwide. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our alternative investment funds, receive reimbursements of certain expenses from funds we manage and earn investment income (loss) from our investments in our funds. We continue to invest capital in our alternative investment businesses.

The performance of our funds was mixed for the six months ended June 30, 2017, with positive performance in some funds and negative performance in others, and overall our segment operating results (excluding the impact of $22.5 million of expenses incurred by Fortress related to the proposed acquisition by SoftBank) were up in comparison to the same period of 2016. For more information about these topics, please refer to "— Assets Under Management" and "— Performance of our Funds" below.

48

As of June 30, 2017, we managed the following businesses:

Private Equity — a business that manages approximately $14.7 billion of AUM comprised of two business segments: (i) general buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America, the Caribbean and Western Europe; and (ii) permanent capital vehicles, which includes publicly traded companies that are externally managed by Fortress pursuant to management agreements and a senior living property management business. The publicly traded companies invest in a wide variety of real estate related assets, including securities, loans, real estate properties and mortgage servicing related assets, media assets, senior living properties and transportation and infrastructure assets. All of the capital of Worldwide Transportation and Infrastructure Investors ("WWTAI"), formerly a private fund managed by Fortress, was contributed to Fortress Transportation and Infrastructure Investors LLC ("FTAI") which completed its initial public offering in May 2015.

Credit Funds — a business that manages approximately $17.7 billion of AUM comprised of two business segments: (i) credit hedge funds which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager or co-manager as part of an advisory business; and (ii) credit private equity ("PE") funds which are comprised of a family of "credit opportunities" funds focused on investing in distressed and undervalued assets, a family of "long dated value" funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of "real assets" funds focused on investing in tangible and intangible assets in the following 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.

Liquid Hedge Funds — a business that manages approximately $4.6 billion of AUM which includes (i) $4.5 billion of AUM relating to funds managed by Graticule Asset Management Asia ("Affiliated Manager" or "Graticule") as a result of the transition of the Fortress Asia Macro Funds and related managed accounts into an autonomous business in January 2015 and (ii) less than $0.1 billion of AUM in funds which invest in Fortress Funds, an externally managed fund and direct investments. Graticule is an external manager in which Fortress has a minority interest and accounts for using the equity method. Fortress also received fees for providing infrastructure services (technology, back office and related services) to Graticule through the termination of the infrastructure services agreement in May 2016.

Logan Circle — our traditional asset management business, which has approximately $35.5 billion of AUM, provides institutional clients actively managed investment solutions across a broad spectrum of fixed income 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.

Understanding the Asset Management Business

As an asset manager we perform a service — we use our investment expertise to make investments on behalf of other parties (our "fund investors"). An "alternative" asset manager is simply an asset manager that focuses on certain investment methodologies, typically hedge funds and private equity style funds as described below. Our private equity business also manages permanent capital vehicles, also described below. In addition, our liquid hedge fund business includes funds managed by the Affiliated Manager.

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

Publicly traded permanent capital vehicles are publicly traded entities which are externally managed by us. "Externally managed" means that their senior management is typically employed by us and that they rely on us for their decision making. In exchange, we receive management fees, incentive income and, when we assist these entities in raising equity capital, options to purchase their common stock. "Publicly traded" means that their equity, in the form of common stock, is typically traded on a major public stock exchange such as the New York Stock Exchange. As a result, their equity investors (stockholders) may trade in and out of their positions, but Fortress continues to earn management fees and incentive income regardless of any turnover in ownership.

These entities have indefinite lives and typically pay dividends or distributions to their stockholders only from earnings, while capital is reinvested.

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

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

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

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

In addition, Fortress typically receives a number of options in the publicly traded permanent capital vehicles equal to 10% of the number of shares of common stock sold by any such entity when raising equity capital. The options received by Fortress typically have a strike price equal to the market price of the relevant stock on the day of issuance and a ten-year term. If the value of the stock were to increase during the term of the option, the value received by Fortress upon exercise would exceed the strike price paid by Fortress.

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

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

Each of these objectives is discussed below.

Assets Under Management

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

- Capital raising: AUM increases when we receive more capital from our fund investors to manage on their behalf, when the publicly traded permanent capital vehicles raise capital such as in an equity offering or when our Affiliated Manager receives more capital. Typically, fund investors make this decision based on: (a) the amount of capital they wish, or are able, to invest in the types of investments a certain manager or fund makes and (b) the reputation and track record of the manager and its key investment employees.

- Realization of private equity investments and return of capital distributions: In "closed-end" funds, AUM decreases when we return capital to fund investors as investments are realized. Investments are realized when they are sold or otherwise converted to cash by the manager. Similarly, AUM decreases in publicly traded investment vehicles, including the publicly traded permanent capital vehicles, when return of capital distributions are made to investors.
- Redemptions: In "open-end" funds, AUM decreases after fund investors ask for their capital to be returned, or "redeemed," at periodic intervals. Typically, fund investors make this decision based on the same factors they used in making the original investment, which may have changed over time or based on circumstances, as well as on their liquidity needs.
- Fund performance: AUM increases or decreases in accordance with the performance of fund investments.

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

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

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

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

Incentive income is calculated differently for the hedge funds, private equity funds and publicly traded permanent capital vehicles, as described below.

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

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

PE Style Fund Status			Key Disclosures
	In a liquidation of the fund's assets at their estimated fair value as of the reporting date:		
Has the fund made incentive income payments to us?	Would the fund owe us incentive income?	Would we owe a clawback of incentive income to the fund?	(Refer to Note 2 to our condensed consolidated financial statements)
Yes	Yes	No	- The amount of previously distributed incentive income. - The amount of "undistributed incentive income," which is the amount of incentive income that would be due to us upon a liquidation of the fund's remaining assets at their current estimated fair value.
Yes	No	Yes	- The amount of previously distributed incentive income. - The "intrinsic clawback," which is the amount of incentive income that we would have to return to the fund upon a liquidation of its remaining assets at their current estimated fair value. - The amount by which the total current fund value would have to increase as of the reporting date in order to reduce the intrinsic clawback to zero such that we would be in a position to earn additional incentive income from the fund in the future.
No	Yes	N/A	- The amount of "undistributed incentive income," which is the amount of incentive income that would be due to us upon a liquidation of the fund's remaining assets at their current estimated fair value.
No	No	N/A	- The amount by which the total current fund value would have to increase as of the reporting date such that we would be in a position to earn incentive income from the fund in the future.

We disclose each of these performance measures, as applicable, for all of our funds in Note 2 to our condensed consolidated financial statements contained herein.

Liquidity, Debt and Expense Management

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

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

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

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

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

Our liquidity is discussed below, under "— Liquidity and Capital Resources." Our compensation expenses, including profit sharing and equity-based compensation, are discussed in Note 7 to our condensed consolidated financial statements contained herein. Our segment operating margin, which we define as the ratio of our fund management distributable earnings to our segment revenues, and which is a measure of our profitability, is discussed in Note 10 to our condensed consolidated financial statements contained herein.

Understanding our Financial Statements

Balance Sheet

Our assets consist primarily of the following:

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

Our liabilities consist primarily of the following:

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

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

1) Expected cash flows from funds, including the potential for incentive income.
2) Cash on hand.
3) Collectibility of receivables.
4) Current amounts due under our credit facility and other debt obligations (if any).
5) Other current liabilities, primarily accrued compensation.
6) Financial covenants under our debt obligations.
7) Likelihood of clawback of incentive income.

Statement of Operations

Our revenues and other income consist primarily of the following:

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

Our expenses consist primarily of the following:

1) Employee compensation paid in cash, including profit sharing compensation.
2) Equity-based compensation, which is not paid in cash and is broken out from total compensation in Note 7 to our condensed consolidated financial statements. Equity-based compensation includes (i) RSUs (which have a dilutive effect when it vests because it results in additional shares being issued), (ii) restricted shares, (iii) grants to

employees of tandem options in the publicly traded permanent capital vehicles and (iv) grants to employees of equity interests in Fortress Funds and portfolio company investments.

3) Other general and administrative expenses and interest expense.
4) Taxes.

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

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

Managing Business Performance

We conduct our management and investment business through the following primary segments: (i) private equity funds, (ii) permanent capital vehicles, (iii) credit hedge funds, (iv) credit PE funds, (v) liquid hedge funds and (vi) Logan Circle. These segments are differentiated based on their varying strategies and, secondarily, on fund investor terms. See "—Results of Operations — Segment Analysis" section herein.

The amounts not allocated to a segment consist primarily of interest expense incurred with respect to corporate borrowings, foreign currency translation and interest income. Assets not allocated to a segment consist primarily of cash and net deferred tax assets.

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

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

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

Table of Contents

Market Considerations

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

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

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

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

The lack of progress towards the promised fiscal reform from the new Administration throughout the quarter ending June 30, 2017 failed to prevent risk assets from continuing their upward trajectory as equity markets again made record highs during the quarter. The Senate's failure to come to an agreement on a viable alternative for the Affordable Care Act has prevented the new Administration from turning its attention to the fiscal reform they had previously outlined. Additionally, expectations have eased as the Administration has had to deal with questions surrounding the firing of FBI Director James Comey, the investigation into Russian tampering of last year's General Elections and tensions with North Korea. The S&P Index continued to make all-time highs boosted by large-cap technology stocks including Facebook, Amazon and Microsoft while energy stocks underperformed over the quarter as crude oil sold off, especially in the second half of the quarter. Unsurprisingly, the Nasdaq Index rallied driven by those same names and rallied 8.5% up to early June before selling off towards the end of the quarter and closing up 3.9%. Financial stocks finished the quarter strong as the yield curve finally stopped its flattening trend in June. Yields on the shorter end of the yield curve continued to rise as the Federal Open Market Committee ("FOMC") continued tightening monetary policy by increasing the benchmark interest rate by another 0.25% in June. However, the longer end of the yield curve rallied as both economic growth and inflation expectations continued to fade relative to expectations at the end of 2016 when the anticipation of business-friendly fiscal reform pushed the 10 year Treasury yield up 0.75% in the month after the election. The rally reversed towards the end of June along with developed markets in general over the last few weeks of the quarter. The generic front-month contract in WTI Crude Oil finished the quarter down 9.01%

with most of that loss coming after OPEC disappointed at their May meeting by not increasing the amount of production cuts. Additionally, the two countries in OPEC exempt from cuts, Libya and Iran, continued producing amounts well in excess of that projected by the market. The supply outlook in oil was further disheveled as U.S. production continued to increase with the rig count increasing by another 94 rigs to a 2 year high of 756 rigs as of the end of June.

Consumer and business sentiment in the United States remains at levels well above their historical averages although they pared back this quarter from the multi-year highs post-election. The labor market continued steadily moving along and added an average of approximately 194,000 jobs per month in the quarter with the unemployment rate hitting a post-crisis low of 4.3% in May. The industrial sector data was mixed as the PMI rose to a 34 month peak in June at 57.8 after disappointing in April and May, while industrial production bounced back to 1.97% year-over-year in June after dipping lower in the first quarter. The underlying economic data has set consensus for second quarter GDP above 2% after the weak 1.4% annualized rate posted in the first quarter. Retail sales continued coming in weak as they did in the first quarter as sales fell in both May and June as discretionary spending from the consumer has softened. Inflation was a huge disappointment with headline inflation at 1.6% year-over-year in June down from 2.7% in February. Core CPI, excluding food and energy, was also poor at 1.7% year-over-year in June which was also down from January when it was reported at 2.3% year-over-year. Given that targeting long-term inflation at 2% is one of the two mandates of the FOMC the weaker inflation figures have become a key focus given the current plan for the FOMC to continue with their

Table of Contents

path of tightening monetary policy. The FOMC hiked interest rates another 0.25% at their June meeting and many members of the Committee have since indicated a desire to hike at least one more time by year-end should the economy continue on its current trajectory. The Fed also indicated their intentions to begin normalizing their balance sheet this year, potentially as early as September, by halting re-investments in Agency MBS and U.S. Treasuries as they embark on unwinding their post-crisis quantitative easing policy. The recent down-tick in inflation has not impeded their plans as Fed Chair Janet Yellen has indicated that they are watching the data but view the weakness as transitory and expect that the deflationary contribution from lower oil prices and lower wireless service prices will dissipate over time.

There were many positive indications emanating from Europe throughout the second quarter with the election of Emmanuel Macron as President of France in April being the most significant. His party also secured a majority in the legislative elections in June which should allow him to move forward with his planned reforms. Yield on 10 year French sovereign debt decreased from 0.97% at the end of the first quarter to 0.58% on June 14 prior to the broad sell-off in rates through the Eurozone driven by the hawkish speech delivered in Sintra, Portugal by Mario Draghi on June 27. While inflation in Europe remains relatively subdued the economic data has continued to support the economic recovery in the Eurozone. The PMI in the Eurozone was 57.4 in June which was its highest level in 6 years. On the employment front the unemployment rate throughout the Eurozone was 9.3% which was its lowest rate since the crisis. In the United Kingdom, Theresa May called for snap elections to be held on June 9th on the belief that her Conservative party would comfortably secure a majority giving her an easier path to control Brexit negotiations. However, in a surprise result they failed to secure a majority which forced her to form a weaker coalition with the Democratic Unionist Party of Northern Ireland. Immediately after the result of the election the British Pound weakened 2.66% against the U.S. Dollar to 1.264 before bouncing back to 1.303 by quarter-end for a gain of 3.78% over the quarter. The rally in the Pound was partially attributable to the Bank of England reflecting a hawkish attitude and indicating they could potentially being raising their benchmark rates in August as their economy improves and inflation has continued to rise to 2.9% year-over-year, above their target of 2.0%, mostly due to the weaker Pound since Brexit. The Greek government was able to avoid potentially defaulting on its debt as they were able to secure a bail-out from the IMF and the Euro Group to avoid defaulting on principal payments of EUR 7 billion due in July. The bail-out, along with an upgrade in Greek sovereign debt by Moody's, pushed 10 year Sovereign Yields in Greece down to a post-crisis low of 5.42% from over 7.0% back in April of this year. The European Central Bank continued with their Asset Purchase Programme although the focus shifted to the time when they would indicate the tapering of the Programme and an end of their quantitative easing policy. Even with inflation failing to firm enough to approach their target a few of the members of the Bank as well as Mario Draghi indicated they may be willing to look beyond the lagging inflation in determining the future path of policy. The speech increased expectations that the ECB would begin their tapering process sooner than the market had previously expected which led to a sell-off in bonds and pushed the yield on German Bunds 0.21% higher over the last week of the quarter. The sell-off spilled over to the rest of the world, especially in developed markets, as the Fed started looking ahead to the normalization of their balance sheet and the Bank of Canada was ready to hike their benchmark rate at their July meeting.

China's currency continued to strengthen with the Yuan fix shifting 1.81% over the quarter to 6.774 at the end of June which continued to alleviate concerns of a potential Yuan depreciation impacting markets globally. Foreign exchange reserves increased in June for the 5th consecutive month as the government has not been forced to draw down on their reserves to support the Yuan against the U.S. Dollar given the weakness in the Dollar. Chinese banks have tightened rules to try to prevent a housing bubble by setting higher mortgage rates and imposing higher down-payment rules on the purchase of second homes. Prices in Tier 1 and Tier 2 cities have decelerated as a result while Tier 3 cities continue to see housing prices increase at a record pace. The People's Bank of China continued draining cash from the financial system to clamp down on the flow of credit by raising their benchmark interest rate to a two-year high and squeezing liquidity in the system which also pushed the interbank lending rate to two-year highs. Fixed asset investment was 8.6% year-over-year in May which was slightly down from the 9.2% rise in March as businesses slowed down spending in the quarter. Chinese exports were very strong over the quarter rising for the fourth consecutive quarter to 11.3% year-over-year in June as China benefited from the boost in global demand. Lastly, the Chinese A-Share Equity Index rallied 10.12% over the quarter as a result of the decision by the MSCI to include 222 large-cap A-Share stocks to its emerging market indices.

A weaker U.S. Dollar and stronger global demand continued to benefit emerging markets as the Morgan Stanley Emerging Market Equity Index ended up 5.56% for the quarter while the Emerging Markets Bond ETF was up 1.75% for the quarter even taking into account the sell-off in global interest rates towards the end of the quarter. The higher yields helped most emerging market currencies outperform the weaker U.S. Dollar over the quarter. The Central Bank in Mexico, Banxico, continued hiking interest rates in response to the FOMC as their benchmark rate increased from 6.50% to 7.00% helping the Mexican Peso strengthen against the U.S. Dollar for the second straight quarter and received a boost by Donald Trump's lack of follow-through on building the border wall. In Brazil, the main news concerned the publication of an audio recording in which the President Michel Temer was discussing pay-offs. This led to the immediate call for his impeachment along with mass protests and markets responded accordingly as the Bovespa Index hit circuit breakers and fell 8.80% the day the news came out while the Brazilian Real weakened 7.30%. Both retraced some of their losses as markets calmed as it appears Temer will stay in office and be able to continue with

Table of Contents

his planned reforms. The Argentine Peso depreciated 8.08% against the U.S. Dollar over the quarter after MSCI announced in June they had decided not to upgrade the country from a frontier to an emerging market. One other noteworthy event in Argentina was the official return to politics of Former President Cristina Fernandez, who launched a bid for Senate on June 24 to run in the mid-term elections in October although she is not expected to pose a threat to President Mauricio Macri's push to build on his support and deepen his free-market reforms. Turning to the Middle East, the announcement of a new Crown Prince, Mohammed bin Salman, was a positive given the future leader has expressed a desire to turn Saudi Arabia from being so reliant on oil and opening up their economy and markets to foreign investment. However, amidst that positive a political crisis has continued to develop as Saudi Arabia severed diplomatic ties with Qatar in early June and closed their borders with the country which has brought tensions in the region.

Japan's economy continued to improve in the second quarter as their exports expanded at the fastest pace in more than two years in May as they continued to benefit from global demand and a weakening currency with the Japanese Yen declining 0.88% and 8.20% against the U.S. Dollar and the Euro, respectively. This was coupled with the country's industrial production hitting a 3 year high in May as well as a negative trade deficit indicating that domestic demand is strengthening as well. The Bank of Japan continued to attempt to stimulate their economy by buying Japanese Governments Bonds as they focus on maintaining the 10 year yield at 0.10% and have also maintained that they do not intend on tightening anytime soon. South Korea held snap elections in early May after the impeachment of Park Geun-Ho as Moon Jae-In won the election comfortably and has pledged to review the U.S. deployment of anti-missile defense radar, among other things, as he stresses diplomacy over confrontation with North Korea. South Korea's Kospi Index continues to rally and hit record highs in the second quarter and finished up 11.09% in the quarter. Tensions with North Korea continued to escalate as Kim Jong Un continues to fire missiles and make declarations that he will be able to reach the United States in the near future adding to the stress between North Korea and the rest of the world.

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

- Volatility in the markets since the financial crisis in 2008 increased the importance of maintaining sufficient liquidity without relying upon additional infusions of capital from the equity and debt markets. Based on cash balances, committed financing and short-term operating cash flows, in the judgment of management we have sufficient liquidity in the current market environment. The maintenance of sufficient liquidity may limit our ability to make investments, distributions, or engage in other strategic transactions.
- Improved economic conditions over the last several years, including relatively low interest rates, have benefited our business in a number of ways, including, but not limited to, a financing environment that has enabled our private equity funds and their portfolio companies to secure long-term financing, refinance debt at attractive levels, raise public and private equity capital and improve portfolio company profitability. Improving economic conditions and higher valuations in private equity funds have also contributed to our ability to raise capital for new investment vehicles and realize investments in existing funds. While improved conditions have created a more challenging environment for identifying new investments, we continue to deploy meaningful amounts of new capital. Market conditions have at times, especially in the second half of 2015, however, have negatively affected the terms on which some of our publicly traded permanent capital vehicles and portfolio companies were able to raise debt and equity capital but, as a general matter, positively impacted the environment for making new investments.
- Following a period of deleveraging, that resulted in significant opportunities for investors with sufficient capital to acquire assets at reduced prices, near-term investment opportunities have become more sporadic in nature given pricing and market dynamics. However, potential opportunities exist, particularly where access to capital is restricted and in Europe where economies may remain uncertain.
- Despite the uncertain economic recovery, our funds continue to make investments on an opportunistic basis, and we continue to raise new funds as discussed above and illustrated in the AUM table below.

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

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

The strength of the alternative asset management industry is dependent upon the investment returns alternative asset managers can provide relative to other investment options. This factor depends, in part, on the fees associated with traditional investment products relative to the fees charged by alternative investment managers, on returns available from traditional investment products and to a lesser extent on interest rates and credit spreads (which represent the yield demanded on financial instruments by the market in comparison to a benchmark rate, such as the relevant U.S. Treasury rate or LIBOR) available on other investment

Table of Contents

products. This is because as interest rates rise and/or spreads widen, returns available on such investments would tend to increase and, therefore, become more attractive relative to the returns of investment products offered by alternative asset managers.

Solving for funding gaps and low interest rates have caused pension plans and other institutional investors to look to alternative investments in order to increase the yield on their investments. However, investors in the alternative investment space have become increasingly focused on the liquidity and redemption terms of alternative investment funds and have expressed a desire to have the ability to redeem or otherwise liquidate their investments in a more rapid time frame than what is permitted under the terms of many existing funds. In addition, investors have continued to focus on fees and weak performance of certain asset classes within the alternative investment industry, tempering positivity in the industry. Investors in long-term, locked-up (i.e., "private equity style") funds have engaged in longer, more intensive and detailed due diligence procedures prior to making commitments to invest in such funds, which has led to the general perception across the alternative asset management industry that capital raising for long-term capital will require longer time periods, a greater commitment of capital raising resources and will generally be more difficult overall than it was previously. Moreover, some investors are increasingly shifting to managed accounts with fee structures that are less favorable to us.

The factor which most directly impacts our results is our investment performance relative to our competitors, including products offered by other alternative asset managers. As illustrated in "— Performance of Our Funds" section herein, we have generated positive returns in some funds and weaker returns in others. As illustrated in "— Assets Under Management" section herein, we have been able to raise additional capital in our funds. However, our ongoing ability to raise capital for new and existing funds will be a function of investors' assessment of our investment performance relative to that of our competition in the current market environment, as well as market conditions and other factors.

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

Our private equity funds, as well as certain of our managed accounts and permanent capital vehicles, currently have significant investments in companies whose assets are concentrated in the following industries and sectors: financial services (particularly loan servicing and consumer finance), transportation and infrastructure, real estate (including Florida commercial real estate), and senior living. The overall performance of our funds may be affected by market conditions and trends related to these industries and sectors. Within the financial services industry, the regulatory pressure on banks in the U.S. after the financial crisis contributed to a positive market for the expansion of non-bank financial institutions. This development has recently led to increased regulatory focus on non-bank financial institutions, resulting in slower growth and increased costs within some of our financial servicing investments. With respect to mortgage servicing rights, excess mortgage servicing rights and other servicing related investments, the timing, size and potential returns of future investments may be less attractive than prior investments due to a number of factors including interest rates and increased competition. In addition, regulatory and government sponsored entity approval processes have been more extensive and taken longer, which has increased the time and effort required to complete transactions. Worldwide growth in trade and transportation continued to expand albeit at a more modest pace than in the previous years, with growing demand for both cargo and passenger-related transportation infrastructure and equipment. The senior living sector continues to benefit from a favorable consolidation and supply/demand dynamics as well as an appreciation of related real estate values, though market conditions became more challenging toward the end of 2016 and into the first quarter of 2017. European markets have presented opportunities for distressed investments in country specific markets such as Italy. In addition, our credit PE funds, from time to time, may have significant investments in particular companies, industries or sectors. The credit PE funds have significant investments in certain sectors including commercial real estate, wireless spectrum and energy.

Table of Contents

Assets Under Management

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

	Private Equity		Credit (H)					
	Funds (H)	Permanent Capital Vehicles	Hedge Funds (I)	PE Funds	Liquid Hedge Funds (I)	Logan Circle	Total
AUM December 31, 2016	$6,532	$ 6,961	$8,803	$9,306	$4,589	$33,436	$69,627
Capital raised (A)	—	835	27	—	—	—	862
Increase in invested capital	22	—	44	675	—	—	741
Redemptions (B)	—	—	(143)	—	—	—	(143)
RCA distributions (C)	—	—	(319)	—	—	—	(319)
Return of capital distributions (D)	(119)	(114)	(8)	(573)	(170)	—	(984)
Crystallized incentive income (E)	—	—	(108)	—	—	—	(108)
Equity buyback	—	(5)	—	—	—	—	(5)
Change in AUM of the Affiliated Manager and co-managed funds	—	—	(263)	—	151	—	(112)
Net client flows (traditional)	—	—	—	—	—	342	342
Income (loss) and foreign exchange (F)	415	155	277	(10)	(12)	1,705	2,530
AUM June 30, 2017 (G)	$6,850	$ 7,832	$8,310	$9,398	$4,558	$35,483	$72,431

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

(B) Excludes redemptions which reduced AUM subsequent to June 30, 2017, if any. Redemptions are further detailed below.

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

(D) For private equity funds and credit PE funds, return of capital distributions are based on realization events. Such distributions include, in the case of private equity funds and credit PE funds that are in their capital commitment periods, recallable capital distributions. For certain hedge funds, return of capital distributions represent distributions from special investments to investors who fully redeemed their capital from the fund. For credit hedge funds, return of capital distributions include income distributions from Fortress Japan Income Fund. For publicly traded permanent capital vehicles, return of capital distributions represent the portion of dividends paid and categorized as return of capital.

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

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

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

(H) As of June 30, 2017, the private equity funds and credit funds had approximately $0.7 billion and $6.8 billion of uncalled and recallable capital, respectively, that will become assets under management if deployed/called, of which an aggregate of $3.0 billion is only available for follow-on investments, management fees and other fund expenses.

(I) In January 2015, the Fortress Asia Macro Funds and related managed accounts transitioned to Graticule under the Affiliated Manager. As of June 30, 2017 and December 31, 2016, liquid hedge funds AUM included $4.5 billion and $4.4 billion, respectively, related to the Affiliated Manager and credit hedge funds AUM included $1.4 billion and $1.7 billion, respectively, related to co-managed funds.

Table of Contents

Redemptions

Certain of the credit hedge funds allow investors to request that their capital be returned generally on an annual or semi-annual basis. Return of capital requests must be received at least 45 or 90 days prior to the redemption date and related payments are made subsequent to the redemption date. For instance, within the flagship credit hedge fund the 2017 return of capital request notice date is October 2, 2017 for capital to be returned after December 31, 2017. Such returns of capital may be paid over time as the underlying fund investments are realized, in accordance with the governing terms of the applicable funds. In such a case, pending payment, this capital is referred to as a redeeming capital account or "RCA." During the period prior to the return of capital for which a return request has been submitted, such amounts continue to be subject to management fees and, as applicable, incentive income. The Mount Kellett Funds, JP Funds and the Value Recovery Funds are not subject to redemptions.

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

Redemption notices and return of capital requests received from fee paying investors, and related payments which are made in periods after notices are received, are shown in the table below. The table below does not include redemptions related to funds managed by the Affiliated Manager.

Redemption Notices / Return of Capital Requests Received and Outstanding through June 30, 2017 for the credit hedge funds (in thousands):

Request/Notice Receipt Period	Return of Capital Requests Received		Payments Made with Respect to those Requests - Inception to Date (A)	Remaining Outstanding Requests	
2017	$ 27,301	(D)	$ —	$ 27,301	
2016	737,539		245,330	513,466	
2015	773,268		477,569	349,887	
Prior				251,738	(B)
				$ 1,142,392	(C)

(A) RCA payments are reflected in the AUM rollforward table as RCA distributions rather than as redemptions.
(B) Includes all prior periods with notices / requests that are still outstanding as of period end.
(C) Reflects (i) $1.1 billion in RCAs which are to be paid over time as the underlying investments are realized and (ii) $27.3 million of 2017 redemption requests outstanding as of June 30, 2017. All or a portion of the $27.3 million of 2017 redemption requests outstanding may also be deemed as RCA. Any 2017 redemption requests not deemed to be RCA will be paid in the first quarter of 2018. The determination of whether the current year's redemption requests are RCA is generally made by December 31.
(D) Effective January 1, 2017, the remaining investor capital of the Worden Fund is comprised of RCA which is not subject to redemption.

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

Table of Contents

Performance of Our Funds

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

Name of Fund	Inception Date	Maturity Date (A)	AUM June 30, 2017	AUM June 30, 2016	Returns (B) Inception to June 30, 2017
Private Equity					
Private Equity Funds that Report IRR's					
Fund I	Nov-99	Closed May-13	$ N/A	$ N/A	25.7 %
Fund II	Jul-02	Closed Dec-15	N/A	N/A	35.5 %
Fund III	Sep-04	In Liquidation	—	—	1.9 %
Fund III Coinvestment	Nov-04	In Liquidation	—	—	0.9 %
Fund IV	Mar-06	(A)	1,765	1,455	(0.3)%
Fund IV Coinvestment	Apr-06	(A)	320	290	(1.6)%
Fund V	May-07	Feb-18	2,896	3,024	3.8 %
Fund V Coinvestment	Jul-07	Feb-18	346	315	(5.7)%
GAGACQ Coinvestment Fund (GAGFAH)	Sep-04	Closed Dec-14	N/A	N/A	19.4 %
FRID (GAGFAH)	Mar-05	Closed Nov-14	N/A	N/A	(0.3)%
FRIC (Brookdale)	Mar-06	Closed Dec-14	N/A	N/A	(1.6)%
FICO (Intrawest)	Aug-06	(A)	—	—	(100.0)%
FHIF (Holiday)	Dec-06	(A)	464	459	1.7 %
FECI (Florida East Coast Railway/Florida East Coast Industries)	Jun-07	Feb-18	486	398	(1.5)%
MSR Opportunities Fund I A	Aug-12	Aug-22	89	136	12.5 %
MSR Opportunities Fund I B	Aug-12	Aug-22	22	34	12.4 %
MSR Opportunities Fund II A	Jul-13	Jul-23	88	112	7.9 %
MSR Opportunities Fund II B	Jul-13	Jul-23	1	2	7.3 %
MSR Opportunities MA I	Jul-13	Jul-23	20	26	8.0 %
Italian NPL Opportunities Fund	Dec-13	Sep-24	163	225	(C)
Fortress Equity Partners	Mar-14	Mar-24	190	164	(C)

Continued on next page.

Table of Contents

Name of Fund	Inception Date	Maturity Date (A)	AUM June 30, 2017	AUM June 30, 2016	Returns (B) Inception to Date (D)	Returns (B) Six Months Ended June 30, 2017	Returns (B) Six Months Ended June 30, 2016
Publicly Traded Permanent Capital Vehicles							
Drive Shack Inc. (E)	Jun-98	Permanent	$681	$680	N/A	N/A	10.5 %
New Residential Investment Corp.	May-13	Permanent	3,782	2,689	N/A	12.9 %	13.3 %
Eurocastle Investment Limited (E)	Oct-03	Permanent	627	510	N/A	7.0 %	8.3 %
New Media Investment Group Inc.	Feb-14	Permanent	707	637	N/A	10.4 %	7.3 %
New Senior Investment Group Inc.	Nov-14	Permanent	1,020	1,024	N/A	10.3 %	9.7 %
Fortress Transportation and Infrastructure Investors LLC	May-15	Permanent	1,015	1,104	N/A	8.3 %	14.4 %
Liquid Hedge Funds							
Drawbridge Global Macro Funds	Jun-02	Non-redeemable	35	112	5.9 %	(G)	(G)
Fortress Macro Funds	May-09	Closed Nov-15	N/A	N/A	2.8 %	N/A	N/A
Fortress Macro MA1	Nov-11	Closed Dec-15	N/A	N/A	5.6 %	N/A	N/A
Fortress Redwood Fund LTD	Aug- 13	Closed Dec-15	N/A	N/A	(3.5)%	N/A	N/A
Fortress Partners Fund LP	Jul-06	Non-redeemable	5	133	1.6 %	(G)	(G)
Fortress Partners Offshore Fund LP	Nov-06	Non-redeemable	2	82	1.7 %	(G)	(G)
Fortress Centaurus Global Funds	Jun-14	Closed Sep-16	N/A	182	(3.1)%	N/A	(4.3)%
Fortress Convex Asia Funds	May-12	Closed Jun-16	N/A	N/A	(3.8)%	N/A	0.3 %
Credit Hedge Funds							
Drawbridge Special Opp's Fund LP (F)	Aug-02	PE style redemption	4,773	4,626	10.6 %	3.6 %	3.4 %
Drawbridge Special Opp's Fund LTD (F)	Aug-02	PE style redemption	1,133	1,133	9.4 %	3.2 %	0.1 %
Worden Fund	Jan-10	PE style redemption	104	167	9.2 %	(G)	0.3 %
Worden Fund II	Aug-10	Closed Feb-16	N/A	N/A	7.0 %	N/A	(2.7)%
Japan Income Fund (Yen only)	Dec-13	Redeemable	160	123	(B)	(B)	(B)
Third Party Originated Funds							
JP Funds (A)	(G)	Non-redeemable	666	755	(G)	(G)	(G)
Value Recovery Funds and related assets (A)	(G)	Non-redeemable	40	82	(G)	(G)	(G)

Continued on next page.

Table of Contents

Name of Fund	Inception Date	Maturity Date (A)	AUM June 30, 2017	AUM June 30, 2016	Returns (B) Inception to June 30, 2017
Credit PE Funds					
Credit Opportunities Fund	Jan-08	Oct-20	$589	$579	23.1 %
Credit Opportunities Fund II	Jul-09	Jul-22	422	462	15.9 %
Credit Opportunities Fund III	Sep-11	Mar-24	1,215	1,568	10.5 %
Credit Opportunities Fund IV	Feb-15	Feb-27	1,039	547	(C)
FCO Managed Accounts (H)	Sep-08 to Jun-12	Apr-22 to Dec-24	1,420	1,649	14.4 %
FCO Managed Accounts (H)	Mar-15 to Jun-15	Mar-25 to Feb-28	751	411	(C)
Long Dated Value Fund I	Apr-05	Apr-30	50	29	5.7 %
Long Dated Value Fund II	Nov-05	Nov-30	55	95	4.3 %
Long Dated Value Fund III	Feb-07	Feb-32	75	75	6.1 %
LDVF Patent Fund	Nov-07	Nov-27	5	4	2.6 %
Real Assets Fund	Jun-07	In Liquidation	—	33	6.3 %
Japan Opportunity Fund (Yen only)	Jun-09	Jun-19	63	124	28.0 %
Japan Opportunity Fund II (Dollar)	Dec-11	Dec-21	322	399	22.0 %
Japan Opportunity Fund II (Yen)	Dec-11	Dec-21	370	493	27.2 %
Japan Opportunity Fund III (Dollar)	Dec-14	Oct-24	470	470	(C)
Japan Opportunity Fund III (Yen)	Dec-14	Oct-24	694	756	(C)
Net Lease Fund I	Jan-10	Closed Dec-15	N/A	N/A	21.2 %
Global Opportunities Fund	Sep-10	Sep-20	141	198	8 %
Global Opportunities Fund II	Jul-15	Jul-26	227	128	(C)
Life Settlements Fund	Dec-10	Dec-22	119	105	(C)
Life Settlements Fund MA	Dec-10	Dec-22	10	9	(C)
Real Estate Opportunities Fund	May-11	Sep-24	39	76	15.9 %
Real Estate Opportunities Fund II	May-14	May-27	1,000	1,000	(C)
Real Estate Opportunities REOC Fund	Oct-11	Oct-23	21	33	11.5 %
Secured Lending Fund I	Oct-16	Mar-24	154	N/A	(C)
FJOF3 Residential Coinvestment Fund (Yen)	Mar-17	Mar-27	47	N/A	(C)
FJOF3 Residential Coinvestment Fund (Dollar)	Mar-17	Mar-27	100	N/A	(C)
Subtotal - all funds			30,998	29,922	
Affiliated Manager, co-managed funds and managed accounts (I)			5,950	6,193	
Total - Alternative Investments			36,948	36,115	
Logan Circle			35,483	34,080	
Total (J)			$72,431	$70,195	

(A) For funds with a contractual maturity date, maturity date represents the final contractual maturity date including the assumed exercise of extension options, which in some cases require the approval of the applicable fund advisory board. Fund III and Fund III Coinvestment have passed their contractual maturity date and are in the process of an orderly wind down. Although Fund IV, Fund IV Coinvestment, FICO (Intrawest) and FHIF (Holiday) have passed their contractual maturity, Fortress continues to actively manage the funds' portfolio of investments which include various operating companies. The publicly traded permanent capital vehicles are considered to have permanent equity as they have an indefinite life and no redemption terms. Investor capital in the liquid hedge funds is generally redeemable at the option of the fund investors; however, the Drawbridge Global Macro Funds' and Fortress Partner Funds' investor capital is not redeemable by its investors and such capital will only be distributed as underlying sidepocket investments are realized, in accordance with their governing documents. The Drawbridge Special Opportunities Funds and Worden Fund may pay redemptions over time, as the underlying sidepocket investments are realized, in accordance with their governing documents ("PE style redemption"). The JP Funds' AUM includes $436.7 million of permanent equity which is not subject to redemption. The Value Recovery Funds generally do not allow for redemptions, but are in the process of realizing their remaining investments in an orderly liquidation. Management notes that funds which had a term of three years or longer at inception, funds which have permanent equity, funds which have a PE style redemption and funds which do not allow for redemptions aggregated approximately 87% of our alternative investment AUM as of June 30, 2017.

Table of Contents

During the third quarter of 2016, Fortress closed the Fortress Centaurus Global Funds. During the second quarter of 2016, Fortress transferred its rights as general partner and investment manager of Fortress Convex Asia Funds to a third party.

(B) Represents the following:

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

For publicly traded permanent capital vehicles, returns represent the current dividend yield which is calculated by annualizing the most recently declared base dividend and dividing the result by the closing stock price for the period. Excludes the impact of special or supplemental dividends, including those declared in connection with REIT compliance, which may increase returns. There can be no assurance regarding the publicly traded permanent capital vehicles' respective dividend yields, which may fluctuate meaningfully as a result of changes in the amount of dividends paid in the future and/or changes in their respective stock prices. Drive Shack Inc. elected not to pay a common stock dividend during the six months ended June 30, 2017.

For credit hedge funds and liquid hedge funds, returns represent net returns after taking into account any fees borne by the funds for a "new issue eligible," single investor class as of the close of business on the last date of the relevant period. Specific performance may vary based on, among other things, whether fund investors are invested in one or more special investments. No return is shown for Japan Income Fund as returns are not an accurate performance metric for this fund.

For funds that are closed, the return(s) that are disclosed for the periods subsequent to closing represents the fund's return through its closing date.

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

(D) For credit hedge funds and liquid hedge funds, reflects a composite of monthly returns presented on an annualized net return basis. For the Drawbridge Global Macro Funds and Fortress Partners Funds, inception to date returns are through October 31, 2015 and December 31, 2015, respectively. For the Worden Fund, inception to date returns are through December 31, 2016. Also see Note (G) below.

(E) Effective December 2016, Newcastle Investment Corp. changed its name to Drive Shack Inc.. For Eurocastle, June 30, 2017 AUM is as of March 31, 2017.

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

(G) During the fourth quarter of 2015, the Drawbridge Global Macro Funds and Fortress Partners Funds redeemed all of their investors' liquid capital. On December 31, 2016, the Worden Fund redeemed all of their investors' liquid capital. As such, the remaining investor capital in these funds are comprised of sidepocket investments or redeeming capital accounts and their returns subsequent to the redemption of all investor liquid capital are not comparable to returns reported for prior historical periods.

We began managing the non-Fortress originated JP Funds in March 2016. Their returns are not comparable since the majority of these funds were fully invested prior to Fortress becoming manager. We began managing the non-Fortress originated Value Recovery Funds in June 2009. Their returns are not comparable since we are only managing the realization of existing investments within these funds which were acquired prior to Fortress becoming their manager.

(H) AUM and returns shown for prior periods have not been adjusted for funds which no longer fall within the description of Note (C) above for the current period.

(I) In January 2015, the Fortress Asia Macro Funds and related managed accounts were transferred to Graticule, our Affiliated Manager. In July 2015, Fortress became co-manager of the Mount Kellett Funds.

(J) In addition to the funds listed, Fortress manages Credit Asset-Based Income Fund, CFT Co-invest Fund (CAD and USD) and FPRF. Such funds are excluded from the table because they did not include any management fee paying assets at the end of the periods presented. Fund I, Fund II, GAGACQ Coinvestment Fund (GAGFAH), FRID (GAGFAH), FRIC (Brookdale), FICO (Intrawest), Fortress Macro Funds, Fortress Macro MA1, Fortress Redwood Fund LTD, Fortress Convex Asia Funds, Worden Fund II and Net Lease Fund I had no AUM or were closed as of June 30, 2017 and 2016, but for purposes of continuity of presentation, the returns of these funds have been left in the table.

Table of Contents

Results of Operations

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

	Six Months Ended June 30,		Variance	Three Months Ended June 30,		Variance
	2017	2016	$	2017	2016	$
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
Revenues						
Management fees: affiliates	$245,879	$253,778	$(7,899)	$119,710	$126,388	$(6,678)
Management fees: non-affiliates	28,697	27,611	1,086	14,474	14,192	282
Incentive income: affiliates	85,785	53,938	31,847	55,412	22,160	33,252
Incentive income: non-affiliates	1,191	9,862	(8,671)	781	9,411	(8,630)
Expense reimbursements: affiliates	112,787	111,439	1,348	54,493	56,148	(1,655)
Expense reimbursements: non-affiliates	911	2,806	(1,895)	292	1,649	(1,357)
Other revenues	3,967	4,889	(922)	1,827	2,758	(931)
Total Revenues	479,217	464,323	14,894	246,989	232,706	14,283
Expenses						
Compensation and benefits	345,392	355,484	(10,092)	163,400	191,279	(27,879)
General, administrative and other expense (including depreciation and amortization)	101,400	83,983	17,417	44,000	44,591	(591)
Interest expense	4,205	6,019	(1,814)	2,226	2,982	(756)
Total Expenses	450,997	445,486	5,511	209,626	238,852	(29,226)
Other Income (Loss)						
Gains (losses)	2,066	(23,939)	26,005	(18,373)	(7,266)	(11,107)
Tax receivable agreement liability adjustment	—	(2,699)	2,699	—	—	—
Earnings (losses) from equity method investees	6,644	(29,887)	36,531	26,512	(9,107)	35,619
Total Other Income (Loss)	8,710	(56,525)	65,235	8,139	(16,373)	24,512
Income (Loss) Before Income Taxes	36,930	(37,688)	74,618	45,502	(22,519)	68,021
Income tax benefit (expense)	(11,955)	(4,855)	(7,100)	(13,693)	(4,072)	(9,621)
Net Income (Loss)	$24,975	$(42,543)	$67,518	$31,809	$(26,591)	$58,400
Allocation of Net Income (Loss):						
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	$13,716	$(19,572)	$33,288	$17,301	$(12,146)	$29,447
Net Income (Loss) Attributable to Class A Shareholders	11,259	(22,971)	34,230	14,508	(14,445)	28,953
	$24,975	$(42,543)	$67,518	$31,809	$(26,591)	$58,400

Factors Affecting Our Results

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

- changes in our AUM;

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

Table of Contents

Each of these factors is described below.

Average Management Fee Paying AUM

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

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

	Private Equity						
Six Months Ended	Funds	Permanent Capital Vehicles (A)	Credit Hedge Funds (B)	Credit PE Funds	Liquid Hedge Funds (C)	Logan Circle	Total
June 30, 2017	$6,692	$ 7,536	$8,582	$9,267	$4,449	$34,212	$70,738
June 30, 2016	$7,603	$ 6,744	$8,992	$9,301	$5,134	$32,686	$70,460

	Private Equity						
Three Months Ended	Funds	Permanent Capital Vehicles (A)	Credit Hedge Funds (B)	Credit PE Funds	Liquid Hedge Funds (C)	Logan Circle	Total
June 30, 2017	$6,772	$ 7,824	$8,472	$9,248	$4,378	$34,601	$71,295
June 30, 2016	$6,910	$ 6,709	$9,151	$9,298	$4,997	$33,441	$70,506

(A) During 2017 and 2016, certain publicly traded permanent capital vehicles had share repurchase programs to purchase common stock which reduces fee paying AUM upon repurchase. During the six months ended June 30, 2017 and year ended December 31, 2016, these repurchase programs resulted in an AUM decrease of $5.2 million and $124.8 million, respectively. As of June 30, 2017, there is remaining capacity under an active share repurchase program to purchase up to $95.0 million of common stock which would reduce fee paying AUM upon repurchase.

(B) In March 2016 Fortress became investment manager of the JP Funds.

(C) Liquid hedge funds includes average fee paying AUM of the Affiliated Manager of $4.3 billion and $4.4 billion for the six months ended June 30, 2017 and 2016, and $4.3 billion and $4.5 billion for the three months ended June 30, 2017 and 2016, respectively.

In June 2016, Fortress transferred its rights as general partner and investment manager of the Fortress Convex Asia Funds to a third party. For the six and three months ended June 30, 2016, the Fortress Convex Asia Funds had average fee paying AUM of $162.3 million and $176.7 million, respectively. Total management fees for the Fortress Convex Asia Funds were $1.1 million and $0.6 million for the six months and three months ended June 30, 2016, respectively. There was no incentive income for the six months and three months ended June 30, 2016, respectively.

During the third quarter of 2016, Fortress closed the Fortress Centaurus Global Funds. For the six months and three months ended June 30, 2016, the Fortress Centaurus Global Funds had average fee paying AUM of $197.2 million and $193.8 million, respectively, management fees of $1.0 million and $0.5 million, respectively, and incentive income of less than $0.1 million in each period.

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

Management Fees

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

Fortress's senior living property management subsidiary, FHC Property Management ("Blue Harbor"), has agreements to manage certain senior living properties, most of which are owned by New Senior Investment Group Inc. ("New Senior"). For these services, Fortress receives management fees based on a percentage of revenues from the properties.

Table of Contents

Incentive Income

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

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

As of June 30, 2017, we had $24.6 billion of incentive eligible NAV in the Fortress Funds at or above their incentive income threshold which is eligible to generate future incentive income and thus potentially contribute to our earnings. As of December 31, 2016, we had $23.2 billion of incentive eligible NAV in the Fortress Funds at or above their incentive income threshold. The increase in the incentive eligible NAV in the Fortress Funds at or above their incentive income threshold was primarily related to (i) a certain permanent capital vehicle that was at or above its incentive income threshold as of December 31, 2016 and raised capital during the six months ended June 30, 2017, (ii) positive performance from certain Logan Circle managed accounts and (iii) certain credit PE funds which had positive performance during the six months ended June 30, 2017, partially offset by a net decrease in invested capital due to net distributions. These increases were partially offset by a certain credit hedge fund not achieving its performance threshold as compared to the prior period.

Additionally, the June 30, 2017 incentive eligible NAV in the Fortress Funds at or above their incentive income threshold increased from $22.6 billion as of March 31, 2017 primarily related to (i) certain permanent capital vehicles and credit PE funds that were below their incentive income thresholds as of March 31, 2017, which had positive performance and exceeded their thresholds as of June 30, 2017 and (ii) positive performance from certain Logan Circle managed accounts.

Incentive eligible NAV is dependent on the performance of our funds which in turn is dependent on a number of factors, including but not limited to investment specific and overall market conditions, and the historical performance of our funds may not be indicative of future results. See "— Performance of Our Funds" for additional information.

Fund Management and Investment Platform

In order to accommodate the demands of our funds' investment portfolios, we have created investment platforms, which are comprised primarily of our people, financial and operating systems and supporting infrastructure. Our investment platform historically required changes in headcount, including changes in the number of hired investment professionals and support staff, as well as changes to leases and associated improvements to corporate offices to house our employees, and related augmentation of systems and infrastructure. Our headcount decreased to 1,048 asset management employees as of June 30, 2017 from 1,117 asset management employees as of June 30, 2016 primarily related to our liquid hedge fund business. Additionally, we had 1,485 employees as of June 30, 2017 at the senior living properties that we manage (whose compensation expense is reimbursed to us by the owners of the facilities) which decreased compared to 1,882 such employees as of June 30, 2016.

Revenues

Six months ended June 30

Total revenues were $479.2 million for the six months ended June 30, 2017, a net increase of $14.9 million, compared to $464.3 million for the six months ended June 30, 2016.

The increase in revenues of $14.9 million was primarily attributable to increases of (i) $31.8 million in incentive income from affiliates, (ii) $1.3 million in expense reimbursements from affiliates and (iii) $1.1 million in management fees from non-affiliates. These increases were partially offset by decreases of (i) $8.7 million in incentive income from non-affiliates, (ii) $7.9 million in management fees from affiliates and (iii) $1.9 million in expense reimbursements from non-affiliates.

Table of Contents

The decrease in management fees from affiliates of $7.9 million was primarily attributable to decreases of (i) $11.7 million from our liquid hedge funds primarily as a result of the termination of the infrastructure services agreement with Graticule in May 2016, Fortress's transfer of its rights as the general partner and investment manager of the Fortress Convex Asia Funds to a third party during the second quarter of 2016, the closing of the Fortress Centaurus Funds during the third quarter of 2016 and decreases in AUM, based on a simple quarterly average, of our other liquid hedge funds, (ii) $11.2 million from our private equity funds as a result of net decreases in their average management fee paying AUM of $0.9 billion, (iii) $2.4 million related to the co-management of the Mount Kellett Funds and (iv) $1.4 million from our credit PE funds. These decreases were partially offset by (i) $8.1 million related to permanent capital vehicle options granted to Fortress by New Residential during the six months ended June 30, 2017, (ii) a net increase from our permanent capital vehicles of $7.0 million as a result of a net increase in their average AUM of $0.8 billion primarily related to capital raised by New Residential, (iii) an increase of $1.6 million related to the management of the JP Funds which began in March 2016 and (iv) a net increase of $2.1 million from our other credit hedge funds as a result of increases in their average AUM of $0.2 billion.

The increase in management fees from non-affiliates of $1.1 million was primarily related to Logan Circle as a result of an increase in average AUM from non-affiliates of $1.4 billion.

The increase in incentive income from affiliates of $31.8 million was primarily attributable to (i) a net increase of $43.2 million in incentive income from our permanent capital vehicles, primarily related to an increase of $43.2 million in incentive income from New Residential and (ii) a net increase of $0.9 million from our credit hedge funds primarily due to an increase in incentive income earned on RCA distributions from the Drawbridge Special Opportunities Funds. These increases were partially offset by (i) a net decrease of $11.3 million from our credit PE funds related to a decrease in non-clawbackable incentive income as a result of a decrease in proceeds from realization events, partially offset by an increase in non-clawbackable tax distributions, and (ii) a $0.9 million decrease in crystallized incentive income earned from our liquid hedge funds.

The decrease in incentive income from non-affiliates of $8.7 million was primarily related to a decrease in crystallized incentive income from a certain credit PE managed account as a result of realization events.

The increase in expense reimbursements from affiliates of $1.3 million was primarily related to an increase in operating expenses eligible for reimbursement from our credit funds, partially offset by decreases in operating expenses eligible for reimbursement from our private equity funds and permanent capital vehicles.

The decrease in expense reimbursements from non-affiliates of $1.9 million was primarily related to a decrease in operating expenses eligible for reimbursement from our senior living property manager.

Expenses

Six months ended June 30

Expenses were $451.0 million for the six months ended June 30, 2017, a net increase of $5.5 million, compared to $445.5 million for the six months ended June 30, 2016. The increase in expenses is primarily due to an increase in general, administrative and other expenses (including depreciation and amortization) of $17.4 million. This increase was partially offset by (i) a decrease in compensation and benefits of $10.1 million and (ii) a decrease of $1.8 million in interest expense.

Total compensation and benefits decreased by $10.1 million primarily due to a $40.4 million decrease in profit sharing expenses related to our credit PE funds and permanent capital vehicles, including the impact of tandem options, as a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective funds. This decrease was offset by (i) a $16.7 million increase in discretionary bonuses, (ii) a $7.0 million increase in profit sharing expense related to our credit hedge funds and private equity funds, as a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective funds, (iii) a $4.0 million increase in Principal Performance Payments in our private equity business and credit business as a result of changes in the performance of relevant funds and (iv) a $3.3 million increase in other payroll, taxes and benefits.

The increase in general, administrative and other expenses of $17.4 million was due to (i) an increase of $21.1 million in professional fees primarily related to $22.5 million of expenses incurred by Fortress related to the proposed acquisition by SoftBank for the six months ended June 30, 2017 and (ii) an increase of $2.7 million in rent expense. These increases were partially offset by decreases of (i) $3.2 million in depreciation and amortization, (ii) $2.0 million in general and other expenses and (iii) $1.2 million in market data costs.

Table of Contents

The decrease in interest expense of $1.8 million primarily related to a decrease in the average outstanding debt balance for the six months ended June 30, 2017, as compared to the prior period. The average outstanding debt balance decreased primarily from a $77.8 million repayment of a promissory note to a former principal during the third quarter of 2016.

Revenues

Three months ended June 30

Total revenues were $247.0 million for the three months ended June 30, 2017, a net increase of $14.3 million, compared to $232.7 million for the three months ended June 30, 2016.

The increase in revenues of $14.3 million was primarily attributable to an increase of $33.3 million in incentive income from affiliates. This increase was partially offset by decreases of (i) $8.6 million in incentive income from non-affiliates, (ii) $6.7 million in management fees from affiliates, (iii) $1.7 million in expense reimbursements from affiliates and (iv) $1.4 million in expense reimbursements from non-affiliates.

The decrease in management fees from affiliates of $6.7 million was primarily attributable to decreases of (i) $5.6 million from our private equity funds as a result of net decreases in their average management fee paying AUM of $0.1 billion, (ii) $5.3 million from our liquid hedge funds primarily as a result of the termination of the infrastructure services agreement with Graticule in May 2016, Fortress's transfer of its rights as the general partner and investment manager of the Fortress Convex Asia Funds to a third party during the second quarter of 2016, the closing of the Fortress Centaurus Funds during the third quarter of 2016 and decreases in AUM, based on a simple quarterly average, of our other liquid hedge funds, (iii) $0.6 million related to the co-management of the Mount Kellett Funds and (iv) $0.4 million from our credit PE funds. These decreases were partially offset by (i) a net increase from our permanent capital vehicles of $4.0 million as a result of a net increase in their average AUM of $1.1 billion, primarily related to capital raised by New Residential and (ii) a net increase of $1.2 million from our other credit hedge funds as a result of increases in their average AUM of $0.2 billion.

The increase in management fees from non-affiliates of $0.3 million was primarily related to Logan Circle as a result of an increase in average AUM from non-affiliates of $1.0 billion.

The increase in incentive income from affiliates of $33.3 million was primarily attributable to (i) a net increase of $32.6 million in incentive income from our permanent capital vehicles primarily related to New Residential and (ii) a net increase of $2.7 million from our credit PE funds related to an increase in non-clawbackable tax distributions. These increases were partially offset by a decrease of $2.0 million from our credit hedge funds primarily due to a decrease in incentive income earned on RCA distributions from the Drawbridge Special Opportunities Funds.

The decrease in incentive income from non-affiliates of $8.6 million was primarily related to a decrease in crystallized incentive income from a certain credit PE managed account as a result of realization events.

The decrease in expense reimbursements from affiliates of $1.7 million was primarily related to decreases in operating expenses eligible for reimbursement from our private equity funds and permanent capital vehicles, partially offset by an increase in operating expenses eligible for reimbursement from our credit funds.

The decrease in expense reimbursements from non-affiliates of $1.4 million was primarily related to a decrease in operating expenses eligible for reimbursement from our senior living property manager.

Expenses

Three months ended June 30

Expenses were $209.6 million for the three months ended June 30, 2017, a net decrease of $29.2 million, compared to $238.9 million for the three months ended June 30, 2016. The decrease in expenses is primarily due to (i) a decrease in compensation and benefits of $27.9 million, (ii) a $0.8 million decrease in interest expense and (iii) a $0.6 million decrease in general, administrative and other expenses (including depreciation and amortization).

Total compensation and benefits decreased by $27.9 million primarily due to (i) a $35.5 million decrease in profit sharing expenses related to our credit hedge funds, credit PE funds and permanent capital vehicles, including the impact of tandem options, as a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective funds, (ii) a $4.2 million decrease in other payroll, taxes and benefits and (iii) a $1.8 million decrease in Principal Performance

Payments in our credit and private equity businesses as a result of changes in the performance of relevant funds. These decreases were partially offset by (i) a $10.2 million increase in discretionary bonuses, (ii) a $1.9 million increase in profit sharing expenses related to our private equity funds as a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective fund and (iii) a $1.6 million increase in equity based compensation.

The decrease in general, administrative and other expenses of $0.6 million was due to decreases of (i) $1.4 million in depreciation and amortization and (ii) $0.5 million in general and other expenses and (iii) $0.5 million in market data costs. These decreases were partially offset by an increase of $1.8 million in rent expense.

The decrease in interest expense of $0.8 million primarily related to a decrease in the average outstanding debt balance for the three months ended June 30, 2017, as compared to the prior period. The average outstanding debt balance decreased primarily from a $77.8 million repayment of a promissory note to a former principal during the third quarter of 2016.

Current and Future Compensation Expense

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

Discretionary bonuses are awarded annually based on performance and on our estimation of market compensation. We note that while the payment of discretionary bonuses is optional, it is important for us to maintain a certain level of discretionary bonuses, based on the level of market compensation, even in periods of weaker performance, in order to retain and motivate employees. Equity-based compensation awards, primarily RSUs, which are typically subject to service-based vesting conditions, are a key component of this compensation as they achieve all three goals. We set the level of our equity-based compensation each year based on performance (firm and individual) and our liquidity, as well as the number of shares available under our equity incentive plan and the dilutive impact they would have upon vesting.

In future periods, we will further recognize non-cash compensation expense on our unvested equity-based awards outstanding as of June 30, 2017 of $54.7 million with a weighted average recognition period of 3.1 years.

Profit-sharing compensation is awarded, generally upon fund formation and, in certain cases, subject to vesting, based on certain employees' roles within the fund businesses, and serves to motivate these employees and align their interests with both our and our funds' investors. Private equity and credit PE profit-sharing expense is generally based on a percentage of realized fund incentive income when it becomes probable and reasonably estimable that incentive income will be received. Credit hedge fund and liquid hedge fund profit sharing expense may be based on a percentage of fund incentive income, a percentage of fund "net management fees" (management fees less related expenses), or a percentage of the incentive income generated by an individual trader (regardless of overall fund performance). The actual expense is based on actual performance within the funds and is detailed by business in Note 7 to our condensed consolidated financial statements contained herein.

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

As of June 30, 2017, we have $1.4 billion of gross undistributed incentive income. If this incentive income were realized, we would also recognize an additional $566.4 million of compensation expense.

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

Table of Contents

Other Income (Loss)

Six months ended June 30

Other income (loss) was $8.7 million for the six months ended June 30, 2017, a net increase of $65.2 million, compared to $(56.5) million for the six months ended June 30, 2016. The net increase was primarily related to (i) net earnings from equity method investees of $6.6 million for the six months ended June 30, 2017, as compared to a net losses of $29.9 million for the six months ended June 30, 2016, resulting in a net increase of $36.5 million, primarily with respect to our investments in our private equity business, (ii) a net realized and unrealized loss of $5.1 million in the fair value of derivatives, primarily Japanese Yen foreign exchange contracts for the six months ended June 30, 2017, as compared to a net realized and unrealized loss of $34.9 million for the six months ended June 30, 2016, resulting in a net increase of $29.7 million and (iii) the recognition of a $2.7 million expense associated with an increase in the tax receivable agreement liability for the six months ended June 30, 2016. These increases were partially offset by a decrease of $5.8 million in net realized and unrealized gains in the fair value of our direct investments, primarily options and common stock held in our publicly traded private equity portfolio companies.

Three months ended June 30

Other income (loss) was $8.1 million for the three months ended June 30, 2017, a net increase of $24.5 million, compared to $(16.4) million for the three months ended June 30, 2016. The net increase was primarily related to (i) net earnings from equity method investees of $26.5 million for the three months ended June 30, 2017, as compared to net losses of $9.1 million for the three months ended June 30, 2016, resulting in a net increase of $35.6 million, primarily with respect to our investments in our private equity business and (ii) a net realized and unrealized gain of $2.9 million in the fair value of derivatives, primarily Japanese Yen foreign exchange contracts for the three months ended June 30, 2017, as compared to a net realized and unrealized loss of $21.6 million for the three months ended June 30, 2016, resulting in a net increase of $24.6 million. These increases were partially offset by a net realized and unrealized loss of $22.3 million in the fair value of our direct investments, primary options and common stock held in our publicly traded private equity portfolio companies, for the three months ended June 30, 2017, as compared to a net realized and unrealized gain of $15.0 million for the three months ended June 30, 2016, resulting in a net decrease of $37.3 million.

Income Taxes

Fortress has recorded a significant deferred tax asset. A substantial portion of this asset is offset by a liability associated with the tax receivable agreement with our Principals. This deferred tax asset is further discussed under "—Critical Accounting Policies" below and the tax receivable agreement is discussed in Note 5 to our condensed consolidated financial statements included herein.

Six months ended June 30

For the six months ended June 30, 2017 and 2016, Fortress recognized income tax expense (benefit) of $12.0 million and $4.9 million, respectively. The primary reasons for changes in income tax expense are (i) changes in annual taxable income applicable to Class A shareholders and related foreign and state income taxes (and forecasts thereof which are used to calculate the tax provision during interim periods), (ii) changes in the mix of businesses producing income, which may be subject to tax at different rates, and related changes in our structure, (iii) changes in deferred tax assets and related valuation allowance and (iv) the tax impact of RSUs that vested and were delivered at amounts different than their grant date estimated fair value.

Three months ended June 30

For the three months ended June 30, 2017 and 2016, Fortress recognized income tax expense (benefit) of $13.7 million and $4.1 million, respectively. The primary reasons for changes in income tax expense are (i) changes in annual taxable income applicable to Class A shareholders and related foreign and state income taxes (and forecasts thereof which are used to calculate the tax provision during interim periods), (ii) changes in the mix of businesses producing income, which may be subject to tax at different rates, and related changes in our structure, (iii) changes in deferred tax assets and related valuation allowance and (iv) the tax impact of RSUs that vested and were delivered at amounts different than their grant date estimated fair value.

Factors that impacted the period-over-period increase (decrease) in income taxes are detailed as follows:

	Comparative Periods Six Months Ended June 30, 2017 vs. 2016
Change in pre-tax income applicable to Class A Shareholders (A)	$ 13,770
Change in foreign and state income taxes (B)	(2,209)
Change in mix of business (C)	(5,433)
Change in deferred tax asset valuation allowance and related adjustments (D)	2,128
Tax receivable agreement liability adjustment (E)	(945)
Change in deferred tax asset impact of equity compensation delivery (F)	(253)
Change in tax credits and other deductions	42
Total change (F)	$ 7,100

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

(B) Primarily related to a decrease in foreign taxes due to a decrease in foreign-sourced income.

(C) For the six months ended June 30, 2017, the amount of income passed through to non-corporate tax paying shareholders was higher when compared to the six months ended June 30, 2016, resulting in an decrease in income tax expense in 2017.

(D) Primarily related to the change in the valuation allowance associated with the portion of the deferred tax asset that would be realized only in connection with future capital gains.

(E) Relates to the tax receivable agreement (discussed in Note 5 to our condensed consolidated financial statements included herein) which is not tax deductible and represents a significant permanent tax/GAAP difference.

(F) As a result of the adoption of ASU 2016-09 effective January 1, 2017 (see Note 1), tax shortfalls or excess tax benefits associated with RSU deliveries are prospectively recorded as income tax expense. Previously, tax shortfalls were recorded as income tax expense only to the extent Fortress did not have prior excess tax benefits. In 2016 Fortress had prior excess tax benefits, as such tax shortfalls associated with RSU deliveries were recorded as an adjustment to shareholders' equity.

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

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

Six months ended June 30

Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries increased from $(19.6) million to $13.7 million, an increase of $33.3 million, primarily attributable to an increase of $34.0 million in the amount of consolidated net income allocable to the FOG units held by the principals, partially offset by (i) a decrease of $0.6 million in Others' interests in the net income of consolidated subsidiaries of Fortress Operating Group during the six months ended June 30, 2017, as compared to the six months ended June 30, 2016 and (ii) a decrease of $0.1 million resulting from the dilution of non-controlling interests in Fortress Operating Group primarily related to the issuance of Class A shares related to equity-based compensation and the conversion of FOG units by a former senior employee during the third quarter of 2016. The $34.0 million increase in the amount of consolidated net income allocable to the

FOG units held by the principals was primarily a result of an increase of $77.6 million in Fortress's shareholders' net income in Fortress Operating Group during the six months ended June 30, 2017 as compared to the six months ended June 30, 2016.

Three months ended June 30

Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries increased from $(12.1) million to $17.3 million, an increase of $29.4 million, primarily attributable to an increase of $29.5 million in the amount of consolidated net income allocable to the FOG units held by the principals during the three months ended June 30, 2017, as compared to the three months ended June 30, 2016, partially offset by a decrease of $0.1 million resulting from the dilution of non-controlling interests in Fortress Operating Group primarily related to the issuance of Class A shares related to equity-based compensation and the conversion of FOG units by a former senior employee during the third quarter of 2016. The $29.5 million increase in the amount of consolidated net income allocable to the FOG units held by the principals was primarily a result of an increase of $67.3 million in Fortress's shareholders' net income in Fortress Operating Group during the three months ended June 30, 2017, as compared to the three months ended June 30, 2016.

Table of Contents

Segment Analysis

Fortress conducts its management and investment business through the following primary segments: (i) private equity funds, (ii) permanent capital vehicles, (iii) credit hedge funds, (iv) credit PE funds, (v) liquid hedge funds and (vi) Logan Circle. These segments are differentiated based on their varying strategies and, secondarily, on fund investor terms. Because of such differences in our segments' strategies and investor terms, each segment requires different types of management focus and those segments are managed separately.

For segment results of operations, the amounts not allocated to a segment consist primarily of expenses incurred by Fortress related to the proposed acquisition by SoftBank for the six months ended June 30, 2017, interest expense, foreign currency transactions and interest income. Assets not allocated to a segment consist primarily of cash and net deferred tax assets.

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

Management assesses our segments on a Fortress Operating Group and pre-tax basis and therefore adds back the interests in consolidated subsidiaries related to Fortress Operating Group units (primarily held by the Principals) and income tax expense. Distributable earnings is described in Note 10 to Part I, Item 1, "Financial Statements — Segment Reporting."

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

Incentive Income

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

c. adding the receipt of cash or proceeds from the sale of shares received (a) as incentive income from the publicly traded permanent capital vehicles and (b) pursuant to the exercise of options in the publicly traded permanent capital vehicles, if any, in excess of their strike price,

d. adding incentive income received from third parties which is subject to contingent repayment less incentive income from third parties that is no longer subject to contingent repayment,

Other Income

(ii) with respect to income from certain investments in the Fortress Funds 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, including dividends, from these funds, less (b) impairment with respect to these funds, if necessary, less (c) equity method earnings (or losses) recorded in accordance with GAAP,

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

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

(iii) subtracting management fee income recorded in accordance with GAAP in connection with the receipt of options from the publicly traded permanent capital vehicles, if any,

Table of Contents

Expenses

(iv) adding or subtracting the employee profit sharing portion of (a) incentive income described in (i) above to match the timing of the expense with the revenue, (b) unrealized gains (losses) related to foreign exchange derivative contracts used to economically hedge future estimated incentive income and (c) intrinsic clawback, if any, which represents incentive income previously received from a fund that would be clawed back if the fund were liquidated at the end of the period at its NAV,

(v) adding back equity-based compensation expense (including grants to employees of tandem options in the publicly traded permanent capital vehicles, grants to employees of equity interests in Fortress Funds and portfolio company investments, RSUs (including the portion of related dividend and distribution equivalents recorded as compensation expense) and restricted shares),

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

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

(viii) adding back income tax benefit or expense and any income or expense recorded in connection with the tax receivable agreement (see Note 5 to our condensed consolidated financial statements included herein).

Private Equity Funds

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

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	2017 vs. 2016 $	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	2017 vs. 2016 $
Segment revenues						
Management Fees	$40,253	$51,490	$(11,237)	$20,085	$25,732	$(5,647)
Incentive Income	1,000	—	1,000	1,000	—	1,000
Segment revenues — total	$41,253	$51,490	$(10,237)	$21,085	$25,732	$(4,647)
Pre-tax distributable earnings	$25,577	$30,721	$(5,144)	$13,238	$16,275	$(3,037)

Six months ended June 30

Pre-tax distributable earnings decreased by $5.1 million primarily due to:

Revenues

Management fees were $40.3 million for the six months ended June 30, 2017, a net decrease of $11.2 million, compared to $51.5 million for the six months ended June 30, 2016. The decrease in management fees was primarily attributable to decreases from Fund V, Fund V Coinvestment, Fund IV, Fund IV Coinvestment, FHIF, and the MSR Opportunities Funds as a result of decreases in average AUM due to return of capital distributions and/or a decrease in the average market value of certain portfolio companies, some of which were below their invested capital, which impacted the computation of management fees as compared to the prior period.

Incentive income was $1.0 million for the six months ended June 30, 2017 related to the MSR Opportunities Funds.

Expenses

Expenses were $15.8 million for the six months ended June 30, 2017, a net decrease of $4.2 million, compared to $20.0 million for the six months ended June 30, 2016. The decrease in expenses was primarily attributable to (i) a $4.0 million decrease in compensation and benefits expense and (ii) a $0.5 million net decrease in general and administrative and corporate allocable expenses. These decreases were partially offset by an increase of $0.3 million in profit sharing compensation expense and accruals for Principal Performance Payments related to the increase in incentive income as described above for the six months ended June 30, 2017, as compared to the prior period.

Table of Contents

Net Investment Income

Net investment income (loss) was $0.1 million for the six months ended June 30, 2017, a net increase of $0.9 million, compared to $(0.8) million for the six months ended June 30, 2016. The increase in net investment income was primarily attributable to a $1.3 million impairment of a certain private equity investment during the six months ended June 30, 2016, partially offset by a $0.3 million decrease in the distribution of earnings related to realization events.

Three months ended June 30

Pre-tax distributable earnings decreased by $3.0 million primarily due to:

Revenues

Management fees were $20.1 million for the three months ended June 30, 2017, a net decrease of $5.6 million, compared to $25.7 million for the three months ended June 30, 2016. The decrease in management fees was primarily attributable to decreases from Fund V, Fund V Coinvestment, Fund IV, Fund IV Coinvestment, FHIF, and the MSR Opportunities Funds as a result of decreases in average AUM due to return of capital distributions and/or a decrease in the average market value of certain portfolio companies, some of which were below their invested capital, which impacted the computation of management fees as compared to the prior period.

Incentive income was $1.0 million for the three months ended June 30, 2017 related to the MSR Opportunities Funds.

Expenses

Expenses were $7.9 million for the three months ended June 30, 2017, a net decrease of $1.8 million, compared to $9.7 million for the three months ended June 30, 2016. The decrease in expenses was primarily attributable to (i) a $2.1 million decrease in compensation and benefits expense and (ii) a $0.1 million net decrease in general and administrative and corporate allocable expenses. These decreases were partially offset by an increase of $0.3 million in profit sharing compensation expense and accruals for Principal Performance Payments related to the increase in incentive income as described above for the three months ended June 30, 2017, as compared to the prior period.

Net Investment Income

Net investment income (loss) was less than $0.1 million for the three months ended June 30, 2017, a decrease of $0.3 million, compared to $0.3 million for the three months ended June 30, 2016. The decrease in net investment income was attributable to a $0.3 million decrease in the distribution of earnings related to realization events.

Permanent Capital Vehicles

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

	Six Months Ended June 30,		2017 vs. 2016	Three Months Ended June 30,		2017 vs. 2016
	2017	2016	$	2017	2016	$
Segment revenues						
Management Fees	$61,165	$54,430	$6,735	$30,965	$27,128	$3,837
Incentive Income	64,095	15,920	48,175	48,248	13,720	34,528
Segment revenues — total	$125,260	$70,350	$54,910	$79,213	$40,848	$38,365
Pre-tax distributable earnings	$63,993	$26,886	$37,107	$44,517	$17,736	$26,781

Table of Contents

Six months ended June 30

Pre-tax distributable earnings increased by $37.1 million primarily due to:

Revenues

Management fees were $61.2 million for the six months ended June 30, 2017, a net increase of $6.7 million compared to $54.4 million for the six months ended June 30, 2016. The increase in management fees was primarily attributable to increases of (i) $7.8 million from New Residential and New Media related to increases in average AUM as a result of equity raised during 2017 and 2016. This increase was partially offset by a decrease of $1.1 million primarily from FTAI as a result of a decrease in average AUM due to losses and distributions during 2017 and 2016 as fees are based on net equity.

Incentive income was $64.1 million for the six months ended June 30, 2017, a net increase of $48.2 million, compared to $15.9 million of incentive income recognized for the six months ended June 30, 2016. The increase in incentive income was primarily attributable to increases of (i) $43.2 million in incentive income related to New Residential, (ii) $4.9 million in incentive income related to Eurocastle and (iii) $2.6 million in incentive income related to New Senior. These increases were partially offset by a decrease of $2.5 million in incentive income related to New Media for the six months ended June 30, 2017, as compared to the prior period.

Expenses

Expenses were $62.5 million for the six months ended June 30, 2017, a net increase of $17.7 million, compared to $44.8 million for the six months ended June 30, 2016. The increase in expenses was primarily attributable to increases of (i) $16.3 million in compensation and benefits expense and (ii) $5.8 million in accruals for Principal Performance Payments. These increases were partially offset by (i) a $4.1 million decrease in profit sharing compensation expense and (ii) a $0.3 million net decrease in general and administrative and corporate allocable expenses for the six months ended June 30, 2017, as compared to the prior period.

Net Investment Income

Net investment income was $1.3 million for the six months ended June 30, 2017 and 2016. Net investment income consisted primarily of dividends from our investments held in the publicly traded permanent capital vehicles.

Three months ended June 30

Pre-tax distributable earnings increased by $26.8 million primarily due to:

Revenues

Management fees were $31.0 million for the three months ended June 30, 2017, a net increase of $3.8 million compared to $27.1 million for the three months ended June 30, 2016. The increase in management fees was primarily attributable to increases of (i) $4.2 million from New Residential related to increases in average AUM as a result of equity raised during 2017 and 2016. This increase was partially offset by a decrease of $0.5 million primarily from FTAI as a result of a decrease in average AUM due to losses and distributions during 2017 and 2016 as fees are based on net equity.

Incentive income was $48.2 million for the three months ended June 30, 2017, a net increase of $34.5 million, compared to $13.7 million of incentive income recognized for the three months ended June 30, 2016. The increase in incentive income was primarily attributable to increases of (i) $32.1 million in incentive income related to New Residential, (ii) $2.6 million in incentive income related to New Senior and (iii) $1.9 million in incentive income related to Eurocastle. These increases were partially offset by a decrease of $2.1 million in incentive income related to New Media for the three months ended June 30, 2017, as compared to the prior period.

Expenses

Expenses were $35.3 million for the three months ended June 30, 2017, a net increase of $11.5 million, compared to $23.8 million for the three months ended June 30, 2016. The increase in expenses was primarily attributable to increases of (i) $12.0 million in compensation and benefits expense and (ii) $3.4 million in accruals for Principal Performance Payments. These increases were partially offset by (i) a $3.3 million decrease in profit sharing compensation expense and (ii) $0.6 million net decrease in general and administrative and corporate allocable expenses for the three months ended June 30, 2017, as compared to the prior period.

Table of Contents

Net Investment Income

Net investment income was $0.6 million for the three months ended June 30, 2017 and $0.7 million for the three months ended June 30, 2016. Net investment income consisted primarily of dividends from our investments held in the publicly traded permanent capital vehicles.

Credit Hedge Funds

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

	Six Months Ended June 30,		2017 vs. 2016	Three Months Ended June 30,		2017 vs. 2016
	2017	2016	$	2017	2016	$
Segment revenues						
Management Fees	$75,072	$74,472	$600	$37,613	$37,373	$240
Incentive Income	46,686	39,759	6,927	14,768	32,563	(17,795)
Segment revenues — total	$121,758	$114,231	$7,527	$52,381	69,936	$(17,555)
Pre-tax distributable earnings	$45,803	$40,443	$5,360	$17,860	$26,181	$(8,321)

Six months ended June 30

Pre-tax distributable earnings increased by $5.4 million primarily due to:

Revenues

Management fees were $75.1 million for the six months ended June 30, 2017, a net increase of $0.6 million, compared to $74.5 million for the six months ended June 30, 2016. The increase in management fees was primarily attributable to increases of (i) $2.5 million related to the Drawbridge Special Opportunities Funds due to an increase in average AUM and (ii) $1.6 million related to the JP Funds, which Fortress became the investment manager in March 2016. These increases were partially offset by a decrease of $3.1 million related to the co-management of the Mount Kellett Funds for the six months ended June 30, 2017, as compared to the prior period.

Incentive income, which is determined on a fund-by-fund basis, was $46.7 million for the six months ended June 30, 2017, a net increase of $6.9 million, compared to $39.8 million for the six months ended June 30, 2016. The increase in incentive income was primarily attributable to an increase of $9.1 million in incentive income from the Drawbridge Special Opportunities Funds primarily related to increases of (i) $7.7 million in incentive income as a result of higher returns for the six months ended June 30, 2017, as compared to the prior period and (ii) $1.4 million in RCA distributions. These increases were partially offset by a decrease of $1.9 million in incentive income generated from other investments for the six months ended June 30, 2017, as compared to the prior period.

Expenses

Expenses were $78.7 million for the six months ended June 30, 2017, a net increase of $3.3 million, compared to $75.4 million for the six months ended June 30, 2016. The increase in expenses was attributable to increases of (i) $5.1 million in profit sharing expense and (ii) $1.4 million in compensation and benefits expense. These increases were partially offset by decreases of (i) $1.7 million in general and administrative and corporate allocable expenses and (ii) $1.5 million in accruals for Principal Performance Payments for the six months ended June 30, 2017, as compared to the prior period.

Net Investment Income

Net investment income was $2.8 million for the six months ended June 30, 2017, an increase of $1.2 million, compared to $1.6 million for the six months ended June 30, 2016. The increase in net investment income was primarily related to increases of (i) $0.6 million in earnings from our investments in our credit hedge funds and (ii) $0.4 million in net investment income generated from other investments for the six months ended June 30, 2017, as compared to the prior period.

Table of Contents

Three months ended June 30

Pre-tax distributable earnings decreased by $8.3 million primarily due to:

Revenues

Management fees were $37.6 million for the three months ended June 30, 2017, a net increase of $0.2 million, compared to $37.4 million for the three months ended June 30, 2016. The increase in management fees was attributable to an increase of $1.4 million primarily related to the Drawbridge Special Opportunities Funds due to an increase in average AUM. This increase was partially offset by a decrease of $1.2 million primarily related to the co-management of the Mount Kellett Funds.

Incentive income, which is determined on a fund-by-fund basis, was $14.8 million for the three months ended June 30, 2017, a net decrease of $17.8 million, compared to $32.6 million for the three months ended June 30, 2016. The decrease in incentive income was primarily attributable to decreases of (i) $14.2 million in incentive income from the Drawbridge Special Opportunities Funds and (ii) $3.4 million in incentive income generated from other investments. The decrease of $14.2 million in incentive income from the Drawbridge Special Opportunities Funds was attributable primarily to decreases of (i) $12.2 million in incentive income as a result of lower returns for the three months ended June 30, 2017, as compared to the prior period and (ii) $2.0 million in RCA distributions.

Expenses

Expenses were $35.6 million for the three months ended June 30, 2017, a decrease of $9.7 million, compared to $45.3 million for the three months ended June 30, 2016. The decrease in expenses was attributable to decreases of (i) $4.3 million in profit sharing expense and $3.4 million in accruals for Principal Performance Payments, respectively, related to the decrease in incentive income as described above, (ii) $1.6 million in general and administrative and corporate allocable expenses and (iii) $0.3 million in compensation and benefits expense for the three months ended June 30, 2017, as compared to the prior period.

Net Investment Income

Net investment income was $1.1 million for the three months ended June 30, 2017, a decrease of $0.4 million, compared to $1.5 million for the three months ended June 30, 2016. The decrease in net investment income was primarily related to a $0.5 million decrease in earnings from our investments in our credit hedge funds. This decrease was partially offset by an increase of $0.1 million in net investment income generated from other investments for the three months ended June 30, 2017, as compared to the prior period.

Credit PE Funds

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

	Six Months Ended June 30, 2017	2016	2017 vs. 2016 $	Three Months Ended June 30, 2017	2016	2017 vs. 2016 $
Segment Revenues						
Management Fees	$60,194	$61,660	$(1,466)	$30,399	$30,818	$(419)
Incentive Income	74,862	138,251	(63,389)	19,928	85,458	(65,530)
Segment revenues — total	$135,056	$199,911	$(64,855)	$50,327	$116,276	$(65,949)
Pre-tax distributable earnings	$35,279	$75,386	$(40,107)	$7,781	$47,274	$(39,493)

Six months ended June 30

Pre-tax distributable earnings decreased by $40.1 million primarily due to:

Revenues

Management fees were $60.2 million for the six months ended June 30, 2017, a net decrease of $1.5 million, compared to $61.7 million for the six months ended June 30, 2016. The decrease in management fees was attributable to a decrease of $6.9 million primarily related to Credit Opportunities Funds II and III and related managed accounts and Japan Opportunity Funds I and II as a result of a decrease in their average AUM primarily due to net capital distributed during 2017 and 2016. This decrease was partially offset by increases of (i) $4.4 million related to Credit Opportunities Funds IV and related managed accounts as a result of an increase in their average AUM primarily due to net capital contributed during 2017 and 2016, (ii) $0.4 million related to

Table of Contents

Global Opportunities Fund II due to an increase in capital commitments and (iii) $0.5 million primarily attributed to Secured Lending Fund I, which commenced in the fourth quarter of 2016.

Incentive income was $74.9 million for the six months ended June 30, 2017, a net decrease of $63.4 million compared to $138.3 million for the six months ended June 30, 2016. The decrease in incentive income is primarily attributed to decreases of (i) $47.5 million in incentive income received from Credit Opportunities Funds I and II and related managed accounts, (ii) $26.4 million in incentive income received from Japan Opportunity Fund I and (iii) $4.4 million in incentive income received from Real Estate Opportunities Fund I and REOC Fund for the six months ended June 30, 2017, as compared to the prior period. These decreases were partially offset by increases of (i) $13.0 million in incentive income received from Japan Opportunity Funds II and III and (ii) $4.6 million in incentive income received from Credit Opportunities Fund III and related managed accounts for the six months ended June 30, 2017, as compared to the prior period.

Expenses