

Fortress Investment Group LLC
Form 10-Q
May 05, 2011
Table of Contents

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

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2011

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number: 001-33294

Fortress Investment Group LLC

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation

or organization)

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

(212) 798-6100

(Registrant's telephone number, including area code)

20-5837959
(I.R.S. Employer

Identification No.)

10105
(Zip Code)

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

(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 No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

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: 177,590,138 outstanding as of May 1, 2011.

Class B Shares: 305,857,751 outstanding as of May 1, 2011.

Table of Contents

FORTRESS INVESTMENT GROUP LLC

FORM 10-Q

INDEX

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of March 31, 2011 (unaudited) and December 31, 2010</u>	1
<u>Consolidated Statements of Operations (unaudited) for the three months ended March 31, 2011 and 2010</u>	2
<u>Consolidated Statement of Equity (unaudited) for the three months ended March 31, 2011</u>	3
<u>Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2011 and 2010</u>	4
<u>Notes to Consolidated Financial Statements (unaudited)</u>	5
Note 1 <u>Organization and Basis of Presentation</u>	5
Note 2 <u>Management Agreements and Fortress Funds</u>	8
Note 3 <u>Investments and Fair Value</u>	14
Note 4 <u>Debt Obligations</u>	19
Note 5 <u>Income Taxes and Tax Related Payments</u>	20
Note 6 <u>Related Party Transactions and Interests in Consolidated Subsidiaries</u>	21
Note 7 <u>Equity-Based and Other Compensation</u>	24
Note 8 <u>Earnings Per Share and Distributions</u>	26
Note 9 <u>Commitments and Contingencies</u>	28
Note 10 <u>Segment Reporting</u>	29
Note 11 <u>Subsequent Events</u>	35
Note 12 <u>Consolidating Financial Information</u>	35
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>Overview and Understanding the Asset Management Business</u>	39
<u>Market Considerations</u>	44
<u>Results of Operations</u>	47
<u>Assets Under Management</u>	48
<u>Performance of our Funds</u>	49
<u>Liquidity and Capital Resources</u>	57
<u>Critical Accounting Policies</u>	63
<u>Contractual Obligations</u>	68
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	70
Item 4. <u>Controls and Procedures</u>	73

PART II. OTHER INFORMATION

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Item 1.	<u>Legal Proceedings</u>	74
Item 1A.	<u>Risk Factors</u>	74
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	104
Item 3.	<u>Defaults upon Senior Securities</u>	104

Table of Contents

Item 4. <u>(Removed and Reserved)</u>	104
Item 5. <u>Other Information</u>	104
Item 6. <u>Exhibits</u>	105
<u>SIGNATURES</u>	107

Table of Contents

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

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

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

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

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

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

Fortress Funds and our funds refers to the private investment funds, alternative asset companies and related managed accounts that are managed by the Fortress Operating Group. The Fortress Macro Fund is our flagship liquid hedge fund and the Drawbridge Special Opportunities Fund is our flagship credit hedge fund.

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

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

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 those words or other comparable words. Any forward-looking statements contained in this report are based upon the historical performance of us and our subsidiaries and on our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these statements. Accordingly, you should not place undue reliance on any forward-looking statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

SPECIAL NOTE REGARDING EXHIBITS

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

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

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

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

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

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

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

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS
FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED BALANCE SHEETS**

(dollars in thousands)

	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and cash equivalents	\$ 219,450	\$ 210,632
Due from affiliates	190,842	303,043
Investments	1,091,256	1,012,883
Deferred tax asset	411,387	415,990
Other assets	106,852	134,147
	\$ 2,019,787	\$ 2,076,695
Liabilities and Equity		
Liabilities		
Accrued compensation and benefits	\$ 92,239	\$ 260,790
Due to affiliates	304,103	342,397
Deferred incentive income	245,779	198,363
Debt obligations payable	275,000	277,500
Other liabilities	105,877	68,230
	1,022,998	1,147,280
Commitments and Contingencies		
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 177,562,804 and 169,536,968 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively		
Class B shares, no par value, 750,000,000 shares authorized, 305,857,751 and 300,273,852 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively		
Paid-in capital	1,585,042	1,465,358
Retained earnings (accumulated deficit)	(1,156,037)	(1,052,605)
Accumulated other comprehensive income (loss)	(1,240)	(1,289)
Total Fortress shareholders' equity	427,765	411,464
Principals and others' interests in equity of consolidated subsidiaries	569,024	517,951
Total equity	996,789	929,415
	\$ 2,019,787	\$ 2,076,695

See notes to consolidated financial statements

Table of Contents**FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(dollars in thousands)

	Three Months Ended March 31,	
	2011	2010
Revenues		
Management fees: affiliates	\$ 118,868	\$ 106,536
Management fees: non-affiliates	14,401	2,601
Incentive income: affiliates	15,076	17,556
Incentive income: non-affiliates	978	5,154
Expense reimbursements from affiliates	44,342	23,067
Other revenues (affiliate portion disclosed in Note 6)	3,152	5,274
	196,817	160,188
Expenses		
Interest expense	4,660	3,796
Compensation and benefits	215,435	179,393
Principals agreement compensation	234,759	234,759
General, administrative and other	40,182	21,108
Depreciation and amortization	3,080	2,682
	498,116	441,738
Other Income (Loss)		
Gains (losses) (affiliate portion disclosed in Note 3)	(4,763)	572
Tax receivable agreement liability adjustment	(116)	1,317
Earnings (losses) from equity method investees	72,403	19,881
	67,524	21,770
Income (Loss) Before Income Taxes	(233,775)	(259,780)
Income tax benefit (expense)	(21,419)	(1,552)
Net Income (Loss)	\$ (255,194)	\$ (261,332)
Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries	\$ (151,762)	\$ (177,181)
Net Income (Loss) Attributable to Class A Shareholders	\$ (103,432)	\$ (84,151)
Dividends declared per Class A share	\$	\$
Earnings Per Class A share		
Net income (loss) per Class A share, basic	\$ (0.58)	\$ (0.56)
Net income (loss) per Class A share, diluted	\$ (0.58)	\$ (0.58)

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Weighted average number of Class A shares outstanding, basic	181,019,501	157,821,895
Weighted average number of Class A shares outstanding, diluted	181,019,501	465,595,747

See notes to consolidated financial statements

Table of Contents**FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED STATEMENT OF EQUITY (Unaudited)**

FOR THE THREE MONTHS ENDED MARCH 31, 2011

(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, 2010	169,536,968	300,273,852	\$ 1,465,358	\$ (1,052,605)	\$ (1,289)	\$ 411,464	\$ 517,951	\$ 929,415
Contributions from principals and others interests in equity							45,836	45,836
Distributions to principals and others interests in equity			(277)			(277)	(28,585)	(28,862)
Conversion of Class B shares to Class A shares	4,749,434	(4,749,434)	3,878		(33)	3,845	(3,845)	
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units			6,519			6,519		6,519
Director restricted share grant	26,351		113			113	200	313
Capital increase related to equity-based compensation, net	3,250,051	10,333,333	108,427			108,427	190,510	298,937
Dilution impact of Class A share issuance			1,024		(8)	1,016	(1,016)	
Comprehensive income (loss) (net of tax)				(103,432)		(103,432)	(151,762)	(255,194)
Foreign currency translation					193	193	45	238
Comprehensive income (loss) from equity method investees					(103)	(103)	(310)	(413)
Total comprehensive income (loss)								(255,369)

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

**Equity - March 31,
2011**

177,562,804 305,857,751 \$ 1,585,042 \$ (1,156,037) \$ (1,240) \$ 427,765 \$ 569,024 \$ 996,789

See notes to consolidated financial statements

Table of Contents**FORTRESS INVESTMENT GROUP LLC****CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

MARCH 31, 2011

(dollars in thousands)

	Three Months Ended March 31,	
	2011	2010
Cash Flows From Operating Activities		
Net income (loss)	\$ (255,194)	\$ (261,332)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	3,080	2,682
Other amortization and accretion	385	877
(Earnings) losses from equity method investees	(72,403)	(19,881)
Distributions of earnings from equity method investees	7,954	2,707
(Gains) losses	4,763	(572)
Deferred incentive income	(11,272)	(17,944)
Deferred tax (benefit) expense	10,909	(726)
Options received from affiliates	(7,021)	
Tax receivable agreement liability adjustment	116	(1,317)
Equity-based compensation, including Principals Agreement	299,089	298,566
Allowance for doubtful accounts	4,718	1,122
Cash flows due to changes in		
Due from affiliates	(22,371)	(45,653)
Other assets	27,756	(1,292)
Accrued compensation and benefits	(134,265)	(21,211)
Due to affiliates	(11,894)	3,128
Deferred incentive income	56,171	85,150
Other liabilities	39,796	32,302
Net cash provided by (used in) operating activities	(59,683)	56,606
Cash Flows From Investing Activities		
Contributions to equity method investees	(33,805)	(28,485)
Distributions of capital from equity method investees	151,559	41,616
Purchase of fixed assets	(2,596)	(388)
Net cash provided by (used in) investing activities	115,158	12,743
Cash Flows From Financing Activities		
Repayments of debt obligations	(2,500)	(27,950)
Principals and others interests in equity of consolidated subsidiaries - contributions	11,282	37
Principals and others interests in equity of consolidated subsidiaries - distributions	(55,439)	(15,114)
Net cash provided by (used in) financing activities	(46,657)	(43,027)
Net Increase (Decrease) in Cash and Cash Equivalents	8,818	26,322
Cash and Cash Equivalents, Beginning of Period	210,632	197,099

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Cash and Cash Equivalents, End of Period	\$ 219,450	\$ 223,421
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$ 4,097	\$ 3,384
Cash paid during the period for income taxes	\$ 5,469	\$ 2,464
Supplemental Schedule of Non-cash Investing and Financing Activities		
Employee compensation invested directly in subsidiaries	\$ 34,285	\$ 45,095
Investments of receivable amounts into Fortress Funds	\$ 130,774	\$ 7,652
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	\$ 12,877	\$ 31,335

See notes to consolidated financial statements

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

MARCH 31, 2011

(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

- 1) Private equity:
 - a) Private equity funds, which make significant, control-oriented investments in debt and equity securities of public or privately held entities in North America and Western Europe, with a focus on acquiring and building asset-based businesses with significant cash flows; and
 - b) Publicly traded alternative investment vehicles, which Fortress refers to as Castles, which are companies that invest primarily in real estate and real estate related debt investments.
- 2) Liquid hedge funds, which invest globally in fixed income, currency, equity and commodity markets, and related derivatives to capitalize on imbalances in the financial markets.
- 3) Credit funds:
 - a) Credit hedge funds, which make highly diversified investments globally in assets, opportunistic lending situations and securities throughout the capital structure with a value orientation, as well as in investment funds managed by external managers, and which include non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and
 - b) Credit private equity (PE) funds which are comprised of a family of credit opportunities funds focused on investing in distressed and undervalued assets, a family of long dated value funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of real assets funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), and two Asia funds, a Japan real estate fund and an Asian investor based global opportunities fund.

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

4) Principal investments in the above described funds.

Financial Statement Guide

Selected Financial Statement Captions	Note Reference	Explanation
<u>Balance Sheet</u>		
Due from Affiliates	6	Generally, management fees, expense reimbursements and incentive income due from Fortress Funds.
Investments	3	Primarily the carrying value of Fortress's principal investments in the Fortress Funds.
Deferred Tax Asset	5	Relates to potential future tax benefits.
Due to Affiliates	6	Generally, amounts due to the Principals related to their interests in Fortress Operating Group and the tax receivable agreement.
Deferred Incentive Income	2	Incentive income already received from certain Fortress Funds based on past performance, which is subject to contingent repayment based on future performance.
	5	

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

Selected Financial Statement Captions	Note Reference	Explanation
Debt Obligations Payable	4	The balance outstanding on the credit agreement.
Principals and Others Interests in Equity of Consolidated Subsidiaries	6	The GAAP basis of the Principals' ownership interests in Fortress Operating Group as well as employees' ownership interests in certain subsidiaries.
<u>Statement of Operations</u>		
Management Fees: Affiliates	2	Fees earned for managing Fortress Funds, generally determined based on the size of such funds.
Management Fees: Non-Affiliates	2	Fees earned from managed accounts and our traditional fixed income asset management business, generally determined based on the amount managed.
Incentive Income: Affiliates	2	Income earned from Fortress Funds, based on the performance of such funds.
Incentive Income: Non-Affiliates	2	Income earned from managed accounts, based on the performance of such accounts.
Compensation and Benefits	7	Includes equity-based, profit-sharing and other compensation to employees.
Principals Agreement Compensation	N/A	As a result of the principals agreement, the January 2007 value of a significant portion of the Principals' equity in Fortress is being recorded as an expense over a five year period. Fortress is not a party to this agreement. It is an agreement between the Principals to further incentivize them to remain with Fortress. This GAAP expense has no economic effect on Fortress or its shareholders.
Gains (Losses)	3	The result of asset dispositions or changes in the fair value of investments or other financial instruments which are marked to market (including the Castles and GAGFAH).
Tax Receivable Agreement Liability Adjustment	5	Represents a change in the amount due to the Principals under the tax receivable agreement.
Earnings (Losses) from Equity Method Investees	3	Fortress's share of the net earnings (losses) of the Fortress Funds resulting from its principal investments.
Income Tax Benefit (Expense)	5	The net tax result related to the current period. Certain of Fortress's revenues are not subject to taxes because they do not flow through taxable entities. Furthermore, Fortress has significant permanent differences between its GAAP and tax basis earnings.

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

Selected Financial Statement Captions	Note Reference	Explanation
Principals and Others Interests in (Income) Loss of Consolidated Subsidiaries	6	Primarily the Principals and employees share of Fortress's earnings based on their ownership interests in subsidiaries, including Fortress Operating Group.
Earnings Per Share	8	GAAP earnings per Class A share based on Fortress's capital structure, which is comprised of outstanding and unvested equity interests, including interests which participate in Fortress's earnings, at both the Fortress and subsidiary levels.
<u>Other</u>		
Distributions	8	A summary of dividends and distributions, and the related outstanding shares and units, is provided.
Distributable Earnings	10	A presentation of our financial performance by segment (fund type) is provided, on the basis of the operating performance measure used by Fortress's management committee.

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

The accompanying consolidated financial statements and related notes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Fortress's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Fortress's consolidated and combined financial statements for the year ended December 31, 2010 and notes thereto included in Fortress's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2011. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's consolidated financial statements for the year ended December 31, 2010.

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

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

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

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

Management Fees, Incentive Income and Related Profit Sharing Expense

Fortress recognized management fees and incentive income as follows:

	Three Months Ended March 31,	
	2011	2010
Private Equity		
Private Equity Funds		
Management fees - affil.	\$ 35,289	\$ 33,465
Incentive income - affil.	3,219	
Castles		
Management fees - affil.	11,614	11,780
Management fees, options - affil.	7,021	
Management fees - non-affil.	661	884
Incentive income - affil.		
Liquid Hedge Funds		
Management fees - affil.	17,498	17,466
Management fees - non-affil.	4,789	1,336
Incentive income - affil.	1,715	(259)
Incentive income - non-affil.	978	
Credit Funds		
Credit Hedge Funds		
Management fees - affil.	31,457	33,668
Management fees - non-affil.	4,055	381
Incentive income - affil.	2,089	(129)
Incentive income - non-affil.		5,154
Credit PE Funds		
Management fees - affil.	15,989	10,157
Management fees - non-affil.	33	
Incentive income - affil.	8,053	17,944
Other (A)		

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Management fees - non-affil.	4,863	
Total		
Management fees - affil.	\$ 118,868	\$ 106,536
Management fees - non-affil.	\$ 14,401	\$ 2,601
Incentive income - affil. (B)	\$ 15,076	\$ 17,556
Incentive income - non-affil.	\$ 978	\$ 5,154

(A) Related to Logan Circle.

(B) See Deferred Incentive Income below.

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

Deferred Incentive Income

Incentive income from certain Fortress Funds, primarily private equity funds and credit PE funds, is received when such funds realize profits, based on the related agreements. However, this incentive income is subject to contingent repayment by Fortress to the funds until certain overall fund performance criteria are met. Accordingly, Fortress does not recognize this incentive income as revenue until the related contingencies are resolved. Until such time, this incentive income is recorded on the balance sheet as deferred incentive income and is included as

distributed-unrecognized deferred incentive income in the table below. Incentive income from such funds, based on their net asset value, which has not yet been received is not recorded on the balance sheet and is included as undistributed deferred incentive income in the table below.

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the three months ended March 31, 2011 and 2010. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, \$53.0 million and \$6.2 million of additional incentive income from affiliates would have been recognized during the three months ended March 31, 2011 and 2010, respectively. Incentive income based on achieving annual performance criteria that has not yet been recognized, if any, is not recorded on the balance sheet and is included as undistributed deferred incentive income in the table below.

During the three months ended March 31, 2011 and 2010, Fortress recognized \$8.1 million and \$17.9 million, respectively, of incentive income distributions from its credit PE funds which represented tax distributions. These tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

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

	Distributed- Gross	Distributed- Recognized (A)	Distributed- Unrecognized (B)	Undistributed net of intrinsic clawback (C) (D)
Deferred incentive income as of December 31, 2010	\$ 702,709	\$ (504,346)	\$ 198,363	\$ 200,066
Share of income (loss) of Fortress Funds				139,672
Distribution of incentive income	58,688		58,688	(58,688)
Recognition of previously deferred incentive income		(11,272)	(11,272)	
Deferred incentive income as of March 31, 2011	\$ 761,397	\$ (515,618)	\$ 245,779	\$ 281,050

(A) All related contingencies have been resolved.

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

- (B) Reflected on the balance sheet.

- (C) At March 31, 2011, the net undistributed incentive income is comprised of \$375.6 million of gross undistributed incentive income, net of \$94.5 million of intrinsic clawback (see next page). The net undistributed incentive income amount represents the amount that would be received by Fortress from the related funds if such funds were liquidated on March 31, 2011 at their net asset values.

- (D) From inception to March 31, 2011, Fortress has paid \$311.3 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income, of which \$27.9 million has not been expensed because management has determined that it is not probable of being incurred as an expense and will be recovered from the related individuals. If the \$375.6 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional \$159.6 million of compensation expense.

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

The following tables summarize information with respect to the Fortress Funds, other than the Castles, and their related incentive income thresholds as of March 31, 2011:

Fund (Vintage)	Inception to Maturity Date (B)	Inception to Date Capital Invested (C)	Inception to Date Distributions (D)	Net Asset Value (NAV) (E)	NAV Surplus (Deficit) (F)	Current Preferred Return Threshold (G)	Gain to Cross Incentive Income Threshold (H)	Undistributed Incentive Income (I)	Distributed Incentive Income (J)	Distributed Incentive Income Subject to Clawback (K)	Gross Intrinsic Clawback (L)	Net Intrinsic Clawback (M)
Private Equity Funds												
NIH (1998)	Indefinite	\$ 415,574	\$ (801,926)	\$ 17,266	\$ N/A	\$ N/A	\$ N/A	\$	\$ 94,513	\$	\$	\$
Fund I (1999) (J)	Apr-10	1,027,871	(2,759,045)	108,076	1,839,250		N/A	9,572	325,931			
Fund II (2002)	Feb-13	1,974,296	(3,245,088)	130,966	1,401,758		N/A		287,024	46,412	11,198	7,170
Fund III (2004)	Jan-15	2,762,993	(1,307,375)	1,644,988	189,370	1,018,836	829,466		66,903	66,903	66,903	45,108
Fund III Coinvestment (2004)	Jan-15	273,648	(115,925)	172,751	15,028	132,356	117,328					
Fund IV (2006)	Jan-17	3,639,561	(119,445)	3,201,662	(318,454)	1,248,388	1,566,842					
Fund IV Coinvestment (2006)	Jan-17	762,696	(12,651)	654,311	(95,734)	269,714	365,448					
Fund V (2007)	Feb-18	3,973,747	(2,862)	3,093,356	(877,529)	883,132	1,760,661					
Fund V Coinvestment (2007)	Feb-18	936,145	(132)	543,507	(392,506)	247,459	639,965					
GAGACQ												
Fund (2004)	Nov-09	545,663	(595,401)	N/A	N/A	N/A	N/A	N/A	51,476	N/A	N/A	N/A
FRID (2005)	Apr-15	1,220,228	(505,605)	425,091	(289,532)	489,112	778,644		16,447	16,447	16,447	10,041
FRIC (2006)	May-16	328,754	(17,460)	248,622	(62,672)	139,437	202,109					
FICO (2006)	Jan-17	724,525	(5)	(23,988)	(748,508)	286,645	1,035,153					
FHIF (2006)	Jan-17	1,493,484	(63,169)	1,752,798	322,483	517,542	195,059					
FECI (2007)	Feb-18	982,779	(144)	842,599	(140,036)	316,755	456,791					
Mortgage Opportunities												
Fund III (2008)	Jun-13	193,861	(46,963)	117,610	(29,288)		29,288					
								\$ 9,572	\$ 842,294	\$ 129,762	\$ 94,548	\$ 62,319

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

<u>Credit PE</u>											
<u>Funds</u>											
Long Dated Value Fund I (2005)	Apr-30	\$ 267,325	\$ (45,656)	\$ 263,584	\$ 41,915	\$ 77,244	\$ 35,329	\$	\$	\$	\$
Long Dated Value Fund II (2005)	Nov-30	270,958	(60,723)	244,039	33,804	61,851	28,047		412		
Long Dated Value Fund III (2007)	Feb-32	340,740	(119,298)	308,414	86,972		N/A	14,298	1,983		
LDVF Patent Fund (2007)	Nov-27	40,803	(10,002)	52,814	22,013		N/A	1,521	461		
Real Assets Fund (2007)	Jun-17	355,783	(165,375)	257,834	67,426		N/A	9,219	1,316		
								\$ 25,038	\$ 4,172	\$	\$

<u>Credit PE</u>												
<u>Funds in</u>												
<u>Investment</u>												
<u>Period</u>												
Credit Opportunities Fund (2008)	Oct-20	\$ 4,301,750	\$ (4,365,262)	\$ 1,543,286	\$ 1,606,798	\$	\$	N/A	\$ 138,242	\$ 179,254	\$ 85,700	\$
Credit Opportunities Fund II (2009)	Jul-22	1,018,804	(196,409)	1,079,860	257,465		N/A	52,386				
FTS SIP L.P. (2008)	Oct-18	1,024,373	(901,001)	453,046	329,674		N/A	22,077	44,550	28,800		
SIP L.P. (2010)	Sep-20	11,000	(5,312)	16,803	11,115		N/A	2,779				
FCO MA LSS (2010)	Jun-24	91,546	(7,003)	94,906	10,363		N/A	2,080				
FCO MA II (2010)	Jun-22	183,718	(18,302)	206,150	40,734		N/A	7,739				
FCO MA Maple Leaf (2010)	Oct-20	70,600		71,201	601	1,893	1,292					
Assets Overflow Fund (2008)	May-18	90,500	(112,344)	1	21,845		N/A		2,180	1,517		
Japan Opportunity Fund (2009)	Jun-19	782,322	(257,842)	663,149	138,669		N/A	19,979	8,053			
Net Lease Fund I (2010)	Feb-23	32,136	(4,880)	31,820	4,564		N/A	601				
Global Opportunities Fund (2010)	Sep-20	37,927		35,846	(2,081)	950	3,031					
Life Settlements Fund (2010)	Dec-22	261,896		258,051	(3,845)	5,457	9,302					
Life Settlements Fund MA (2010)	Dec-22	21,437		21,095	(342)	451	793					
								\$ 245,883	\$ 234,037	\$ 116,017	\$	\$

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

	Incentive Income Eligible NAV (K)	Gain to Cross Incentive Income Threshold (L)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (M)	Undistributed Incentive Income (N)	Year to date Incentive Income Crystallized (O)
Liquid Hedge Funds					
Macro Funds (P)					
Main fund investments	\$ 2,516,963	\$ 29	99.9%	\$ 11,777	\$ 721
Sidepocket investments (Q)	64,088	32,567	N/A	720	
Sidepocket investments - redeemers (R)	269,022	124,777	N/A	3,305	
Managed accounts	799,866		100.0%	1,638	
Fortress Commodities Funds (S)					
Main fund investments	936,419		100.0%	5,593	964
Managed accounts	149,110		100.0%		890
Credit Hedge Funds					
Special Opportunities Funds (S)					
Main fund investments	\$ 2,762,713	\$	100.0%	\$ 31,820	\$
Sidepocket investments (Q)	131,737	1,549	N/A	3,417	
Sidepocket investments - redeemers (R)	214,464	77,413	N/A	1,676	
Main fund investments (liquidating) (T)	1,906,364	173,872	87.4%	31,576	1,505
Managed accounts	34,469	13,136	0.0%		
Fortress Partners Funds (S)					
Main fund investments	186,364	34,867	0.1%	1	
Sidepocket investments (Q)	96,071	26,876	N/A	664	
Worden Funds					
Main fund investments	206,896		100.0%	2,474	
Value Recovery Funds (U)					
Managed accounts	98,161	6,637	68.7%	444	

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

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

(C) A NAV deficit represents the gain needed to cross the incentive income threshold (as described in (E) below), excluding the impact of any relevant performance (i.e. preferred return) thresholds (as described in (D) below). As of period end, there is an aggregate NAV surplus within both the private equity funds and credit PE funds.

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

- (D) Represents the gain needed to achieve the current relevant performance thresholds, assuming the gain described in (C) above is already achieved.
- (E) Represents the immediate increase in NAV needed for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see (I) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (H) below).
- (F) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV.
- (G) Represents the amount of incentive income previously received from the fund since inception.
- (H) Represents the amount of incentive income previously received from the fund which is still subject to contingencies and is therefore recorded on the consolidated balance sheet as Deferred Incentive Income. This amount will either be recorded as revenue when all related contingencies are resolved, or, if the fund does not meet certain performance thresholds, will be returned by Fortress to the fund (i.e., clawed back).
- (I) Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. Gross and Net refer to amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. Fortress remains liable to the funds for these amounts even if it is unable to collect the amounts from employees/affiliates. Fortress withheld a portion of the amounts due to employees under these profit sharing arrangements as a reserve against future clawback; as of March 31, 2011, Fortress held \$48.2 million of such amounts on behalf of employees related to all of the private equity funds.
- (J) Fund I undistributed and distributed incentive income amounts are presented for the total fund, of which Fortress is entitled to approximately 50%. Distributed incentive income subject to clawback for Fund I is presented with respect to Fortress's portion only.
- (K) Represents the portion of a fund's NAV or trading level that is eligible to earn incentive income.
- (L) Represents, for those fund investors whose NAV is below the performance threshold Fortress needs to obtain before it can earn incentive income

Table of Contents

FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

MARCH 31, 2011

(dollars in tables in thousands, except share data)

from such investors (their incentive income threshold or high water mark), the amount by which their aggregate incentive income thresholds exceed their aggregate NAVs. The amount by which the NAV of each investor within this category is below their respective incentive income threshold varies and, therefore, Fortress may begin earning incentive income from certain investors before this entire amount is earned back. Fortress earns incentive income whenever the assets of new investors, as well as of investors whose NAV exceeds their incentive income threshold, increase in value.

- (M) 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.
- (N) Represents the amount of additional incentive income Fortress would earn from the fund if it were liquidated at the end of the period at its NAV. This amount is currently subject to performance contingencies generally until the end of the year or, in the case of sidepocket investments, until such investments are realized. For the Value Recovery Fund managed accounts, Fortress can earn incentive income if aggregate realizations exceed an agreed threshold. Main Fund Investments (Liquidating) pay incentive income only after all capital is returned.
- (O) Represents the amount of incentive income Fortress has earned in the current period from the fund which is no longer subject to contingencies.
- (P) Represents the Drawbridge Global Macro Funds, Fortress Macro Funds and Fortress Asia Macro Fund. The Drawbridge Global Macro SPV (the SPV), which was established in February 2009 to liquidate illiquid investments and distribute the proceeds to then existing investors, is not subject to incentive income and is therefore not presented in the table. However, realized gains or losses within the SPV can decrease or increase, respectively, the gain needed to cross the incentive income threshold for investors with a corresponding investment in the main fund. The impact of the unrealized gains and losses within the SPV at March 31, 2011, as if they became realized, was immaterial to the amounts presented in the table for the Macro main fund.
- (Q) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. The performance of these investments may impact Fortress's ability to earn incentive income from main fund investments. For the credit hedge funds, realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments. For the Macro Funds, only realized losses from individual sidepockets reduce the incentive income earned from main fund investments. Based on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at March 31, 2011, the undistributed incentive income from the Macro main fund would be decreased by approximately \$3.8 million.

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

- (R) Represents investments held in sidepockets for investors with no corresponding investment in the related main fund investments. In the case of the Macro Funds, such investors may have investments in the SPV (see (P) above).
- (S) Includes onshore and offshore funds.
- (T) Relates to accounts where investors have provided return of capital notices and are subject to payout as underlying fund investments are realized.
- (U) Excludes the Value Recovery Funds which had a NAV of \$783.4 million at March 31, 2011. Fortress began managing the third party originated Value Recovery Funds in June 2009 and does not expect to earn any incentive income from the fund investments.

Private Equity Funds and Credit PE Funds

During the three months ended March 31, 2011, the capital commitment period of Fund V, Fund V Coinvestment and FECl expired. At such time, the AUM for these funds were reduced in aggregate by approximately \$2.0 billion and, beginning in July 2011, these funds will generate lower management fees.

Liquid Hedge Funds and Credit Hedge Funds

During the three months ended March 31, 2011, Fortress formed, or became the manager of, hedge funds with net asset values as follows as of March 31, 2011:

	Liquid	Credit
Fortress	\$ 20,601	\$
Fortress's affiliates	10,300	
Third party investors	23,372	
 Total NAV (A)	 \$ 54,273	 \$

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

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

Redemption notices received, and redemption payments which are made in periods after notices are received, including affiliates, have been as follows:

Three Months Ended March 31,	Liquid Hedge Funds		Credit Hedge Funds	
	Redemption Notices Received	Redemptions Paid During the Period	Redemption Notices Received	Redemptions Paid During the Period
2011	\$ 147,187	\$ 250,555	\$ 21,238	\$ 408,276
2010	\$ 263,180	\$ 715,385	\$ 16,995	\$ 450,847

The differences between notices received and redemptions paid are a result of timing (such as notices received prior to quarter end, paid afterwards), performance between the notice date and the payment date, and the contractual agreements regarding redemptions, which, in some cases, including all of the credit hedge funds, allow for delayed payment.

Traditional Asset Management

Logan Circle Partners, L.P. (Logan Circle) is a fixed income asset manager with approximately \$12.5 billion in assets under management as of March 31, 2011, which Fortress acquired in April 2010. Logan Circle is initially being reported in the unallocated section of Fortress's segments until such time as it becomes material to Fortress's operations.

Part of the acquisition price was paid with contingent consideration, which is contingent on the growth and performance of Logan Circle's business (but not contingent on the continued employment of any employees). The contingent consideration is payable in cash or Class A shares, at Fortress's option, and had an estimated fair value of approximately \$4 million at closing (maximum payment of \$28 million). The contingent consideration is measured at fair value with changes in fair value being recorded as a gain (loss). This fair value is measured based on the expected performance of Logan Circle in 2011 and a discount rate, and therefore is considered a Level 3 valuation (Note 3).

The assets acquired primarily included goodwill and other intangible assets, which have been recorded in Other Assets. The intangible assets are being amortized over their estimated useful lives, which range from 1 to 8 years. Fortress tests the Logan Circle goodwill and other intangible assets for impairment annually in the fourth quarter of each calendar year, or whenever events or circumstances indicate that it is more likely than not that Logan Circle's fair value has declined below its carrying value. No impairment was recorded during the three months ended March 31, 2011. Logan Circle's fair value is estimated based on the following key assumptions: expected retention rate of existing investors, growth expectations, estimated future fee rates, estimated operating margin, and market discount rates. These assumptions are determined primarily based on Logan Circle's past experience, Logan Circle's historical and recent investment performance, Logan Circle's business plans, current industry trends, and general economic expectations. These assumptions, particularly those relating to investor retention and growth expectations, as well as discount rates, are highly subjective and are subject to significant uncertainty with respect to future events. Continued challenging credit market conditions could adversely impact the value of Logan Circle.

During the three months ended March 31, 2011, Logan Circle generated approximately \$4.9 million of revenues (primarily management fees from non-affiliates) and \$(4.8) million of net (loss). This net (loss) does not include the change in fair value of the contingent consideration, but does include approximately \$1.6 million of allocated corporate overhead. In connection with the acquisition of Logan Circle, Fortress established a compensation plan for former Logan Circle employees who became employees of Fortress (the Logan Circle Comp Plan see Note 7).

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

3. INVESTMENTS AND FAIR VALUE

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

Investments can be summarized as follows:

	March 31, 2011	December 31, 2010
Equity method investees	\$ 1,024,794	\$ 949,410
Equity method investees, held at fair value	56,988	60,324
Total equity method investments	1,081,782	1,009,734
Options in equity method investees	9,474	3,149
Total investments	\$ 1,091,256	\$ 1,012,883

Gains (losses) from investments can be summarized as follows:

	Three Months Ended March 31,	
	2011	2010
Net realized gains (losses)	\$ 278	\$ 400
Net realized gains (losses) from affiliate investments	(383)	(329)
Net unrealized gains (losses)	(1,468)	
Net unrealized gains (losses) from affiliate investments	(3,190)	501
Total gains (losses)	\$ (4,763)	\$ 572

Investments in Equity Method Investees

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

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

	Fortress's Investment		Fortress's Equity in Net Income (Loss)	
	March 31, 2011	December 31, 2010	Three Months Ended March 31,	
			2011	2010
Private equity funds, excluding NIH (A)	\$ 663,849	\$ 611,794	\$ 55,263	\$ 9,242
NIH	1,476	1,664	(43)	(149)
Newcastle (B)	6,195	6,872	N/A	N/A
Eurocastle (B)	2,451	2,184	N/A	N/A
Total private equity	673,971	622,514	55,220	9,093
Liquid hedge funds	49,537	16,670	1,867	266
Credit hedge funds	229,345	238,783	10,978	9,334
Credit PE funds	122,415	125,265	4,505	(48)
Other	6,514	6,502	(167)	1,236
	\$ 1,081,782	\$ 1,009,734	\$ 72,403	\$ 19,881

- (A) Includes Fortress's direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH.
- (B) Fortress elected to record these investments, as well as its direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH, at fair value pursuant to the fair value option for financial instruments.

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

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

	Three Months Ended March 31, 2011							Total
	NIH	Private Equity Other Funds (A)	Castles (B)	Liquid Hedge Funds	Hedge Funds	Credit PE Funds	Other	
Investment, beginning	\$ 1,664	\$ 611,794	\$ 9,056	\$ 16,670	\$ 238,783	\$ 125,265	\$ 6,502	\$ 1,009,734
Earnings from equity method investees	(43)	55,263	N/A	1,867	10,978	4,505	(167)	72,403
Other comprehensive income from equity method investees	(2)		N/A			(671)		(673)
Contributions to equity method investees		114		76,616	95,988	6,016	195	178,929
Distributions of earnings from equity method investees			N/A	(739)	(3,851)	(3,348)	(16)	(7,954)
Distributions of capital from equity method investees	(143)	(288)	N/A	(44,877)	(112,553)	(7,526)		(165,387)
Total distributions from equity method investees	(143)	(288)	N/A	(45,616)	(116,404)	(10,874)	(16)	(173,341)
Mark to fair value - during period (C)	N/A	(6,411)	(538)	N/A	N/A	N/A	N/A	(6,949)
Translation adjustment		3,377	128					3,505
Dispositions						(1,826)		(1,826)
Investment, ending	\$ 1,476	\$ 663,849	\$ 8,646	\$ 49,537	\$ 229,345	\$ 122,415	\$ 6,514	\$ 1,081,782
Ending balance of undistributed earnings	\$	\$ 14,406	N/A	\$ 981	\$ 9,535	\$ 3,409	\$ 1,724	\$ 30,055

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

(B) Fortress elected to record these investments, as well as its direct investment in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH, at fair value pursuant to the fair value option for financial instruments.

(C) Recorded to Gains (Losses).

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

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

	<i>Private Equity Funds excluding NIH</i>	
	March 31, 2011	December 31, 2010
Assets	\$ 13,788,995	\$ 12,490,411
Debt	(232,685)	(145,043)
Other liabilities	(197,261)	(197,587)
Equity	\$ 13,359,049	\$ 12,147,781
Fortress s Investment (A)	\$ 663,849	\$ 611,794
Ownership (B)	5.0%	5.0%
	Three Months Ended March 31,	
	2011	2010
Revenues and gains (losses) on investments	\$ 1,306,321	\$ 301,821
Expenses	(61,001)	(56,796)
Net Income (Loss)	\$ 1,245,320	\$ 245,025
Fortress s equity in net income (loss)	\$ 55,263	\$ 9,242

(A) Includes Fortress s direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH. These companies summary financial information is not included in this table.

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

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

The following tables set forth certain information as of March 31, 2011 regarding variable interest entities in which Fortress holds a variable interest. The amounts presented below are included in, and not in addition to, the equity method investment tables above.

Entities formed during the three months ended March 31, 2011:

Business Segment	Gross Assets	Fortress is not Primary Beneficiary		Notes
		Financial Obligations (A)	Fortress Investment (B)	
Credit PE Funds	\$ 71,921	\$ 71,167	\$ 758	(C)

- (A) Represents financial obligations at the fund level, which are not recourse to Fortress. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these funds have additional debt within unconsolidated subsidiaries. Of the financial obligations represented herein as of March 31, 2011, \$4.0 million represent financial borrowings which have a weighted average maturity of 1 year for the credit PE funds.
- (B) Represents Fortress's maximum exposure to loss with respect to these entities, which includes direct and indirect investments in these funds. In addition to the table above, Fortress is exposed to potential changes in cash flow and revenues attributable to the management fees and/or incentive income Fortress earns from those entities.
- (C) Fortress is not the primary beneficiary of these entities, which represent investing vehicles, because the related funds (which are not consolidated) are more closely associated with these entities than Fortress based on both a quantitative and qualitative analysis. The investing vehicles were formed for the sole purpose of acting as investment vehicles for the related funds.

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

All variable interest entities:

Business Segment	Gross Assets	Fortress is not Primary Beneficiary					Notes
		March 31, 2011		December 31, 2010			
		Financial	Fortress	Financial	Fortress	Fortress	
		Obligations (A)	Investment (B)	Gross Assets	Obligations (A)	Investment (B)	
Private Equity Funds	\$ 327,739	\$ 190,705	\$ 1,514	\$ 329,999	\$ 189,738	\$ 1,974	(C) (D)
Castles	10,813,492	10,127,537	25,121	10,183,554	9,944,424	19,122	(C) (D)
Liquid Hedge Funds	3,514,444	772,670	2,292	3,335,418	690,280	41,051	(C) (D)
Credit Hedge Funds	2,154,898	388,807	19,697	2,287,545	410,682	41,358	(C) (D)
Credit PE Funds	804,197	800,010	3,069	930,513	450,530	1,962	(C) (D)

(A) Represents financial obligations at the fund level, which are not recourse to Fortress. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these funds have additional debt within unconsolidated subsidiaries.

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

(C) Fortress is not the primary beneficiary of the Castles and NIH because it does not absorb a majority of their expected income or loss based on a quantitative analysis. Of the remaining entities represented herein, which represent investing vehicles, intermediate entities and master funds, Fortress is not the primary beneficiary because the related funds, intermediate entities and feeder funds (which are not consolidated) are more closely associated with these entities than Fortress based on both a quantitative and qualitative analysis. The investing vehicles, intermediate entities and master funds were formed for the sole purpose of acting as investment vehicles for the related funds.

(D) Fortress's investment includes management fees receivable, incentive income receivable, expense reimbursements and other receivables from these entities, as applicable.

In March 2010, Fortress determined that a reconsideration event had occurred with respect to an operating subsidiary (FCF) of one of its private equity funds. FCF provides operating services to all of Fortress's private equity funds and is reimbursed for related costs by the private equity funds based on a contractual formula. Therefore, FCF by design does not produce net income or have equity. As a result of this reconsideration event, FCF was deemed to be a VIE and Fortress, as a result of directing the operations of FCF through its management contracts with the private equity funds, and providing financial support to FCF, was deemed to be its primary beneficiary. Therefore, Fortress consolidated FCF beginning in March 2010. As of March 31, 2011, FCF's gross assets were approximately \$37.4 million, primarily comprised of affiliate receivables. Fortress's exposure to loss from FCF is limited to its unreserved outstanding advances, which were approximately \$24.8 million at March 31, 2011, plus any future advances. Subsequent to Fortress's consolidation of FCF, these advances are eliminated in consolidation. FCF's creditors do not have recourse to Fortress's other assets.

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

In March 2011, Fortress launched a liquid hedge fund and a related onshore feeder fund, which is a VIE. The onshore feeder fund invests substantially all of its equity directly into the liquid hedge fund. Based on a quantitative and qualitative analysis, management has determined that Fortress is currently the entity that is most closely associated with the onshore feeder fund. Therefore, Fortress is the onshore feeder fund's primary beneficiary and must consolidate it. As of March 31, 2011, the onshore feeder fund's gross assets were approximately \$30.9 million. Fortress's exposure to loss from the onshore feeder fund is limited to its investment in the entity, which was approximately \$19.6 million at March 31, 2011. As a result of Fortress's consolidation of the onshore feeder fund, Fortress's investment in the entity is eliminated in consolidation. As of March 31, 2011, the onshore feeder fund did not have any outstanding financial obligations. Creditors of the onshore feeder fund do not have recourse to Fortress's other assets.

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

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		Valuation Method
	March 31, 2011	December 31, 2010	
Assets (within Investments)			
Newcastle and Eurocastle common shares	\$ 6,565	\$ 7,222	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies, primarily GAGFAH	\$ 48,342	\$ 51,267	Level 1 - Quoted prices in active markets for identical assets
Eurocastle convertible debt (A)	\$ 2,081	\$ 1,834	Level 3 - Binomial lattice-based option valuation models, adjusted for non-option characteristics
Newcastle and Eurocastle options	\$ 9,474	\$ 3,149	Level 2 - Lattice-based option valuation models using significant observable inputs
Liabilities (within Other Liabilities)			
Logan Circle Contingent Consideration	\$ (2,174)	\$ (3,122)	Level 3 - Internal model using significant unobservable inputs
Derivatives	\$ (3,758)	\$ (2,732)	Level 2 - See below

(A) The debt bears interest at 20% per annum and is perpetual, but Eurocastle may redeem the securities after June 2011 at a premium of 20%. As of March 31, 2011, it had a face amount of 1.2 million (\$1.7 million) and was convertible into Eurocastle common shares at 0.30 per share. The fair value was determined using the market value approach.

Fortress's interests in instruments measured at fair value using Level 3 inputs changed during the three months ended March 31, 2011 as follows:

	Assets	Liabilities
Balance at December 31, 2010	\$ 1,834	\$ (3,122)
Total gains (losses) included in net income (including foreign currency translation)	247	948
Balance at March 31, 2011	\$ 2,081	\$ (2,174)

See Note 4 regarding the fair value of Fortress's outstanding debt.

In March 2011, Newcastle issued 17.3 million shares of its common stock in a public offering at a price to the public of \$6.00 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 1,725,000 shares of Newcastle's common stock at the public offering price, which were valued at approximately

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

\$7.0 million. The options were fully vested upon issuance, become exercisable over thirty months and have a 10-year term.

Derivatives

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

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

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

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

	Balance Sheet Location (A)	Fair Value March 31, 2011	Notional Amount March 31, 2011	Gains/(Losses) Three Months Ended March 31, 2011	Maturity Date
Foreign exchange forward contract	Other Liabilities	(\$ 4,299)	20,000	(\$ 1,567)	Jun-11
Foreign exchange forward contract	Other Liabilities	\$ 764	20,000	\$ 764	Jun-11
Foreign exchange option contract	Other Liabilities	\$ 1,082	30,000	(\$ 432)	Feb-12
Foreign exchange option contract	Other Liabilities	(\$ 1,305)	30,000	(\$ 233)	Feb-12

(A) Fortress has a master netting agreement with its counterparty. The counterparty on these derivatives is Citibank N.A.

4. DEBT OBLIGATIONS

Debt Obligation	Face Amount and Carrying Value		Contractual Interest Rate	Final Stated Maturity	March 31, 2011	
	March 31, 2011	December 31, 2010			Weighted Average Funding Cost (A)	Weighted Average Maturity (Years)
Credit agreement (B)						
Revolving debt (C)	\$	\$	LIBOR + 4.00% (D)	Oct-13		
Term loan	275,000	277,500	LIBOR + 4.00% (D)	Oct-15	5.87%	3.48
Total	\$ 275,000	\$ 277,500			5.87%	3.48

(A) The weighted average funding cost is calculated based on the contractual interest rate (utilizing the most recently reset LIBOR rate or the minimum rate, as applicable) plus the amortization of deferred financing costs. The most recently reset LIBOR rate was below the minimum of 1.75%.

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

(C) Approximately \$51.4 million was undrawn on the revolving debt facility as of March 31, 2011. The revolving debt facility includes a \$25 million letter of credit subfacility of which \$8.6 million was utilized.

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

(D) With a minimum LIBOR rate of 1.75% and, in the case of the revolving debt, subject to unused commitment fees of 0.625% per annum. To management's knowledge, there have not been any market transactions in Fortress's debt obligations. However, management believes the fair value of this debt was approximately equal to its face amount at March 31, 2011.

Fortress was in compliance with all of its debt covenants as of March 31, 2011. The following table sets forth the financial covenant requirements as of March 31, 2011.

March 31, 2011			
(dollars in millions)			
	Requirement	Actual	Notes
AUM	³ \$ 25,000	\$ 34,784	(A)
Consolidated Leverage Ratio	£ 2.75	0.62	(B)
Minimum Investment Assets Ratio	³ 2.00	3.93	(C)
Consolidated Fixed Charge Coverage Ratio	³ 1.75	9.53	(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 in the credit agreement.

(B) Impacted by EBITDA, as defined, which is impacted by the same factors as distributable earnings, except EBITDA is not impacted by changes in clawback reserves or gains and losses, including impairment, on investments.

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

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

5. INCOME TAXES AND TAX RELATED PAYMENTS

Fortress incurred a loss before income taxes for financial reporting purposes, after deducting the compensation expense arising from the Principals forfeiture agreement. However, this compensation expense is not deductible for income tax purposes. Also, a portion of Fortress's income is not subject to U.S. federal income tax, but is allocated directly to Fortress's shareholders.

Fortress recognizes compensation expense from the issuance of RSUs and RPU's over their vesting period. Consequently, Fortress records an estimated income tax benefit associated with RSUs and RPU's. 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. If the actual tax benefit is less than that estimated, which will occur if the price of the stock has declined during the vesting period, Fortress has a tax shortfall. The tax shortfall must be charged to income tax expense to the extent Fortress does not have prior excess tax benefits (i.e., prior actual tax benefits associated with RSUs and RPU's that were greater than the estimated benefits).

Based on the value of the RSUs and RPU's which vested during the three months ended March 31, 2011, Fortress has estimated an \$18 million tax shortfall which was charged to income tax expense during the first quarter.

The provision for income taxes consists of the following:

	Three Months Ended March 31,	
	2011	2010
<u>Current</u>		
Federal income tax expense (benefit)	\$ 5,270	\$ 81
Foreign income tax expense (benefit)	3,004	587
State and local income tax expense (benefit)	2,236	1,610
	10,510	2,278
<u>Deferred</u>		
Federal income tax expense (benefit)	8,290	(1,069)
Foreign income tax expense (benefit)	5	3
State and local income tax expense (benefit)	2,614	340
	10,909	(726)
Total expense (benefit)	\$ 21,419	\$ 1,552

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

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

	March 31, 2011	December 31, 2010
Total deferred tax assets	\$ 505,808	\$ 512,201
Valuation allowance	(94,421)	(96,211)
Net deferred tax assets	\$ 411,387	\$ 415,990
Total deferred tax liabilities (A)	\$ 503	\$ 495

(A) Included in Other Liabilities

For the three months ended March 31, 2011, a deferred income tax benefit of \$0.2 million was credited to other comprehensive income, primarily related to the equity method investees. A current income tax benefit of \$0.5 million was credited to paid-in capital, related to (i) dividend equivalent payments on RSUs and RPU's (Note 8), as applicable, and (ii) distributions to Fortress Operating Group restricted partnership unit holders (Note 8), which are currently deductible for income tax purposes.

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

FIG Corp increased its ownership in the underlying Fortress Operating Group entities during the three months ended March 31, 2011 through (i) the exchanges by one senior employee of Fortress Operating Group units and Class B shares for Class A shares (as described in Note 8), and (ii) the delivery of vested RSUs and RPU's (Note 8). As a result of this increased ownership, the deferred tax asset was increased by \$2.1 million with an offsetting increase of \$0.8 million to the valuation allowance. In addition, the deferred tax asset was increased by \$5.3 million with an offsetting increase of \$0.3 million to the valuation allowance related to a step-up in tax basis due to the share exchange which will result in additional tax deductions. The establishment of these net deferred tax assets also increased additional paid-in capital.

Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the three months ended March 31, 2011, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be \$4.6 million. During the three months ended March 31, 2011, \$13.5 million was paid under the tax receivable agreement relating to 2009.

6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES***Affiliate Receivables and Payables***

Due from affiliates was comprised of the following:

	Private Equity		Liquid Hedge Funds	Credit		Other	Total
	Funds	Castles		Hedge Funds	PE Funds		
March 31, 2011							
Management fees and incentive income (A)	\$ 79,366	\$ 3,916	\$ 1,676	\$ 26,978	\$ 12,659	\$	\$ 124,595
Expense reimbursements (A)	1,589	3,085	3,994	5,403	3,661		17,732
Expense reimbursements - FCF (A)(B)	29,530						29,530
Dividends and distributions	806						806
Other	8	652	13,219		1,246	3,054	18,179
Total	\$ 111,299	\$ 7,653	\$ 18,889	\$ 32,381	\$ 17,566	\$ 3,054	\$ 190,842

	Private Equity		Liquid Hedge Funds	Credit		Other	Total
	Funds	Castles		Hedge Funds	PE Funds		
December 31, 2010							
Management fees and incentive income (A)	\$ 53,282	\$ 3,836	\$ 45,591	\$ 110,952	\$ 15,508	\$	\$ 229,169
Expense reimbursements (A)	1,170	3,081	2,052	4,034	3,949	4	14,290
Expense reimbursements - FCF (B)	42,385						42,385
Dividends and distributions	762						762

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Other	3	521	13,219	1	2,693	16,437
Total	\$ 97,602	\$ 7,438	\$ 60,862	\$ 114,986	\$ 19,458	\$ 2,697

(A) Net of allowances for uncollectable management fees and expense reimbursements of \$11.7 million and \$4.9 million at March 31, 2011, respectively, and of \$11.6 million and \$1.5 million as of December 31, 2010, respectively. Allowances are recorded as General and Administrative expenses.

(B) Represents expense reimbursements due to FCF, a consolidated VIE (Note 3).

As of March 31, 2011, amounts due from Fortress Funds recorded in Due from Affiliates included \$73.7 million of past due management fees, excluding \$11.7 million which has been fully reserved by Fortress, and \$25.9 million of private equity general and administrative expenses advanced on behalf of certain Fortress Funds. Although such funds are currently experiencing liquidity issues, Fortress believes the unreserved portion of these fees will ultimately be collectable since the NAV s of the respective funds exceed the amounts owed.

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

Due to affiliates was comprised of the following:

	March 31, 2011	December 31, 2010
Principals - Tax receivable agreement - Note 5	\$ 282,092	\$ 295,541
Distributions payable on Fortress Operating Group units	16,345	42,900
Other	5,666	3,956
	\$ 304,103	\$ 342,397

Other Related Party Transactions

For the three months ended March 31, 2011 and 2010, Other Revenues included approximately \$1.0 million and \$2.1 million, respectively, of revenues from affiliates, primarily dividends.

Fortress has entered into cost sharing arrangements with the Fortress Funds, including market data services and subleases of certain of its office space. Expenses borne by the Fortress Funds under these agreements are generally paid directly by those entities (i.e. they are generally not paid by Fortress and reimbursed). For the three months ended March 31, 2011 and 2010, these expenses approximated \$0.5 million and \$3.6 million, respectively.

In February 2011, Fortress made \$1.3 million of advances to senior employees (not officers) in connection with their investments in one of the Fortress Funds. These advances bear interest generally at LIBOR+4% and are due upon the maturity of the fund or, at Fortress's option, upon the termination of employment.

In February 2011, Fortress made a \$9.5 million advance to a senior employee (not an officer) in connection with his investments in Fortress Funds. This advance bore interest generally at LIBOR+4% and was repaid in March 2011.

Principals and Others Interests in Consolidated Subsidiaries

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

This balance sheet caption was comprised of the following:

	March 31, 2011	December 31, 2010
Fortress Operating Group units held by the Principals and one senior employee	\$ 477,558	\$ 458,842
Employee interests in majority owned and controlled fund advisor and general partner entities	88,784	57,609
Other	2,682	1,500

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Total \$ 569,024 \$ 517,951

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

	Three Months Ended March 31,	
	2011	2010
Fortress Operating Group units held by the Principals and one senior employee	\$ (154,328)	\$ (180,123)
Employee interests in majority owned and controlled fund advisor and general partner entities	2,578	2,654
Other	(12)	288
Total	\$ (151,762)	\$ (177,181)

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

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

	Three Months Ended March 31,	
	2011	2010
Net income (loss) attributable to Fortress	\$ (103,432)	\$ (84,151)
Transfers (to) from the Principals and Others Interests:		
Increase in Fortress's shareholders' equity for the conversion of Fortress Operating Group units by the Principals and one senior employee	3,845	
Increase in Fortress's shareholders' equity for the delivery of Class A shares primarily in connection with vested RSUs and RPU's	1,016	3,433
Decrease in Fortress's shareholders' equity for the purchase of Fortress Operating Group units in connection with an equity offering		
Change from net income (loss) attributable to Fortress and transfers (to) from Principals and Others Interests	\$ (98,571)	\$ (80,718)

Table of Contents**FORTRESS INVESTMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2011

(dollars in tables in thousands, except share data)

7. EQUITY-BASED AND OTHER COMPENSATION

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

	Three Months Ended March 31,	
	2011	2010
Equity-based compensation, per below	\$ 64,330	\$ 63,806
Profit-sharing expense, per below	58,656	50,414
Discretionary bonuses	50,082	34,359
Other payroll, taxes and benefits	42,367	30,814
	\$ 215,435	\$ 179,393

Equity-Based Compensation

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

	RSUs				Restricted Shares		RPU	
	Employees		Non-Employees		Issued to Directors		Employees	
	Number	Value (A)	Number	Value (A)	Number	Value (A)	Number	Value (A)
Outstanding as of December 31, 2010	44,289,586	\$ 11.63	1,196,943	\$ 11.11	426,669	\$ 6.58	31,000,000	\$ 13.75
Issued	5,169,104	5.65			26,351	5.76		
Converted to Class A shares	(3,250,051)	17.88					(4,749,434)	13.75
Converted to Class B shares								