Fortress Investment Group LLC
Form 10-Q
August 02, 2012
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# 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 June 30, 2012**

**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**<br>(State or other jurisdiction of incorporation or organization) | **20-5837959**<br>(I.R.S. Employer Identification No.) |
| **1345 Avenue of the Americas, New York, NY**<br>(Address of principal executive offices) | **10105**<br>(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 x No o

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

Indicate by check mark 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 o | Accelerated filer x |
| Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

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: 215,174,918 outstanding as of August 1, 2012.

Class B Shares: 300,273,852 outstanding as of August 1, 2012.

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## PART II. OTHER INFORMATION

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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 and certain advisory engagements which pay fees based on realizations (and on certain managed assets and, in some cases, a fixed fee); and

(iv) the NAV or fair value of our managed accounts, to the extent management fees are charged.

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

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

Fortress, we, us, our, 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 are in part owned directly by the principals and one senior employee, and in part owned indirectly by Fortress Investment Group LLC, and whose equity interests are comprised of Fortress Operating Group units ( FOGUs ).

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.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

**SPECIAL NOTE REGARDING EXHIBITS**

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

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

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

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

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**FORTRESS INVESTMENT GROUP LLC**

**CONSOLIDATED BALANCE SHEETS (Unaudited)**

(dollars in thousands)

| | June 30, 2012 (Unaudited) | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 184,174 | $ 333,166 |
| Due from affiliates | 269,795 | 298,689 |
| Investments | 1,136,030 | 1,079,777 |
| Deferred tax asset | 378,100 | 400,196 |
| Other assets | 104,106 | 108,858 |
| | $ 2,072,205 | $ 2,220,686 |
| | | |
| **Liabilities and Equity** | | |
| | | |
| **Liabilities** | | |
| Accrued compensation and benefits | $ 148,649 | $ 247,024 |
| Due to affiliates | 329,754 | 354,158 |
| Deferred incentive income | 233,811 | 238,658 |
| Debt obligations payable | 189,278 | 261,250 |
| Other liabilities | 50,782 | 57,204 |
| | 952,274 | 1,158,294 |
| | | |
| **Commitments and Contingencies** | | |
| | | |
| **Equity** | | |
| Class A shares, no par value, 1,000,000,000 shares authorized, 215,174,918 and 189,824,053 shares issued and outstanding at June 30, 2012 and December 31, 2011 respectively | | |
| Class B shares, no par value, 750,000,000 shares authorized, 300,273,852 and 305,857,751 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively | | |
| Paid-in capital | 2,036,124 | 1,972,711 |
| Retained earnings (accumulated deficit) | (1,508,751) | (1,484,120) |
| Accumulated other comprehensive income (loss) | (1,957) | (1,160) |
| Total Fortress shareholders equity | 525,416 | 487,431 |
| Principals and others interests in equity of consolidated subsidiaries | 594,515 | 574,961 |
| Total equity | 1,119,931 | 1,062,392 |
| | $ 2,072,205 | $ 2,220,686 |

See notes to consolidated financial statements

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**FORTRESS INVESTMENT GROUP LLC**

**CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

(dollars in thousands)

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Management fees: affiliates | $ 117,834 | $ 116,048 | $ 224,129 | $ 234,916 |
| Management fees: non-affiliates | 10,383 | 14,375 | 21,772 | 28,776 |
| Incentive income: affiliates | 24,216 | 14,531 | 33,018 | 29,607 |
| Incentive income: non-affiliates | 469 | 7 | 776 | 985 |
| Expense reimbursements from affiliates | 45,079 | 43,645 | 88,681 | 87,987 |
| Other revenues (affiliate portion disclosed in Note 6) | 1,067 | 1,210 | 2,330 | 4,362 |
| | 199,048 | 189,816 | 370,706 | 386,633 |
| **Expenses** | | | | |
| Interest expense | 4,135 | 4,640 | 8,502 | 9,300 |
| Compensation and benefits | 172,467 | 161,398 | 355,846 | 376,833 |
| Principals agreement compensation (expired in 2011) | | 237,367 | | 472,126 |
| General, administrative and other | 32,695 | 35,198 | 62,361 | 75,380 |
| Depreciation and amortization | 3,258 | 3,267 | 6,736 | 6,347 |
| | 212,555 | 441,870 | 433,445 | 939,986 |
| **Other Income (Loss)** | | | | |
| Gains (losses) (affiliate portion disclosed in Note 3) | 7,148 | (6,759) | 31,770 | (11,522) |
| Tax receivable agreement liability adjustment | | | (6,935) | (116) |
| Earnings (losses) from equity method investees | 23,143 | 18,497 | 58,383 | 90,900 |
| | 30,291 | 11,738 | 83,218 | 79,262 |
| **Income (Loss) Before Income Taxes** | 16,784 | (240,316) | 20,479 | (474,091) |
| Income tax benefit (expense) | (2,528) | (5,786) | (30,370) | (27,205) |
| **Net Income (Loss)** | $ 14,256 | $ (246,102) | $ (9,891) | $ (501,296) |
| **Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries** | $ 9,347 | $ (151,566) | $ 14,740 | $ (303,328) |
| **Net Income (Loss) Attributable to Class A Shareholders** | $ 4,909 | $ (94,536) | $ (24,631) | $ (197,968) |
| **Dividends declared per Class A share** | $ 0.05 | $ | $ 0.10 | $ |
| Earnings Per Class A share | | | | |
| Net income (loss) per Class A share, basic | $ 0.02 | $ (0.52) | $ (0.12) | $ (1.10) |
| Net income (loss) per Class A share, diluted | $ (0.12) | $ (0.56) | $ (0.13) | $ (1.11) |
| Weighted average number of Class A shares outstanding, basic | 216,145,015 | 184,952,566 | 208,077,683 | 183,018,516 |
| Weighted average number of Class A shares outstanding, diluted | 516,418,867 | 490,810,317 | 516,111,391 | 490,634,345 |

See notes to consolidated financial statements

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**FORTRESS INVESTMENT GROUP LLC**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**

(dollars in thousands)

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Comprehensive income (loss) (net of tax) | | | | |
| Net income (loss) | $ 14,256 | $ (246,102) | $ (9,891) | $ (501,296) |
| Foreign currency translation | (135) | (136) | (1,052) | 102 |
| Comprehensive income (loss) from equity method investees | 577 | 1,251 | (91) | 838 |
| Total comprehensive income (loss) | $ 14,698 | $ (244,987) | $ (11,034) | $ (500,356) |
| Comprehensive income (loss) attributable to principals and others interests | $ 9,650 | $ (150,515) | $ 14,131 | $ (302,542) |
| | | | | |
| Comprehensive income (loss) attributable to Class A shareholders | $ 5,048 | $ (94,472) | $ (25,165) | $ (197,814) |

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**FORTRESS INVESTMENT GROUP LLC**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)**

FOR THE SIX MONTHS ENDED JUNE 30, 2012

(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, 2011** | 189,824,053 | 305,857,751 | $ 1,972,711 | $ (1,484,120) | $ (1,160) | $ 487,431 | $ 574,961 | $ 1,062,392 |
| Contributions from principals and others interests in equity | | | | | | | 15,263 | 15,263 |
| Distributions to principals and others interests in equity | | | (86) | | | (86) | (46,085) | (46,171) |
| Dividends declared | | | (20,350) | | | (20,350) | | (20,350) |
| Dividend equivalents accrued in connection with equity-based compensation | | | (456) | | | (456) | (639) | (1,095) |
| Conversion of Class B shares to Class A shares | 15,917,232 | (15,917,232) | 19,388 | | (150) | 19,238 | (19,238) | |
| Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units | | | 9,173 | | | 9,173 | | 9,173 |
| Director restricted share grant | 257,918 | | 344 | | | 344 | 500 | 844 |
| Capital increase related to equity-based compensation, net | 9,175,715 | 10,333,333 | 44,586 | | | 44,586 | 66,323 | 110,909 |
| Dilution impact of Class A share issuance | | | 10,814 | | (113) | 10,701 | (10,701) | |
| Comprehensive income (loss) (net of tax) | | | | | | | | |
| Net income (loss) | | | | (24,631) | | (24,631) | 14,740 | (9,891) |
| Foreign currency translation | | | | | (567) | (567) | (485) | (1,052) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Comprehensive income (loss) from equity method investees | | | | | 33 | 33 | (124) | (91) |
| Total comprehensive income (loss) | | | | | | (25,165) | 14,131 | (11,034) |
| **Equity - June 30, 2012** | 215,174,918 | 300,273,852 | $ 2,036,124 | $ (1,508,751) | $ (1,957) | $ 525,416 | $ 594,515 | $ 1,119,931 |

See notes to consolidated financial statements

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**FORTRESS INVESTMENT GROUP LLC**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

(dollars in thousands)

| | Six Months Ended June 30, 2012 | | Six Months Ended June 30, 2011 | |
|---|---|---|---|---|
| **Cash Flows From Operating Activities** | | | | |
| Net income (loss) | $ | (9,891) | $ | (501,296) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities | | | | |
| Depreciation and amortization | | 6,736 | | 6,347 |
| Other amortization and accretion | | 1,206 | | 756 |
| (Earnings) losses from equity method investees | | (58,383) | | (90,900) |
| Distributions of earnings from equity method investees | | 21,145 | | 14,944 |
| (Gains) losses | | (31,770) | | 11,522 |
| Deferred incentive income | | (31,384) | | (25,399) |
| Deferred tax (benefit) expense | | 32,717 | | 15,601 |
| Reversal of forfeited non-cash compensation | | (1,725) | | |
| Options received from affiliates | | (13,226) | | (7,021) |
| Tax receivable agreement liability adjustment | | 6,935 | | 116 |
| Equity-based compensation | | 113,022 | | 594,195 |
| Options in affiliates granted to employees | | 3,377 | | |
| Allowance for doubtful accounts | | 254 | | 4,958 |
| Cash flows due to changes in | | | | |
| Due from affiliates | | (45,044) | | (14,601) |
| Other assets | | 3,673 | | 25,279 |
| Accrued compensation and benefits | | (86,585) | | (79,189) |
| Due to affiliates | | (3,647) | | (11,236) |
| Deferred incentive income | | 26,492 | | 78,537 |
| Other liabilities | | (7,435) | | (8,122) |
| Net cash provided by (used in) operating activities | | (73,533) | | 14,491 |
| **Cash Flows From Investing Activities** | | | | |
| Contributions to equity method investees | | (36,618) | | (57,776) |
| Distributions of capital from equity method investees | | 136,141 | | 168,381 |
| Purchase of fixed assets | | (5,898) | | (7,797) |
| Net cash provided by (used in) investing activities | | 93,625 | | 102,808 |
| **Cash Flows From Financing Activities** | | | | |
| Repayments of debt obligations | | (71,972) | | (5,000) |
| Dividend and dividend equivalents paid | | (21,445) | | |
| Principals and others interests in equity of consolidated subsidiaries - contributions | | 37 | | 12,856 |
| Principals and others interests in equity of consolidated subsidiaries - distributions | | (75,704) | | (107,893) |
| Net cash provided by (used in) financing activities | | (169,084) | | (100,037) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | | (148,992) | | 17,262 |
| **Cash and Cash Equivalents, Beginning of Period** | | 333,166 | | 210,632 |
| **Cash and Cash Equivalents, End of Period** | $ | 184,174 | $ | 227,894 |
| **Supplemental Disclosure of Cash Flow Information** | | | | |
| Cash paid during the period for interest | $ | 7,352 | $ | 8,025 |
| Cash paid during the period for income taxes | $ | 3,385 | $ | 6,657 |
| **Supplemental Schedule of Non-cash Investing and Financing Activities** | | | | |

| | | | | |
|---|---|---|---|---|
| Employee compensation invested directly in subsidiaries | $ | 15,130 | $ | 43,007 |
| Investments of receivable amounts into Fortress Funds | $ | 71,991 | $ | 143,397 |
| Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid | $ | | $ | |

See notes to consolidated financial statements

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**FORTRESS INVESTMENT GROUP LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

JUNE 30, 2012

(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. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments; and a fund that seeks to generate returns by executing a positively convex investment strategy.

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 non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and

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

4) Logan Circle Partners, L.P. ( Logan Circle ), which represents our traditional, fixed income asset management business.

5) Principal investments in the above described funds.

***Financial Statement Guide***

| Selected Financial Statement Captions | Note Reference | Explanation |
|---|---|---|
| Balance Sheet | | |
| 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. |

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**FORTRESS INVESTMENT GROUP LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

JUNE 30, 2012

(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 and one senior employee s ownership interests in Fortress Operating Group as well as employees ownership interests in certain subsidiaries. |
| Statement of Operations | | |
| 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 | 7 | As a result of the principals agreement, which expired in December 2011, the January 2007 value of a significant portion of the Principals equity in Fortress was recorded as an expense over an approximate five year period. Fortress was not a party to this agreement. It was an agreement between the Principals to further incentivize them to remain with Fortress. This GAAP expense had 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.

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**FORTRESS INVESTMENT GROUP LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

JUNE 30, 2012

(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. |
| Other | | |
| 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. |

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

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

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 financial statements for the year ended December 31, 2011 and notes thereto included in Fortress s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2012. Capitalized terms used herein, and not otherwise defined, are defined in Fortress s consolidated financial statements for the year ended December 31, 2011.

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

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**FORTRESS INVESTMENT GROUP LLC**

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(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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Private Equity | | | | |
| Private Equity Funds | | | | |
| Management fees - affil. | $ 29,670 | $ 35,821 | $ 59,257 | $ 71,110 |
| Management fees - non-affil. | 100 | | 171 | |
| Incentive income - affil. | | 248 | 1,107 | 3,466 |
| | | | | |
| Castles | | | | |
| Management fees - affil. | 12,534 | 12,420 | 24,683 | 24,035 |
| Management fees, options - affil. | 13,226 | | 13,226 | 7,021 |
| Management fees - non-affil. | 651 | 1,278 | 3,203 | 1,938 |
| Incentive income - affil. | | | | |
| | | | | |
| Liquid Hedge Funds | | | | |
| Management fees - affil. | 15,951 | 24,395 | 33,163 | 46,547 |
| Management fees - non-affil. | 3,243 | 4,586 | 6,198 | 9,375 |
| Incentive income - affil. | 811 | 60 | 873 | 2,060 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Incentive income - non-affil. | | 77 | | 7 | | 125 | | 985 |
| | | | | | | | | |
| Credit Funds | | | | | | | | |
| Credit Hedge Funds | | | | | | | | |
| Management fees - affil. | | 25,812 | | 26,830 | | 51,317 | | 53,633 |
| Management fees - non-affil. | | 130 | | 3,514 | | 255 | | 7,570 |
| Incentive income - affil. | | 1,026 | | 342 | | 1,283 | | 2,148 |
| Incentive income - non-affil. | | 130 | | | | 130 | | |
| | | | | | | | | |
| Credit PE Funds | | | | | | | | |
| Management fees - affil. | | 20,641 | | 16,582 | | 42,483 | | 32,570 |
| Management fees - non-affil. | | 36 | | 33 | | 72 | | 66 |
| Incentive income - affil. | | 22,379 | | 13,881 | | 29,755 | | 21,933 |
| Incentive income - non-affil. | | 262 | | | | 521 | | |
| | | | | | | | | |
| Logan Circle | | | | | | | | |
| Management fees - non-affil. | | 6,223 | | 4,964 | | 11,873 | | 9,827 |
| | | | | | | | | |
| Total | | | | | | | | |
| Management fees - affil. | $ | 117,834 | $ | 116,048 | $ | 224,129 | $ | 234,916 |
| Management fees - non-affil. | $ | 10,383 | $ | 14,375 | $ | 21,772 | $ | 28,776 |
| Incentive income - affil. (A) | $ | 24,216 | $ | 14,531 | $ | 33,018 | $ | 29,607 |
| Incentive income - non-affil. | $ | 469 | $ | 7 | $ | 776 | $ | 985 |

(A) See Deferred Incentive Income below.

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Deferred Incentive Income

Incentive income from certain Fortress Funds, primarily private equity funds and credit PE funds, is received when such funds realize 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, 2012 and 2011. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, $61.9 million and $49.3 million of additional incentive income from affiliates would have been recognized during the six months ended June 30, 2012 and 2011, 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, 2012 and 2011, Fortress recognized $29.8 million and $21.9 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, 2011 | $ 823,097 | $ (584,439) | $ 238,658 | $ 202,805 |
| Share of income (loss) of Fortress Funds | N/A | N/A | N/A | 229,139 |
| | 26,537 | N/A | 26,537 | (26,537) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Distribution of private equity incentive income | | | | | | | | |
| Recognition of previously deferred incentive income | | N/A | | (31,384) | | (31,384) | | N/A |
| Deferred incentive income as of June 30, 2012 | $ | 849,634 | $ | (615,823) | $ | 233,811 | $ | 405,407 |

(A) All related contingencies have been resolved.

(B) Reflected on the balance sheet.

(C) At June 30, 2012, the net undistributed incentive income is comprised of $497.8 million of gross undistributed incentive income, net of $92.4 million of intrinsic clawback (see next page). 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, 2012 at their net asset values.

(D) From inception to June 30, 2012, Fortress has paid $356.6 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 $497.8 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional $211.0 million of compensation expense.

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The following tables summarize information with respect to the Fortress Funds, other than the Castles, and their related incentive income thresholds as of June 30, 2012:

| **Fund (Vintage) (A)** | **Maturity Date (B)** | **Inception to Date Capital Invested** | **Inception to Date Distributions (C)** | **Net Asset Value ( NAV )** | **NAV Surplus (Deficit) (D)** | **Current Preferred Return Threshold (E)** | **Gain to Cross Incentive Income Threshold (F)** | **Undistributed Incentive Income (G)** | **Distributed Incentive Income (H)** | **Distributed Incentive Income Subject to Clawback (I)** | **Gross Intrinsic Clawback (J)** | **Net Intrinsic Clawback (J)** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Private Equity Funds | | | | | | | | | | | | |
| NIH (1998) | Indefinite | $ 415,574 | $ (808,255) | $ 12,385 | N/A | N/A | $ N/A | $ | $ 94,513 | $ | $ | $ |
| Fund I (1999) (K) | Apr-10 | 1,015,943 | (2,776,118) | 88,856 | 1,849,031 | | N/A | 16,755 | 331,399 | | | |
| Fund II (2002) | Feb-13 | 1,974,296 | (3,260,088) | 126,915 | 1,412,707 | | N/A | | 287,024 | 43,214 | 9,041 | 5,789 |
| Fund III (2004) | Jan-15 | 2,762,993 | (1,307,382) | 1,747,519 | 291,908 | 1,341,482 | 1,049,574 | | 66,903 | 66,903 | 66,903 | 45,108 |
| Fund III Coinvestment (2004) | Jan-15 | 273,648 | (130,925) | 147,379 | 4,656 | 168,715 | 164,059 | | | | | |
| Fund IV (2006) | Jan-17 | 3,639,561 | (119,445) | 3,417,084 | (103,032) | 1,729,565 | 1,832,597 | | | | | |
| Fund IV Coinvestment (2006) | Jan-17 | 762,696 | (12,651) | 661,039 | (89,006) | 372,669 | 461,675 | | | | | |
| Fund V (2007) | Feb-18 | 4,103,714 | (29,409) | 3,573,484 | (500,821) | 1,377,151 | 1,877,972 | | | | | |
| Fund V Coinvestment (2007) | Feb-18 | 990,477 | (137) | 583,957 | (406,383) | 371,182 | 777,565 | | | | | |
| 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 | (505,612) | 465,647 | (248,969) | 644,869 | 893,838 | | 16,447 | 16,447 | 16,447 | 10,041 |
| FRIC (2006) | May-16 | 328,754 | (17,460) | 155,049 | (156,245) | 184,696 | 340,941 | | | | | |
| FICO (2006) | Jan-17 | 724,525 | (5) | (56,063) | (780,583) | 372,586 | 1,153,169 | | | | | |
| FHIF (2006) | Jan-17 | 1,523,484 | (63,169) | 2,165,204 | 704,889 | 717,132 | 12,243 | | | | | |
| FECI (2007) | Feb-18 | 982,779 | (157) | 840,411 | (142,211) | 447,411 | 589,622 | | | | | |
| | | | | | | | | $ 16,755 | $ 847,762 | $ 126,564 | $ 92,391 | $ 60,938 |
| Private Equity Funds in Investment Period | | | | | | | | | | | | |
| WWTAI (2011) | Jun-24 | $ 33,500 | $ (721) | $ 32,117 | $ (662) | $ 1,249 | $ 1,911 | $ | $ | $ | $ | $ |
| | | | | | | | | | | | | |
| Credit PE Funds | | | | | | | | | | | | |
| Long Dated Value Fund I (2005) | Apr-30 | $ 267,325 | $ (64,826) | $ 269,198 | $ 66,699 | $ 99,668 | $ 32,969 | $ | $ | $ | $ | $ |
| Long Dated Value Fund II (2005) | Nov-30 | 273,147 | (107,074) | 216,588 | 50,515 | 80,112 | 29,597 | | 412 | | | |
| Long Dated Value Fund III (2007) | Feb-32 | 342,643 | (137,043) | 280,780 | 75,180 | | N/A | 9,150 | 3,452 | | | |
| LDVF Patent Fund (2007) | Nov-27 | 42,553 | (8,921) | 58,629 | 24,997 | | N/A | 1,778 | 461 | | | |
| Real Assets Fund (2007) | Jun-17 | 358,617 | (242,705) | 206,811 | 90,899 | | N/A | 11,166 | 3,005 | | | |
| Credit Opportunities Fund (2008) | Oct-20 | 5,181,553 | (5,488,925) | 1,555,398 | 1,862,770 | | N/A | 141,231 | 224,526 | 83,038 | | |
| SIP Managed Account (2010) | Sep-20 | 11,000 | (18,270) | 7,158 | 14,428 | | N/A | 1,790 | 1,454 | | | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets Overflow Fund (2008) | May-18 | 90,500 | (112,344) | | 21,844 | | N/A | | 2,180 | 1,298 | | |
| Japan Opportunity Fund (2009) | Jun-19 | 1,049,364 | (494,901) | 860,420 | 305,957 | | N/A | 40,998 | 19,121 | | | |
| | | | | | | | | $ 206,113 | $ 254,611 | $ 84,336 | $ | $ |
| <u>Credit PE Funds in Investment Period</u> | | | | | | | | | | | | |
| Credit Opportunities Fund II (2009) | Jul-22 | $ 1,865,809 | $ (1,033,011) | $ 1,282,196 | $ 449,398 | $ | $ N/A | $ 69,501 | $ 18,550 | $ | $ | $ |
| Credit Opportunities Fund III (2011) | Mar-24 | 466,857 | (1,314) | 496,242 | 30,699 | | N/A | 5,915 | | | | |
| FCO Managed Account #1 (2008) | Oct-21 | 1,451,235 | (1,191,806) | 678,500 | 419,071 | | N/A | 36,426 | 47,213 | 22,911 | | |
| FCO Managed Account #2 (2010) | Jun-24 | 207,466 | (72,140) | 161,991 | 26,665 | | N/A | 5,404 | | | | |
| FCO Managed Account #3 (2010) | Jun-22 | 453,028 | (200,791) | 354,339 | 102,102 | | N/A | 15,874 | 3,504 | | | |
| FCO Managed Account #4 (2010) | Apr-22 | 322,375 | (80,605) | 269,727 | 27,957 | | N/A | 2,671 | | | | |
| FCO Managed Account #5 (2012) | Sep-25 | 14,210 | | 14,137 | (73) | 237 | 310 | | | | | |
| FCO Managed Account #6 (2012) | Mar-25 | 9,237 | | 9,149 | (88) | 162 | 250 | | | | | |
| FCO Managed Account #7 (2012) | Mar-27 | 29,400 | | 29,272 | (128) | 516 | 644 | | | | | |
| Japan Opportunity Fund II (Yen) (2011) | Dec-21 | 105,799 | | 108,592 | 2,793 | 4,271 | 1,478 | | | | | |
| Japan Opportunity Fund II (Dollar) (2011) | Dec-21 | 82,529 | | 83,031 | 502 | 2,591 | 2,089 | | | | | |
| Net Lease Fund I (2010) | Feb-20 | 103,774 | (14,289) | 113,845 | 24,360 | | N/A | 3,177 | | | | |
| Global Opportunities Fund (2010) | Sep-20 | 198,620 | (56,523) | 149,663 | 7,566 | 10,303 | 2,737 | | | | | |
| Life Settlements Fund (2010) | Dec-22 | 312,490 | (94,254) | 202,693 | (15,543) | 28,721 | 44,264 | | | | | |
| Life Settlements Fund MA (2010) | Dec-22 | 25,682 | (7,696) | 16,589 | (1,397) | 2,354 | 3,751 | | | | | |
| Real Estate Opportunities Fund (2011) | Sep-24 | 104,702 | (810) | 111,475 | 7,583 | | N/A | 626 | | | | |
| Real Estate Opportunities REOC Fund (2011) | Oct-24 | 14,408 | (466) | 15,150 | 1,208 | | N/A | 106 | | | | |
| | | | | | | | | $ 139,700 | $ 69,267 | $ 22,911 | $ | $ |

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| | Incentive Income Eligible NAV (L) | Gain to Cross Incentive Income Threshold (M) | Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (N) | Undistributed Incentive Income (O) | Year to date Incentive Income Crystallized (P) |
|---|---|---|---|---|---|
| **Liquid Hedge Funds** | | | | | |
| Macro Funds (Q) (T) | | | | | |
| Main fund investments | $ 1,714,028 | $ 34,207 | 14.6% | $ 1,991 | $ 206 |
| Sidepocket investments (R) | 51,552 | 26,379 | N/A | 515 | |
| Sidepocket investments - redeemers (S) | 283,494 | 150,270 | N/A | 3,987 | |
| Managed accounts | 659,241 | | 100.0% | 4,393 | 125 |
| | | | | | |
| Asia Macro Funds (T) | | | | | |
| Main fund investments | 195,156 | 239 | 91.6% | 2,393 | 665 |
| | | | | | |
| Fortress Convex Asia Funds | | | | | |
| Main fund Investments | 25,825 | 175 | 0.0% | | |
| | | | | | |
| Fortress Partners Funds (T) | | | | | |
| Main fund investments | 114,174 | 43,125 | 0.0% | | |
| Sidepocket investments (R) | 139,654 | 38,551 | N/A | 414 | |
| | | | | | |
| **Credit Hedge Funds** | | | | | |
| Special Opportunities Funds (T) | | | | | |
| Main fund investments | $ 2,798,224 | $ | 100.0% | $ 49,218 | $ |
| Sidepocket investments (R) | 101,514 | | N/A | 4,116 | |
| Sidepocket investments - redeemers (S) | 247,825 | 80,195 | N/A | 3,032 | |
| Main fund investments (liquidating) (U) | 1,718,532 | 115,446 | 93.9% | 70,053 | 1,026 |
| | | | | | |
| Worden Funds | | | | | |
| Main fund investments | 209,518 | 1,517 | 91.1% | 3,993 | |
| | | | | | |
| Value Recovery Funds (V) | | | | | |
| Managed accounts | 32,598 | 3,246 | 76.1% | 11 | 130 |

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

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

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

(D)

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

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

(F) Represents the immediate increase in NAV needed for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see (J) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (I) below).

(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.

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

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

(J) Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. Gross and Net refer to amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. Fortress remains liable to the funds for these amounts even if it is unable to collect the amounts from employees/affiliates. Fortress withheld a portion of the amounts due to employees under these profit sharing arrangements as a reserve against future clawback; as of June 30, 2012, Fortress held $45.7 million of such amounts on behalf of employees related to all of the private equity funds.

(K) 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.

(L) Represents the portion of a fund s NAV or trading level that is eligible to earn incentive income.

(M) Represents, for those fund investors whose NAV is below the performance threshold Fortress needs to obtain before it can earn incentive income

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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.

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

(O) Represents the amount of additional incentive income Fortress would earn from the fund if it were liquidated at the end of the period at its NAV. This amount is currently subject to performance contingencies generally until the end of the year or, in the case of sidepocket investments, until such investments are realized. 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.

(P) Represents the amount of incentive income Fortress has earned in the current period from the fund which is no longer subject to contingencies.

(Q) The Drawbridge Global Macro SPV (the SPV ), which was established in February 2009 to liquidate illiquid investments and distribute the proceeds to then existing investors, is not subject to incentive income and is therefore not presented in the table. However, realized gains or losses within the SPV can decrease or increase, respectively, the gain needed to cross the incentive income threshold for investors with a corresponding investment in the main fund. The unrealized gains and losses within the SPV at June 30, 2012, as if they became realized, would not impact the amounts presented in the table.

(R) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. The performance of these investments may impact Fortress s ability to earn incentive income from main fund investments. For the credit hedge funds and Fortress Partners Funds, realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments. For the Macro Funds, only realized losses from individual sidepockets reduce the incentive income earned from main fund investments. Based on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at June 30, 2012, the undistributed incentive income from the Macro main fund would not be impacted.

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

(T) Includes onshore and offshore funds.

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

(V) Excludes the Value Recovery Funds which had a NAV of $503.0 million at June 30, 2012. Fortress began managing the third party originated Value Recovery Funds in June 2009 and generally does not expect to earn any incentive income from the fund investments.

***Private Equity Funds and Credit PE Funds***

During the six months ended June 30, 2012, Fortress formed new credit PE funds which had capital commitments as follows as of June 30, 2012:

| | | |
|---|---|---|
| Fortress | $ | 44,950 |
| Fortress s affiliates | | |
| Third party investors | | 1,130,000 |
| Total capital commitments | $ | 1,174,950 |

***Liquid Hedge Funds and Credit Hedge Funds***

During the six months ended June 30, 2012, Fortress formed, or became the manager of, hedge funds with net asset values as follows as of June 30, 2012:

| | | **Liquid** |
|---|---|---|
| Fortress | $ | 24,935 |
| Fortress s affiliates | | 1,692 |
| Third party investors | | 25,825 |
| Total NAV (A) | $ | 52,452 |

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

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**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:

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Equity method investees | $ 1,046,056 | $ 1,034,721 |
| Equity method investees, held at fair value (A) | 61,965 | 34,530 |
| Total equity method investments | 1,108,021 | 1,069,251 |
| Options in equity method investees | 28,009 | 10,526 |
| Total investments | $ 1,136,030 | $ 1,079,777 |

(A) Includes publicly traded private equity portfolio companies, primarily GAGFAH, as well as the Castles (NCT and ECT).

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net realized gains (losses) | $ (190) | $ (3,396) | $ 490 | $ (3,119) |
| Net realized gains (losses) from affiliate investments | (50) | 86 | (41) | (297) |
| Net unrealized gains (losses) | 749 | 2,846 | (300) | 1,378 |
| Net unrealized gains (losses) from affiliate investments | 6,639 | (6,295) | 31,621 | (9,484) |
| Total gains (losses) | $ 7,148 | $ (6,759) | $ 31,770 | $ (11,522) |

These gains (losses) were generated as follows:

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Mark to fair value on publicly traded investments | $ 6,639 | $ (8,178) | $ 31,622 | $ (12,317) |
| Mark to fair value on derivatives | 749 | (690) | (368) | (2,158) |
| Mark to fair value on Logan Circle contingent consideration | | 1,883 | | 2,831 |
| Other | (240) | 226 | 516 | 122 |
| | $ 7,148 | $ (6,759) | $ 31,770 | $ (11,522) |

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***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:

| | Fortress s Investment | | Fortress s Equity in Net Income (Loss) | | | |
|---|---|---|---|---|---|---|
| | | | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | June 30, 2012 | December 31, 2011 | 2012 | 2011 | 2012 | 2011 |
| Private equity funds, excluding NIH | $ 662,477 | $ 626,515 | $ 14,886 | $ 14,255 | $ 34,705 | $ 69,518 |
| NIH | 1,234 | 1,251 | 9 | (57) | 108 | (100) |
| Publicly traded portfolio companies (A)(B) | 55,004 | 29,682 | N/A | N/A | N/A | N/A |
| Newcastle (B) | 6,872 | 4,770 | N/A | N/A | N/A | N/A |
| Eurocastle (B) | 89 | 78 | N/A | N/A | N/A | N/A |
| Total private equity | 725,676 | 662,296 | 14,895 | 14,198 | 34,813 | 69,418 |
| Liquid hedge funds | 173,840 | 204,892 | 1,506 | (885) | 6,755 | 8,712 |
| Credit hedge funds | 55,767 | 53,831 | 2,490 | 1,783 | 5,346 | 5,031 |
| Credit PE funds | 145,253 | 141,186 | 4,251 | 2,715 | 11,087 | 7,220 |
| Other | 7,485 | 7,046 | 1 | 686 | 382 | 519 |
| | $ 1,108,021 | $ 1,069,251 | $ 23,143 | $ 18,497 | $ 58,383 | $ 90,900 |

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

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

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

| | Six Months Ended June 30, 2012 | |
|---|---|---|
| | Private Equity | Credit |

| | NIH | Other Funds | Private Equity Portfolio Companies and Castles(A) | Liquid Hedge Funds | Hedge Funds | PE Funds | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Investment, beginning | $ 1,251 | $ 626,515 | $ 34,530 | $ 204,892 | $ 53,831 | $ 141,186 | $ 7,046 | $ 1,069,251 |
| Earnings from equity method investees | 108 | 34,705 | N/A | 6,755 | 5,346 | 11,087 | 382 | 58,383 |
| Other comprehensive income from equity method investees | | | N/A | | | (678) | | (678) |
| Contributions to equity method investees (C) | | 1,247 | 249 | 25,669 | 71,415 | 16,911 | 64 | 115,555 |
| Distributions of earnings from equity method investees | | | N/A | (4,077) | (5,837) | (11,224) | (7) | (21,145) |
| Distributions of capital from equity method investees (C) | (125) | (840) | N/A | (59,399) | (68,988) | (12,018) | | (141,370) |
| Total distributions from equity method investees | (125) | (840) | N/A | (63,476) | (74,825) | (23,242) | (7) | (162,515) |
| Mark to fair value - during period (B) | N/A | | 28,873 | N/A | N/A | N/A | N/A | 28,873 |
| Translation adjustment | | | (1,687) | | | | | (1,687) |
| Dispositions | | | | | | (11) | | (11) |
| Reclassification to Due to Affiliates (D) | | 850 | | | | | | 850 |
| Investment, ending | $ 1,234 | $ 662,477 | $ 61,965 | $ 173,840 | $ 55,767 | $ 145,253 | $ 7,485 | $ 1,108,021 |
| | | | | | | | | |
| Ending balance of undistributed earnings | $ | $ 33,286 | N/A | $ 1,661 | $ 4,350 | $ 3,004 | $ 2,195 | $ 44,496 |

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

(B) Recorded to Gains (Losses).

(C) The amounts presented above can be reconciled to the amounts presented on the statement of cash flows as follows:

| | Six Months Ended June 30, 2012 | |
|---|---|---|
| | **Contributions** | **Distributions of Capital** |
| Per Consolidated Statements of Cash Flows | $ 36,618 | $ 136,141 |
| Investments of receivable amounts into Fortress Funds | 71,991 | |
| Distributions payable out of Fortress Funds | | (1,881) |
| Net funded* | 6,576 | 6,576 |
| Other | 370 | 534 |
| Per Above | $ 115,555 | $ 141,370 |

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*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) Represents a portion of the general partner liability discussed in Note 9.

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.

| | Private Equity Funds excluding NIH | |
|---|---|---|
| | **June 30, 2012** | **December 31, 2011** |
| Assets | $ 14,567,708 | $ 13,296,783 |
| Debt | | (45,291) |
| Other liabilities | (284,528) | (263,858) |
| Equity | $ 14,283,180 | $ 12,987,634 |

| | | | | |
|---|---|---|---|---|
| Fortress s Investment | $ | 662,477 | $ | 626,515 |
| Ownership (A) | | 4.6% | | 4.8% |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | | 2012 | | 2011 |
| Revenues and gains (losses) on investments | $ | 1,407,232 | $ | 1,720,329 |
| Expenses | | (92,894) | | (116,072) |
| Net Income (Loss) | $ | 1,314,338 | $ | 1,604,257 |
| Fortress s equity in net income (loss) | $ | 34,705 | $ | 69,518 |

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

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| | ***Liquid Hedge Funds (B)*** | | ***Credit Hedge Funds*** | | ***Credit PE Funds (C) (D)*** | |
|---|---|---|---|---|---|---|
| | **June 30, 2012** | **December 31, 2011** | **June 30, 2012** | **December 31, 2011** | **June 30, 2012** | **December 31, 2011** |
| Assets | | $ 8,211,051 | $ 9,106,509 | $ 8,654,158 | $ 7,955,168 | $ 7,949,091 |
| Debt | | | (3,239,516) | (2,910,711) | (31,792) | (57,602) |
| Other liabilities | | (3,134,491) | (276,565) | (291,850) | (299,336) | (410,125) |
| Non-controlling interest | | | (4,517) | (9,794) | (11,827) | (9,182) |
| Equity | $ 4,404,364 | $ 5,076,560 | $ 5,585,911 | $ 5,441,803 | $ 7,612,213 | $ 7,472,182 |
| Fortress s Investment | $ 173,840 | $ 204,892 | $ 55,767 | $ 53,831 | $ 145,253 | $ 141,186 |
| Ownership (A) | 3.9% | 4.0% | 1.0% | 1.0% | 1.9% | 1.9% |

| | **Six Months Ended June 30,** | | **Six Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Revenues and gains (losses) on investments | | $ (12,545) | $ 584,805 | $ 527,802 | $ 816,013 | $ 494,766 |
| Expenses | | (90,942) | (112,952) | (120,515) | (126,874) | (93,326) |
| Net Income (Loss) | $ 145,577 | $ (103,487) | $ 471,853 | $ 407,287 | $ 689,139 | $ 401,440 |
| Fortress s equity in net income (loss) | $ 6,755 | $ 8,712 | $ 5,346 | $ 5,031 | $ 11,087 | $ 7,220 |

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

(B) In interim periods, the liquid hedge funds prepare summary financial information on a one quarter lag. For the six months ended March 31, 2012, the liquid hedge funds recorded $95.9 million of revenues and gains (losses) on investments, $71.2 million of expenses, and $24.6 million of net income (loss).

(C) Includes one entity which is recorded on a one quarter lag (i.e., the balances reflected for this entity are for the periods ended March 31, 2012 and 2011, respectively) and several entities which are recorded on a one month lag. They are recorded on a lag because they are foreign entities and do not provide financial reports under U.S. GAAP within the reporting timeframe necessary for U.S. public entities.

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

***Investments in Variable Interest Entities***

Fortress is not considered the primary beneficiary of, and, therefore, does not consolidate, any of the variable interest entities in which it holds an interest. No reconsideration events occurred during the six months ended June 30, 2012 which caused a change in Fortress s accounting.

The following tables set forth certain information as of June 30, 2012 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 six months ended June 30, 2012:

| | Fortress is not Primary Beneficiary | | | |
|---|---|---|---|---|
| **Business Segment** | **Gross Assets** | **Financial Obligations (A)** | **Fortress Investment (B)** | **Notes** |
| Credit PE Funds | $ 214,892 | $ 79,120 | $ 969 | (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.

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

(C) Fortress is not the primary beneficiary of these entities, which primarily 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.

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All variable interest entities:

| | Fortress is not Primary Beneficiary | | | | | | |
|---|---|---|---|---|---|---|---|
| | June 30, 2012 | | | December 31, 2011 | | | |
| **Business Segment** | **Gross Assets** | **Financial Obligations (A)** | **Fortress Investment (B)** | **Gross Assets** | **Financial Obligations (A)** | **Fortress Investment (B)** | **Notes** |
| Private Equity Funds | $ 12,385 | $ | $ 1,234 | $ 12,871 | $ | $ 1,251 | (C) (D) |
| Castles | 7,699,567 | 6,337,164 | 49,963 | 7,374,735 | 6,568,462 | 22,384 | (C) (D) |
| Liquid Hedge Funds | 3,092,437 | 302,937 | 3,326 | 4,208,343 | 547,044 | 10,771 | (C) (D) |
| Credit Hedge Funds | 1,547,956 | 275,635 | 17,590 | 1,594,736 | 364,791 | 35,476 | (C) (D) |
| Credit PE Funds | 1,260,263 | 490,371 | 3,867 | 732,419 | 89,334 | 5,108 | (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, plus any receivables due from these funds. In addition to the table above, Fortress is exposed to potential changes in cash flow and revenues attributable to the management 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 primarily 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.

FCF is an entity which 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. 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 consolidates FCF. As of June 30, 2012, FCF s gross assets were approximately $64.4 million, primarily comprised of affiliate receivables. Fortress s exposure to loss from FCF is limited to its unreserved outstanding advances, which were approximately $48.2 million at June 30, 2012, plus any future advances. These advances are eliminated in consolidation. FCF s creditors do not have recourse to Fortress s other assets and FCF s assets are not available to other creditors of Fortress.

***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).

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| | Fair Value | | | | |
|---|---|---|---|---|---|
| | June 30, 2012 | | December 31, 2011 | | Valuation Method |
| Assets (within Investments) | | | | | |
| Newcastle and Eurocastle common shares | $ | 6,961 | $ | 4,848 | Level 1 - Quoted prices in active markets for identical assets |
| Common stock of publicly traded private equity portfolio companies, primarily GAGFAH | $ | 55,004 | $ | 29,682 | Level 1 - Quoted prices in active markets for identical assets |
| Eurocastle convertible debt (A) | $ | | $ | | Level 3 - Binomial lattice-based option valuation models, adjusted for non-option characteristics |
| Total equity method investments carried at fair value | $ | 61,965 | $ | 34,530 | |
| | | | | | |
| Newcastle and Eurocastle options | $ | 28,009 | $ | 10,526 | Level 2 - Option valuation models using significant observable inputs |
| Assets (within Other Assets) | | | | | |
| Derivatives | $ | 761 | $ | 1,236 | Level 2 - See below |
| | | | | | |
| Liabilities (within Accrued Compensation and Benefits) | | | | | |
| Options in affiliates granted to employees | $ | (3,377) | $ | | Level 2 - Option valuation models using significant observable inputs. |
| | | | | | |
| Liabilites (within Other Liabilities) | | | | | |
| Derivatives | $ | | $ | | 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 June 30, 2012, it had a face amount of 1.2 million ($1.5 million) and was convertible into Eurocastle common shares at 0.30 per share. The fair value was determined using the market value approach.

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

In April 2012, Newcastle issued 18,975,000 shares of its common stock in a public offering at a price to the public of $6.22 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 1,897,500 shares of Newcastle s common stock at the public offering price, which were valued at approximately $5.6 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

In May 2012, Newcastle issued 23,000,000 shares of its common stock in a public offering at a price to the public of $6.71 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 2,300,000 shares of Newcastle s common stock at the public offering price, which were valued at approximately $7.6 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-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.

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

| | Balance Sheet Location (A) | Fair Value June 30, 2012 | Notional Amount June 30, 2012 | Gains/(Losses) Six Months Ended June 30, 2012 (B) | Maturity Date |
|---|---|---|---|---|---|
| Foreign exchange option contract | Other Assets | $ 874 | 20,000 | $ (21) | Feb-13 |
| Foreign exchange option contract | Other Assets | $ (113) | 20,000 | $ 457 | Feb-13 |

(A) Fortress has a master netting agreement with its counterparty.

(B) In addition, Fortress recorded a loss of $0.8 million for the six months ended June 30, 2012 on contracts which expired in 2012.

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The counterparty on these derivatives is Citibank N.A.

**4. DEBT OBLIGATIONS**

| | Face Amount and Carrying Value | | Contractual | Final | June 30, 2012 | |
|---|---|---|---|---|---|---|
| **Debt Obligation** | **June 30, 2012** | **December 31, 2011** | **Interest Rate** | **Stated Maturity** | **Weighted Average Funding Cost (A)** | **Weighted Average Maturity (Years)** |
| Credit agreement (B) | | | | | | |
| Revolving debt (C) | $ | $ | LIBOR + 4.00% (D) | Oct-13 | | |
| Term loan | 189,278 | 261,250 | LIBOR + 4.00% (D) | Oct-15 | 6.2% | 2.4 |
| Total | $ 189,278 | $ 261,250 | | | 6.2% | 2.4 |

(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 $56.7 million was undrawn on the revolving debt facility as of June 30, 2012. The revolving debt facility includes a $25 million letter of credit subfacility of which $3.3 million was utilized.
(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.

In April 2012, Fortress made a $54.5 million Free Cash Flow-based payment on its credit facility. In connection with this payment, $0.6 million of deferred financing costs were expensed.

Management believes the fair value of this debt was approximately equal to its face amount at June 30, 2012 (based on counterparty inquiries, a level 3 valuation, see Note 4).

Fortress was in compliance with all of its debt covenants as of June 30, 2012. The following table sets forth the financial covenant requirements as of June 30, 2012.

| | June 30, 2012 (dollars in millions) | | |
|---|---|---|---|
| | Requirement | Actual | Notes |
| AUM, as defined | ≥ $25,000 | $ 35,643 | (A) |
| Consolidated Leverage Ratio | ≤ 2.75 | 0.77 | (B) |
| Minimum Investment Assets Ratio | ≥ 2.00 | 6.32 | (C) |
| Consolidated Fixed Charge Coverage Ratio | ≥ 1.75 | 2.07 | (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 generally 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.

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**5. INCOME TAXES AND TAX RELATED PAYMENTS**

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

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

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

Based on the value of the RSUs and RPUs which vested during the six months ended June 30, 2012 and 2011, Fortress has estimated tax shortfalls of $29.6 million and $25.9 million, respectively, which have been charged to income tax expense during these periods.

The provision for income taxes consists of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Current | | | | |
| Federal income tax expense (benefit) | $ 1,817 | $ (437) | $ (5,586) | $ 4,833 |
| Foreign income tax expense (benefit) | 1,557 | 757 | 3,280 | 3,761 |
| State and local income tax expense (benefit) | 1,091 | 774 | (41) | 3,010 |
| | 4,465 | 1,094 | (2,347) | 11,604 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Deferred | | | | | | | | |
| Federal income tax expense (benefit) | | (1,644) | | 3,111 | | 28,548 | | 11,401 |
| Foreign income tax expense (benefit) | | (296) | | 233 | | 1,007 | | 238 |
| State and local income tax expense (benefit) | | 3 | | 1,348 | | 3,162 | | 3,962 |
| | | (1,937) | | 4,692 | | 32,717 | | 15,601 |
| | | | | | | | | |
| Total expense (benefit) | $ | 2,528 | $ | 5,786 | $ | 30,370 | $ | 27,205 |

The current federal income tax benefit in the first six months of 2012 changed in comparison to the current federal income tax expense in the first six months of 2011 mainly due to Fortress s increased capacity to carry back net operating losses.

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

| | | June 30, 2012 | | December 31, 2011 |
|---|---|---|---|---|
| Total deferred tax assets | $ | 470,744 | $ | 492,041 |
| Valuation allowance | | (92,644) | | (91,845) |
| Net deferred tax assets | $ | 378,100 | $ | 400,196 |
| Total deferred tax liabilities (A) | $ | 2,107 | $ | 199 |

(A) Included in Other Liabilities

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

| | | |
|---|---|---|
| Valuation Allowance at December 31, 2011 | $ | 91,845 |
| Changes due to FIG Corp ownership increases | | 3,252 |
| Net decreases (A) | | (2,453) |
| Valuation Allowance at June 30, 2012 | $ | 92,644 |

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

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For the six months ended June 30, 2012, a deferred income tax provision of $0.2 million was debited to other comprehensive income, primarily related to the equity method investees. A current income tax benefit of $0.6 million was credited to paid-in capital, related to (i) dividend equivalent payments on RSUs (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. In addition, the deferred tax asset was increased by $7.4 million, with an offsetting increase of $2.1 million to the valuation allowance, related to a step-up in the 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.

FIG Corp increased its ownership in the underlying Fortress Operating Group entities during the six months ended June 30, 2012 through the delivery of vested RSUs and RPUs (Note 8). As a result of this increased ownership, the deferred tax asset was increased by $5.0 million with an offsetting increase of $1.2 million to the valuation allowance. 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 six months ended June 30, 2012, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be $13.2 million. During the six months ended June 30, 2012, $8.7 million was paid under the tax receivable agreement relating to 2010. In addition, during the six months ended June 30, 2012, the realization of certain tax benefits, which were previously offset by a valuation allowance, gave rise to a $6.9 million increase in the expected tax receivable agreement liability.

**6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES**

***Affiliate Receivables and Payables***

Due from affiliates was comprised of the following:

| | Private Equity | | | Credit | | | |
|---|---|---|---|---|---|---|---|
| **June 30, 2012** | **Funds** | **Castles** | **Liquid Hedge Funds** | **Hedge Funds** | **PE Funds** | **Other** | **Total** |
| Management fees and incentive income (A) | $ 119,371 | $ 4,210 | $ 1,439 | $ 20,626 | $ 15,776 | $ | $ 161,422 |
| Expense reimbursements (A) | 14,187 | 9,157 | 5,143 | 3,477 | 6,587 | | 38,551 |
| Expense reimbursements - FCF (B) | 57,759 | | | | | | 57,759 |
| Dividends and distributions | | 205 | | | | | 205 |
| Other | 880 | 819 | | | 580 | 9,579 | 11,858 |
| Total | $ 192,197 | $ 14,391 | $ 6,582 | $ 24,103 | $ 22,943 | $ 9,579 | $ 269,795 |

| | Private Equity | | | Credit | | | |
|---|---|---|---|---|---|---|---|
| **December 31, 2011** | **Funds** | **Castles** | **Liquid Hedge Funds** | **Hedge Funds** | **PE Funds** | **Other** | **Total** |
| Management fees and incentive income (A) | $ 95,267 | $ 4,013 | $ 696 | $ 88,794 | $ 15,901 | $ | $ 204,671 |
| Expense reimbursements (A) | 9,065 | 2,174 | 5,200 | 5,337 | 6,315 | | 28,091 |
| Expense reimbursements - FCF (B) | 58,146 | | | | | | 58,146 |
| Dividends and distributions | | 154 | | | | | 154 |
| Other | 518 | 669 | | | 1,483 | 4,957 | 7,627 |
| Total | $ 162,996 | $ 7,010 | $ 5,896 | $ 94,131 | $ 23,699 | $ 4,957 | $ 298,689 |

(A) Net of allowances for uncollectable management fees and expense reimbursements of $12.2 million and $5.4 million at June 30, 2012, respectively, and of $12.1 million and $5.1 million as of December 31, 2011, respectively. Allowances are recorded as General and Administrative expenses.

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

As of June 30, 2012, amounts due from Fortress Funds recorded in Due from Affiliates included $119.2 million of past due management fees, excluding $12.2 million which has been fully reserved by Fortress, and $61.8 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. The unreserved amounts are primarily due from five different funds and the amounts represent less than 5% of such funds NAV, both individually and in the aggregate.

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Due to affiliates was comprised of the following:

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Principals - Tax receivable agreement - Note 5 | $ 277,272 | $ 279,039 |
| Principals - Principal Performance Payments - Note 7 | 7,794 | |
| Distributions payable on Fortress Operating Group units | | 29,423 |
| Other | 6,189 | 8,046 |
| General partner liability - Note 9 | 38,499 | 37,650 |
| | $ 329,754 | $ 354,158 |

***Other Related Party Transactions***

For the six months ended June 30, 2012 and 2011, Other Revenues included approximately $0.7 million and $1.3 million, respectively, of revenues from affiliates, primarily dividends.

During 2012, Fortress advanced an aggregate of $3.8 million to 3 of its senior employees who are not officers. These advances bear interest at between LIBOR+4% and LIBOR+ 4.25%. All principal and interest is due and payable no later than February 2017.

***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, 2012 | December 31, 2011 |
|---|---|---|
| Fortress Operating Group units held by the Principals and one senior employee | $ 539,936 | $ 507,031 |
| Employee interests in majority owned and controlled fund advisor and general partner entities | 52,617 | 66,087 |
| Other | 1,962 | 1,843 |
| Total | $ 594,515 | $ 574,961 |

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

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Fortress Operating Group equity (Note 12) | $ 981,430 | $ 889,642 |
| Less: Others interests in equity of consolidated subsidiaries (Note 12) | (54,579) | (67,930) |
| Total Fortress shareholders equity in Fortress Operating Group | $ 926,851 | $ 821,712 |
| Fortress Operating Group units outstanding (A) | 300,273,852 | 305,857,751 |
| Class A shares outstanding | 215,174,918 | 189,824,053 |
| Total | 515,448,770 | 495,681,804 |
| Fortress Operating Group as a percent of total (B) | 58.3% | 61.7% |
| Equity of Fortress Operating Group units held by Principals and one senior employee | $ 539,936 | $ 507,031 |

(A) Held by the Principals and one senior employee; exclusive of Class A shares.

(B) As a result, the Registrant owned 41.7% and 38.3% of Fortress Operating Group as of June 30, 2012 and December 31, 2011, respectively.

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

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Fortress Operating Group units held by the Principals and one senior employee | $ 7,864 | $ (153,001) | $ 11,487 | $ (307,330) |
| Employee interests in majority owned and controlled fund advisor and general partner entities | 1,485 | 1,253 | 3,154 | 3,832 |
| Other | (2) | 182 | 99 | 170 |
| Total | $ 9,347 | $ (151,566) | $ 14,740 | $ (303,328) |

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 June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Net income (loss) attributable to Fortress | $ 4,909 | $ (94,536) | $ (24,631) | $ (197,968) |
| 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 | | | 19,238 | 3,845 |
| Increase in Fortress s shareholders equity for the delivery of Class A shares primarily in connection with vested RSUs and RPUs | 1,052 | 6,846 | 10,701 | 7,862 |
| Change from net income (loss) attributable to Fortress and transfers (to) from Principals and Others Interests | $ 5,961 | $ (87,690) | $ 5,308 | $ (186,261) |

## 7. EQUITY-BASED AND OTHER COMPENSATION

Fortress s total compensation and benefits expense, excluding Principals Agreement compensation, but including Principal Performance Payments (described below), is comprised of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Equity-based compensation, per below | $ 51,987 | $ 57,739 | $ 113,022 | $ 122,069 |
| Profit-sharing expense, per below | 29,717 | 17,246 | 60,230 | 75,902 |
| Discretionary bonuses | 45,971 | 45,167 | 94,436 | 95,249 |
| Other payroll, taxes and benefits | 44,792 | 41,246 | 88,158 | 83,613 |
| | $ 172,467 | $ 161,398 | $ 355,846 | $ 376,833 |

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***Equity-Based Compensation***

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

| | RSUs | | | | Restricted Shares | | RPUs | |
|---|---|---|---|---|---|---|---|---|
| | Employees | | Non-Employees | | Issued to Directors | | Employees | |
| | Number | Value (A) | Number | Value (A) | Number | Value (A) | Number | Value (A) |
| Outstanding as of December 31, 2011 | 34,670,464 | $ 10.49 | 787,046 | $ 11.33 | 570,293 | $ 6.24 | 20,666,667 | $ 13.75 |
| Issued | 6,748,215 | 2.95 | | | 257,918 | 3.18 | | |
| Transfers | (1,776,169) | 3.09 | 1,776,169 | 3.09 | | | | |
| Converted to Class A shares | (8,787,469) | 14.81 | (388,246) | 11.16 | | | (4,340,000) | 13.75 |
| Converted to Class B shares | | | | | | | (5,993,333) | 13.75 |
| Forfeited | (4,346,018) | 3.60 | (40,990) | 8.03 | | | | |
| Outstanding as of June 30, 2012 (B) | 26,509,023 | $ 8.76 | 2,133,979 | $ 4.56 | 828,211 | $ 5.29 | 10,333,334 | $ 13.75 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | [redacted] | | | |
| Expense incurred (B) | | | | |
| Employee RSUs | $ 28,653 | $ 29,772 | $ 66,607 | $ 71,239 |
| Non-Employee RSUs | 145 | 36 | 381 | 422 |
| Principal Performance Payments (C) | 624 | | 881 | |
| Restricted Shares (D) | | 129 | 24 | 290 |
| STIP (E) | | 5,237 | | 5,237 |
| RPUs | 22,565 | 22,565 | 45,129 | 44,881 |
| Total equity-based compensation expense | $ 51,987 | $ 57,739 | $ 113,022 | $ 122,069 |

(A) Represents the weighted average grant date estimated fair value per share or unit. The weighted average estimated fair value, discounted for the non-entitlement to dividends, per unit as of June 30, 2012 for awards granted to non-employees was $3.24. The closing trading price per share of Fortress s Class A shares on such date was $3.37 per share.

(B) In future periods, Fortress will further recognize compensation expense on its non-vested equity based awards outstanding as of June 30, 2012 of $131.9 million, with a weighted average recognition period of 1.2 years. This does not include contingent amounts.

(C) Described below. Accrued based on year-to-date performance; the actual number of RSUs granted are determined at year end. Based on year-to-date performance, a total of approximately 1.6 million RSUs would be awarded as Principal Performance Payments.

(D) Certain restricted shares granted to directors are recorded in General and Administrative Expense ($0.4 million and $0.6 million for the six months ended June 30, 2012 and 2011, respectively) and therefore are not included above.

(E) STIP stands for Short Term Incentive Plan. In April 2011, one of the Principals entered into an agreement with a senior employee whereby such employee was due 2,857,143 Fortress Operating Group units from such Principal since the employee remained with Fortress until January 2012. As a result of the service requirement, the fair value of these units was charged to compensation expense in 2011.

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

Fortress s management reviewed the estimated forfeiture factor as of March 31, 2012 and, based on the actual forfeiture rate incurred and the remaining vesting period of certain grants, determined that the forfeiture assumptions for certain grants required adjustment. The result of these changes in estimates was an increase to equity-based compensation of $6.7 million. An additional adjustment was deemed necessary at June 30, 2012, resulting in an increase to equity-based compensation of $1.0 million.

In April 2010, in connection with the acquisition of Logan Circle, Fortress created the Logan Circle Comp Plan. The Logan Circle Comp Plan provides for annual bonuses to a senior employee which may be paid partially in RSUs, as well as for potential Class A share awards to certain employees, including this senior employee, in the years 2015, 2016 and 2017.

In January 2012, Fortress granted 6.6 million RSUs to its employees and affiliates valued at an aggregate of $23.4 million on the grant date. These RSUs generally vest over three years.

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In January 2012, Fortress s CEO announced his resignation effective in February 2012. In connection with this resignation, Fortress has recorded $5.0 million of equity-based compensation expense in 2012, primarily related to 1.8 million RSUs which will vest pursuant to his separation agreement. As a result of this resignation, approximately 4.0 million RSUs were forfeited.

In March 2012, a senior employee converted 11,577,232 Class B shares, acquired as a result of RPU vesting in 2011 and 2012, to Class A shares.

In May 2012, Fortress granted partial rights in 1.7 million of the options it holds in Newcastle (Note 3) to certain of its employees. The value of these rights of $3.5 million was recorded as accrued profit sharing compensation expense at that time. The related liability will be marked to fair value until such time as the rights are exercised or expire.

In August 2011, Fortress s Principals extended their employment for a new five-year term effective January 1, 2012, on substantially similar terms and conditions as their prior employment agreements. Additionally, under a new compensation plan adopted by Fortress, the Principals will receive payments ( Principal Performance Payments ) based on the performance of the existing AUM (as of December 31, 2011) of Fortress s flagship hedge funds and on their success in raising and investing new funds in all businesses in 2012 and beyond. The Principal Performance Payments will be comprised of a mix of cash and equity, with the equity component becoming larger as performance, and the size of the payments, increases.

Specifically, the new compensation plan calls for payments of 20% of the incentive income earned from existing flagship hedge fund AUM and either 10% or 20% (based on the level of involvement of the Principal) of the fund management distributable earnings of new AUM in all businesses. Payments of up to 10% of fund management distributable earnings before Principal Performance Payments, in each of the Principals respective businesses, will be made in cash, and payments in excess of this threshold will be made in restricted share units that will vest over three years.

The Principals new employment agreements contain customary post-employment non-competition and non-solicitation covenants. In order to ensure the Principals compliance with such covenants, 50% of the after-tax cash portion of any Principal Performance Payments will be subject to mandatory investment in Fortress-managed funds, and such invested amounts will serve as collateral against any breach of those covenants.

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

| | Six Months Ended June 30, 2012 | | |
|---|---|---|---|
| | Equity-Based Compensation | Profit Sharing Expense | Total |
| Private equity business | $ | $ 466 | $ 466 |
| Liquid hedge fund business | 2 | 789 | 791 |
| Credit business | 879 | 5,658 | 6,537 |
| Total | $ 881 | $ 6,913 | $ 7,794 |

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***Profit Sharing Expense***

Recognized profit sharing compensation expense is summarized as follows:

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Private equity funds | $ | $ | $ 410 | $ 491 |
| Castles | 3,377 | | 3,377 | |
| Liquid hedge funds | 3,320 | (1,802) | 6,887 | 11,280 |
| Credit hedge funds | 12,249 | 7,414 | 26,779 | 24,622 |
| Credit PE funds | 7,680 | 11,634 | 15,864 | 39,509 |
| Principal Performance Payments (A) | 3,091 | | 6,913 | |
| Total | $ 29,717 | $ 17,246 | $ 60,230 | $ 75,902 |

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

**8. EARNINGS PER SHARE AND DISTRIBUTIONS**

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

| | Three Months Ended June 30, 2012 Basic | Three Months Ended June 30, 2012 Diluted | Six Months Ended June 30, 2012 Basic | Six Months Ended June 30, 2012 Diluted |
|---|---|---|---|---|
| **Weighted average shares outstanding** | | | | |
| Class A shares outstanding | 213,983,892 | 213,983,892 | 202,581,788 | 202,581,788 |
| Fully vested restricted Class A share units with dividend equivalent rights | 1,473,028 | 1,473,028 | 4,850,487 | 4,850,487 |
| Fully vested restricted Class A shares | 688,095 | 688,095 | 645,408 | 645,408 |
| Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1) | | 300,273,852 | | 308,033,708 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2) | | | | | | | | |
| Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3) | | | | | | | | |
| Total weighted average shares outstanding | | 216,145,015 | | 516,418,867 | | 208,077,683 | | 516,111,391 |
| **Basic and diluted net income (loss) per Class A share** | | | | | | | | |
| Net income (loss) attributable to Class A shareholders | $ | 4,909 | $ | 4,909 | $ | (24,631) | $ | (24,631) |
| Dilution in earnings due to RPUs treated as a participating security of Fortress Operating Group and fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4) | | (88) | | (88) | | (258) | | (258) |
| Dividend equivalents declared on non-vested restricted Class A shares and restricted Class A share units | | (116) | | (116) | | (220) | | (220) |
| Add back Principals and others interests in loss of Fortress Operating Group, net of assumed corporate income taxes at enacted rates, attributable to Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1) | | | | (65,147) | | | | (44,584) |
| Net income (loss) available to Class A shareholders | $ | 4,705 | $ | (60,442) | $ | (25,109) | $ | (69,657) |
| Weighted average shares outstanding | | 216,145,015 | | 516,418,867 | | 208,077,683 | | 516,111,391 |
| Basic and diluted net income (loss) per Class A share | $ | 0.02 | $ | (0.12) | $ | (0.12) | $ | (0.13) |

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| | Three Months Ended June 30, 2011 | | Six Months Ended June 30, 2011 | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| **Weighted average shares outstanding** | | | | |
| Class A shares outstanding | 180,981,938 | 180,981,938 | 176,161,263 | 176,161,263 |
| Fully vested restricted Class A share units with dividend equivalent rights | 3,523,061 | 3,523,061 | 6,437,040 | 6,437,040 |
| Fully vested restricted Class A shares | 447,567 | 447,567 | 420,213 | 420,213 |
| Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1) | | 305,857,751 | | 307,615,829 |
| Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2) | | | | |
| Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3) | | | | |
| Total weighted average shares outstanding | 184,952,566 | 490,810,317 | 183,018,516 | 490,634,345 |
| **Basic and diluted net income (loss) per Class A share** | | | | |
| Net income (loss) attributable to Class A shareholders | $ (94,536) | $ (94,536) | $ (197,968) | $ (197,968) |
| Dilution in earnings due to RPUs treated as a participating security of Fortress Operating Group and fully vested restricted Class A share units with dividend equivalent rights treated as outstanding Fortress Operating Group units (4) | (1,106) | (1,106) | (3,053) | (3,053) |
| Dividend equivalents declared on non-vested restricted Class A shares and restricted Class A share units | | | | |
| Add back Principals and others interests in loss of Fortress Operating Group, net of assumed corporate income taxes at enacted rates, attributable to Fortress Operating Group units and fully vested RPUs exchangeable into Class A shares (1) | | (179,151) | | (344,070) |
| Net income (loss) available to Class A shareholders | $ (95,642) | $ (274,793) | $ (201,021) | $ (545,091) |
| Weighted average shares outstanding | 184,952,566 | 490,810,317 | 183,018,516 | 490,634,345 |
| Basic and diluted net income (loss) per Class A share | $ (0.52) | $ (0.56) | $ (1.10) | $ (1.11) |

(1)

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

(2) Restricted Class A shares granted to directors and certain restricted Class A share units granted to employees are eligible to receive dividend or dividend equivalent payments when dividends are declared and paid on Fortress s Class A shares and therefore participate fully in the results of Fortress s operations from the date they are granted. They are included in the computation of both basic and diluted earnings per Class A share using the two-class method for participating securities, except during periods of net losses.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Share Units | 21,193,102 | 25,687,405 | 20,621,941 | 25,594,834 |

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

The Class B shares have no net income (loss) per share as they do not participate in Fortress s earnings (losses) or distributions. The Class B shares have no dividend or liquidation rights. Each Class B share, along with one Fortress Operating Group ( FOG ) 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.

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Fortress s dividend paying shares and units were as follows:

| | Weighted Average Three Months Ended June 30, | | Weighted Average Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Class A shares (public shareholders) | 213,983,892 | 180,981,938 | 202,581,788 | 176,161,263 |
| Restricted Class A shares (directors) | 705,204 | 494,616 | 668,932 | 473,642 |
| Restricted Class A share units (employees) (A) | 1,473,028 | 3,523,061 | 4,850,487 | 6,437,040 |
| Restricted Class A share units (employees) (B) | 6,434,147 | 14,120,654 | 6,786,086 | 14,249,462 |
| Fortress Operating Group units (Principals and one senior employee) | 300,273,852 | 305,857,751 | 303,037,371 | 303,790,783 |
| Fortress Operating Group RPUs (one senior employee) | 10,333,334 | 20,666,667 | 15,329,671 | 24,491,713 |
| Total | 533,203,457 | 525,644,687 | 533,254,335 | 525,603,903 |

| | As of June 30, 2012 | As of December 31, 2011 |
|---|---|---|
| Class A shares (public shareholders) | 214,346,707 | 189,253,760 |
| Restricted Class A shares (directors) | 828,211 | 570,293 |
| Restricted Class A share units (employees) (A) | 1,396,951 | 691,808 |
| Restricted Class A share units (employees) (B) | 6,434,147 | 13,667,930 |
| Fortress Operating Group units (Principals and one senior employee) | 300,273,852 | 305,857,751 |
| Fortress Operating Group RPUs (one senior employee) | 10,333,334 | 20,666,667 |
| Total | 533,613,202 | 530,708,209 |

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

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

In January 2012, 8.7 million existing RSUs and 10.3 million existing RPUs vested and the related Class A and Class B shares, as applicable, were delivered, or, in certain cases, are expected to be delivered within six months of vesting pursuant to the plan documents. In March 2012, one senior employee exchanged an aggregate of 15,917,232 FOG units and Class B shares for an equal number of Class A shares. A portion of the vested shares are being sold to cover withholding tax requirements.

Dividends and distributions during the six months ended June 30, 2012 are summarized as follows:

| | Declared in Prior Year, Paid Current Year | Declared and Paid | Current Year Declared but not yet Paid | Total |
|---|---|---|---|---|
| Dividends on Class A Shares | $ | $ 20,350 | $ | $ 20,350 |
| Dividend equivalents on restricted Class A share units (A) | | 1,095 | | 1,095 |
| Distributions to Fortress Operating Group unit holders (Principals and one senior employee) (B) | 27,561 | 13,943 | | 13,943 |
| Distributions to Fortress Operating Group RPU holders (Note 7) (B) | 1,862 | 472 | | 472 |
| Total distributions | $ 29,423 | $ 35,860 | $ | $ 35,860 |

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

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

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

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On August 1, 2012, Fortress declared a second quarter cash dividend of $0.05 per Class A share. The dividend is payable on August 20, 2012 to holders of record of Class A shares on August 15, 2012. The aggregate amount of this dividend is approximately $10.8 million. In connection with this dividend, dividend equivalent payments of approximately $0.6 million will be paid to holders of restricted Class A share units.

**9. COMMITMENTS AND CONTINGENCIES**

Other than as described below, Fortress s commitments and contingencies remain materially unchanged from December 31, 2011.

***General Partner Liability*** Certain of Fortress 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 the Fortress balance sheet in consolidation until it is legally resolved. While these entities are limited liability companies and generally have no material assets other than their general partner interests, these entities and Fortress may be subject to litigation in connection with such amounts if fund creditors choose to sue Fortress to seek repayment. See Litigation below.

In March 2011, one private equity fund fell into a negative equity position, after considering all of Fortress s interests in such fund and its reserves related thereto. As described above, the amount of the negative equity was recorded, through earnings (losses) from equity method investees, by the general partner entity and is therefore included in the consolidated financial statements of Fortress. When the fund matures and is liquidated, Fortress will record a gain in the event and to the extent it does not fund this negative equity. The amount of negative equity recorded at June 30, 2012 was $38.5 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, 2012, 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.

***Private Equity Fund and Credit PE Fund Capital Commitments*** Fortress has remaining capital commitments to certain of the Fortress Funds which aggregated $155.5 million as of June 30, 2012. These commitments can be drawn by the funds on demand.

***Minimum Future Rentals*** Fortress is a lessee under a number of operating leases for office space.

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

| | | |
|---|---|---|
| July 1 to December 31, 2012 | $ | 11,982 |
| 2013 | | 23,538 |
| 2014 | | 22,501 |
| 2015 | | 20,637 |
| 2016 | | 19,271 |
| 2017 | | 2,372 |
| Thereafter | | 215 |
| Total | $ | 100,516 |

Rent expense, including operating expense escalations, during the six months ended June 30, 2012 and 2011 was $11.4 million and $14.3 million, respectively, and was included in General, Administrative and Other Expense.

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**10. SEGMENT REPORTING**

Fortress conducts its management and investment business through the following primary segments: (i) private equity funds, (ii) Castles, (iii) liquid hedge funds, (iv) credit hedge funds, (v) credit PE funds, (vi) Logan Circle and (vii) principal investments in these funds as well as cash that is available to be invested.

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

Incentive Income

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

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

Other Income

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

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

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

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

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

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Expenses

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

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

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

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

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

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

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

In January 2012, Fortress changed the method it uses to allocate expenses between its operating segments in order to match the method used in computing Principal Performance Payments (Note 7) under its new employment agreements with the Principals. Prior period segment results have not been restated for comparability since it is impractical to do so. The change in expense allocation methodology has no effect on aggregate segment expenses or distributable earnings. The primary impact of applying the current expense allocation methodology to the six months ended June 30, 2011 would be a shift of approximately $29.6 million of expenses from the Credit Hedge Funds segment to the Credit PE Funds segment.

Furthermore, in January 2012, Fortress determined that Logan Circle was a reportable segment as it became material to Fortress s operations. As a result, Logan Circle has been disaggregated from the Unallocated amounts for all periods presented.

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.

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*Distributable Earnings Impairment*

Clawback Reserve on Incentive Income for DE Purposes

Fortress had recognized incentive income for DE purposes from certain private equity funds and credit PE funds, which are subject to contingent clawback, as of June 30, 2012:

| Fund (A) | Net Intrinsic Clawback (B) | Periods in Intrinsic Clawback | Prior Year-End Inception-to-Date Net DE Reserve | Current Year-to-Date Gross DE Reserve | Current Year-to-Date Net DE Reserve | Inception-to-Date Net DE Reserve | Notes |
|---|---|---|---|---|---|---|---|
| Fund II | $ 5,789 | 15 Quarters | $ 11,435 | $ (6,436) | $ (4,121) | $ 7,314 | (C) |
| Fund III | 45,108 | 18 Quarters | 45,108 | | | 45,108 | (D) |
| FRID | 10,041 | 20 Quarters | 10,041 | | | 10,041 | (D) |
| Total | $ 60,938 | | $ 66,584 | $ (6,436) | $ (4,121) | $ 62,463 | |

(A) Fortress has recognized incentive income for DE purposes from the following funds, which do not have intrinsic clawback and for which the CODM has determined no clawback reserve is necessary: Fund I, Credit Opportunities Fund, FCO Managed Account #1, Assets Overflow Fund.
(B) See Note 2.
(C) The previously recorded reserves with respect to this fund exceeded its net intrinsic clawback by approximately $3.4 million immediately prior to June 30, 2012. Based on the criteria determined by the CODM, management determined that a reversal of $1.8 million of reserve was appropriate. In the aggregate, $4.1 million of reserve has been reversed in 2012.
(D) The potential clawback on these funds has been fully reserved in prior periods.

Impairment Determination

During the six months ended June 30, 2012, Fortress recorded $0.2 million of impairment on its direct and indirect investments in its funds for segment reporting purposes. As of June 30, 2012, Fortress had $2.2 million of unrealized losses on certain investments that have not been recorded as impairment. As of June 30, 2012, Fortress s share of the net asset value of its direct and indirect investments exceeded its segment cost basis by $368.9 million, representing unrealized gains.

During the six months ended June 30, 2012, Fortress recorded a $4.1 million net reversal of clawback reserve for DE purposes.

Fortress expects aggregate returns on its private equity funds and credit PE funds that are in an unrealized investment loss or intrinsic clawback position, after taking reserves into account, to ultimately exceed their carrying amount or breakeven point, as applicable. If such funds were liquidated at their June 30, 2012 NAV (although Fortress has no current intention of doing so), the result would be additional impairment losses and reserves for DE purposes of approximately $2.2 million.

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.

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**June 30, 2012 and the Six Months Then Ended**

| | Private Equity Funds | Private Equity Castles | Liquid Hedge Funds | Credit Hedge Funds | Credit PE Funds | Logan Circle | Principal Investments | Unallocated | Fortress Subtotal |
|---|---|---|---|---|---|---|---|---|---|
| Segment revenues | | | | | | | | | |
| Management fees | $ 59,406 | $ 27,636 | $ 39,361 | $ 51,572 | $ 42,554 | $ 11,873 | $ | $ | $ 232,402 |
| Incentive income | 7,543 | | 9,730 | 56,345 | 25,430 | | | | 99,048 |
| Segment revenues - total | $ 66,949 | $ 27,636 | $ 49,091 | $ 107,917 | $ 67,984 | $ 11,873 | $ | $ | $ 331,450 |
| Fund management distributable earnings (loss) before Principal Performance Payments (B) | $ 43,009 | $ 13,200 | $ 7,889 | $ 49,485 | $ 7,098 | $ (4,536) | $ | $ 131 | $ 116,276 |
| Fund management distributable earnings (loss) | $ 43,009 | $ 12,735 | $ 7,100 | $ 43,837 | $ 7,089 | $ (4,536) | $ | $ 131 | $ 109,365 |
| Pre-tax distributable earnings (loss) | $ 43,009 | $ 12,735 | $ 7,100 | $ 43,837 | $ 7,089 | $ (4,536) | $ (2,082) | $ 131 | $ 107,283 |
| Total segment assets | $ 192,977 | $ 13,364 | $ 17,422 | $ 77,034 | $ 23,256 | $ 31,448 | $ 1,315,940 | $ 477,387 (A) | $ 2,148,828 |

(A) Unallocated assets include deferred tax assets of $378.1 million.

**Three Months Ended June 30, 2012**

| | Private Equity Funds | Private Equity Castles | Liquid Hedge Funds | Credit Hedge Funds | Credit PE Funds | Logan Circle | Principal Investments | Unallocated | Fortress Subtotal |
|---|---|---|---|---|---|---|---|---|---|
| Segment revenues | | | | | | | | | |
| Management fees | $ 29,748 | $ 13,060 | $ 19,194 | $ 25,942 | $ 20,676 | 6,223 | $ | $ | $ 114,843 |
| Incentive income | 2,848 | | 3,438 | 26,103 | 14,196 | | | | 46,585 |
| Segment revenues - total | $ 32,596 | $ 13,060 | $ 22,632 | $ 52,045 | $ 34,872 | $ 6,223 | $ | $ | $ 161,428 |
| Fund management distributable earnings (loss) before Principal Performance Payments (B) | $ 20,714 | $ 5,924 | $ 3,121 | $ 23,381 | $ 4,423 | $ (2,018) | $ | $ 697 | $ 56,242 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Fund management distributable earnings (loss) | $ 20,715 | $ 5,924 | $ 2,809 | $ 20,611 | $ 4,414 | $ (2,018) | $ | $ 697 | $ 53,152 |
| Pre-tax distributable earnings (loss) | $ 20,715 | $ 5,924 | $ 2,809 | $ 20,611 | $ 4,414 | $ (2,018) | $ (2,986) | $ 697 | $ 50,166 |

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

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**Six Months Ended June 30, 2011**

| | Private Equity Funds | Private Equity Castles | Liquid Hedge Funds | Credit Hedge Funds | Credit PE Funds | Logan Circle | Principal Investments | Unallocated | Fortress Subtotal |
|---|---|---|---|---|---|---|---|---|---|
| Segment revenues | | | | | | | | | |
| Management fees | $ 71,110 | $ 25,723 | $ 55,922 | $ 61,203 | $ 32,636 | $ 9,827 | $ | $ | $ 256,421 |
| Incentive income | 1,329 | | 3,172 | 54,197 | 79,853 | | | | 138,551 |
| Segment revenues - total | $ 72,439 | $ 25,723 | $ 59,094 | $ 115,400 | $ 112,489 | $ 9,827 | $ | $ | $ 394,972 |
| Fund management distributable earnings (loss) before Principal Performance Payments | $ 49,926 | $ 11,745 | $ 8,690 | $ 29,416 | $ 57,181 | $ (9,003) | $ | $ 962 | $ 148,917 |
| Fund management distributable earnings (loss) | $ 49,926 | $ 11,745 | $ 8,690 | $ 29,416 | $ 57,181 | $ (9,003) | $ | $ 962 | $ 148,917 |
| Pre-tax distributable earnings | $ 49,926 | $ 11,745 | $ 8,690 | $ 29,416 | $ 57,181 | $ (9,003) | $ 471 | $ 962 | $ 149,388 |

**Three Months Ended June 30, 2011**

| | Private Equity Funds | Private Equity Castles | Liquid Hedge Funds | Credit Hedge Funds | Credit PE Funds | Logan Circle | Principal Investments | Unallocated | Fortress Subtotal |
|---|---|---|---|---|---|---|---|---|---|
| Segment revenues | | | | | | | | | |
| Management fees | $ 35,821 | $ 13,574 | $ 28,981 | $ 30,344 | $ 16,615 | $ 4,964 | $ | $ | $ 130,299 |
| Incentive income | | | (18,556) | 16,294 | 22,494 | | | | 20,232 |
| Segment revenues - total | $ 35,821 | $ 13,574 | $ 10,425 | $ 46,638 | $ 39,109 | $ 4,964 | $ | $ | $ 150,531 |
| Fund management distributable earnings (loss) before Principal Performance Payments | $ 27,901 | $ 6,794 | $ (6,263) | $ 10,888 | $ 18,990 | $ (4,174) | $ | $ (445) | $ 53,691 |
| Fund management distributable earnings (loss) | $ 27,901 | $ 6,794 | $ (6,263) | $ 10,888 | $ 18,990 | $ (4,174) | $ | $ (445) | $ 53,691 |
| Pre-tax distributable earnings | $ 27,901 | $ 6,794 | $ (6,263) | $ 10,888 | $ 18,990 | $ (4,174) | $ (6,916) | $ (445) | $ 46,775 |

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Reconciling items between segment measures and GAAP measures:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **June 30, 2012** | **June 30, 2011** | **June 30, 2012** | **June 30, 2011** |
| Fund management distributable earnings | $ 53,152 | $ 53,691 | $ 109,365 | $ 148,917 |
| Investment income (loss) | 1,061 | (2,328) | 6,267 | 9,703 |
| Interest expense | (4,047) | (4,588) | (8,349) | (9,232) |
| Pre-tax distributable earnings | 50,166 | 46,775 | 107,283 | 149,388 |
| | | | | |
| Adjust incentive income | | | | |
| Incentive income received from private equity funds and credit PE funds, subject to contingent repayment | $ (14,195) | $ (22,494) | $ (25,430) | $ (79,853) |
| Incentive income received from third parties, subject to contingent repayment | (1,401) | (988) | (1,401) | (988) |
| Incentive income accrued from private equity funds and credit PE funds, not subject to contingent repayment | 22,641 | 14,127 | 31,384 | 25,399 |
| Incentive income received from private equity funds and credit PE funds, not subject to contingent repayment | | | (1,107) | (1,329) |
| Incentive income from hedge funds, subject to annual performance achievement | (26,089) | 3,747 | (61,944) | (49,299) |
| Incentive income received from the sale of shares related to options | | | | |
| Reserve for clawback, gross (see discussion above) | (2,847) | | (6,436) | |
| | (21,891) | (5,608) | (64,934) | (106,070) |
| Adjust other income | | | | |
| Distributions of earnings from equity method investees** | (490) | (1,521) | (2,007) | (8,279) |
| Earnings (losses) from equity method investees** | 21,215 | 17,567 | 51,943 | 83,286 |
| Gains (losses) on options in equity method investees | 185 | (867) | 4,257 | (1,563) |
| Gains (losses) on other investments | 7,206 | (4,467) | 27,063 | (9,675) |
| Impairment of investments (see discussion above) | 71 | 573 | 155 | 708 |
| Adjust income from the receipt of options | 13,226 | | 13,226 | 7,021 |
| | 41,413 | 11,285 | 94,637 | 71,498 |

| | | | | |
|---|---|---|---|---|
| Adjust employee, Principal and director compensation | | | | |
| Adjust employee, Principal and director equity-based compensation expense (including Castle options assigned) | (55,278) | (58,380) | (114,925) | (122,710) |
| Adjust employee portion of incentive income from private equity funds accrued prior to the realization of incentive income | 1,025 | | 2,316 | |
| | (54,253) | (58,380) | (112,609) | (122,710) |
| | | | | |
| Adjust mark-to-market of contingent consideration in business combination | | 1,883 | | 2,831 |
| Adjust amortization of intangible assets and impairment of goodwill and intangible assets | (12) | (422) | (23) | (853) |
| Adjust Principals forfeiture agreement expense (expired in 2011) | N/A | (237,367) | N/A | (472,126) |
| Adjust non-controlling interests related to Fortress Operating Group units | (7,864) | 153,001 | (11,487) | 307,330 |
| Adjust tax receivable agreement liability | | | (6,935) | (116) |
| Adjust income taxes | (2,650) | (5,703) | (30,563) | (27,140) |
| Total adjustments | (45,257) | (141,311) | (131,914) | (347,356) |
| | | | | |
| Net Income (Loss) Attributable to Class A Shareholders | 4,909 | (94,536) | (24,631) | (197,968) |
| Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries | 9,347 | (151,566) | 14,740 | (303,328) |
| Net Income (Loss) (GAAP) | $ 14,256 | $ (246,102) | $ (9,891) | $ (501,296) |

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

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| | | June 30, 2012 |
|---|---|---|
| Total segment assets | $ | 2,148,828 |
| Adjust equity investments from segment carrying amount | | (31,959) |
| Adjust investments gross of employees and others portion | | 39,967 |
| Adjust goodwill and intangible assets to cost | | (22,687) |
| Accrued incentive income subject to annual performance achievement | | (61,944) |
| Total assets (GAAP) | $ | 2,072,205 |

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2012 | | 2011 | | 2012 | | 2011 |
| Segment revenues | $ | 161,428 | $ | 150,531 | $ | 331,450 | $ | 394,972 |
| Adjust management fees | | 148 | | 125 | | 273 | | 250 |
| Adjust incentive income | | (21,900) | | (5,695) | | (65,254) | | (107,959) |
| Adjust income from the receipt of options | | 13,226 | | | | 13,226 | | 7,021 |
| Adjust other revenues (including expense reimbursements)* | | 46,146 | | 44,855 | | 91,011 | | 92,349 |
| Total revenues (GAAP) | $ | 199,048 | $ | 189,816 | $ | 370,706 | $ | 386,633 |

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

Fortress s depreciation and amortization expense by segment was as follows. Amortization expense, related to intangible assets, is not a component of distributable earnings.

| | Private Equity | | | | Liquid | | Credit | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Funds | | Castles | | Liquid Hedge Funds | | Hedge Funds | | PE Funds | | Logan Circle | | Unallocated | | Total |
| Three Months Ended June 30, | | | | | | | | | | | | | | | | |
| 2012 | | | | | | | | | | | | | | | | |
| Depreciation | $ | 407 | $ | 101 | $ | 503 | $ | 1,276 | $ | 104 | $ | 101 | $ | 754 | $ | 3,246 |
| Amortization | | | | | | | | | | | | 12 | | | | 12 |
| Total | $ | 407 | $ | 101 | $ | 503 | $ | 1,276 | $ | 104 | $ | 113 | $ | 754 | $ | 3,258 |
| 2011 | | | | | | | | | | | | | | | | |
| Depreciation | $ | 421 | $ | 96 | $ | 408 | $ | 949 | $ | 78 | $ | 91 | $ | 802 | $ | 2,845 |
| Amortization | | | | | | | | | | | | 422 | | | | 422 |
| Total | $ | 421 | $ | 96 | $ | 408 | $ | 949 | $ | 78 | $ | 513 | $ | 802 | $ | 3,267 |
| Six Months Ended June 30, | | | | | | | | | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2012 | | | | | | | | |
| Depreciation | $ 829 | $ 210 | $ 1,009 | $ 2,596 | $ 201 | $ 201 | $ 1,667 | $ 6,713 |
| Amortization | | | | | | 23 | | 23 |
| Total | $ 829 | $ 210 | $ 1,009 | $ 2,596 | $ 201 | $ 224 | $ 1,667 | $ 6,736 |
| 2011 | | | | | | | | |
| Depreciation | $ 804 | $ 190 | $ 814 | $ 1,714 | $ 238 | $ 178 | $ 1,556 | $ 5,494 |
| Amortization | | | | | | 853 | | 853 |
| Total | $ 804 | $ 190 | $ 814 | $ 1,714 | $ 238 | $ 1,031 | $ 1,556 | $ 6,347 |

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**11. SUBSEQUENT EVENTS**

These financial statements include a discussion of material events, if any, which have occurred subsequent to June 30, 2012 (referred to as subsequent events ) through the issuance of these consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

In July 2012, Fortress formed a consolidated senior living property management subsidiary and agreed to manage eleven senior living properties, including eight which are owned by Newcastle and three which are owned by third parties. Fortress will receive management fees equal to 6% of revenues (as defined in the agreements) for the first two years of the agreements and 7% thereafter. In addition, Fortress will receive reimbursement for certain expenses, including all of the compensation expense associated with the approximately 800 on-site employees. Upon the acquisition of the eight properties by Newcastle, which occurred in July 2012, Newcastle reimbursed Fortress for approximately $6.4 million of pre-acquisition expenditures.

In July 2012, Newcastle issued 25,300,000 shares of its common stock in a public offering at a price to the public of $6.70 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 2,530,000 shares of Newcastle s common stock at the public offering price, which were valued at approximately $8.3 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

**12. CONSOLIDATING FINANCIAL INFORMATION**

The consolidating financial information presents the balance sheet, statement of operations and statement of cash flows for Fortress Operating Group (on a combined basis) and Fortress Investment Group LLC (including its consolidated subsidiaries other than those within Fortress Operating Group) on a deconsolidated basis, as well as the related eliminating entries for intercompany balances and transactions, which sum to Fortress Investment Group s consolidated financial statements as of, and for the six months ended June 30, 2012.

Fortress Operating Group includes all of Fortress s operating and investing entities. The upper tier Fortress Operating Group entities are the obligors on Fortress s credit agreement (Note 4). Segregating the financial results of this group of entities provides a more transparent view of the capital deployed in Fortress s businesses and the relevant ratios for borrowing entities.

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The consolidating balance sheet information is as follows:

| | As of June 30, 2012 | | | |
|---|---|---|---|---|
| | **Fortress Operating Group Combined** | **Fortress Investment Group LLC Consolidated (A)** | **Intercompany Eliminations** | **Fortress Investment Group LLC Consolidated** |
| **Assets** | | | | |
| Cash and cash equivalents | $ 154,537 | $ 29,637 | $ | $ 184,174 |
| Due from affiliates | 269,794 | 1 | | 269,795 |
| Investments | 1,136,030 | 386,915 | (386,915) | 1,136,030 |
| Deferred tax asset | 5,071 | 373,029 | | 378,100 |
| Other assets | 91,000 | 13,106 | | 104,106 |
| | $ 1,656,432 | $ 802,688 | $ (386,915) | $ 2,072,205 |
| **Liabilities and Equity** | | | | |
| **Liabilities** | | | | |
| Accrued compensation and benefits | $ 148,649 | $ | $ | $ 148,649 |
| Due to affiliates | 52,482 | 277,272 | | 329,754 |
| Deferred incentive income | 233,811 | | | 233,811 |
| Debt obligations payable | 189,278 | | | 189,278 |
| Other liabilities | 50,782 | | | 50,782 |
| | 675,002 | 277,272 | | 952,274 |
| **Commitments and Contingencies** | | | | |
| **Equity** | | | | |
| Paid-in capital | 5,590,395 | 2,036,124 | (5,590,395) | 2,036,124 |
| Retained earnings (accumulated deficit) | (4,656,372) | (1,508,751) | 4,656,372 | (1,508,751) |
| Accumulated other comprehensive income (loss) | (7,172) | (1,957) | 7,172 | (1,957) |
| Total Fortress shareholders equity (B) | 926,851 | 525,416 | (926,851) | 525,416 |
| Principals and others interests in equity of consolidated subsidiaries | 54,579 | | 539,936 | 594,515 |
| **Total Equity** | 981,430 | 525,416 | (386,915) | 1,119,931 |
| | $ 1,656,432 | $ 802,688 | $ (386,915) | $ 2,072,205 |

(A) Other than Fortress Operating Group.

(B) Includes the Principals equity in the Fortress Operating Group column, which is eliminated in consolidation.

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**FORTRESS INVESTMENT GROUP LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

JUNE 30, 2012

(dollars in tables in thousands, except share data)

The consolidating statement of operations information is as follows:

| | Six Months Ended June 30, 2012 | | | |
|---|---|---|---|---|
| | **Fortress Operating Group Consolidated** | **Fortress Investment Group LLC Consolidated (A)** | **Intercompany Eliminations** | **Fortress Investment Group LLC Consolidated** |
| **Revenues** | | | | |
| Management fees: affiliates | $ 224,129 | $ | $ | $ 224,129 |
| Management fees: non-affiliates | 21,772 | | | 21,772 |
| Incentive income: affiliates | 33,018 | | | 33,018 |
| Incentive income: non-affiliates | 776 | | | 776 |
| Expense reimbursements from affiliates | 88,681 | | | 88,681 |
| Other revenues | 2,336 | 17 | (23) | 2,330 |
| | 370,712 | 17 | (23) | 370,706 |
| **Expenses** | | | | |
| Interest expense | 8,347 | 178 | (23) | 8,502 |
| Compensation and benefits | 355,846 | | | 355,846 |
| General, administrative and other | 62,361 | | | 62,361 |
| Depreciation and amortization | 6,736 | | | 6,736 |
| | 433,290 | 178 | (23) | 433,445 |
| **Other Income (Loss)** | | | | |
| Gains (losses) | 31,770 | | | 31,770 |
| Tax receivable agreement liabilty adjustment | | (6,935) | | (6,935) |
| Earnings (losses) from equity method investees | 58,383 | 7,872 | (7,872) | 58,383 |
| | 90,153 | 937 | (7,872) | 83,218 |
| **Income (Loss) Before Income Taxes** | 27,575 | 776 | (7,872) | 20,479 |
| Income tax benefit (expense) | (4,963) | (25,407) | | (30,370) |
| **Net Income (Loss)** | $ 22,612 | $ (24,631) | $ (7,872) | $ (9,891) |
| **Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries** | $ 3,253 | $ | $ 11,487 | $ 14,740 |
| **Net Income (Loss) Attributable to Class A Shareholders (B)** | $ 19,359 | $ (24,631) | $ (19,359) | $ (24,631) |

(A) Other than Fortress Operating Group.

(B) Includes net income (loss) attributable to the Principals (and one senior employee s) interests in the Fortress Operating Group column, which is eliminated in consolidation.

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**FORTRESS INVESTMENT GROUP LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

JUNE 30, 2012

(dollars in tables in thousands, except share data)

The consolidating statement of cash flows information is as follows:

| | Six Months Ended June 30, 2012 | | | |
|---|---|---|---|---|
| | **Fortress Operating Group Consolidated** | **Fortress Investment Group LLC Consolidated (A)** | **Intercompany Eliminations** | **Fortress Investment Group LLC Consolidated** |
| **Cash Flows From Operating Activities** | | | | |
| Net income (loss) | $ 22,612 | $ (24,631) | $ (7,872) | $ (9,891) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities | | | | |
| Depreciation and amortization | 6,736 | | | 6,736 |
| Other amortization and accretion | 1,206 | | | 1,206 |
| (Earnings) losses from equity method investees | (58,383) | (7,872) | 7,872 | (58,383) |
| Distributions of earnings from equity method investees | 21,145 | | | 21,145 |
| (Gains) losses | (31,770) | | | (31,770) |
| Deferred incentive income | (31,384) | | | (31,384) |
| Deferred tax (benefit) expense | 492 | 32,225 | | 32,717 |
| Reversal of forfeited non-cash compensation | (1,725) | | | (1,725) |
| Options received from affiliates | (13,226) | | | (13,226) |
| Tax receivable agreement liability adjustment | | 6,935 | | 6,935 |
| Equity-based compensation | 113,022 | | | 113,022 |
| Options in affiliates granted to employees | 3,377 | | | 3,377 |
| Allowance for doubtful accounts | 254 | | | 254 |
| Cash flows due to changes in | | | | |
| Due from affiliates | (45,044) | | | (45,044) |
| Other assets | 10,793 | (7,120) | | 3,673 |
| Accrued compensation and benefits | (86,585) | | | (86,585) |
| Due to affiliates | 5,056 | (8,703) | | (3,647) |
| Deferred incentive income | 26,492 | | | 26,492 |
| Other liabilities | (7,435) | | | (7,435) |
| Net cash provided by (used in) operating activities | (64,367) | (9,166) | | (73,533) |
| **Cash Flows From Investing Activities** | | | | |
| Contributions to equity method investees | (36,618) | (34,603) | 34,603 | (36,618) |
| Distributions of capital from equity method investees | 136,141 | 26,153 | (26,153) | 136,141 |

| | | | | |
|---|---|---|---|---|
| Purchase of fixed assets | (5,898) | | | (5,898) |
| Net cash provided by (used in) investing activities | 93,625 | (8,450) | 8,450 | 93,625 |
| **Cash Flows From Financing Activities** | | | | |
| Repayments of debt obligations | (71,972) | | | (71,972) |
| Issuance (purchase) of Class A shares (RSU settlements) | (34,603) | 34,603 | | |
| Capital contributions (distributions) | 34,603 | | (34,603) | |
| Dividends and dividend equivalents paid | (27,248) | (20,350) | 26,153 | (21,445) |
| Principals and others interests in equity of consolidated subsidiaries - contributions | 37 | | | 37 |
| Principals and others interests in equity of consolidated subsidiaries - distributions | (75,704) | | | (75,704) |
| Net cash provided by (used in) financing activities | (174,887) | 14,253 | (8,450) | (169,084) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (145,629) | (3,363) | | (148,992) |
| **Cash and Cash Equivalents, Beginning of Period** | 300,166 | 33,000 | | 333,166 |
| **Cash and Cash Equivalents, End of Period** | $ 154,537 | $ 29,637 | $ | $ 184,174 |

(A) Other than Fortress Operating Group.

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**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 consolidated financial statements and the related notes (referred to as consolidated financial statements or historical 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**

*Our Business*

Fortress is a leading, highly diversified global investment management firm with approximately $47.8 billion in AUM as of June 30, 2012. 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 1,400 institutional clients and private investors worldwide. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our alternative investment funds, and investment income (loss) from our principal investments. We invest capital in each of our alternative investment businesses.

As of June 30, 2012, we managed the following businesses:

Private Equity a business that manages approximately $13.8 billion of AUM comprised of two business segments: (i) private equity funds that primarily 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 (ii) publicly traded alternative investment vehicles, which we refer to as Castles, that invest primarily in real estate and real estate related debt investments.

Liquid Hedge Funds a business that manages approximately $4.4 billion of AUM. These funds invest globally in fixed income, currency, equity and commodity markets and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers and direct investments; and a fund that seeks to generate returns by executing a positively convex investment strategy.

Credit Funds a business that manages approximately $11.5 billion of AUM comprised of two business segments: (i) credit hedge funds which make highly diversified investments in assets, opportunistic lending situations and securities on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and (ii) credit private equity (PE) funds which are comprised of a family of credit opportunities funds focused on investing in distressed and undervalued assets, a family of long dated value funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of real assets funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based global opportunities fund, and a family of real estate opportunities funds.

Logan Circle our traditional, fixed income asset management business which has approximately $18.1 billion of AUM.

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

*Understanding the Asset Management Business*

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

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

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

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

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

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

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

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

Each of these objectives is discussed below.

Assets Under Management

Assets under management, or AUM, fluctuate based on four primary factors:

- *Capital raising*: AUM increases when we receive more capital from our fund investors to manage on their behalf. Typically, fund investors make this decision based on: (a) the amount of capital they wish, or are able, to invest in the types of investments a certain manager or fund makes, and (b) the reputation and track record of the manager and its key investment employees.

- *Realization of private equity investments*: 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.

- *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.

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 Results of Operations Assets Under Management.

<u>Performance</u>

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 Results of Operations 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.

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

- We generally earn incentive income from hedge funds based on a straight percentage of the returns of each fund investor, since fund investors may enter the fund at different times. Incentive payments are made periodically, typically annually for the Fortress hedge funds. Once an incentive payment is made, it is not refundable. However, if a particular fund investor suffers a loss on its investment, either from the date of the Fund s inception or since the last incentive payment to the manager, this establishes a high water mark for that investor, meaning a threshold that has to be exceeded in order for us to begin earning incentive income again from that fund investor. Investors in the same fund could have different high water marks, in terms of both percentage return and dollar amount.

- Since it is impractical to disclose this information on a fund investor-by-investor basis, it may be disclosed based on the following metrics: the percentage of fund investors who have a high water mark, and the aggregate dollar difference between the value of those fund investors investments and their applicable aggregate high water mark. The investments held by fund investors who do not have a high water mark are eligible to generate incentive income for us on their next dollar earned.

- We generally earn incentive income from private equity style funds based on a percentage of the net 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 the fund is realized, subject to a clawback. At the termination of such 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.

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 consolidated financial statements)** |
| Yes | Yes | No | - The amount of previously distributed incentive income.<br><br>- 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.<br><br>- 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. |

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

Liquidity, Debt and Expense Management

We may choose to use leverage, or debt, to manage our liquidity or enhance our returns. We strive to achieve a level of debt that is sufficient to cover working capital and investment needs, but not in an amount or way 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 debt 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 simply 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 simply means that employees are paid in equity of Fortress rather than in cash. This form of compensation has the advantage of never 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, are discussed in Note 7 to our consolidated financial statements contained herein. Our segment operating margin, which we define as the ratio of our fund management distributable earnings to our segment revenues, and which is a measure of our profitability, is discussed in Note 10 to our consolidated financial statements contained herein.

*Understanding our Financial Statements*

Balance Sheet

Our assets consist primarily of the following:

1) Investments in our funds, recorded generally based on our share of the funds underlying net asset value, which in turn is based on the estimated fair value of the funds investments.

2) Cash.

3) Amounts due from our funds for fees and expense reimbursements.

4) Deferred tax assets, which relate to potential future tax benefits. This asset is not tangible it was not paid for and does not represent a receivable or other claim on assets.

Our liabilities consist primarily of the following:

1) Debt owed under our credit facility.

2) Accrued compensation, generally payable to employees shortly after year-end.

3) Amounts due to our Principals under the tax receivable agreement. These amounts partially offset the deferred tax assets and do not become payable to the Principals until the related future tax benefits are realized.

4) Deferred incentive income, which is incentive income that we have already received in cash but is subject to contingencies and may have to be returned ( clawed back ) to the respective funds if certain performance hurdles are not met.

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

1) Expected cash flows from funds, including the potential for incentive income.

2) Cash on hand.

3) Collectability of receivables.

4) Current amounts due under our credit facility.

5) Other current liabilities, primarily accrued compensation.

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6) Debt covenants.

7) Likelihood of clawback of incentive income.

Income Statement

Our revenues and other income consist primarily of the following:

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

2) Returns on our investments in the funds.

Our expenses consist primarily of the following:

1) Employee compensation paid in cash.

2) Equity-based compensation, which is not paid in cash but has a dilutive effect when it vests because it results in additional shares being issued. (This amount is broken out from total compensation in the compensation footnote in our consolidated financial statements.)

3) Other general and administrative expenses and interest.

4) Taxes.

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

Essentially, the key components of our income are the fees we are earning from our funds in comparison to the compensation and other corporate expenses we are paying in cash, and the resulting operating margin. Other significant components include (i) the unrealized changes in value of our funds, reported as unrealized gains (losses) and earnings (losses) from equity method investees, as this is indicative of changes in potential future cash flows, (ii) taxes, and (iii) equity-based compensation (not including principals agreement compensation), because it will eventually have a dilutive effect when the related shares are issued.

*Managing Business Performance*

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

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

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

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

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

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**Market Considerations**

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

*The strength and liquidity of U.S. and global financial institutions and the financial system.*

While market conditions in the United States and abroad have improved meaningfully over the last three years, it is not clear whether a sustained recovery will occur or, if so, for how long it will last. Many market participants remain concerned about the long-term health of the financial markets and the financial institutions and countries that participate in these markets. We and other market participants face continued challenges in addressing the issues created by the recent challenging credit and liquidity conditions and financial institution failures. If market conditions remain challenging or deteriorate in the future particularly if there is another failure of one or more major financial institutions, a default or serious deterioration in the financial condition of one or more sovereign nations, or another severe contraction of available debt or equity capital, this development would negatively impact Fortress and our funds.

*The strength and liquidity of the U.S. and global equity and debt markets.*

Strong equity market conditions enable our private equity funds to increase the value, and effect realizations, of their portfolio company investments. In addition, strong equity markets make it generally easier for our funds that invest in equities to generate positive investment returns. The condition of debt markets also has a meaningful impact on our business. Several of our funds make investments in debt instruments, which are assisted by a strong and liquid debt market. In addition, our funds borrow money to make investments. Our funds utilize leverage in order to increase investment returns, which ultimately drive the performance of our funds. Furthermore, we utilize debt to finance our investments in our funds and for working capital purposes.

Beginning in mid-2007, the equity and debt markets experienced a significant deterioration. The deterioration of the debt markets in the United States was triggered by considerable turbulence in the housing and sub-prime mortgage markets, which negatively affected other fixed income markets. The difficult conditions in the fixed income markets prompted lenders to cease committing to new senior loans and other debt, which, in turn, made it extremely difficult to finance new and pending private equity acquisitions or to refinance existing debt. In particular, the securitization markets, which in years prior to 2007 had represented an important outlet for the placing of acquisition debt, have been impaired since that time, although securitization activity increased in 2011. Private equity-led acquisitions announced since mid-2007 have generally been smaller, less levered, and subject to more restrictive debt covenants than acquisitions done prior to the disruption. As the turbulence in the debt markets continued and its intensity increased, equity market conditions also began to deteriorate in the latter part of 2007 as concerns of an economic slowdown began to affect equity valuations. The resulting reduction in liquidity and increase in volatility caused several commercial and investment banks, hedge funds and other financial institutions to reduce the carrying value of a significant amount of their fixed income holdings, which further reduced the liquidity of debt and, to a lesser extent, equity instruments.

Equity market conditions began to stabilize in the second quarter of 2009, and debt market conditions improved significantly in 2010. As a result, we were able to access the equity markets in the United States and abroad, including, for example, the IPOs of Rail America, Seacube Container Leasing Ltd., Whistler Blackcomb Holdings Inc. and Nationstar Mortgage Holdings Inc. as well as realizations of significant other positions in publicly traded securities of our portfolio companies. The improvement in the debt markets has enabled us and other market participants to refinance existing debt obligations and otherwise obtain debt financing with respect to our existing investments. However, equity market conditions remain volatile and have been adversely affected by various factors, such as unrest in the Middle East, continuing weakness in the U.S. labor and real estate markets, and the European debt crisis. We cannot predict future conditions of these markets or the impact of such conditions on our business.

The recent market conditions have negatively impacted our business in several ways:

- While conditions in the U.S. capital markets have improved meaningfully over the last three years, there currently is less debt and equity capital available in the market relative to the levels available from the early 2000s to 2008, which, coupled with additional margin collateral requirements imposed by lenders on some types of investments, debt and derivatives, has increased the importance of maintaining sufficient liquidity without relying upon additional infusions of capital from the debt and equity 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

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maintenance of increased liquidity may limit our ability to make investments, distributions, or engage in other strategic transactions. The dislocation of values and associated decreased liquidity in the global equity and debt markets have caused a material depreciation in equity and fixed income asset values in comparison to years prior to 2008, greater price volatility and weaker economic conditions around the globe. This has resulted in a significant reduction in the value of certain of our investments in comparison to years prior to 2008, which, in turn, has impacted our management fees, incentive income and investment income. Recently, such values have rebounded (significantly in many cases), but have not increased to their historical levels for all investments.

• The market prices of the investments held by our private equity funds in public companies decreased substantially from their high values, rebounded meaningfully in 2009 and the first quarter of 2010, but have experienced volatility since then. A decrease in these prices hinders our ability to realize gains within these funds and therefore our ability to earn incentive income, and also impacts the value of our principal investments in such funds.

• As a result of the above factors:

• We did not pay a dividend on our Class A shares from the second quarter of 2008 to the third quarter of 2011. However, based on the above described improvements in the markets over the last three years, and the corresponding improvement in our financial condition, our board of directors approved a revised dividend policy under which it reinstated a $0.05 per share quarterly dividend beginning in the fourth quarter of 2011. The decision to pay a dividend, as well as the amount of any dividends paid, is subject to change at the discretion of our board of directors based upon a number of factors, including actual and projected distributable earnings.

• Changes in the value of our funds investments have impacted our future management fees, generally at an annual rate of up to 3% of the decline in aggregate fund NAV. See Assets Under Management below for a table summarizing our AUM.

• Changes in the value of our funds investments have also impacted the relationship between the NAVs of our investors in our main credit and liquid hedge funds and their incentive income thresholds (high water marks). Returns earned on capital from new investors continue to be incentive income eligible. Unrealized losses, or returns below threshold returns, in a significant portion of our private equity funds have resulted in higher future returns being required before we earn incentive income from such funds, and, in some cases, the possibility that we will be liable for so-called clawback payments relating to incentive payments previously collected. The returns required are subject to a number of variables, such as: the amount of loss incurred, the amount of outstanding capital in the fund, the amount and timing of future capital draws and distributions, and the rate of preferential return earned by investors. See Note 2 to the consolidated financial statements included herein for more information.

• Despite the volatile economic conditions, our funds continue to make investments on an opportunistic basis, and we continue to raise new funds as 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.

First, 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 interest rates and credit spreads (which represent the yield demanded on financial instruments by the market in comparison to a benchmark rate, such as the relevant U.S. Treasury rate or LIBOR) available on other investment products. This is because as interest rates rise and/or spreads widen, returns available on such investments would tend to increase and, therefore, become more attractive relative to the returns offered on investment products offered by alternative asset managers. We have benefited in past years from relatively tight spreads, which have allowed us and the funds we manage to obtain financing for investments at attractive rates and made our investment products attractive relative to many other products. Although spreads over the past several years have been volatile, they have widened significantly from levels prior to the challenging market conditions. In addition to potentially reducing the relative attractiveness of our investment products, this widening will typically increase our costs when financing our investments using debt, which, in turn, reduces the net return we can earn on those investments. Furthermore, wider spreads reduce the value of investments currently owned by our funds. A reduction in the value of our funds investments directly impacts our management fees and incentive income from such funds. As a result, this dynamic could slow capital flow to the alternative investment sector.

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A second and related factor is the amount of capital invested with such managers. Over the several years prior to 2009, institutions, high net worth individuals and other investors (including sovereign wealth funds) increased their allocations of capital to the alternative investment sector. That said, since the onset of the recession, university endowments, pension funds and other traditionally significant investors in the alternative investment sector have, in some cases, reduced the amount of capital they are investing in this sector. This decrease appears to be due to a variety of factors, including, but not limited to, the generally negative investment performance in the sector during 2008 as well as their own liquidity constraints resulting from the negative performance of their investment portfolios and near-term capital requirements. The improved performance in 2009 through the early part of 2012 relative to 2008 appears to have modestly improved the trend of capital invested in the alternative asset investment sector. The amount of capital being invested into the alternative investment sector appears to have stabilized or even slightly increased and redemption requests appear to have decreased relative to the conditions experienced during 2008, but they are still weaker than the conditions experienced prior to the onset of the global credit and liquidity crisis that began in 2007. Rather than focusing on reducing the amount invested in the alternative investment sector, certain investors appear to have become increasingly focused on the liquidity and redemption terms of alternative investment funds and have expressed a desire to have the ability to redeem or otherwise liquidate their investments in a more rapid timeframe than what is permitted under the terms of many funds created prior to the onset of the crisis. Investors in long-term, locked-up (i.e. private equity style ) funds have responded to the recession by engaging 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 alternatives 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 prior to the recession. Moreover, some investors are increasingly shifting to managed accounts with fee structures that are less favorable to us.

The third factor, which most directly impacts our results, is our investment performance relative to our competitors, including products offered by other alternative asset managers. As a historical leader in the alternative asset management sector based on the size, diversity and historical performance of our funds, we have been able to attract a significant amount of new capital both at the public company and within our funds, even during the recent challenging market conditions. For example, in April 2009, the public company successfully raised approximately $220 million in net proceeds from an offering of its Class A shares. Moreover, during 2009 through the early part of 2012, we have been able to raise meaningful additional capital in various funds, including newly formed funds. However, our ongoing ability to raise capital for new and existing funds will be a function of investors perception about our investment performance relative to that of our competition in the post-recession environment, as well as other factors.

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

Our private equity funds, as well as certain of our managed accounts, currently have significant investments in companies whose assets are concentrated in the following industries and sectors: transportation, financial services (particularly loan servicing), leisure and gaming, real estate (including Florida commercial real estate and German residential real estate), and senior living facilities. If any of these industries or sectors were adversely affected by market conditions, sector-specific trends or other factors, in a systematic or uniform manner, it could have a disproportionately negative impact on those funds. For example, if the commercial real estate operating environment in Florida remains challenging or deteriorates further, our fund investments in Flagler Development Group could decline in value and potentially have a material adverse effect on the performance of the funds that are invested in Flagler.

*Market Considerations Summary*

While disruptions in the markets, with respect to equity prices, interest rates, credit spreads or other market factors, including market liquidity, may adversely affect our existing positions, we believe such disruptions generally present significant new opportunities for investment, particularly in distressed asset classes. Our ability to take advantage of these opportunities will depend on our ability to access debt and equity capital, both at Fortress and within the funds. No assurance can be given that future trends will not be disadvantageous to us, particularly if challenging conditions persist or intensify, or if generally improving conditions in our market reverse.

We do not currently know the full extent to which continued market uncertainty will affect us or the markets in which we operate. If the challenging conditions continue, or result in a permanent, fundamental change in the credit markets, we and the funds we manage may experience further tightening of liquidity, reduced earnings and cash flow, impairment charges, increased margin requirements, as well as challenges in maintaining our reputation, raising additional capital, maintaining compliance with debt covenants, obtaining investment financing and making investments on attractive terms. However, to date we have been able to continue raising capital, both through new and existing funds, which helps to increase our AUM and to give us a significant amount of capital available to be invested at a time when we believe attractive returns are available.

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Assets Under Management

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

| | Private Equity | | Liquid Hedge | Credit | | | |
|---|---|---|---|---|---|---|---|
| | Funds (J) | Castles | Funds | Hedge Funds | PE Funds (J) | Logan Circle | Total |
| 2012 | | | | | | | |
| AUM December 31, 2011 | $ 9,285 | $ 3,181 | $ 5,515 | $ 5,976 | $ 6,232 | $ 13,524 | $ 43,713 |
| Capital raised (A) | | 267 | 280 | 116 | 99 | | 762 |
| Increase in invested capital | 67 | | | 20 | 741 | | 828 |
| Redemptions (B) | | | (1,622) | (11) | | | (1,633) |
| SPV distributions (C) | | | | | | | |
| RCA distributions (D) | | | | (516) | | | (516) |
| Return of capital distributions (E) | (20) | | | (78) | (1,152) | | (1,250) |
| Adjustment for reset date (F) | | | | | (323) | | (323) |
| Crystallized incentive income (G) | | | (1) | (70) | | | (71) |
| Equity buyback (H) | | | | | | | |
| Net client flows | | | | | | 3,955 | 3,955 |
| Income (loss) and foreign exchange (I) | 1,104 | (58) | 226 | 422 | (4) | 633 | 2,323 |
| AUM June 30, 2012 (K) | $ 10,436 | $ 3,390 | $ 4,398 | $ 5,859 | $ 5,593 | $ 18,112 | $ 47,788 |

(A) Includes offerings of shares by the Castles, if any.

(B) Excludes redemptions which reduced AUM subsequent to June 30, 2012. Redemptions are further detailed below. Liquid hedge fund redemptions include $0.7 billion of capital returned to investors in connection with the closing of the Fortress Commoditites Funds in the second quarter of 2012.

(C) Mainly represents distributions from the Drawbridge Global Macro Fund SPV, which was established to hold the illiquid assets pertaining to investors who gave redemption notices in the fourth quarter of 2008.

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

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

(F) The reset date of certain private equity or credit PE funds is an event determined by the earliest occurrence of (i) the first day following the expiration of the capital commitment period of a fund, (ii) a successor fund or entity draws capital contributions or charges management fees or (iii) the date on which all unpaid capital obligations have been cancelled. For the period commencing with the initial closing of or contribution to the fund and ending on the last day of the semi-annual or quarterly period ending on or after the reset date, certain funds generate management fees as a percentage of the fund s capital commitments and certain funds generate management fees as a percentage of the fund s aggregate capital contributions. Thereafter, such funds generally generate management fees as a percentage of the aggregate capital contributed adjusted for the fair value of each investment that is below the associated investment s contributed capital.

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

(H) Represents buybacks of equity interests by the Castles.

(I) Represents the change in fee-paying NAV resulting from realized and unrealized changes in the reported value of the fund.

(J) As of June 30, 2012, the private equity funds and credit PE funds had approximately $0.2 billion and $7.2 billion of uncalled capital, respectively, that will become assets under management when deployed/ called.

(K) AUM is presented mainly in reference to Fortress s ability to generate management fees. Note 2 to our 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 thereon. The percentage of capital invested by Fortress across different funds varies.

*Redemptions*

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

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

The Fortress Partners Funds provide for annual redemption terms. Redemption notices must be received at least 180 days prior to a calendar year end, and related payments are made subsequent to year end. For instance, the 2012 redemption notice date is July 5, 2012 for redemptions to be paid in the first quarter of 2013.

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The credit hedge funds generally provide for annual return of capital terms. Return of capital requests must be received at least 90 days prior to a calendar year end, and related payments are made subsequent to year end. For instance, the 2012 return of capital request notice date is October 3, 2012 for capital to be returned after January 1, 2013. Such returns of capital may be paid over time as the underlying fund investments are realized, in accordance with the governing terms of the applicable funds. During the period prior to the return of capital for which a return request has been submitted, such amounts continue to be subject to management fees and, as applicable, incentive income. In particular, return of capital requests within the flagship credit hedge fund in 2008, 2009, 2010 (onshore only) and 2011 are being paid over time as the underlying fund investments are realized. In such a case, pending payment, this capital is referred to as a redeeming capital account or RCA.

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

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

Redemption Notices / Return of Capital Requests Received and Outstanding through June 30, 2012 (in thousands):

| Notice Receipt Period | Liquid Hedge Fund Redemption Notices Received | Payments Made with Respect to those Notices - Inception to Date (C) | Liquid Hedge Fund Remaining Outstanding Notices | Credit Hedge Fund Return of Capital Requests Received | Payments Made with Respect to those Requests - Inception to Date (C) | Credit Hedge Fund Remaining Outstanding Notices |
|---|---|---|---|---|---|---|
| 2012 | $ 1,226,947 | $ 737,049 | $ 479,103 | $ 30,000 | $ | $ 30,000 |
| 2011 | 2,382,209 | 2,265,463 | 25,779 | 785,831 | 297,456 | 523,793 |
| 2010 | 1,231,169 | 1,218,557 | | 722,323 | 409,951 | 398,597 |
| 2009 | 1,968,260 | 1,985,307 | | 1,436,187 | 1,245,341 | 495,128 |
| Prior | | | (A) | | | 229,935(A) |
| | | | $ 504,882(B) | | | $ 1,677,453(B) |

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

(B) For liquid hedge funds, reflects $0.3 billion to be paid primarily within one quarter and $0.2 billion to be paid primarily in the first quarter of 2013. For credit hedge funds, includes $1.6 billion in RCAs to be paid as the underlying investments are realized. Excludes any notices received from investors whose status has changed from fee-paying to non-fee-paying subsequent to notice receipt.

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

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

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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, 2012 | AUM June 30, 2011 | Returns (B) Inception to June 30, 2012 |
|---|---|---|---|---|---|
| **Private Equity** | | | | | |
| *Private Equity Funds that Report IRR s* | | | | | |
| Fund I | Nov-99 | (A) | $ | $ | 25.7% |
| Fund II | Jul-02 | Feb-13 | | | 35.6% |
| Fund III | Sep-04 | Jan-15 | 1,287 | 1,305 | 3.0% |
| Fund III Coinvestment | Nov-04 | Jan-15 | 112 | 94 | 0.4% |
| Fund IV | Mar-06 | Jan-17 | 2,900 | 2,633 | (0.6)% |
| Fund IV Coinvestment | Apr-06 | Jan-17 | 619 | 629 | (2.4)% |
| Fund V | May-07 | Feb-18 | 2,741 | 2,671 | (3.8)% |
| Fund V Coinvestment | Jul-07 | Feb-18 | 577 | 569 | (12.2)% |
| GAGACQ Coinvestment Fund | Sep-04 | Permanent | | | 18.3% |
| FRID | Mar-05 | Apr-15 | 507 | 402 | (6.0)% |
| FRIC | Mar-06 | May-16 | 107 | 146 | (10.8)% |
| FICO | Aug-06 | Jan-17 | | 25 | (100.0)% |
| FHIF | Dec-06 | Jan-17 | 1,067 | 1,055 | 7.9% |
| FECI | Jun-07 | Feb-18 | 443 | 450 | (3.2)% |
| WWTAI | Jul-11 | Jun-24 | 27 | | (C) |

| | | | | | Inception to Date (D) | Returns (B) Six Months Ended June 30, 2012 | 2011 |
|---|---|---|---|---|---|---|---|
| *Private Equity - Castles* | | | | | | | |
| Newcastle Investment Corp. | Jun-98 | Permanent | 1,561 | 1,181 | N/A | (B) | (B) |
| Eurocastle Investment Limited (E) | Oct-03 | Permanent | 1,829 | 2,096 | N/A | 4.9% | (18.6)% |
| | | | | | | | |
| **Liquid Hedge Funds** | | | | | | | |
| Drawbridge Global Macro Funds | Jun-02 | Redeemable | 410 | 406 | 8.0% | 7.3% | (4.4)% |
| Fortress Macro Funds | May-09 | Redeemable | 1,683 | 2,448 | 5.6% | 8.0% | (3.6)% |
| Fortress Macro MA1 | Nov-11 | Redeemable | 62 | | (C) | (C) | N/A |
| Fortress Commodities Funds | Jan-08 | Closed May-12 | | 948 | (1.4)% | (12.5)% | (3.7)% |
| Fortress Commodities Fund MA1 Ltd | Nov-09 | Closed Apr-12 | | 99 | (4.7)% | (6.6)% | (4.2)% |
| Fortress Partners Fund LP | Jul-06 | Redeemable | 644 | 781 | 1.6% | 1.7% | 3.2% |
| Fortress Partners Offshore Fund LP | Nov-06 | Redeemable | 666 | 694 | 1.8% | 2.1% | 3.1% |
| Fortress Asia Macro Funds | Mar-11 | Redeemable | 235 | 108 | 7.6% | 6.8% | (C) |
| Fortress Convex Asia Funds | Apr-12 | Redeemable | 26 | | (C) | (C) | N/A |
| | | | | | | | |
| **Credit Hedge Funds** | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Drawbridge Special Opp s Fund LP (F) | Aug-02 | PE style redemption | 4,008 | 4,210 | 10.7% | 7.6% | 7.2% |
| Drawbridge Special Opp s Fund LTD (F) | Aug-02 | PE style redemption | 929 | 772 | 10.9% | 7.9% | 8.8% |
| Worden Fund | Jan-10 | PE style redemption | 191 | 195 | 11.8% | 9.0% | 6.8% |
| Worden Fund II | Aug-10 | PE style redemption | 19 | 16 | 10.4% | 7.0% | (C) |
| Value Recovery Funds and related assets | (G) | Non-redeemable | 691 | 1,102 | (G) | (G) | (G) |

Continued on next page.

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| Name of Fund | Inception Date | Maturity Date (A) | AUM June 30, 2012 | AUM June 30, 2011 | Returns (B) Inception to June 30, 2012 |
|---|---|---|---|---|---|
| **Credit PE Funds** | | | | | |
| Credit Opportunities Fund | Jan-08 | Oct-20 | 972 | 1,093 | 26.9% |
| Credit Opportunities Fund II | Jul-09 | Jul-22 | 929 | 945 | 16.9% |
| Credit Opportunities Fund III | Sep-11 | Mar-24 | 459 | | (C) |
| FCO Managed Account #1 | Sep-08 | Oct-21 | 517 | 347 | 24.3% |
| FCO Managed Account #2 | May-10 | Jun-24 | 126 | 88 | (C) |
| FCO Managed Account #3 | Jun-10 | Jun-22 | 262 | 179 | 20.2% |
| FCO Managed Account #4 | Oct-10 | Apr-22 | 244 | 121 | (C) |
| FCO Managed Account #5 | Apr-12 | Sep-25 | 14 | | (C) |
| FCO Managed Account #6 | Apr-12 | Mar-25 | 9 | | (C) |
| FCO Managed Account #7 | Apr-12 | Mar-27 | 28 | | (C) |
| Long Dated Value Fund I | Apr-05 | Apr-30 | 186 | 201 | 4.1% |
| Long Dated Value Fund II | Nov-05 | Nov-30 | 157 | 161 | 3.9% |
| Long Dated Value Fund III | Feb-07 | Feb-32 | 197 | 198 | 6.6% |
| LDVF Patent Fund | Nov-07 | Nov-27 | 16 | 15 | 12.9% |
| Real Assets Fund | Jun-07 | Jun-17 | 92 | 123 | 9.1% |
| Assets Overflow Fund | Jul-08 | May-18 | | | 11.1% |
| Japan Opportunity Fund | Jun-09 | Jun-19 | 600 | 914 | 17.2% |
| Japan Opportunity Fund II (Dollar) | Dec-11 | Dec-21 | 75 | | (C) |
| Japan Opportunity Fund II (Yen) | Dec-11 | Dec-21 | 25 | | (C) |
| Net Lease Fund I | Jan-10 | Feb-20 | 65 | 34 | (C) |
| Global Opportunities Fund | Sep-10 | Sep-20 | 337 | 230 | (C) |
| Life Settlements Fund | Dec-10 | Dec-22 | 197 | 260 | (C) |
| Life Settlements Fund MA | Dec-10 | Dec-22 | 17 | 23 | (C) |
| Real Estate Opportunities REOC Fund | Oct-11 | Oct-24 | 14 | | (C) |
| Real Estate Opportunities Fund | May-11 | Sep-24 | 48 | | (C) |
| Subtotal - all funds | | | 28,927 | 29,967 | |
| Managed accounts | | | 749 | 925 | |
| Total - Alternative Investments | | | 29,676 | 30,892 | |
| Logan Circle Partners, L.P. | | | 18,112 | 12,931 | |
| Total (H) | | | $ 47,788 | $ 43,823 | |

(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 I has passed its contractual maturity date and is in the process of an orderly wind down. The Castles are considered to have permanent equity as they have an indefinite life and no redemption terms. Investor capital in the liquid hedge funds and the Fortress Partners Funds is generally redeemable at the option of the fund investors; however, a substantial portion of the Drawbridge Global Macro Funds and Fortress Partner Funds investor capital is not redeemable by its investors and such capital will only be distributed as underlying assets are realized, in accordance with their governing documents. The Drawbridge Special Opportunities Funds and Worden Funds may pay redemptions over time, as the underlying investments are realized, in accordance with their governing documents ( PE style redemption ). The Value Recovery Funds generally do not allow for redemptions, but are in the process of realizing their remaining investments in an orderly liquidation. Management notes that funds which had a term of three years or longer at inception, funds which have permanent equity, funds which have a PE style redemption and funds which do not allow for redemptions aggregated approximately 85% of our alternative investment AUM as of June 30, 2012.

(B) Represents the following:

For private equity funds and credit PE funds, returns represent net annualized internal rates of return to limited partners after management fees and incentive allocations, and are computed on an inception to date basis consistent with industry standards. Incentive allocations are computed based on a hypothetical liquidation of 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 Castles, returns represent the return on invested equity (ROE). ROE is not reported on an inception to date basis. Newcastle s 2012 and 2011 ROE is not meaningful because Newcastle had minimal average book equity.
For liquid and credit hedge funds, returns represent net returns after taking into account any fees borne by the funds for a new issue eligible, single investor class as of the close of business on the last date of the relevant period. Specific performance may vary based on, among other things, whether fund investors are invested in one or more special investments.

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(C) These funds had no successor fund formed and either (a) were in their investment periods and had capital, other than recallable capital, remaining to invest, or (b) had less than one year elapsed from their inception, through the end of these years.
(D) For liquid hedge funds and credit hedge funds, reflects a composite of monthly returns presented on an annualized net return basis.
(E) Interim returns for Eurocastle Investment Limited are only reported on a semi-annual basis at June 30 of each calendar year.
(F) The returns for the Drawbridge Special Opportunities Funds reflect the performance of each fund excluding the performance of the redeeming capital accounts (i.e. investors who requested redemptions in prior periods and who are being paid out as investments are realized).
(G) Fortress began managing the third party originated Value Recovery Funds in June 2009. Their returns are not comparable since we are only managing the realization of existing investments within these funds which were acquired prior to Fortress becoming their manager.
(H) In addition to the funds listed, Fortress manages NIH, FPRF and Mortgage Opportunities Funds I and II. Such funds are excluded from the table because they did not include any fee paying assets under management at the end of the periods presented. Fund I, Fund II, GAGACQ Coinvestment Fund and Assets Overflow Fund had zero AUM as of June 30, 2012 and 2011, but for purposes of continuity of presentation, the returns of these funds have been left in the table.

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**Results of Operations**

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

| | Six Months Ended June 30, 2012 (Unaudited) | Six Months Ended June 30, 2011 (Unaudited) | Variance $ | Three Months Ended June 30, 2012 (Unaudited) | Three Months Ended June 30, 2011 (Unaudited) | Variance $ |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Management fees: affiliates | $ 224,129 | $ 234,916 | $ (10,787) | $ 117,834 | $ 116,048 | $ 1,786 |
| Management fees: non-affiliates | 21,772 | 28,776 | (7,004) | 10,383 | 14,375 | (3,992) |
| Incentive income: affiliates | 33,018 | 29,607 | 3,411 | 24,216 | 14,531 | 9,685 |
| Incentive income: non-affiliates | 776 | 985 | (209) | 469 | 7 | 462 |
| Expense reimbursements from affiliates | 88,681 | 87,987 | 694 | 45,079 | 43,645 | 1,434 |
| Other revenues | 2,330 | 4,362 | (2,032) | 1,067 | 1,210 | (143) |
| | 370,706 | 386,633 | (15,927) | 199,048 | 189,816 | 9,232 |
| **Expenses** | | | | | | |
| Interest expense | 8,502 | 9,300 | (798) | 4,135 | 4,640 | (505) |
| Compensation and benefits | 355,846 | 376,833 | (20,987) | 172,467 | 161,398 | 11,069 |
| Principals agreement compensation (expired in 2011) | | 472,126 | (472,126) | | 237,367 | (237,367) |
| General, administrative and other expense (including depreciation and amortization) | 69,097 | 81,727 | (12,630) | 35,953 | 38,465 | (2,512) |
| | 433,445 | 939,986 | (506,541) | 212,555 | 441,870 | (229,315) |
| | | | | | | |
| **Other Income (Loss)** | | | | | | |
| Gains (losses) | 31,770 | (11,522) | 43,292 | 7,148 | (6,759) | 13,907 |
| Tax receivable agreement liability adjustment | (6,935) | (116) | (6,819) | | | |
| Earnings (losses) from equity method investees | 58,383 | 90,900 | (32,517) | 23,143 | 18,497 | 4,646 |
| | 83,218 | 79,262 | 3,956 | 30,291 | 11,738 | 18,553 |
| **Income (Loss) Before Income Taxes** | 20,479 | (474,091) | 494,570 | 16,784 | (240,316) | 257,100 |
| Income tax benefit (expense) | (30,370) | (27,205) | (3,165) | (2,528) | (5,786) | 3,258 |
| **Net Income (Loss)** | $ (9,891) | $ (501,296) | $ 491,405 | $ 14,256 | $ (246,102) | $ 260,358 |
| **Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries** | $ 14,740 | $ (303,328) | $ 318,068 | $ 9,347 | $ (151,566) | $ 160,913 |
| **Net Income (Loss) Attributable to Class A Shareholders** | $ (24,631) | $ (197,968) | $ 173,337 | $ 4,909 | $ (94,536) | $ 99,445 |

*Factors Affecting Our Business*

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

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

Each of these factors is described below.

*Average Fee Paying AUM*

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

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Average fee paying AUM, based on a simple quarterly average, was as follows:

| Six Months Ended | Private Equity Funds | Castles | Liquid Hedge Funds | Credit Hedge Funds | PE Funds | Logan Circle | Total |
|---|---|---|---|---|---|---|---|
| June 30, 2012 | $ 9,917 | $ 3,260 | $ 4,918 | $ 5,942 | $ 6,041 | $ 15,907 | $ 45,985 |
| June 30, 2011 | $ 10,639 | $ 3,181 | $ 6,326 | $ 6,564 | $ 4,763 | $ 12,374 | $ 43,847 |

| Three Months Ended | Private Equity Funds | Castles | Liquid Hedge Funds | Credit Hedge Funds | PE Funds | Logan Circle | Total |
|---|---|---|---|---|---|---|---|
| June 30, 2012 | $ 10,233 | $ 3,300 | $ 4,619 | $ 5,925 | $ 5,946 | $ 17,098 | $ 47,121 |
| June 30, 2011 | $ 9,998 | $ 3,253 | $ 6,312 | $ 6,460 | $ 4,736 | $ 12,708 | $ 43,467 |

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.

Incentive Income

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

In determining our segment measure of operations, distributable earnings, we generally recognize private equity style incentive income when gains are realized and hedge fund incentive income based on current returns, and we recognize our employees share of this income as compensation expense at the same time. In contrast, GAAP requires that we likewise recognize the compensation when incurred, but we must defer the recognition of the revenue until all contingencies, primarily minimum returns over the lives of the private equity style funds and annual performance requirements of the hedge funds, are resolved regardless of the probability of such returns being met. As a result, when we have significant PE 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.

Fund Management and Investment Platform

In order to accommodate the demands of our funds investment portfolios, we have created investment platforms, which are comprised primarily of our people, financial and operating systems and supporting infrastructure. Expansion of our investment platform historically required increases in headcount, consisting of newly hired investment professionals and support staff, as well as leases and associated improvements to corporate offices to house the increasing number of employees, and related augmentation of systems and infrastructure. Our headcount increased from 929 employees as of June 30, 2011 to 967 employees as of June 30, 2012.

Revenues

*Six months ended June 30*

Total revenues were $370.7 million for the six months ended June 30, 2012, a net decrease of $15.9 million, compared to $386.6 million for the six months ended June 30, 2011. The decrease in revenues was attributable to (i) decreases of $10.8 million and $7.0 million in management fees from affiliates and non-affiliates, respectively, (ii) a decrease of $0.2 million

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in incentive income from non-affiliates (iii) a decrease of $2.0 million in other revenues. These decreases were partially offset by an increase of $3.4 million in incentive income from affiliates and an increase of $0.7 million in expense reimbursements from affiliates.

The decreases in management fees from affiliates and non-affiliates were primarily attributable to decreases of $0.7 billion, $1.4 billion and $0.6 billion in average fee paying AUM, based on a simple quarterly average, in our private equity funds, liquid hedge funds and credit hedge funds, respectively. These decreases were partially offset by increases of $0.1 billion, $1.3 billion and $3.5 billion in average fee paying AUM in our Castles, credit PE funds and Logan Circle, respectively. Management fees from affiliates and non-affiliates decreased despite a net increase of $2.1 billion in average fee paying AUM due to a lower average management fee percentage earned by Logan Circle compared to our alternative business average management fee percentage, and an increase of $6.2 million in management fees due to Newcastle options granted to Fortress during the six months ended June 30, 2012 as compared to the prior period.

The increase in incentive income from affiliates of $3.4 million was primarily due to a net increase in incentive income recognized from certain of our private equity and credit PE funds, which are recognized as repayment contingencies are resolved, and partially offset by a (i) net reduction in crystallized incentive income recognized from certain of our liquid hedge funds and (ii) a decrease in incentive income earned from our credit hedge funds primarily due to a decrease in incentive income earned on distributions from redeeming capital accounts (or RCA ), which represent accounts where investors have provided withdrawal notices and are subject to payout as underlying fund investments are realized.

The $2.0 million decrease in other revenues was primarily related to a decrease in other investment returns.

Expenses

*Six months ended June 30*

Expenses were $433.4 million for the six months ended June 30, 2012, a decrease of $506.5 million, compared to $940.0 million for the six months ended June 30, 2011. The decrease was attributable to (i) a decrease of $0.8 million in interest expense, (ii) a decrease of $21.0 million in compensation and benefits, (iii) a decrease of $472.0 million in principals agreement compensation, and (iv) a decrease of $12.6 million in general, administrative and other expenses.

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

The decrease in general, administrative and other expenses was primarily due to (i) a decrease in allowances for potentially uncollectible expense reimbursements in connection with a certain fund experiencing liquidity shortfalls ($4.7 million), (ii) a net decrease in legal and consulting fees ($2.9 million), (iii) a net decrease in rent expense ($2.9 million), and (iv) a net decrease in other general and administrative expenses ($2.1 million).

Total compensation and benefits decreased primarily due to a $15.7 million net decrease in profit-sharing expenses primarily related to our liquid hedge funds and credit PE funds, a $9.0 million net decrease in equity-based compensation, and a $0.8 million decrease in discretionary bonuses. These net decreases were partially offset by a $4.5 million increase in other payroll, taxes and benefits. The $15.7 million decrease in profit-sharing expenses relate to the decreases in revenue discussed above. The $9.0 million decrease in equity-based compensation was primarily due to (i) a $7.1 million decrease related to the net impact of changes in actual forfeiture activity and changes in the forfeiture assumptions associated with the RSUs, (ii) a $5.2 million decrease due to the STIP agreement entered into by one of the Principals with a senior employee which impacted 2011 but not 2012, and (iii) a $1.7 million decrease related to lower grant date valuations of RSUs granted during 2012 in comparison to RSUs granted during the comparable period in 2011. These decreases were partially offset by a $3.9 million increase related to the departure of our former CEO during the six months ended June 30, 2012 and a $0.9 million increase in expense associated with the Principal Performance Payments. The increases in other payroll, taxes and benefits were primarily due to an increase in our employee headcount for the six months ended June 30, 2012 as compared to the prior comparative period.

Revenues

*Three months ended June 30*

Total revenues were $199.0 million for the three months ended June 30, 2012, a net increase of $9.2 million, compared to $189.8 million for the three months ended June 30, 2011. The increase in revenues was attributable to (i) an increase of $1.8 million in management fees from affiliates (ii) increases of $9.7 million and $0.5 million in incentive income from affiliates and non-affiliates, respectively, (iii) an increase of $1.4 million in expense reimbursements from affiliates. These increases were slightly offset by a decrease in management fees from non-affiliates of $4.0 million.

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The increase in management fees from affiliates was primarily attributable to an increase of (i) $0.2 billion and $1.2 billion in average fee paying AUM, based on a simple quarterly average, in our private equity funds and credit PE funds, respectively, and (ii) an increase of $13.2 million in management fees due to Newcastle options granted to Fortress during the three months ended June 30, 2012 as compared to the prior period. These increases were partially offset by decreases of $1.7 billion and $0.5 billion in our liquid hedge funds and credit hedge funds, respectively.  The decrease in management fees from non-affiliates was primarily attributable to a decrease of $4.3 million due to an advisory agreement that concluded in the third quarter of 2011 and the termination of a managed account in the fourth quarter of 2011. These decreases were partially offset by an increase of $1.3 million in management fees earned by Logan Circle due to an increase of $4.4 billion in average fee paying AUM.

The increase in incentive income from affiliates of $9.7 million was primarily due to an increase in crystallized incentive income from (i) certain of our credit PE funds, which are recognized as repayment contingencies are resolved,  (ii) our liquid hedge funds primarily due to an increase in investor redemptions and (iii) our credit hedge funds primarily due to an increase in incentive income earned on distributions to RCA investors.

The increase in incentive income from non-affiliates of $0.5 million was primarily related to an increase in incentive income generated by a managed account related to our credit PE funds.

The $1.4 million increase in expense reimbursements from affiliates was primarily attributable to an increase in operating expenses eligible for reimbursement from our funds for the three months ended June 30, 2012 as compared to the prior comparative period.

Expenses

*Three months ended June 30*

Expenses were $212.6 million for the three months ended June 30, 2012, a decrease of $229.3 million, compared to $441.9 million for the three months ended June 30, 2011. The decrease was primarily attributable to (i) a decrease of $0.5 million in interest expense, (ii) a decrease of $237.4 million in principals agreement compensation, and (iii) a decrease of $2.5 million in general, administrative and other expenses.  These increases were partially offset by an increase of $11.1 million in compensation and benefits.

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

The decrease in general, administrative and other expenses was primarily due to (i) a net decrease in legal and consulting fees, (ii) a net decrease in rent expense, and (iii) a net decrease in other general and administrative expenses.

Total compensation and benefits increased primarily due to a $12.5 million net increase in profit-sharing expenses primarily related to our Castles, liquid hedge funds, credit hedge funds and Principal Performance Payments, partially offset by a decrease in profit-sharing expenses related to our Credit PE funds, a $0.8 million increase in discretionary bonuses and a $3.5 million increase in other payroll, taxes and benefits. These net increases were partially offset by (i) a $5.8 million net decrease in other equity-based compensation which is primarily due to a $5.2 million decrease due to the STIP agreement entered into by one of the Principals with a senior employee which impacted 2011 but not 2012, (ii) a $0.7 million decrease due to expenses recognized during the three months ended June 30, 2011 related to our former CEO, and (iii) a $0.6 million decrease related to lower grant date valuations of RSUs granted during 2012 in comparison to RSUs granted during the comparable period in 2011, partially offset by a $0.6 million increase in expense associated with Principal Performance Payments. The $12.5 million net increase in profit-sharing expenses related to the increases in revenue discussed above.

*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.

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

In future periods, we will further recognize non-cash compensation expense on our non-vested equity-based awards outstanding as of June 30, 2012 of $131.9 million with a weighted average recognition period of 1.2 years.

Profit-sharing compensation is awarded, generally upon fund formation and, in certain cases, subject to vesting, based on certain employees roles within the fund businesses, and serves to motivate these employees and align their interests with both our and our funds investors. Private equity and credit PE profit-sharing expense is generally based on a percentage of realized fund incentive income. Liquid and credit hedge fund profit sharing expense may be based on a percentage of fund incentive income, a percentage of fund net management fees (management fees less related expenses), or a percentage of the incentive income generated by an individual trader (regardless of overall fund performance). The actual expense is based on actual performance within the funds and is detailed by segment in Note 7 to our consolidated financial statements contained herein. We note the following with respect to profit- sharing expense:

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

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

*Principals Agreement Compensation*

As a result of the Principals Agreement, which expired in December 2011, $4,763.0 million was charged to compensation expense on a straight-line basis over the approximately five-year vesting period. Fortress was not a party to this agreement. It was an agreement between our principals to further incentivize them to remain with Fortress. This GAAP expense had no economic effect on Fortress or its shareholders. As a result, management did not include this expense in any of its analyses of performance. When Fortress recorded this non-cash expense, it recorded a corresponding increase in capital.

Other Income (Loss)

*Six months ended June 30*

Other Income (Loss) was $83.2 million for the six months ended June 30, 2012, a net increase of $4.0 million, compared to $79.3 million for the six months ended June 30, 2011. A significant increase in gains was primarily due to increases in net unrealized gains primarily related to our direct investments in GAGFAH and Newcastle. This increase was offset by lower performance resulting in a decrease in earnings from equity method investees with respect to our investments in our private equity funds and liquid hedge funds for the six months ended June 30, 2012 relative to the prior comparative period.

During the six months ended June 30, 2012 and 2011, we recorded other income (loss) of ($6.9) million and ($0.1) million, respectively, arising from an increase in the tax receivable agreement liability.

*Three months ended June 30*

Other Income (Loss) was $30.3 million for the three months ended June 30, 2012, a net increase of $18.6 million, compared to $11.7 million for the three months ended June 30, 2011. The change was primarily due to increases in net unrealized gains primarily related to our direct investments in GAGFAH and Newcastle and increases in our earnings from equity method investees related to higher performance with respect to our investments in our private equity funds, credit PE funds, liquid hedge funds and credit hedge funds for the three months ended June 30, 2012 relative to the prior comparative period.

Income Tax Benefit (Expense)

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

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For the six months ended June 30, 2012 and 2011, Fortress recognized income tax expense (benefit) of $30.4 million and $27.2 million, respectively. The primary reasons for changes in income tax expense (benefit) are (i) changes in annual taxable income and related foreign and state income taxes (and forecasts thereof which are used to calculate the tax provision during interim periods), (ii) changes in the mix of businesses producing income, which may be subject to tax at different rates, and related changes in our structure, and (iii) the tax impact of RSUs and RPUs that vested and were delivered at a value substantially less than their original value. The deferred tax asset is further discussed under Critical Accounting Policies below.

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

| | | Comparative Periods Six months ended June 30, 2012 vs. 2011 |
|---|---|---|
| Change in pre-tax income applicable to Class A Shareholders (A) | $ | (600) |
| Change in foreign and state income taxes | | (3,667) |
| Change in mix of business (B) | | 3,181 |
| Change in deferred tax asset-impact of equity compensation vesting (C) | | 3,877 |
| Formation of broker-dealer subsidiary | | (21) |
| Change in deferred tax asset valuation allowance and related adjustments | | 604 |
| Other | | (209) |
| Total change (D) | $ | 3,165 |

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

(B) From the first six monts of 2011 to the first six months of 2012, a greater proportion of our total income was subject to corporate tax. In 2011, we generated more unrealized gains in certain of our private equity funds, which income is passed directly to shareholders, increasing the proportion of our total income which was not subject to corporate tax and thereby reducing the proportion which was subject to corporate income tax.

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

(D) 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 ($303.3) million to $14.7 million, an increase of $318.0 million, primarily attributable to (i) an increase of $319.4 million resulting from a $505.3 million increase in Fortress Operating Group consolidated net income during the six months ended June 30, 2012 as compared to the six months ended June 30, 2011, (ii) a decrease of $0.7 million resulting from the dilution of noncontrolling interests in Fortress Operating Group caused by the delivery of restricted stock and restricted partnership awards, and (iii) a decrease of $0.7 million resulting from Others interests in the net income of consolidated subsidiaries of Fortress Operating Group.

*Three Months Ended June 30*

Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries increased from ($151.6) million to $9.3 million, an increase of $160.9 million, primarily attributable to (i) an increase of $161.5 million resulting from a $257.3 million increase in Fortress Operating Group consolidated net income during the three months ended June 30, 2012 as compared to the three months ended June 30, 2011 and (ii) a decrease of $0.6 million resulting from the dilution of noncontrolling interests in Fortress Operating Group caused by the delivery of restricted stock and restricted partnership awards.

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**Segment Analysis**

Fortress conducts its management and investment business through the following primary segments: (i) private equity funds, (ii) Castles, (iii) liquid hedge funds, (iv) credit hedge funds, (v) credit PE funds, (vi) Logan Circle, and (vii) principal investments in these funds as well as cash that is available to be invested. These segments are differentiated based on their varying strategies.

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

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

Distributable earnings is defined in Note 10 to Part I, Item 1, Financial Statements and Supplementary Data Segment Reporting. Furthermore, a complete discussion of distributable earnings basis impairment and reserves, including the methodology used in estimating the amounts as well as the amounts incurred in the relevant periods, is disclosed therein.

Private Equity Funds

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

| | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 | 2012 vs. 2011 $ | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | 2012 vs. 2011 $ |
|---|---|---|---|---|---|---|
| Segment revenues | | | | | | |
| Management Fees | $ 59,406 | $ 71,110 | $ (11,704) | $ 29,748 | $ 35,821 | $ (6,073) |
| Incentive Income | 7,543 | 1,329 | 6,214 | 2,848 | | 2,848 |
| Segment revenues total | $ 66,949 | $ 72,439 | $ (5,490) | $ 32,596 | $ 35,821 | $ (3,225) |
| Pre-tax distributable earnings | $ 43,009 | $ 49,926 | $ (6,917) | $ 20,715 | $ 27,901 | $ (7,186) |

*Six months ended June 30*

Pre-tax distributable earnings decreased by $6.9 million primarily due to:

*Revenues*

Management fees were $59.4 million for the six months ended June 30, 2012, a net decrease of $11.7 million, compared to $71.1 million for the six months ended June 30, 2011. Management fees decreased $11.7 million as a result of (i) a decrease of $11.6 million due to the reset of Fund V, Fund V Coinvestment and FECI upon expiration of their respective capital commitment periods in 2011, (ii) a net decrease of $0.7 million in management fees primarily as a result of a net decrease in market values of certain portfolio companies below their invested capital in prior periods, which impacted the computation of management fees for the six months ended June 30, 2012, and (iii) a decrease of $1.2 million in management fees primarily from Fund II and Mortgage Opportunities Fund III, which are no longer subject to management fees. These decreases were partially offset by an increase of $1.8 million primarily in Fund IV, managed accounts and FHIF management fees primarily due to net capital inflows and a net increase in market values of certain portfolio companies which were below their invested capital in prior periods, which impacted the computation of management fees for the six months ended June 30, 2012.

Incentive income was $7.5 million for the six months ended June 30, 2012, a net increase of $6.2 million, compared to $1.3 million of incentive income recognized for the six months ended June 30, 2011. Incentive income increased by $6.2 million primarily as a result of a reversal of previously recognized reserves for the potential clawback of incentive income for Fund II.

*Expenses*

Expenses were $23.9 million for the six months ended June 30, 2012, a net increase of $1.4 million, compared to $22.5 million for the six months ended June 30, 2011. The net increase of $1.4 million in expenses was primarily attributable to a net increase of $5.7 million in compensation and benefits, which includes an increase of $2.2 million in profit sharing compensation expense (primarily related to the clawback reserve reversal mentioned above). This increase in expenses was

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partially offset by a net decrease of $4.3 million in general and administrative and corporate allocable expenses primarily related to an allowance for uncollectible amounts due from one of our private equity funds recognized in 2011.

*Three months ended June 30*

Pre-tax distributable earnings decreased by $7.2 million primarily due to:

*Revenues*

Management fees were $29.7 million for the three months ended June 30, 2012, a net decrease of $6.1 million, compared to $35.8 million for the three months ended June 30, 2011. Management fees decreased $6.1 million as a result of (i) a decrease of $5.8 million due to the reset of Fund V, Fund V Coinvestment and FECI upon expiration of their respective capital commitment periods in 2011, (ii) a net decrease of $0.4 million in management fees primarily as a result of a net decrease in market values of certain portfolio companies below their invested capital in prior periods, which impacted the computation of management fees for the three months ended June 30, 2012, and (iii) a decrease of $0.6 million in management fees primarily from Fund II and Mortgage Opportunities Fund III, which are no longer subject to management fees. These decreases were partially offset by an increase of $0.7 million primarily in Fund IV, managed accounts and FHIF management fees primarily due to net capital inflows and a net increase in market values of certain portfolio companies which were below their invested capital in prior periods, which impacted the computation of management fees for the three months ended June 30, 2012.

Incentive income was $2.8 million for the three months ended June 30, 2012, a net increase of $2.8 million, compared to $0.0 million of incentive income recognized for the three months ended June 30, 2011. Incentive income increased by $2.8 million primarily as a result of a reversal of previously recognized reserves for the potential clawback of incentive income for Fund II.

*Expenses*

Expenses were $11.8 million for the three months ended June 30, 2012, a net increase of $3.9 million, compared to $7.9 million for the three months ended June 30, 2011. The net increase of $3.9 million in expenses was primarily attributable to a net increase of (i) $2.9 million in compensation and benefits, which includes an increase of $1.0 million in profit sharing compensation expense (primarily related to the clawback reserve reversal mentioned above) and (ii) a net increase of $1.0 million in general and administrative and corporate allocable expenses.

Publicly Traded Alternative Investment Vehicles ( Castles )

The following table presents our results of operations for our Castles segment:

| | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 | 2012 vs. 2011 $ | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | 2012 vs. 2011 $ |
|---|---|---|---|---|---|---|
| Segment revenues | | | | | | |
| Management Fees | $ 27,636 | $ 25,723 | $ 1,913 | $ 13,060 | $ 13,574 | $ (514) |
| Incentive Income | | | | | | |
| Segment revenues total | $ 27,636 | $ 25,723 | $ 1,913 | $ 13,060 | $ 13,574 | $ (514) |
| Pre-tax distributable earnings | $ 12,735 | $ 11,745 | $ 990 | $ 5,924 | $ 6,794 | $ (870) |

*Six months ended June 30*

Pre-tax distributable earnings increased by $1.0 million primarily due to:

*Revenues*

Management fees were $27.6 million for the six months ended June 30, 2012, an increase of $1.9 million, compared to $25.7 million for the six months ended June 30, 2011. Management fees increased $1.9 million as a result of (i) a $1.9 million increase due to an increase in Newcastle AUM resulting from their equity raises and (ii) a $1.3 million net increase in management fees from certain investments within the Castles, which were concluded in the first quarter of 2012. These increases were partially offset by a decrease of $1.3 million in management fees due to changes in foreign currency exchange rates.

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*Expenses*

Expenses were $14.9 million for the six months ended June 30, 2012, a net increase of $0.9 million, compared to $14.0 million for the six months ended June 30, 2011. The net increase of $0.9 million in expenses was primarily attributable to (i) a $2.1 million net increase in compensation and benefits and (ii) $0.5 million of accruals for Principal Performance Payments. These increases to expenses were partially offset by a $1.7 million net decrease in corporate allocable expenses primarily as a result of a decrease in overall corporate expenses and a decrease in average headcount within the Castles.

*Three months ended June 30*

Pre-tax distributable earnings decreased by $0.9 million primarily due to:

*Revenues*

Management fees were $13.1 million for the three months ended June 30, 2012, a decrease of $0.5 million, compared to $13.6 million for the three months ended June 30, 2011. Management fees decreased $0.5 million as a result of (i) a $1.0 million decrease due to changes in foreign currency exchange rates and (ii) a $0.6 million net decrease in management fees from certain investments within the Castles, which were concluded in the first quarter of 2012. These decreases were partially offset by an increase of $1.1 million in management fees due to an increase in Newcastle AUM resulting from their equity raises.

*Expenses*

Expenses were $7.2 million for the three months ended June 30, 2012, a net increase of $0.4 million, compared to $6.8 million for the three months ended June 30, 2011. The net increase of $0.4 million in expenses was primarily attributable to (i) a $0.7 million increase in general and administrative expenses primarily related to professional fees and (ii) a $0.2 million net increase in compensation and benefits. These increases to expenses were partially offset by a $0.5 million net decrease in corporate allocable expenses primarily as a result of a decrease in overall corporate expenses and a decrease in average headcount within the Castles.

Liquid Hedge Funds

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

| | Three Months Ended June 30, 2012 | 2011 | 2012 vs. 2011 $ | Three Months Ended June 30, 2012 | 2011 | 2012 vs. 2011 $ |
|---|---|---|---|---|---|---|
| Segment revenues | | | | | | |
| Management Fees | $ 39,361 | $ 55,922 | $ (16,561) | $ 19,194 | $ 28,981 | $ (9,787) |
| Incentive Income | 9,730 | 3,172 | 6,558 | 3,438 | (18,556) | 21,994 |
| Segment revenues - total | $ 49,091 | $ 59,094 | $ (10,003) | $ 22,632 | $ 10,425 | $ 12,207 |
| Pre-tax distributable earnings | $ 7,100 | $ 8,690 | $ (1,590) | $ 2,809 | $ (6,263) | $ 9,072 |

*Six months ended June 30*

Pre-tax distributable earnings decreased by $1.6 million primarily due to:

*Revenues*

Management fees were $39.4 million for the six months ended June 30, 2012, a net decrease of $16.6 million, compared to $55.9 million for the six months ended June 30, 2011. Management fees decreased $16.6 million primarily due to net decreases of $8.7 million, $8.3 million, and $1.1 million in management fees from the Fortress Macro Funds (including related managed accounts), Fortress Commodities Funds (including related managed accounts) and Fortress Partners Funds, respectively, primarily as a result of net capital outflows and the closing of the Fortress Commodities Funds in May 2012. These decreases were partially offset by a $1.5 million increase in management fees from the Fortress Asia Macro Funds, which launched in March 2011.

Incentive income, which is determined on a fund by-fund basis, was $9.7 million for the six months ended June 30, 2012, a net increase of $6.6 million, compared to $3.2 million for the six months ended June 30, 2011. Incentive income increased $6.6 million primarily due to a net increase of $6.4 million in the incentive income generated by the Fortress Macro Funds (including related managed accounts) as a result of a higher proportion of capital being eligible for incentive income as

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certain capital met or exceeded its high water mark in 2012 and generated subsequent positive performance and an increase of $2.9 million in the incentive income generated by the Fortress Asia Macro Funds as a result of higher returns and AUM as compared to the prior comparative period.  These increases in incentive income were partially offset by decreases of $2.0 million, $0.5 million and $0.3 million in the incentive income generated by the Fortress Commodities Funds (including related managed accounts), Drawbridge Global Macro Funds and Fortress Partners Funds, respectively.  These decreases were a result of all capital eligible for incentive income remaining below its respective high water mark.

*Expenses*

Expenses were $42.0 million for the six months ended June 30, 2012, a net decrease of $8.4 million, compared to $50.4 million for the six months ended June 30, 2011. The decrease of $8.4 million in expenses was primarily attributable to net decreases of (i) $8.4 million in compensation and benefits, which includes a decrease of $4.4 million in profit sharing compensation expense, and (ii) $0.8 million in general and administrative and corporate allocable expenses.  These decreases to expenses were partially offset by $0.8 million of accruals for Principal Performance Payments.

*Three months ended June 30*

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

*Revenues*

Management fees were $19.2 million for the three months ended June 30, 2012, a net decrease of $9.8 million, compared to $29.0 million for the three months ended June 30, 2011. Management fees decreased $9.8 million primarily due to net decreases of $4.5 million, $5.6 million, and $0.4 million in management fees from the Fortress Macro Funds (including related managed accounts), Fortress Commodities Funds (including related managed accounts) and Fortress Partners Funds, respectively, primarily as a result of net capital outflows and the closing of the Fortress Commodities Funds in May 2012. These decreases were partially offset by a $0.7 million increase in management fees from the Fortress Asia Macro Funds as a result of net capital inflows and positive performance.

Incentive income, which is determined on a fund  by-fund basis, was $3.4 million for the three months ended June 30, 2012, a net increase of $22.0 million, compared to $(18.6) million for the three months ended June 30, 2011. Incentive income increased $22.0 million primarily due to net increases of (i) $15.9 million in the incentive income generated by the Fortress Macro Funds (including related managed accounts) as a result of a higher proportion of capital being eligible for incentive income as certain capital met or exceeded its high water mark in 2012 and generated subsequent positive performance as compared to the prior comparative period which included a reversal of incentive income as a result of negative returns, (ii) $5.5 million in the incentive income generated by the Fortress Commodities Funds (including related managed accounts) due to a reversal of incentive income as a result of negative returns in the second quarter of 2011 and (iii) $0.5 million in the incentive income generated by the Fortress Asia Macro Funds as a result of higher returns and AUM as compared to the prior comparative period.

*Expenses*

Expenses were $19.8 million for the three months ended June 30, 2012, a net increase of $3.1 million, compared to $16.7 million for the three months ended June 30, 2011. The increase of $3.1 million in expenses was primarily attributable to a net increase of $3.1 million in compensation and benefits. Compensation and benefits expense increased $3.1 million primarily due to (i) an increase of $5.1 million in profit sharing compensation expense, (ii) $0.3 million of accruals for Principal Performance Payments in 2012, and partially offset by (iii) a decrease of $2.3 million in other compensation and benefits. This net increase in compensation expense was partially offset by a decrease of $0.3 million in general and administrative and corporate allocable expenses.

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Credit Hedge Funds

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

| | Six Months Ended June 30, 2012 | 2011 | 2012 vs. 2011 $ | Three Months Ended June 30, 2012 | 2011 | 2012 vs. 2011 $ |
|---|---|---|---|---|---|---|
| Segment revenues | | | | | | |
| Management Fees | $ 51,572 | $ 61,203 | $ (9,631) | $ 25,942 | $ 30,344 | $ (4,402) |
| Incentive Income | 56,345 | 54,197 | 2,148 | 26,103 | 16,294 | 9,809 |
| Segment revenues - total | $ 107,917 | 115,400 | $ (7,483) | $ 52,045 | 46,638 | $ 5,407 |
| Pre-tax distributable earnings | $ 43,837 | $ 29,416 | $ 14,421 | $ 20,611 | $ 10,888 | $ 9,723 |

*Six months ended June 30*

Pre-tax distributable earnings increased by $14.4 million primarily due to:

*Revenues*

Management fees were $51.6 million for the six months ended June 30, 2012, a net decrease of $9.6 million, compared to $61.2 million for the six months ended June 30, 2011. Management fees decreased $9.6 million primarily due to (i) a $7.0 million decrease in management fees from an advisory agreement that concluded in the third quarter of 2011, (ii) a $1.6 million decrease in management fees from the Value Recovery Funds and related assets due to investment distributions and (iii) a $0.8 million net decrease in management fees primarily from the Drawbridge Special Opportunities Funds primarily as a result of net investor distributions.

Incentive income, which is determined on a fund by-fund basis, was $56.3 million for the six months ended June 30, 2012, a net increase of $2.1 million, compared to $54.2 million for the six months ended June 30, 2011. Incentive income increased $2.1 million primarily due to net increases of $2.4 million and $0.8 million in incentive income generated by the Drawbridge Special Opportunities Fund and Worden Funds, respectively. These increases were partially offset by a $1.2 million decrease in incentive income from other investments.

*Expenses*

Expenses were $64.1 million for the six months ended June 30, 2012, a net decrease of $21.9 million, compared to $86.0 million for the six months ended June 30, 2011. The decrease of $21.9 million in expenses was primarily attributable to (i) a net decrease of $31.7 in allocable expenses primarily as a result of a change in expense allocation methodology and (ii) a net decrease of $2.1 million in general and administrative expenses primarily related to the advisory agreement which concluded in the third quarter of 2011. These decreases in expenses were partially offset by (i) a net increase of $6.3 million in compensation and benefits, which includes an increase of $2.4 million in profit sharing compensation expense, and (ii) $5.6 million of accruals for Principal Performance Payments.

*Three months ended June 30*

Pre-tax distributable earnings increased by $9.7 million primarily due to:

*Revenues*

Management fees were $25.9 million for the three months ended June 30, 2012, a net decrease of $4.4 million, compared to $30.3 million for the three months ended June 30, 2011. Management fees decreased $4.4 million primarily due to (i) a $3.3 million decrease in management fees from an advisory agreement that concluded in the third quarter of 2011, (ii) a $0.6 million decrease in management fees from the Value Recovery Funds and related assets due to investment distributions and (iii) a $0.4 million net decrease in management fees primarily from the Drawbridge Special Opportunities Funds primarily as a result of net investor distributions.

Incentive income, which is determined on a fund by-fund basis, was $26.1 million for the three months ended June 30, 2012, a net increase of $9.8 million, compared to $16.3 million for the three months ended June 30, 2011. Incentive income increased $9.8 million primarily due to (i) net increases of $8.5 million and $0.9 million in incentive income generated by

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the Drawbridge Special Opportunities Fund and Worden Funds, respectively, as a result of higher returns as compared to the prior comparative period and (ii) an increase of $0.3 million in incentive income from other investments.

*Expenses*

Expenses were $31.4 million for the three months ended June 30, 2012, a net decrease of $4.3 million, compared to $35.7 million for the three months ended June 30, 2011. The decrease of $4.3 million in expenses was primarily attributable to (i) a net decrease of $15.0 million in allocable expenses primarily as a result of a change in expense allocation methodology and (ii) a net decrease of $0.4 million in general and administrative expenses. These decreases in expenses were partially offset by (i) a net increase of $8.3 million in compensation and benefits, which includes an increase of $4.9 million in profit sharing compensation expense, and (ii) $2.8 million of accruals for Principal Performance Payments.

Credit PE Funds

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

| | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 | 2012 vs. 2011 $ | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | 2012 vs. 2011 $ |
|---|---|---|---|---|---|---|
| Segment Revenues | | | | | | |
| Management Fees | $ 42,554 | $ 32,636 | $ 9,918 | $ 20,676 | $ 16,615 | $ 4,061 |
| Incentive Income | 25,430 | 79,853 | (54,423) | 14,196 | 22,494 | (8,298) |
| Segment revenues - total | $ 67,984 | $ 112,489 | $ (44,505) | $ 34,872 | $ 39,109 | $ (4,237) |
| Pre-tax distributable earnings | $ 7,089 | $ 57,181 | $ (50,092) | $ 4,414 | $ 18,990 | $ (14,576) |

*Six months ended June 30*

Pre-tax distributable earnings decreased by $50.1 million primarily due to:

*Revenues*

Management fees were $42.6 million for the six months ended June 30, 2012, a net increase of $9.9 million, compared to $32.6 million for the six months ended June 30, 2011. Management fees increased by $9.9 million primarily due to (i) a $10.5 million net increase in management fees primarily attributable to net capital calls or commitments made after 2011, most notably in the Credit Opportunities Funds and the FCO Managed Accounts. These increases in management fees were partially offset by a $0.6 million net decrease in management fees attributable to the Long Dated Value Funds and Real Assets Funds, related to net capital distributions.

Incentive income was $25.4 million for the six months ended June 30, 2012, a net decrease of $54.4 million, compared to $79.9 million for the six months ended June 30, 2011. Incentive income decreased $54.4 million primarily due to a decrease of $69.5 million in incentive income generated primarily by Credit Opportunities Fund, Japan Opportunities Fund and a FCO Managed Account for the six months ended June 30, 2012 as compared to the prior comparative period. These decreases were partially offset by an increase of $15.1 million in incentive income generated primarily by Credit Opportunities Fund II and a FCO Managed Account for the six months ended June 30, 2012 as compared to the prior comparative period.

*Expenses*

Expenses were $60.9 million for the six months ended June 30, 2012, a net increase of $5.6 million, compared to $55.3 million for the six months ended June 30, 2011. The increase of $5.6 million in expenses was primarily attributable to a net increase of $31.3 million in allocable expenses primarily related to a change in expense allocation methodology. This increase was partially offset by (i) a net decrease of $24.1 million in compensation and benefits expense, primarily related to profit sharing compensation expense, and (ii) a net decrease of $1.6 million in general and administrative expenses.

*Three months ended June 30*

Pre-tax distributable earnings decreased by $14.6 million primarily due to:

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*Revenues*

Management fees were $20.7 million for the three months ended June 30, 2012, a net increase of $4.1 million, compared to $16.6 million for the three months ended June 30, 2011. Management fees increased by $4.1 million primarily due to (i) a $4.3 million net increase in management fees primarily attributable to net capital calls or commitments made after the first quarter of 2011, most notably in the Credit Opportunities Funds and the FCO Managed Accounts. These increases in management fees were partially offset by a $0.2 million net decrease in management fees attributable to net capital distributions by the Long Dated Value Funds and Real Assets Funds.

Incentive income was $14.2 million for the three months ended June 30, 2012, a net decrease of $8.3 million, compared to $22.5 million for the three months ended June 30, 2011. Incentive income decreased $8.3 million primarily due to a decrease of $22.4 million in incentive income generated by Credit Opportunities Fund for the three months ended June 30, 2012 as compared to the prior comparative period. This decrease was partially offset by an increase of $14.1 million in incentive income generated primarily by Credit Opportunities Fund II and a FCO Managed Account for the three months ended June 30, 2012 as compared to the prior comparative period.

*Expenses*

Expenses were $30.5 million for the three months ended June 30, 2012, a net increase of $10.4 million, compared to $20.1 million for the three months ended June 30, 2011. The increase of $10.4 million in expenses was primarily attributable to a net increase of $15.3 million in allocable expenses primarily related to a change in expense allocation methodology. This increase was partially offset by (i) a net decrease of $4.6 million in compensation and benefits expense, primarily related to profit sharing compensation expense, and (ii) a net decrease of $0.3 million in general and administrative expenses.

Logan Circle

| | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 | 2012 vs. 2011 $ | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | 2012 vs. 2011 $ |
|---|---|---|---|---|---|---|
| Segment Revenues | | | | | | |
| Management Fees | $ 11,873 | $ 9,827 | $ 2,046 | $ 6,223 | $ 4,964 | $ 1,259 |
| Incentive Income | | | | | | |
| Segment revenues - total | $ 11,873 | $ 9,827 | $ 2,046 | $ 6,223 | $ 4,964 | $ 1,259 |
| Pre-tax distributable earnings (loss) | $ (4,536) | $ (9,003) | $ 4,467 | $ (2,018) | $ (4,174) | $ 2,156 |

*Six months ended June 30*

Pre-tax distributable loss decreased by $4.5 million primarily due to:

*Revenues*

Management fees were $11.9 million for the six months ended June 30, 2012, a net increase of $2.0 million, compared to $9.8 million for the six months ended June 30, 2011. Management fees increased $2.0 million due to an increase in AUM as a result of net client inflows and positive performance.

*Expenses*

Expenses were $16.4 million for the six months ended June 30, 2012, a net decrease of $2.4 million, compared to $18.8 million for the six months ended June 30, 2011. The decrease of $2.4 million in expenses was primarily attributable to (i) a net decrease of $1.0 million in compensation and benefits expense, (ii) a net decrease of $0.7 million in general and administrative expenses primarily as a result of a decrease in professional fees and (iii) a net decrease of $0.7 million in corporate allocable expenses as a result of a decrease in overall corporate expenses and a decrease in average headcount within Logan Circle.

*Three months ended June 30*

Pre-tax distributable loss decreased by $2.2 million primarily due to:

*Revenues*

Management fees were $6.2 million for the three months ended June 30, 2012, a net increase of $1.3 million, compared to $5.0 million for the three months ended June 30, 2011. Management fees increased $1.3 million due to an increase in AUM as a result of net client inflows and positive performance.

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*Expenses*

Expenses were $8.2 million for the three months ended June 30, 2012, a net decrease of $1.0 million, compared to $9.2 million for the three months ended June 30, 2011. The decrease of $1.0 million in expenses was primarily attributable to (i) a net decrease of $0.5 million in compensation and benefits expense, (ii) a net decrease of $0.2 million in general and administrative expenses primarily as a result of a decrease in professional fees and (iii) a net decrease of $0.3 million in corporate allocable expenses as a result of a decrease in overall corporate expenses and a decrease in average headcount within Logan Circle.

Principal Investments

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

| | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 | 2012 vs. 2011 $ | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | 2012 vs. 2011 $ |
|---|---|---|---|---|---|---|
| Pre-tax distributable earnings (loss) | $ (2,082) | $ 471 | $ (2,553) | $ (2,986) | $ (6,916) | $ 3,930 |

*Six months ended June 30*

Pre-tax distributable earnings decreased by $2.6 million primarily due to:

- a $6.7 million decrease in net investment income from realizations and the performance of our investments in our funds. The $6.7 million net decrease in investment income was due to a net decrease of $6.3 million from realization events in our credit PE funds, private equity funds, and special investments in our hedge funds and a net decrease of $0.4 million attributable to our investments in our hedge funds for the three months ended June 30, 2012 as compared to the prior comparative period;

- a $0.5 million increase in net investment income primarily as a result of a decrease in recorded impairments with respect to our special investments in our hedge funds for the six months ended June 30, 2012 as compared to the prior comparative period;

- a $0.8 million increase in net investment income due to a net decrease in interest expense primarily due to (i) a decrease of $1.2 million primarily due to a decrease in average debt during the six months ended June 30, 2012 as compared to the prior comparable period, partially offset by (ii) an increase of $0.4 million in the amortization of financing costs;

- a $0.5 million decrease in net investment income due to a decrease in dividend income earned primarily from our direct investment in GAGFAH common stock, partially offset by an increase in dividend income earned from our direct investment in Newcastle common stock; and

- a $3.6 million increase in net investment income due to our foreign currency hedges and foreign currency translation adjustments.

*Three months ended June 30*

Pre-tax distributable earnings increased by $3.9 million primarily due to:

- a $0.1 million decrease in net investment income from realizations and the performance of our investments in our funds. The $0.1 million net decrease in investment income was due to a net decrease of $1.0 million from realization events in our credit PE funds, private equity funds, and special investments in our hedge funds partially offset by a net increase of $0.9 million attributable to our investments in our hedge funds for the three months ended June 30, 2012 as compared to the prior comparative period;

- a $0.5 million increase in net investment income primarily as a result of a decrease in recorded impairments with respect to our special investments in our hedge funds for the three months ended June 30, 2012 as compared to the prior comparative period;

- a $0.5 million increase in net investment income due to a net decrease in interest expense primarily due to (i) a decrease of $1.0 million primarily due to a decrease in average debt during the three months ended June 30, 2012 as compared to the prior comparable period, partially offset by (ii) an increase of $0.5 million in the amortization of financing costs;

- a $0.1 million increase in net investment income due to a in an increase in dividend income earned from our direct investment in Newcastle common stock; and

- a $3.1 million increase in net investment income due to our foreign currency hedges and foreign currency translation adjustments.

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The following table reflects all of our investments which are not marked to market through distributable earnings for segment reporting purposes as of June 30, 2012:

| Fund | Fortress Share of NAV (A) | Fortress Segment Cost Basis (B) | Excess (C) | (Deficit) (C) |
|---|---|---|---|---|
| Main Funds | | | | |
| Fund I | $ 59 | $ | $ 59 | $ N/A |
| Fund II | 1,394 | | 1,394 | N/A |
| Fund III and Fund III Coinvestment | 11,155 | 4,801 | 6,354 | N/A |
| Fund IV and Fund IV Coinvestment | 125,097 | 79,575 | 45,522 | N/A |
| Fund V and Fund V Coinvestment | 141,503 | 74,033 | 67,470 | N/A |
| Long Dated Value Funds | 19,534 | 13,643 | 5,891 | N/A |
| Real Assets Funds | 22,884 | 11,822 | 11,062 | N/A |
| Credit Opportunities Funds | 56,872 | 34,518 | 22,364 | (10) |
| Mortgage Opportunities Funds | 3,644 | | 3,644 | N/A |
| Asia Funds (Japan Opportunity Funds and Global Opportunities Fund) | 10,206 | 8,155 | 2,051 | N/A |
| WWTAI | 2,452 | 2,487 | | (35) |
| Real Estate Opportunities Funds | 317 | 299 | 18 | N/A |
| Other Funds (combined) | | | | |
| GAGFAH (XETRA: GFJ) | 8,962 | 2,880 | 6,082 | N/A |
| Brookdale (NYSE: BKD) | 23,574 | 8,136 | 15,438 | N/A |
| Private investment #1 | 241,989 | 207,357 | 34,632 | N/A |
| Private investment #2 | 102,649 | 44,278 | 58,371 | N/A |
| Castles | | | | |
| Eurocastle (EURONEXT: ECT) | 89 | 78 | 11 | N/A |
| Newcastle (NYSE: NCT) | 6,872 | 667 | 6,205 | N/A |
| Other | | | | |
| Hedge fund side pocket investments | 106,575 | 82,462 | 26,189 | (2,076) |
| Direct investments | 125,544 | 69,462 | 56,180 | (98) |
| Total | $ 1,011,371 | $ 644,653 | $ 368,937 | $ (2,219) |

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

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

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

Unallocated

The unallocated amounts are immaterial.

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**Sensitivity**

For an analysis of the sensitivity of segment revenues to changes in the estimated fair value of the Fortress Fund investments, see Part I, Item 3, Quantitative and Qualitative Disclosures About Market Risk.

**Liquidity and Capital Resources**

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

The receipt of management fees generally occurs on a fixed and fairly predictable schedule, subject to changes in the NAV of the Fortress Funds (due to performance or capital transactions). From time to time, we may elect, in our discretion, to defer the receipt of management or other fees or reimbursements, to which we are legally entitled, in order to optimize the operations of the underlying funds. As of June 30, 2012, the receipt of approximately $131.4 million of management fees had been deferred, of which $12.2 million has been reserved by us, and the ultimate timing of their payment is currently uncertain. In addition, $61.8 million of private equity general and administrative expenses had been advanced on behalf of certain funds. The amount of deferred management fees and reimbursements may increase in the future. Also, while we still believe that we will receive these amounts, if these delinquencies continue or worsen, they could meaningfully constrain our liquidity in the future.

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

We expect that our cash on hand and our cash flows from operating activities, capital receipts from balance sheet investments and available financing will be sufficient to satisfy our liquidity needs with respect to expected current commitments relating to investments and with respect to our debt obligations over the next twelve months. We estimate that our expected management fee receipts over the next twelve months, a portion of which may be deferred, will be sufficient (along with our cash on hand of $184.2 million at June 30, 2012, our available draws under our credit facility of $56.7 million, and capital receipts from our balance sheet investments) to meet our operating expenses (including compensation and lease obligations), required debt amortization payments, tax distribution requirements, incentive income clawback obligations (if any), and fund capital commitments, in each case to be funded during the next twelve months (see obligation tables below). These uses of cash would not (barring changes in other relevant variables, such as EBITDA and Adjusted EBITDA, as defined in our credit agreement) cause us to violate any of our debt covenants. We believe that the compensation we will be able to pay from these available sources will be sufficient to retain key employees and maintain an effective workforce. We may elect, if we deem it appropriate, to defer certain payments due to our principals and affiliates or raise capital to enable us to satisfy the amortization payments required under our credit agreement or for other working capital needs.

We expect to meet our long-term liquidity requirements, including the repayment of our debt obligations and any new commitments or increases in our existing commitments (and clawback obligations, if any) relating to principal investments, through the generation of operating income (including management fees, a portion of which may be deferred), capital receipts from balance sheet investments and, potentially, additional borrowings and equity offerings. Our ability to execute our business strategy, particularly our ability to form new funds and increase our AUM, depends on our ability to raise additional investor capital within our funds and on our ability to monetize our balance sheet investments. Furthermore, strategic initiatives and the ability to make principal investments in funds may be dependent on our ability to raise capital at the Fortress level. Decisions by counterparties to enter into transactions with us will depend upon a number of factors, such as our historical and projected financial performance and condition, compliance with the terms of our current credit

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arrangements, industry and market trends and performance, the availability of capital and our counterparties policies and rates applicable thereto, the rates at which we are willing to borrow, and the relative attractiveness of alternative investment or lending opportunities. Furthermore, given the current, depressed level of the market price of our Class A shares as well as the relative illiquidity in the credit market (as described above under Market Considerations ), raising equity capital could be dilutive to our current shareholders and issuing debt obligations could, while potentially extending maturities, result in significant increases to operating costs. The level of our share price also limits our ability to use our equity as currency in the potential acquisition of businesses, other companies or assets.

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

As of June 30, 2012, our material cash commitments and contractual cash requirements were related to our capital commitments to our funds, lease obligations and debt obligations. Our potential liability for the contingent repayment of incentive income is discussed under Contractual Obligations below.

*Capital Commitments*

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

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

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Our capital commitments to our funds with outstanding commitments as of June 30, 2012 consisted of the following (in thousands).

| | | Outstanding Commitment |
|---|---|---|
| Private Equity Funds | | |
| Fund II | $ | 566 |
| Fund III Coinvestment | | 2 |
| Fund IV | | 4,053 |
| Fund IV Coinvestment | | 3 |
| Fund V | | 6,143 |
| Fund V Coinvestment | | 2 |
| FRID | | 812 |
| FHIF | | 8,581 |
| FECI | | 1,551 |
| WWTAI | | 5,029 |
| Credit PE Funds | | |
| Credit Opportunities Fund | | 8,905 |
| Credit Opportunities Fund II | | 4,805 |
| Credit Opportunities Fund III | | 19,800 |
| FCO Managed Accounts | | 56,730 |
| Long Dated Value Fund I | | 460 |
| Long Dated Value Fund II | | 1,685 |
| Long Dated Value Fund III | | 161 |
| LDVF Patent Fund | | 26 |
| Real Assets Fund | | 21,133 |
| Assets Overflow Fund | | 200 |
| Japan Opportunity Fund | | 2,963 |
| Japan Opportunity Fund II | | 6,507 |
| Net Lease Fund I | | 243 |
| Global Opportunities Fund | | 3,129 |
| Life Settlements Fund | | 84 |
| Life Settlements Fund MA | | 56 |
| Real Estate Opportunities Fund | | 770 |
| Real Estate Opportunities REOC Fund | | 181 |
| Karols Development Co | | 352 |
| Other | | 601 |
| Total | $ | 155,533 |

*Lease Obligations*

Minimum future rental payments under our operating leases are as follows (in thousands):

| | | |
|---|---|---|
| July 1 to December 31, 2012 | $ | 11,982 |
| 2013 | | 23,538 |
| 2014 | | 22,501 |
| 2015 | | 20,637 |
| 2016 | | 19,271 |
| 2017 | | 2,372 |
| Thereafter | | 215 |

| | | |
|---|---|---|
| Total | $ | 100,516 |

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*Debt Obligations*

As of June 30, 2012, our debt obligations consisted of the amounts outstanding under our credit agreement, as described below.

Increases in the interest rate on our debt obligations, whether through amendments, refinancings, or increases in LIBOR, result in a direct reduction in our earnings and cash flow from operations and, therefore, our liquidity.

The following table presents information regarding our debt obligations (dollars in thousands):

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | June 30, 2012 | | |
| | Face Amount and Carrying Value | | | | Final Stated | Weighted Average | | Weighted Average |
| **Debt Obligation** | **June 30, 2012** | | **December 31, 2011** | | **Maturity** | **Funding Cost (1)** | | **Maturity (Years)** |
| Credit Agreement (2) | | | | | | | | |
| Revolving debt (3) | $ | | $ | | Oct 2013 | $ | | $ |
| Term loan | | 189,278 | | 261,250 | Oct 2015 | | 6.2% | 2.4 |
| Total | $ | 189,278 | $ | 261,250 | | | 6.2% | 2.4 |