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Fortress Investment Group LLC  
Form 10-Q  
November 03, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33294

Fortress Investment Group LLC

(Exact name of registrant as specified in its charter)

Delaware

20-5837959

(State or other jurisdiction of incorporation

(I.R.S. Employer  
Identification No.)

or organization)

1345 Avenue of the Americas, New York, NY 10105

(Address of principal executive offices) (Zip Code)

(212) 798-6100

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Class A Shares: 216,839,627 outstanding as of October 28, 2016.

Class B Shares: 169,207,335 outstanding as of October 28, 2016.

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

"Management Fee Paying Assets Under Management," or "AUM," refers to the management fee paying assets we manage or co-manage, including, as applicable, capital we have the right to call from our investors pursuant to their capital commitments to various funds. In addition, AUM includes management fee paying assets managed by autonomous businesses in which we retain a minority interest. Our AUM equals the sum of:

- (i) the capital commitments or invested capital (or net asset value, "NAV," if lower) of our private equity funds, private permanent capital vehicle through May 2015 and credit PE funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with certain private equity funds raised after March 2006 includes the mark-to-market value of public securities held within the funds,
- (ii) the contributed capital or book equity (as defined) of our publicly traded permanent capital vehicles,
- (iii) the NAV of our hedge funds;
- (iv) the NAV or fair value of our managed accounts, to the extent management fees are charged; and
- (v) AUM related to affiliated manager funds and co-managed funds.

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

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

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

"Fortress Funds" and "our funds" refers to the private investment funds, permanent capital vehicles and related managed accounts that we manage or co-manage. The Drawbridge Special Opportunities Fund is our flagship credit hedge fund.

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

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

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

public company.

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

"principals" or "Principals" refers to Peter Briger, Wesley Edens and Randal Nardone, collectively, as well as Michael Novogratz until his retirement in January 2016. The principals significantly influence the public company through their ownership of the public company's Class B shares. The Class B shares and the Class A shares are each entitled to one vote per share. The Class B shares do not represent an economic interest in the public company and therefore are not entitled to any dividends. The principals own their economic interest in the public company primarily through their direct ownership of FOGUs.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

SPECIAL NOTE REGARDING EXHIBITS

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

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

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

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

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

|  | September<br>30, 2016<br>(Unaudited) | December 31,<br>2015 |
|--|--------------------------------------|----------------------|
| <b>Assets</b>  |                                      |                      |
| Cash and cash equivalents  | \$350,712                            | \$ 339,842           |
| Due from affiliates  | 189,461                              | 273,811              |
| Investments  | 918,526                              | 1,055,789            |
| Investments in options   | 42,554                               | 30,427               |
| Deferred tax asset, net  | 422,237                              | 427,102              |
| Other assets   | 134,425                              | 148,310              |
| <b>Total Assets</b>  | <b>\$2,057,915</b>                   | <b>\$ 2,275,281</b>  |
| <b>Liabilities and Equity</b>  |                                      |                      |
| Accrued compensation and benefits  | \$260,212                            | \$ 318,750           |
| Due to affiliates  | 360,301                              | 365,218              |
| Deferred incentive income  | 388,874                              | 332,329              |
| Debt obligations payable   | 182,838                              | 230,677              |
| Other liabilities  | 107,603                              | 86,503               |
| <b>Total Liabilities</b>   | <b>1,299,828</b>                     | <b>1,333,477</b>     |
| <b>Commitments and Contingencies</b>   |                                      |                      |
| Redeemable Non-controlling Interests   | —                                    | —                    |
| <b>Equity</b>  |                                      |                      |
| Class A shares, no par value, 1,000,000,000 shares authorized, 216,839,627 and 216,790,409 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively | —                                    | —                    |
| Class B shares, no par value, 750,000,000 shares authorized, 169,207,335 and 169,514,478 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively   | —                                    | —                    |
| Paid-in capital  | 1,915,578                            | 1,988,707            |
| Retained earnings (accumulated deficit)  | (1,420,079 )                         | (1,415,113 )         |
| Accumulated other comprehensive income (loss)  | (4,652 )                             | (2,909 )             |
| <b>Total Fortress shareholders' equity</b>   | <b>490,847</b>                       | <b>570,685</b>       |
| Principals' and others' interests in equity of consolidated subsidiaries   | 267,240                              | 371,119              |
| <b>Total Equity</b>  | <b>758,087</b>                       | <b>941,804</b>       |
| <b>Total Liabilities, Redeemable Non-controlling Interests and Equity</b>  | <b>\$2,057,915</b>                   | <b>\$ 2,275,281</b>  |

See notes to condensed consolidated financial statements.

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

|  | Three Months Ended<br>September 30, |                     | Nine Months Ended<br>September 30, |                  |
|--|-------------------------------------|---------------------|------------------------------------|------------------|
|  | 2016                                | 2015                | 2016                               | 2015             |
| <b>Revenues</b>  |                                     |                     |                                    |                  |
| Management fees: affiliates  | \$ 123,491                          | \$ 134,414          | \$ 377,269                         | \$ 413,057       |
| Management fees: non-affiliates  | 14,455                              | 15,400              | 42,066                             | 45,657           |
| Incentive income: affiliates   | 17,396                              | 48,773              | 71,334                             | 155,154          |
| Incentive income: non-affiliates   | 31,000                              | 439                 | 40,862                             | 735              |
| Expense reimbursements: affiliates   | 54,602                              | 59,988              | 166,041                            | 168,544          |
| Expense reimbursements: non-affiliates   | 1,258                               | 2,757               | 4,064                              | 9,573            |
| Other revenues (affiliate portion disclosed in Note 6)                             | 18,943                              | 2,248               | 23,832                             | 6,476            |
| <b>Total Revenues</b>  | <b>261,145</b>                      | <b>264,019</b>      | <b>725,468</b>                     | <b>799,196</b>   |
| <b>Expenses</b>  |                                     |                     |                                    |                  |
| Compensation and benefits  | 184,159                             | 169,027             | 539,643                            | 547,023          |
| General, administrative and other  | 33,046                              | 37,887              | 104,942                            | 126,053          |
| Depreciation and amortization  | 5,275                               | 16,102              | 17,362                             | 34,201           |
| Interest expense   | 2,643                               | 918                 | 8,662                              | 2,796            |
| Transfer of interest in Graticule (see Note 1)                                     | —                                   | —                   | —                                  | 101,000          |
| <b>Total Expenses</b>  | <b>225,123</b>                      | <b>223,934</b>      | <b>670,609</b>                     | <b>811,073</b>   |
| <b>Other Income (Loss)</b>   |                                     |                     |                                    |                  |
| Gains (losses) (affiliate portion disclosed in Note 3)                             | 1,862                               | (39,888 )           | (22,077 )                          | (15,114 )        |
| Tax receivable agreement liability adjustment                                      | —                                   | (390 )              | (2,699 )                           | (7,890 )         |
| Earnings (losses) from equity method investees                                     | 27,467                              | (22,195 )           | (2,420 )                           | (16,808 )        |
| Gain on transfer of Graticule (see Note 1)   | —                                   | —                   | —                                  | 134,400          |
| <b>Total Other Income (Loss)</b>   | <b>29,329</b>                       | <b>(62,473 )</b>    | <b>(27,196 )</b>                   | <b>94,588</b>    |
| <b>Income (Loss) Before Income Taxes</b>   | <b>65,351</b>                       | <b>(22,388 )</b>    | <b>27,663</b>                      | <b>82,711</b>    |
| Income tax benefit (expense)   | (7,008 )                            | (3,584 )            | (11,863 )                          | (16,784 )        |
| <b>Net Income (Loss)</b>   | <b>\$ 58,343</b>                    | <b>\$ (25,972 )</b> | <b>\$ 15,800</b>                   | <b>\$ 65,927</b> |
| <b>Allocation of Net Income (Loss):</b>  |                                     |                     |                                    |                  |
| Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries    | \$ 27,181                           | \$ (11,727 )        | \$ 7,609                           | \$ 42,149        |
| Redeemable Non-controlling Interests in Income (Loss) of Consolidated Subsidiaries | —                                   | —                   | —                                  | (6 )             |
| <b>Net Income (Loss) Attributable to Class A Shareholders</b>                      | <b>31,162</b>                       | <b>(14,245 )</b>    | <b>8,191</b>                       | <b>23,784</b>    |
|  | <b>\$ 58,343</b>                    | <b>\$ (25,972 )</b> | <b>\$ 15,800</b>                   | <b>\$ 65,927</b> |
| <b>Dividends declared per Class A share</b>  | <b>\$ 0.09</b>                      | <b>\$ 0.08</b>      | <b>\$ 0.37</b>                     | <b>\$ 0.54</b>   |
| <b>Earnings (Loss) Per Class A share</b>   |                                     |                     |                                    |                  |
| Net income (loss) per Class A share, basic   | \$ 0.14                             | \$ (0.07 )          | \$ 0.03                            | \$ 0.10          |
| Net income (loss) per Class A share, diluted                                       | \$ 0.07                             | \$ (0.07 )          | \$ 0.02                            | \$ 0.09          |
| Weighted average number of Class A shares outstanding, basic                       | 216,913,032                         | 216,439,077         | 218,160,132                        | 216,138,405      |
| Weighted average number of Class A shares outstanding, diluted                     | 390,293,842                         | 216,439,077         | 390,240,732                        | 222,213,743      |

See notes to condensed consolidated financial statements.

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## FORTRESS INVESTMENT GROUP LLC

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(dollars in thousands)

|   | Three Months<br>Ended September<br>30,<br>2016 |            | Nine Months<br>Ended September<br>30,<br>2015 |          |
|---|--|------------|---|----------|
| Comprehensive income (loss) (net of tax)  |  |            |   |          |
| Net income (loss)   | \$58,343                                       | \$(25,972) | \$15,800                                      | \$65,927 |
| Foreign currency translation income<br>(loss)                                       | (518 )   | 621        | (3,830 )                                      | 249      |
| Comprehensive income (loss) from equity<br>method investees                         | (11 )  | —          | (178 )  | —        |
| Total comprehensive income (loss)   | \$57,814                                       | \$(25,351) | \$11,792                                      | \$66,176 |
| Allocation of Comprehensive Income (Loss):  |  |            |   |          |
| Comprehensive income (loss) attributable to principals' and others' interests       | \$26,888                                       | \$(11,473) | \$5,335                                       | \$42,095 |
| Comprehensive income (loss) attributable to redeemable non-controlling<br>interests | —  | —          | —   | (6 )     |
| Comprehensive income (loss) attributable to Class A shareholders                    | 30,926   | (13,878 )  | 6,457   | 24,087   |
|   | \$57,814                                       | \$(25,351) | \$11,792                                      | \$66,176 |

See notes to condensed consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC  
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016  
 (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 -<br>December 31, 2015  | 216,790,409    | 169,514,478    | \$1,988,707     | \$(1,415,113)                           | \$(2,909)                                     | \$570,685                           | \$371,119  | \$941,804    |
| Contributions from principals' and others' interests in equity                                     | —              | —              | —               | —                                       | —   | —                                   | 46,635   | 46,635       |
| Distributions to principals' and others' interests in equity (net of tax)                          | —              | —              | —               | —                                       | —   | —                                   | (151,011)  | (151,011)    |
| Dividends declared   | —              | —              | (80,082)        | —                                       | —   | (80,082)                            | —  | (80,082)     |
| Dividend equivalents accrued in connection with equity-based compensation (net of tax)             | —              | —              | (1,069)         | —                                       | —   | (1,069)                             | (1,355)  | (2,424)      |
| Conversion of Class B shares to Class A shares   | 307,143        | (307,143)      | 446             | —                                       | (12)  | 434                                 | (434)  | —            |
| Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units | —              | —              | (1,371)         | —                                       | —   | (1,371)                             | (26)   | (1,397)      |
| Director restricted share grant  | 157,519        | —              | 426             | —                                       | —   | 426                                 | 335  | 761          |
|  | 4,383,419      | —              | 8,673           | —                                       | —   | 8,673                               | 6,800  | 15,473       |

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|  |              |             |              |               |           |           |           |           |  |
|--|--------------|-------------|--------------|---------------|-----------|-----------|-----------|-----------|--|
| Capital increase related to equity-based compensation (net of tax) |              |             |              |               |           |           |           |           |  |
| Repurchase of Class A shares (Note 8)                              | (4,798,863 ) | —           | —            | (13,157 )     | —         | (13,157 ) | (10,307 ) | (23,464 ) |  |
| Dilution impact of equity transactions (Note 6)                    | —            | —           | (152 )       | —             | 3         | (149 )    | 149       | —         |  |
| Comprehensive income (loss) (net of tax)                           |              |             |              |               |           |           |           |           |  |
| Net income (loss)  | —            | —           | —            | 8,191         | —         | 8,191     | 7,609     | 15,800    |  |
| Foreign currency translation income (loss)                         | —            | —           | —            | —             | (1,654 )  | (1,654 )  | (2,176 )  | (3,830 )  |  |
| Comprehensive income (loss) from equity method investees           | —            | —           | —            | —             | (80 )     | (80 )     | (98 )     | (178 )    |  |
| Total comprehensive income (loss)                                  |              |             |              |               |           | 6,457     | 5,335     | 11,792    |  |
| Equity - September 30, 2016  | 216,839,627  | 169,207,335 | \$ 1,915,578 | \$(1,420,079) | \$(4,652) | \$490,847 | \$267,240 | \$758,087 |  |

See notes to condensed consolidated financial statements.

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

|   | Nine Months<br>Ended September<br>30, |           |
|---|---------------------------------------|-----------|
|   | 2016                                  | 2015      |
| Cash Flows From Operating Activities  |                                       |           |
| Net income (loss)   | \$15,800                              | \$65,927  |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities |                                       |           |
| Depreciation and amortization   | 17,362                                | 34,201    |
| Other amortization (included in interest expense)   | 616                                   | 585       |
| (Earnings) losses from equity method investees  | 2,420                                 | 16,808    |
| Distributions of earnings from equity method and other investees                                  | 19,669                                | 32,345    |
| (Gains) losses  | 22,077                                | 15,114    |
| Deferred incentive income   | (82,287 )                             | (115,892) |
| Deferred tax (benefit) expense  | 9,003                                 | (5,786 )  |
| Options received from affiliates  | (2,262 )                              | (25,158 ) |
| Tax receivable agreement liability adjustment   | 2,699                                 | 7,890     |
| Equity-based compensation   | 21,618                                | 32,562    |
| Options in affiliates granted to employees  | 4,024                                 | 1,912     |
| Other   | 297                                   | 1,096     |
| Transfer of interest in Graticule (see Note 1)  | —                                     | 101,000   |
| Gain on transfer of Graticule (see Note 1)  | —                                     | (134,400) |
| Cash flows due to changes in  |                                       |           |
| Due from affiliates   | 34,897                                | 8,185     |
| Other assets  | (17,187 )                             | (10,113 ) |
| Accrued compensation and benefits   | (12,327 )                             | (59,386 ) |
| Due to affiliates   | (9,556 )                              | (7,050 )  |
| Deferred incentive income   | 118,755                               | 146,001   |
| Other liabilities   | 20,333                                | 37,525    |
| Purchase of investments by consolidated funds   | (52,711 )                             | (134,474) |
| Proceeds from sale of investments by consolidated funds   | 57,123                                | 85,313    |
| Receivables from brokers and counterparties   | (1,148 )                              | (1,694 )  |
| Due to brokers and counterparties   | 2,494                                 | 3,421     |
| Net cash provided by (used in) operating activities   | 171,709                               | 95,932    |
| Cash Flows From Investing Activities  |                                       |           |
| Contributions to equity method investees  | (14,909 )                             | (26,435 ) |
| Distributions of capital from equity method and other investees                                   | 193,720                               | 181,874   |
| Funding of loan receivable  | (25,000 )                             | —         |
| Proceeds from loan receivable   | 10,869                                | —         |
| Purchase of securities  | —                                     | (883 )    |
| Proceeds from sale of direct investments  | 933                                   | —         |
| Proceeds from sale of securities  | —                                     | 18,101    |
| Proceeds from exercise of options   | —                                     | 51,543    |
| Purchase of fixed assets  | (13,841 )                             | (19,848 ) |
| Net cash provided by (used in) investing activities   | 151,772                               | 204,352   |

Continued on next page.





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

|   | Nine Months Ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2016                               | 2015       |
| <b>Cash Flows From Financing Activities</b>   |                                    |            |
| Repayments of debt obligations  | (222,838 )                         | —          |
| Borrowings under debt obligations   | 175,000                            | —          |
| Payment of deferred financing costs   | (3,451 )                           | —          |
| Repurchase of Class A shares (Note 8)   | (34,047 )                          | (9,676 )   |
| Payments to settle RSU statutory withholding tax (Note 8)   | (6,594 )                           | —          |
| Excess tax benefits from delivery of RSUs   | —                                  | 4,476      |
| Dividends and dividend equivalents paid   | (83,134 )                          | (122,663 ) |
| Principals' and others' interests in equity of consolidated subsidiaries - contributions                  | 71                                 | 1,285      |
| Principals' and others' interests in equity of consolidated subsidiaries - distributions                  | (137,618 )                         | (225,994 ) |
| Redeemable non-controlling interests - distributions  | —                                  | (1,692 )   |
| Net cash provided by (used in) financing activities   | (312,611 )                         | (354,264 ) |
| Net Increase (Decrease) in Cash and Cash Equivalents  | 10,870                             | (53,980 )  |
| Cash and Cash Equivalents, Beginning of Period  | 339,842                            | 391,089    |
| Cash and Cash Equivalents, End of Period  | \$350,712                          | \$337,109  |
| <b>Supplemental Disclosure of Cash Flow Information</b>   |                                    |            |
| Cash paid during the period for interest  | \$7,781                            | \$1,552    |
| Cash paid during the period for income taxes  | \$10,188                           | \$10,376   |
| <b>Supplemental Schedule of Non-cash Investing and Financing Activities</b>                               |                                    |            |
| Employee compensation invested directly in subsidiaries   | \$46,290                           | \$69,244   |
| Investments of incentive receivable amounts into Fortress Funds   | \$64,222                           | \$137,561  |
| Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid | \$4,083                            | \$5,774    |
| Retained equity interest related to Graticule transfer (Note 1)   | \$—                                | \$33,400   |

See notes to condensed consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

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

1. ORGANIZATION AND BASIS OF PRESENTATION

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

Fortress's primary sources of income from the Fortress Funds are management fees, incentive income, and investment income on its investments in the funds. In addition, Fortress receives certain expense reimbursements pursuant to its management agreements. The Fortress Funds fall into the following business segments in which Fortress operates:

1) Private equity:

a) General buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America and Western Europe; and

Entities which Fortress collectively refers to as "permanent capital vehicles" which includes (i) Newcastle Investment Corp. ("Newcastle"), New Residential Investment Corp. ("New Residential"), Eurocastle Investment Limited ("Eurocastle"), New Media Investment Group Inc. ("New Media"), New Senior Investment Group Inc. ("New Senior") and Fortress Transportation and Infrastructure Investors LLC ("FTAI"), which are publicly traded companies that are externally managed by Fortress pursuant to management agreements (collectively referred to as

b) the "publicly traded permanent capital vehicles") and (ii) FHC Property Management LLC (together with its subsidiaries, referred to as "Blue Harbor"), a senior living property management business. The publicly traded permanent capital vehicles invest in a wide variety of real estate related assets, including securities, loans, real estate properties and mortgage servicing related assets, media assets, senior living properties and transportation and infrastructure assets.

2) Credit funds:

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

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

Liquid hedge funds include (i) an endowment style fund, which invests in Fortress Funds, funds managed by external managers and direct investments, and (ii) funds managed by an external manager which Fortress has a minority interest and accounts for using the equity method ("Affiliated Manager").

During the third quarter of 2016, Fortress closed the Fortress Centaurus Global Funds.

In June 2016, Fortress transferred its rights as general partner and investment manager of the Fortress Convex Asia Funds to a third party.

In January 2015, Fortress Asia Macro Funds and related managed accounts transitioned to an autonomous asset management business named Graticule Asset Management Asia ("Graticule"). Fortress retained a perpetual minority interest in Graticule amounting to 30% of earnings during 2015 and 2016 and declining to approximately 27% of earnings thereafter. Fortress recorded the results of this transaction at fair value. During the nine months ended September 30, 2015, Fortress recorded a non-cash gain of \$134.4 million, non-cash expense of \$101.0 million related to the fair value of the controlling interest in Graticule transferred to a former senior employee for no consideration, and \$33.4 million from its resulting retained interest as an equity method investment. Fortress utilized an income approach to value Graticule, its retained interest in Graticule and the controlling interest in Graticule which was transferred. This approach relies on a number of factors, including actual operating results, discount rates and economic projections. Fortress also received fees for providing

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FORTRESS INVESTMENT GROUP LLC  
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SEPTEMBER 30, 2016  
(dollars in tables in thousands, except share and per share data)

infrastructure services (technology, back office, and related services) to Graticule through the termination of the infrastructure services agreement in May 2016.

Logan Circle Partners, L.P. ("Logan Circle"), which represents Fortress's traditional asset management business providing institutional clients actively managed investment solutions across a broad spectrum of fixed income 4) strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt.

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

All significant intercompany accounts and transactions have been eliminated.

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

The accompanying condensed consolidated financial statements and related footnotes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under GAAP have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Fortress's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Fortress's consolidated financial statements for the year ended December 31, 2015 and footnotes thereto included in Fortress's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2016. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's consolidated financial statements for the year ended December 31, 2015.

Recent Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 is intended to simplify several areas of accounting for share-based compensation arrangements. The standard will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allows employers to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The new standard is effective for Fortress beginning January 1, 2017. Fortress is currently evaluating the potential impact of adoption of the new standard.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02") which supersedes Topic 840, Leases. The new standard will require lessees to recognize operating leases on their balance sheet as a right-of-use asset with an offsetting lease liability based on the present value of future lease payments. Currently, only finance leases are recognized on the balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely

similar to those applied in current lease accounting, but without explicit thresholds. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard under ASU 2014-09. The new standard is effective for Fortress beginning January 1, 2019; however, early adoption is permitted. ASU 2016-02 requires a modified retrospective approach which includes a number of optional practical expedients an entity may elect to apply. Fortress is currently evaluating the potential impact of adoption of the new standard.

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

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In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03") which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a reduction from the carrying amount of that debt liability. ASU 2015-03 was effective for Fortress beginning January 1, 2016, and was to be applied retrospectively. This standard was subsequently updated by ASU No. 2015-15, Interest -Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting ("ASU 2015-15"). ASU 2015-15 codifies an SEC staff announcement that it will not object to the presentation of debt issuance costs as an asset for revolving line of credit arrangements. This standard was effective upon announcement on June 18, 2015. Fortress elected to present debt issuance costs related to its revolving credit facility as an asset, consistent with historical presentation. As such, the adoption of ASU 2015-03 and ASU 2015-15 did not have a material impact on Fortress's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") which is a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The entity will recognize revenue to reflect the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. In July 2015, the FASB deferred the effective date of the new revenue recognition standard. The new standard is effective for Fortress beginning January 1, 2018. Early adoption is permitted but not before the original public entity effective date (that is, annual periods beginning after December 15, 2016). ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The adoption of ASU 2014-09 is not expected to have a material impact on Fortress's consolidated balance sheets and consolidated statements of operations.

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

## 2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

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

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 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
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(dollars in tables in thousands, except share and per share data)

Management Fees and Incentive Income

Fortress recognized management fees and incentive income as follows:

|   | Three Months Ended |           | Nine Months Ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September 30,      |           | September 30,     |           |
|   | 2016               | 2015      | 2016              | 2015      |
| Private Equity                              |                    |           |                   |           |
| Private Equity Funds                        |                    |           |                   |           |
| Management fees: affil.                     | \$21,191           | \$28,515  | \$72,681          | \$86,877  |
| Permanent Capital Vehicles                  |                    |           |                   |           |
| Management fees: affil.                     | 27,305             | 26,932    | 81,431            | 68,210    |
| Management fees, options: affil.            | 2,262              | —         | 2,262             | 25,158    |
| Management fees: non-affil.                 | 401                | 436       | 1,205             | 1,368     |
| Incentive income: affil.                    | 4,419              | (2,625 )  | 17,880            | 23,119    |
| Credit Funds                                |                    |           |                   |           |
| Credit Hedge Funds                          |                    |           |                   |           |
| Management fees: affil.                     | 37,691             | 35,395    | 110,939           | 94,883    |
| Management fees: non-affil.                 | 54                 | 15        | 70                | 38        |
| Incentive income: affil.                    | 6,307              | 1,512     | 11,033            | 23,681    |
| Credit PE Funds                             |                    |           |                   |           |
| Management fees: affil.                     | 33,182             | 28,956    | 94,806            | 86,343    |
| Management fees: non-affil.                 | —                  | 30        | 36                | 88        |
| Incentive income: affil.                    | 6,668              | 49,744    | 41,425            | 108,153   |
| Incentive income: non-affil.                | 31,000             | 439       | 40,862            | 696       |
| Liquid Hedge Funds                          |                    |           |                   |           |
| Management fees: affil.                     | 1,183              | 14,004    | 13,283            | 49,137    |
| Management fees: non-affil.                 | —                  | 1,700     | —                 | 6,248     |
| Incentive income: affil.                    | 2                  | 142       | 996               | 195       |
| Incentive income: non-affil.                | —                  | —         | —                 | 39        |
| Logan Circle                                |                    |           |                   |           |
| Management fees: affil.                     | 677                | 612       | 1,867             | 2,449     |
| Management fees: non-affil.                 | 14,000             | 13,219    | 40,755            | 37,915    |
| Incentive income: affil.                    | —                  | —         | —                 | 6         |
| Total                                       |                    |           |                   |           |
| Management fees: affil. (including options) | \$123,491          | \$134,414 | \$377,269         | \$413,057 |
| Management fees: non-affil.                 | \$14,455           | \$15,400  | \$42,066          | \$45,657  |
| Incentive income: affil. (A)                | \$17,396           | \$48,773  | \$71,334          | \$155,154 |



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|                              |          |       |          |       |
|------------------------------|----------|-------|----------|-------|
| Incentive income: non-affil. | \$31,000 | \$439 | \$40,862 | \$735 |
|------------------------------|----------|-------|----------|-------|

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

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## Deferred Incentive Income

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

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the nine months ended September 30, 2016 and 2015. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, \$69.4 million and \$46.7 million of additional incentive income would have been recognized during the nine months ended September 30, 2016 and 2015, 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 nine months ended September 30, 2016 and 2015, Fortress recognized \$82.3 million and \$108.8 million, respectively, of incentive income distributions from its credit PE funds which were non-clawbackable or represented "tax distributions." Tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

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

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

|  | Distributed-Gross | Distributed-Recognized<br>(A) | Distributed-Unrecognized<br>(B) | Undistributed,<br>net of<br>intrinsic<br>clawback (if<br>any) (C) (D) |
|--|-------------------|-------------------------------|---------------------------------|---|
| Deferred incentive income as of<br>December 31, 2015                         | \$ 1,490,276      | \$ (1,157,947 )               | \$ 332,329                      | \$ 898,358  |
| Share of income (loss) of Fortress Funds                                     | N/A               | N/A                           | N/A                             | 484,585   |
| Distribution of private equity funds and<br>credit PE funds incentive income | 197,274           | N/A                           | 197,274                         | (197,274 )  |
| Repayment of prior incentive income<br>distributions (E)                     | (66,903 )         | N/A                           | (66,903 )                       | 66,903  |

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|  |              |                  |   |            |   |                  |
|--|--------------|------------------|---|------------|---|------------------|
| Recognition of previously deferred incentive income                                  | N/A          | (82,287          | ) | (82,287    | ) | N/A              |
| Changes in foreign exchange rates  | 8,461        | —                |   | 8,461      |   | N/A              |
| Deferred incentive income as of September 30, 2016                                   | \$ 1,629,108 | (F)\$ (1,240,234 | ) | \$ 388,874 |   | \$ 1,252,572 (F) |
| Deferred incentive income including Fortress Funds which are not subject to clawback | \$ 1,777,277 | \$ (1,388,403    | ) |            |   |                  |

(A) All related contingencies have been resolved.

(B) Reflected on Fortress's condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015.

At September 30, 2016, no intrinsic clawback exists for any of the Fortress Funds. The net undistributed incentive

(C) income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on September 30, 2016 at their net asset values.

From inception to September 30, 2016, Fortress has paid \$776.4 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income. If the \$1.3 billion

(D) of gross undistributed incentive income were realized, Fortress would recognize and pay an additional \$493.9 million of compensation.

In February 2016, Fortress paid \$66.9 million to Fund III representing prior incentive income distributions

(E) received (\$45.1 million net of employee amounts). As of September 30, 2016, no intrinsic clawback obligation exists for any of the Fortress Funds.

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

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FORTRESS INVESTMENT GROUP LLC  
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 (dollars in tables in thousands, except share and per share data)

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

|   | September<br>30, 2016 |
|---|-----------------------|
| Distributed<br>incentive income -<br>Private Equity<br>Funds  | \$ 780,459            |
| Distributed<br>incentive income -<br>Private Equity<br>Funds in<br>Investment Period<br>or Commitment<br>Period                       | —                     |
| Distributed<br>incentive income -<br>Credit PE Funds  | 1,160,205             |
| Distributed<br>incentive income -<br>Credit PE Funds in<br>Investment Period<br>or Commitment<br>Period                               | 10,586                |
| Distributed<br>incentive income -<br>Permanent Capital<br>Vehicle (see<br>footnote (P) of<br>incentive<br>income threshold<br>tables) | 7,043                 |
| Less:   |                       |
| Fortress Funds<br>which are not<br>subject to a<br>clawback<br>provision:   |                       |
| –NIH  | (94,513 )             |
| –GAGACQ Fund  | (51,476 )             |
| Portion of Fund I<br>distributed<br>incentive income  | (183,196 )            |

that Fortress is  
not entitled to  
(see footnote K  
of incentive  
income threshold  
tables)

Distributed-Gross \$1,629,108

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

|  | September<br>30, 2016 |
|--|-----------------------|
| Undistributed<br>incentive<br>income - Private<br>Equity Funds   | \$16,251              |
| Undistributed<br>incentive<br>income - Private<br>Equity Funds in<br>Investment<br>Period or<br>Commitment<br>Period | 193,876               |
| Undistributed<br>incentive<br>income - Credit<br>PE Funds  | 849,407               |
| Undistributed<br>incentive<br>income - Credit<br>PE Funds in<br>Investment<br>Period or<br>Commitment<br>Period      | 60,336                |
| Undistributed<br>incentive<br>income -<br>Permanent<br>Capital Vehicles  | 4,330                 |
| Undistributed<br>incentive<br>income - Hedge<br>Funds (total)  | 127,990               |
| Undistributed<br>incentive<br>income - Logan<br>Circle   | 382                   |
| Less:  | —                     |

Gross  
intrinsic  
clawback  
per  
incentive  
income  
threshold  
tables -  
Private  
Equity  
Funds  
Undistributed,  
net of intrinsic \$1,252,572  
clawback

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The following tables summarize information with respect to the Fortress Funds and their related incentive income thresholds as of September 30, 2016:

| Fund (Vintage) (A)                       | Maturity Date (B) | Inception to Date Capital Invested | Inception to Date Distributions | NetNAV Ass. Value (N/A Deficit) (C) | Current Preferred Return Threshold (D) | Gain to Cross Incentive Income Threshold (E) | Undistributed Incentive Income (G) | Distributed Incentive Income (H) | Distributed Incentive Income Subject to Clawback (I) |
|--|-------------------|------------------------------------|---------------------------------|-------------------------------------|--|--|------------------------------------|----------------------------------|--|
| Private Equity Funds                     |                   |                                    |                                 |                                     |  |  |                                    |                                  |  |
| NIH (1998)                               | Closed Jun-15     | \$415,574                          | \$(823,588)                     | \$—                                 | N/A                                    | \$ N/A                                       | \$—                                | \$94,513                         | \$—  |
| Fund I (1999) (K)                        | Closed May-13     | 1,015,943                          | (2,847,929)                     | —                                   | N/A                                    | N/A  | —                                  | 344,939                          | —  |
| Fund II (2002)                           | Closed Dec-15     | 1,974,298                          | (3,446,405)                     | —                                   | N/A                                    | N/A  | —                                  | 289,531                          | —  |
| Fund III (2004)                          | In Liquidation    | 2,762,992                          | (2,172,525)                     | 760,904                             | 437                                    | 2,509,733                                    | 2,339,296                          | —                                | —  |
| Fund III Coinvestment (2004)             | In Liquidation    | 273,649                            | (231,692)                       | 55,938                              | 981                                    | 290,629                                      | 276,648                            | —                                | —  |
| Fund IV (2006)                           | Jan-17            | 3,639,561                          | (1,537,042)                     | 1,872,305                           | 861                                    | 3,446,902                                    | 3,677,263                          | —                                | —  |
| Fund IV Coinvestment (2006)              | Jan-17            | 762,696                            | (323,598)                       | 326,908                             | 190                                    | 736,253                                      | 848,443                            | —                                | —  |
| Fund V (2007)                            | Feb-18            | 4,103,713                          | (1,848,412)                     | 4,213,755                           | 454                                    | 3,191,603                                    | 1,233,149                          | —                                | —  |
| Fund V Coinvestment (2007)               | Feb-18            | 990,480                            | (259,786)                       | 389,340                             | 933                                    | 860,605                                      | 1,201,538                          | —                                | —  |
| GAGACQ Fund (2004) (GAGFAH)              | Closed Nov-09     | 545,663                            | (595,401)                       | —                                   | N/A                                    | N/A  | —                                  | 51,476                           | —  |
| FRID (2005) (GAGFAH)                     | Closed Nov-14     | 1,220,229                          | (1,202,153)                     | —                                   | N/A                                    | N/A  | —                                  | —                                | —  |
| FRIC (2006) (Brookdale)                  | Closed Dec-14     | 328,754                            | (291,330)                       | —                                   | N/A                                    | N/A  | —                                  | —                                | —  |
| FICO (2006) (Intrawest)                  | Jan-17            | 724,525                            | —                               | (66,998)                            | 523                                    | 819,274                                      | 1,610,797                          | —                                | —  |
| FHIF (2006) (Holiday)                    | Jan-17            | 1,543,463                          | (954,223)                       | 1,001,411                           | 676                                    | 1,443,756                                    | 1,032,580                          | —                                | —  |
| FECI (2007) (Florida East Coast/Flagler) | Feb-18            | 982,779                            | (522)                           | 926,856                             | 441                                    | 1,001,318                                    | 1,056,759                          | —                                | —  |

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|   |        |         |            |           |     |       |     |           |           |          |
|---|--------|---------|------------|-----------|-----|-------|-----|-----------|-----------|----------|
| MSR Opportunities Fund I A (2012)                       | Aug-22 | 341,135 | (214,101 ) | 260,233   | 259 | —     | N/A | 12,828    | —         | —        |
| MSR Opportunities Fund I B (2012)                       | Aug-22 | 82,760  | (51,798 )  | 62,950    | 988 | —     | N/A | 3,197     | —         | —        |
| MSR Opportunities Fund II A (2013)                      | Jul-23 | 160,653 | (54,008 )  | 126,202   | 176 | 9,603 | 154 | 154       | —         | —        |
| MSR Opportunities Fund II B (2013)                      | Jul-23 | 2,291   | (753 )     | 1,804     | 66  | 286   | 23  | —         | —         | —        |
| MSR Opportunities MA I (2013)                           | Jul-23 | 36,868  | (12,430 )  | 29,437    | 46  | —     | N/A | 72        | —         | —        |
|   |        |         |            |           |     |       |     | \$16,251  | \$780,459 | \$ \$ \$ |
| Private Equity Funds in Investment or Commitment Period |        |         |            |           |     |       |     |           |           |          |
| Italian NPL   |        |         |            |           |     |       |     |           |           |          |
| Opportunities Fund (2013)                               | Sep-24 | 322,176 | (17,774 )  | 346,421   | 008 | —     | N/A | 6,214     | —         | —        |
| Fortress Equity Partners (2014)                         | Mar-24 | 165,588 | —          | 1,104,879 | 791 | —     | N/A | 187,662   | —         | —        |
|   |        |         |            |           |     |       |     | \$193,876 | \$—       | \$ \$ \$ |

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## FORTRESS INVESTMENT GROUP LLC

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

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

| Fund (Vintage) (A)                      | Maturity Date (B) | Inception to Date Capital Invested | Inception to Date Distributions | Net Asset Value ("NAV") | NAV Surplus (Deficit) (D) | Current Preferred Return Threshold (E) | Gain to Cross Incentive Income Threshold (F) | Undistributed Incentive Income (G) | Distributed Incentive Income (H) | Distributed Incentive Income Subject to Clawback (I) |
|---|-------------------|------------------------------------|---------------------------------|-------------------------|---------------------------|--|--|------------------------------------|----------------------------------|--|
| Credit PE Funds                         |                   |                                    |                                 |                         |                           |  |  |                                    |                                  |  |
| Long Dated Value Fund I (2005)          | Apr-30            | \$267,325                          | \$(269,739)                     | \$176,000               | \$178,414                 | \$50,768                               | \$2,688                                      | \$2,777                            | \$—                              | \$—  |
| Long Dated Value Fund II (2005)         | Nov-30            | 274,280                            | (219,861 )                      | 146,085                 | 91,666                    | 138,941                                | 47,275                                       | —                                  | 412                              | —  |
| Long Dated Value Fund III (2007)        | Feb-32            | 343,156                            | (307,613 )                      | 143,578                 | 108,035                   | —                                      | N/A  | 3,604                              | 7,904                            | —  |
| LDVF Patent Fund (2007)                 | Nov-27            | 45,852                             | (33,968 )                       | 26,201                  | 14,317                    | —                                      | N/A  | 23                                 | 1,471                            | —  |
| Real Assets Fund (2007)                 | Jun-17            | 359,024                            | (435,302 )                      | 17,153                  | 93,431                    | —                                      | N/A  | 2,850                              | 11,565                           | 4,181  |
| Credit                                  |                   |                                    |                                 |                         |                           |  |  |                                    |                                  |  |
| Opportunities Fund (2008)               | Oct-20            | 5,680,587                          | (7,475,023)                     | 977,713                 | 2,772,149                 | —                                      | N/A  | 107,180                            | 436,852                          | 138,077  |
| Credit                                  |                   |                                    |                                 |                         |                           |  |  |                                    |                                  |  |
| Opportunities Fund II (2009)            | Jul-22            | 2,376,497                          | (2,808,665)                     | 874,112                 | 1,306,280                 | —                                      | N/A  | 104,391                            | 151,706                          | 64,941   |
| Credit                                  |                   |                                    |                                 |                         |                           |  |  |                                    |                                  |  |
| Opportunities Fund III (2011)           | Mar-24            | 3,408,679                          | (2,287,779)                     | 2,006,377               | 885,477                   | —                                      | N/A  | 133,522                            | 39,908                           | 2,510  |
| FCO Managed Accounts (2008 - 2012)      | Apr-22 to Dec-24  | 4,598,123                          | (4,057,891)                     | 2,280,689               | 1,740,457                 | —                                      | N/A  | 176,716                            | 143,051                          | 50,108   |
| SIP Managed Account (2010)              | Sep-20            | 11,000                             | (243,537 )                      | 8,916                   | 241,453                   | —                                      | N/A  | 2,229                              | 46,507                           | —  |
| Japan Opportunity Fund (Yen only)(2009) | Jun-19            | 1,081,942                          | (2,145,680)                     | 541,988                 | 1,605,726                 | —                                      | N/A  | 105,951                            | 205,898                          | 81,877   |
| Net Lease Fund I (2010)                 | Closed Dec-15     | 152,851                            | (227,108 )                      | —                       | N/A                       | N/A                                    | N/A  | —                                  | 9,743                            | —  |
| Real Estate                             |                   |                                    |                                 |                         |                           |  |  |                                    |                                  |  |
| Opportunities Fund (2011)               | Sep-24            | 552,544                            | (567,821 )                      | 224,264                 | 239,541                   | —                                      | N/A  | 10,268                             | 10,705                           | 10,031   |
| Global                                  |                   |                                    |                                 |                         |                           |  |  |                                    |                                  |  |
| Opportunities Fund (2010)               | Sep-20            | 394,241                            | (265,530 )                      | 235,274                 | 106,563                   | —                                      | N/A  | 18,161                             | 2,634                            | 2,634  |
|   | Dec-21            | 846,479                            | (750,532 )                      | 881,368                 | 785,421                   | —                                      | N/A  | 102,533                            | 48,107                           | 20,801   |

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|   |                  |             |             |           |           |          |          |           |             |         |  |
|---|------------------|-------------|-------------|-----------|-----------|----------|----------|-----------|-------------|---------|--|
| Japan Opportunity Fund II (Yen) (2011)                    |                  |             |             |           |           |          |          |           |             |         |  |
| Japan Opportunity Fund II (Dollar) (2011)                 | Dec-21           | 681,551     | (602,385 )  | 676,595   | 597,429   | —        | N/A      | 76,145    | 39,306      | 7,989   |  |
| Real Estate Opportunities REOC Fund (2011)                | Oct-23           | 57,991      | (62,857 )   | 28,519    | 33,385    | —        | N/A      | 3,057     | 4,436       | 2,942   |  |
| CFT Co-invest Fund (CAD) (2015)                           | Oct-27           | 13,978      | —           | 14,211    | 233       | 864      | 631      | —         | —           | —       |  |
| CFT Co-invest Fund (USD) (2015)                           | Oct-27           | 96,798      | —           | 98,023    | 1,225     | 5,864    | 4,639    | —         | —           | —       |  |
|   |                  |             |             |           |           |          |          | \$849,407 | \$1,160,205 | \$386,0 |  |
| Credit PE Funds in Investment Period or Commitment Period |                  |             |             |           |           |          |          |           |             |         |  |
| FCO Managed Accounts (2010-2015)                          | Jun-24 to Feb-28 | \$1,173,964 | \$(406,040) | \$964,920 | \$196,996 | \$38,253 | \$24,720 | \$22,750  | \$10,384    | \$2,640 |  |
| Life Settlements Fund (2010)                              | Dec-22           | 425,910     | (299,330 )  | 101,502   | (25,078 ) | 100,931  | 126,009  | —         | —           | —       |  |
| Life Settlements Fund MA (2010)                           | Dec-22           | 34,995      | (24,482 )   | 8,145     | (2,368 )  | 8,291    | 10,659   | —         | —           | —       |  |
| Real Estate Opportunities Fund II (2014)                  | May-27           | 584,983     | (104,830 )  | 579,384   | 99,231    | —        | N/A      | 18,993    | 143         | 143     |  |
| Japan Opportunity Fund III (Yen) (2014)                   | Dec-24           | 287,322     | (6,588 )    | 338,606   | 57,872    | —        | N/A      | 11,521    | 28          | —       |  |
| Japan Opportunity Fund III (Dollar) (2014)                | Dec-24           | 206,499     | (886 )      | 242,638   | 37,025    | —        | N/A      | 7,072     | 31          | —       |  |
| Credit Opportunities Fund IV (2015)                       | Feb-27           | 764,147     | (31,799 )   | 767,778   | 35,430    | 54,856   | 19,426   | —         | —           | —       |  |
| Global Opportunities Fund II (2015)                       | Jul-26           | 31,464      | (1,429 )    | 24,366    | (5,669 )  | 1,150    | 6,819    | —         | —           | —       |  |
|   |                  |             |             |           |           |          |          | \$60,336  | \$10,586    | \$2,789 |  |

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## FORTRESS INVESTMENT GROUP LLC

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2016

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

|  | Equity<br>Eligible<br>for<br>Incentive<br>(L) | Gain to Cross<br>Incentive<br>Income<br>Threshold (F) | Undistributed<br>Incentive<br>Income (O) | Life-to-Date<br>Incentive<br>Income<br>Crystallized<br>(P) |
|--|---|---|--|--|
| Publicly Traded Permanent Capital Vehicles |   |   |  |  |
| Newcastle                                  | \$ 751,896                                    | \$ (F)  | \$ N/A                                   | \$ 41,283  |
| Eurocastle                                 | 354,601                                       | —   | 4,330                                    | 42,026   |
| New Residential                            | 2,978,282                                     | —   | N/A                                      | 98,323   |
| New Media                                  | 645,157                                       | —   | N/A                                      | 35,419   |
| New Senior                                 | 1,023,817                                     | 96  | N/A                                      | 635  |
| FTAI                                       | 1,086,518                                     | 10,360  | —  | —  |

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 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
 SEPTEMBER 30, 2016  
 (dollars in tables in thousands, except share and per share data)

|  | Incentive<br>Income<br>Eligible<br>NAV (L) | Gain to<br>Cross<br>Incentive<br>Income<br>Threshold<br>(M) | Percentage<br>of<br>Incentive<br>Income<br>Eligible<br>NAV<br>Above<br>Incentive<br>Income<br>Threshold<br>(N) | Undistributed<br>Incentive<br>Income (O) | Year to<br>Date<br>Incentive<br>Income<br>Crystallized<br>(P) |
|--|--|---|--|--|---|
| Credit Hedge Funds                         |  |   |  |  |   |
| Special Opportunities Funds (S)            |  |   |  |  |   |
| Main fund investments                      | \$4,846,389                                | \$ —  | 100.0 %  | \$ 63,148                                | \$ 87   |
| Sidepocket investments (Q)                 | 33,241                                     | 28  | N/A  | 1,945                                    | —   |
| Sidepocket investments -<br>redeemers (R)  | 132,162                                    | 48,569  | N/A  | 4,109                                    | —   |
| Main fund investments (liquidating) (T)    | 736,485                                    | —   | 100.0 %  | 54,886                                   | 10,369  |
| Worden Fund                                |  |   |  |  |   |
| Main fund investments                      | 124,604                                    | —   | 100.0 %  | 862                                      | —   |
| Main fund investments<br>(liquidating) (T) | 44,587                                     | —   | 100.0 %  | 156                                      | —   |
| Fortress Japan Income Fund (Yen only)      |  |   |  |  |   |
| Main fund investments                      | 127,938                                    | N/A   | 100.0 %  | 160                                      | 351   |
| Third Party Originated Funds (U)           |  |   |  |  |   |
| Main fund investments                      | 75,110                                     | 381   | 56.0 %   | 468                                      | —   |
| Managed accounts                           | 2,046                                      | 6,851   | 49.5 %   | 66                                       | —   |
| Liquid Hedge Funds                         |  |   |  |  |   |
| Drawbridge Global Macro Funds (S)          |  |   |  |  |   |
| Sidepocket investments (Q)                 | \$ 111,915                                 | \$ 55,300   | N/A  | \$ 825                                   | \$ 12   |
| Fortress Partners Funds (S)                |  |   |  |  |   |
| Sidepocket investments (Q)                 | 47,089                                     | 3,703   | N/A  | 1,365                                    | —   |
| Logan Circle                               |  |   |  |  |   |
| Main fund investments                      | \$94,176                                   | \$ —  | 100.0 %  | \$ 382                                   | \$ —  |

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

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

Represents the contractual maturity date including the assumed exercise of all extension options, which in some

(B) 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).

For fund investors whose NAV is below the incentive income threshold, represents the gain needed for these

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

For fund investors whose NAV is below the incentive income threshold, represents the immediate increase in NAV needed for these investors for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see

(F) (J) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (I) below). For the publicly traded permanent capital vehicles, represents the immediate increase of

the entity's applicable supplemental measure of operating performance needed for Fortress to begin earning incentive income. As of September 30, 2016, as a result of Newcastle not meeting the incentive income threshold, Fortress does not expect to earn incentive income from Newcastle for an indeterminate period of time.

Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV. The undistributed incentive income amounts presented in this table are based on the

(G) estimated results of the investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles. As of September 30, 2016, a certain FCO Managed Account in its investment period, and a portion of MSR Opportunities Fund II A and Long Dated Value Fund I's capital are above their incentive income threshold.

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

Represents the amount of incentive income previously received from the fund which is still subject to contingencies

(I) and is therefore recorded on the condensed consolidated balance sheet as Deferred Incentive Income. This amount will either be recorded as revenue when all related contingencies are resolved, or, if the fund does not meet certain performance thresholds, will be returned by Fortress to the fund (i.e., "clawed back").

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

(J) portion of this incentive income that was paid to them under profit sharing arrangements. "Gross" and "Net" refer to amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. As of September 30, 2016, Fortress has no intrinsic clawback obligation for any of its private equity funds and credit PE funds.

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

Represents the portion of a fund's or managed account's NAV or trading level that is eligible to earn incentive

(L) income. For the publicly traded permanent capital vehicles, represents the equity basis that is used to calculate incentive income.

(M) Such amount represents, for those investors whose NAV is below the performance threshold the amount by which their aggregate incentive income thresholds exceed their aggregate NAVs. "Incentive income threshold" or "high

water mark" means the immediate increase in NAV needed for Fortress to begin earning incentive income. The amount by which the NAV of each investor within this category is below their respective incentive income threshold varies and, therefore, Fortress may begin earning incentive income from certain investors before this entire amount is earned back. Fortress earns incentive income whenever the assets of new investors, as well as of investors whose NAV exceeds their incentive income threshold, increase in value. For Fortress Japan Income Fund, Fortress earns incentive income based on investment income, which does not include unrealized and realized gains and losses, earned in excess of a preferred return threshold.

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

(N) incentive income threshold may vary, and may vary significantly. This percentage represents the performance of only the main fund investments and managed accounts relative to their respective incentive income thresholds. It does not incorporate the impact of unrealized losses on sidepocket investments that can reduce the amount of incentive income earned from certain funds. See footnote (Q) below.

For hedge funds, represents the amount of additional incentive income Fortress would earn from the fund or managed account if it were liquidated at the end of the period at its NAV. This amount is currently subject to performance contingencies generally until the end of the year or, in the case of sidepocket investments, until such investments are realized. Main Fund Investments (Liquidating) pay incentive income only after all capital is returned. For the Fortress Japan Income Fund, represents the amount of incentive income Fortress would earn

(O) from the fund assuming the amount of investment income earned in excess of the preferred return threshold was distributed as of the end of the period. For the Value Recovery Fund managed accounts, Fortress can earn incentive income if aggregate realizations exceed an agreed threshold. For Eurocastle and FTAI, the amount disclosed, if any, represents the amount of additional incentive income Fortress would recognize if the measurement period had occurred at the end of the reporting period. The undistributed incentive income amounts presented in this table are based on the estimated results of the investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles.

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FORTRESS INVESTMENT GROUP LLC

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

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

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

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

(S) Includes onshore and offshore funds.

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

The Third Party Originated Funds include the Value Recovery Funds and JP Funds (as defined below). Main fund (U) investments exclude certain funds which had total NAV of \$644.1 million as of September 30, 2016. Fortress began managing the third party originated Value Recovery Funds and JP Funds in June 2009 and March 2016, respectively, and generally does not expect to earn any significant incentive income from these funds.

Permanent Capital Vehicles

During the nine months ended September 30, 2016, Fortress's senior living management subsidiary (Blue Harbor) entered into agreements to manage two senior living properties which are each owned by a third party. Under these agreements, Fortress generally will receive management fees based on a percentage of revenues (as defined in the agreement) and reimbursement of certain expenses, including the compensation expense of all on-site employees. For one of the agreements, Fortress may also earn an incentive fee upon sale of the property to a third party.

Credit Hedge Funds

In March 2016, Fortress was appointed investment manager of certain third party originated funds (the "JP Funds") which are primarily focused on investing in secondary limited partnership interests. The JP Funds had \$0.7 billion in AUM as of the date of Fortress's appointment. Fortress earns management fees from the JP Funds ranging from 1.0% to 2.0% of AUM (as defined in the respective agreement), potential incentive income and reimbursement of eligible expenses.

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

### 3. INVESTMENTS AND FAIR VALUE

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

Investments can be summarized as follows:

|   | September<br>30, 2016 | December<br>31, 2015 |
|---|-----------------------|----------------------|
| Equity method and other investees               | \$ 896,007            | \$ 1,034,189         |
| Equity method investees, held at fair value (A) | 22,519                | 21,600               |
| Total investments                               | \$ 918,526            | \$ 1,055,789         |
| Options in equity method investees              | \$ 42,554             | \$ 30,427            |

(A) Includes the publicly traded private equity portfolio companies and publicly traded permanent capital vehicles.

Gains (losses) are summarized as follows:

|  | Three Months<br>Ended September<br>30, |            | Nine Months Ended<br>September 30, |            |
|--|--|------------|------------------------------------|------------|
|  | 2016                                   | 2015       | 2016                               | 2015       |
| Net realized gains (losses)                                  | \$(1,362)                              | \$ 366     | \$(2,555 )                         | \$ 1,679   |
| Net realized gains (losses) from affiliate investments (A)   | 788                                    | 156        | (16,090 )                          | 32,857     |
| Net unrealized gains (losses)                                | (3,187 )                               | (6,493 )   | (38,023 )                          | (4,893 )   |
| Net unrealized gains (losses) from affiliate investments (A) | 5,623                                  | (33,917 )  | 34,591                             | (44,757 )  |
| Total gains (losses)   | \$ 1,862                               | \$(39,888) | \$(22,077)                         | \$(15,114) |

(A) Includes the impact of the expiration of out of the money options in certain publicly traded permanent capital vehicles in 2016 and the exercise of options held in New Residential in August 2016 and June 2015.

These gains (losses) were generated as follows:

|   | Three Months<br>Ended September<br>30, |            | Nine Months Ended<br>September 30, |            |
|---|--|------------|------------------------------------|------------|
|   | 2016                                   | 2015       | 2016                               | 2015       |
| Mark to fair value on affiliate investments and options | \$ 6,005                               | \$(33,795) | \$ 17,649                          | \$(11,897) |
| Mark to fair value on derivatives                       | (3,642 )                               | (2,497 )   | (38,518 )                          | 2,520      |
| Mark to fair value on equity securities                 | —                                      | —          | —                                  | (509 )     |
| Gains (losses) on digital currency (Bitcoin)            | —                                      | (495 )     | —                                  | (1,670 )   |
| Other   | (501 )                                 | (3,101 )   | (1,208 )                           | (3,558 )   |
| Total gains (losses)                                    | \$ 1,862                               | \$(39,888) | \$(22,077)                         | \$(15,114) |



Investments

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

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

|   | Nine Months Ended September 30, 2016 |   |                                |                    |                 |                        |          |             |
|---|--------------------------------------|---|--------------------------------|--------------------|-----------------|------------------------|----------|-------------|
|   | Funds                                | Publicly Traded Portfolio Companies (A) | Permanent Capital Vehicles (A) | Credit Hedge Funds | Credit PE Funds | Liquid Hedge Funds (B) | Other    | Total       |
| Investments as of December 31, 2015                                 | \$608,728                            | \$ 1,082                                | \$ 20,518                      | \$44,804           | \$187,664       | \$170,169              | \$22,824 | \$1,055,789 |
| Earnings (losses) from equity method and other investees            | (13,652 )                            | N/A                                     | N/A                            | 3,583              | 16,039          | (8,295 )               | (95 )    | (2,420 )    |
| Other comprehensive income from equity method investees             | (1 )                                 | N/A                                     | N/A                            | —                  | —               | (228 )                 | —        | (229 )      |
| Contributions to equity method and other investees (C)              | 368                                  | 92                                      | —                              | 62,480             | 18,662          | 1,822                  | 88       | 83,512      |
| Distributions of earnings from equity method and other investees    | (310 )                               | N/A                                     | N/A                            | (1,594 )           | (17,353 )       | (412 )                 | —        | (19,669 )   |
| Distributions of capital from equity method and other investees (C) | (25,576 )                            | N/A                                     | N/A                            | (57,747 )          | (23,647 )       | (92,239 )              | (1,639 ) | (200,848 )  |
| Total distributions from equity method and other investees          | (25,886 )                            | N/A                                     | N/A                            | (59,341 )          | (41,000 )       | (92,651 )              | (1,639 ) | (220,517 )  |
| Mark to fair value - during period (D)                              | 1,603                                | 46                                      | 1,657                          | N/A                | N/A             | N/A                    | 299      | 3,605       |
| Net purchases (sales) of investments by consolidated funds          | —                                    | N/A                                     | N/A                            | —                  | —               | —                      | (5,758 ) | (5,758 )    |
| Translation adjustment  | 568                                  | —                                       | 57                             | —                  | 3,192           | —                      | —        | 3,817       |
| Dispositions  | —                                    | (933 )                                  | —                              | —                  | —               | —                      | —        | (933 )      |
| Reclassification to Due to Affiliates (E)                           | 1,660                                | N/A                                     | N/A                            | —                  | —               | —                      | —        | 1,660       |
| Investments as of September 30, 2016                                | \$573,388                            | \$ 287                                  | \$ 22,232                      | \$51,526           | \$184,557       | \$70,817               | \$15,719 | \$918,526   |
|   | \$19,784                             | N/A                                     | N/A                            | \$5,448            | \$10,037        | \$3,520                | \$3      | \$38,792    |

Undistributed earnings -  
September 30, 2016

(A) Fortress elected to record the common shares held in the publicly traded private equity portfolio companies and publicly traded permanent capital vehicles, at fair value pursuant to the fair value option for financial instruments.

(B) Includes Fortress's investment in the Affiliated Manager.

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

|  | Nine Months Ended September<br>30, 2016 |                          |
|--|---|--------------------------|
|  | Contributions                           | Distributions of Capital |
| Per Condensed Consolidated Statement of Cash Flows         | \$ 14,909                               | \$ (193,720 )            |
| Incentive income invested into the Fortress Funds          | 64,222                                  | —                        |
| Change in distributions receivable from the Fortress Funds | —                                       | (68 )                    |
| Net funded*  | 4,083                                   | (4,083 )                 |
| Other  | 298                                     | (2,977 )                 |
| Per Above  | \$ 83,512                               | \$ (200,848 )            |

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

(D) Recorded to Gains (Losses).

(E) Represents a portion of the general partner liability (Note 9).

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

|   | Private Equity Funds<br>(A)                |             | Credit Hedge Funds                         |            |
|---|--|-------------|--|------------|
|   | Nine Months Ended<br>September 30,<br>2016 | 2015        | Nine Months Ended<br>September 30,<br>2016 | 2015       |
| Revenues and gains (losses) on investments                | \$711,526                                  | \$(773,727) | \$717,982                                  | \$598,528  |
| Expenses  | (120,186 )                                 | (124,947 )  | (314,145 )                                 | (305,714 ) |
| Net Income (Loss)   | \$591,340                                  | \$(898,674) | \$403,837                                  | \$292,814  |
| Fortress's earnings (losses) from equity method investees | \$(13,652 )                                | \$(24,620 ) | \$3,583                                    | \$3,446    |

|   | Credit PE Funds (A)(C)                     |            | Liquid Hedge Funds<br>(B)                  |             |
|---|--|------------|--|-------------|
|   | Nine Months Ended<br>September 30,<br>2016 | 2015       | Nine Months Ended<br>September 30,<br>2016 | 2015        |
| Revenues and gains (losses) on investments                | \$1,234,229                                | \$988,406  | \$81,321                                   | \$(216,942) |
| Expenses  | (216,592 )                                 | (225,532 ) | (114,871 )                                 | (171,070 )  |
| Net Income (Loss)   | \$1,017,637                                | \$762,874  | \$(33,550)                                 | \$(388,012) |
| Fortress's earnings (losses) from equity method investees | \$16,039                                   | \$9,742    | \$(8,295 )                                 | \$(4,929 )  |

(A) For private equity funds, includes four entities which are recorded on a one quarter lag (i.e. current year balances reflected for these entities are for the nine months ended June 30, 2016). For credit PE funds, includes one entity which is recorded on a one quarter lag and several entities which are recorded on a one month lag. They are recorded on a lag, as permitted, because they are foreign entities, or they have substantial operations in foreign countries, and do not provide financial reports under GAAP within the reporting time frame necessary for U.S. public entities.

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

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

#### Other Assets

In August 2016, Fortress provided a \$25.0 million senior secured loan to an alternative investment manager. The loan bears interest at an annual rate equal to LIBOR plus 6.0% (LIBOR plus 8.0% in the event of default) and interest is payable monthly in arrears. The loan matures in August 2021 but is also subject to mandatory partial prepayments based on certain financial conditions being met by the borrower. The loan is collateralized by certain assets of the borrower and is guaranteed by the principal owner of the investment manager. During the three months ended September 30, 2016, Fortress received principal payments of \$10.9 million. As of September 30, 2016, the carrying value of the loan was \$14.2 million including accrued interest and is included in other assets on the condensed

consolidated balance sheet. Fortress recognized \$0.2 million of interest income related to the loan for the three months and nine months ended September 30, 2016. Subsequent to September 30, 2016, Fortress received additional principal payments of \$4.3 million.

#### Investments in Variable Interest Entities and Other Unconsolidated Entities

All of Fortress's interests in unconsolidated entities relate to (i) entities in which Fortress has an investment, which are included on the condensed consolidated balance sheet, and/or (ii) entities from which Fortress earns fees, which are included in revenues and described in Note 2. These entities are primarily Fortress Funds which are voting interest entities ("VOEs") and provide their limited partners or members unrelated to Fortress with the substantive ability to liquidate the Fortress Fund or otherwise remove Fortress as the general partner and/or manager or co-manager.

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The following tables set forth certain information as of September 30, 2016 regarding entities initially classified as variable interest entities ("VIEs") during the nine months ended September 30, 2016 in which Fortress held variable interests:

| Business           | Fortress is not Primary Beneficiary |                  |                           | Fortress Investment (B) | Notes |
|--------------------|-------------------------------------|------------------|---------------------------|-------------------------|-------|
|                    | Number of VIEs                      | Gross Assets (A) | Financial Obligations (A) |                         |       |
| Credit Hedge Funds | 1                                   | 72,126           | 48,513                    | 14,213                  | (D)   |
| Credit PE Funds    | 5                                   | 85,086           | —                         | 906                     | (D)   |

The following tables set forth certain information regarding all variable interest entities in which Fortress held a variable interest as of September 30, 2016 and December 31, 2015.

| Business                   | Fortress is not Primary Beneficiary |                |                  | December 31, 2015         |                         |                | Notes      |                  |                           |
|----------------------------|-------------------------------------|----------------|------------------|---------------------------|-------------------------|----------------|------------|------------------|---------------------------|
|                            | September 30, 2016                  | Number of VIEs | Gross Assets (A) | Financial Obligations (A) | Fortress Investment (B) | Number of VIEs |            | Gross Assets (A) | Financial Obligations (A) |
| Private Equity Funds       | 1                                   | \$1,111,703    | \$ —             | \$ 7,739                  | 1                       | \$136,129      | \$ —       | \$ 1,959         | (D)                       |
| Permanent Capital Vehicles | 6                                   | 26,688,418     | 17,331,130       | 9,356                     | 6                       | 23,618,598     | 15,581,168 | 114,228          | (C)                       |
| Credit Hedge Funds         | 4                                   | 1,891,573      | 474,861          | 17,459                    | 8                       | 1,912,019      | 426,988    | 5,405            | (D) (E)                   |
| Credit PE Funds            | 35                                  | 1,093,041      | 285,562          | 13,316                    | 35                      | 990,008        | 232,082    | 9,659            | (D) (E)                   |
| Liquid Hedge Funds         | 3                                   | 245,836        | —                | 24,753                    | 4                       | 364,535        | 1,270      | 39,192           | (D) (E)                   |

| Business             | Fortress is Primary Beneficiary |                |                  | December 31, 2015         |                         |                | Notes |                  |                           |
|----------------------|---------------------------------|----------------|------------------|---------------------------|-------------------------|----------------|-------|------------------|---------------------------|
|                      | September 30, 2016              | Number of VIEs | Gross Assets (A) | Financial Obligations (A) | Fortress Investment (B) | Number of VIEs |       | Gross Assets (A) | Financial Obligations (A) |
| Private Equity Funds | 2                               | \$46,048       | \$ —             | \$ 20,512                 | 9                       | \$71,277       | \$ —  | \$ 18,666        | (F) (G)                   |
| Credit PE Funds      | 1                               | 400            | —                | 20                        | 2                       | 400            | —     | 20               | (F)                       |
| Liquid Hedge Funds   | 1                               | 4,418          | —                | 2,051                     | 1                       | 6,126          | —     | 2,821            | (F)                       |
| Logan Circle         | —                               | —              | —                | —                         | 1                       | 4,468          | —     | 4,317            | (F)                       |

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

- Represents Fortress's maximum exposure to loss with respect to these entities, which includes investments in these entities, plus any receivables due from these entities. In addition to the table above, Fortress is exposed to potential
- (B) changes in cash flow and revenues attributable to the management fees and/or incentive income Fortress earns from those entities. For VIEs where Fortress is deemed to be the primary beneficiary, these investments and receivables are eliminated in consolidation but still represent Fortress's economic exposure to the VIEs. Includes permanent capital vehicles that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because the group of at-risk equity holders does not have the
- (C) power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance. Fortress is not the primary beneficiary of these entities. Fortress and its related parties under common control as a group, where applicable, do not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to these entities. Includes entities, primarily investing vehicles set up on behalf of the Fortress Funds to make investments, that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because either (i) the group of at-risk equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's
- (D) economic performance and/or (ii) the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity's activities either involve or are conducted on behalf of that investor and its related parties. Fortress is not the primary beneficiary of these entities. Fortress and its related parties under common control as a group, where applicable, do not have the obligation to absorb losses or the right to receive benefits that could

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potentially be significant to these entities. During the nine months ended September 30, 2016, five credit hedge fund entities, five credit PE fund entities and a liquid hedge fund entity were liquidated.

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

Includes entities that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because either (i) the group of at-risk equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance and/or (ii) the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity's activities either involve or are conducted on behalf of that investor and its related parties. Fortress is the investment manager of these entities.

(F) Fortress is determined to be the primary beneficiary of these entities since it has both power over the activities that most significantly affect the success of the entity or impact the entity's economic performance and has the right to receive benefits or the obligation to absorb losses from the VIE that potentially could be significant to the entity. During the nine months ended September 30, 2016, a reconsideration event occurred at seven private equity fund entities and a Logan Circle entity whereby these entities no longer qualified as a VIE. As such, the entities were deemed to be a VOE and Fortress continued to consolidate them since the entities no longer had third party capital. Subsequently, these private equity fund entities and the Logan Circle entity were liquidated. During the nine months ended September 30, 2016, a credit PE fund entity was liquidated.

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

## Fair Value of Financial Instruments

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

|  | Fair Value         |                   | Valuation Method  |
|--|--------------------|-------------------|---|
|  | September 30, 2016 | December 31, 2015 |   |
| Assets (within Investments)  |                    |                   |   |
| Common shares of publicly traded permanent capital vehicles        | \$22,232           | \$20,518          | Level 1 - Quoted prices in active markets for identical assets        |
| Common stock of publicly traded private equity portfolio companies | 287                | 1,082             | Level 1 - Quoted prices in active markets for identical assets        |
| Total equity method investments carried at fair value              | \$22,519           | \$21,600          |   |
| Options in equity method investees                                 | \$42,554           | \$30,427          | Level 2 - Option valuation models using significant observable inputs |
| Assets (within Other assets and Due from affiliates)               |                    |                   |   |
| Derivatives  | \$1,745            | \$22,146          | Level 2 - See below   |



Liabilities (within Accrued compensation and benefits)

|  |            |            |   |
|--|------------|------------|---|
| Options in affiliates granted to employees | \$(3,053 ) | \$(3,010 ) | Level 2 - Option valuation models using significant observable inputs |
|--|------------|------------|---|

Liabilities (within Other liabilities and Due to affiliates)

|             |            |            |                     |
|-------------|------------|------------|---------------------|
| Derivatives | \$(18,065) | \$(2,201 ) | Level 2 - See below |
|-------------|------------|------------|---------------------|

See Note 4 regarding the fair value of outstanding debt.

In August 2016, New Residential issued 20.0 million shares of its common stock in an offering at a price to the public of \$14.20 per share. In connection with this offering, New Residential compensated Fortress for its successful efforts in raising capital for New Residential by granting options to Fortress to purchase 2.0 million shares of New Residential's common stock at \$14.20, which were valued at \$2.3 million as of the grant date. The options were fully vested upon issuance, become exercisable over

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thirty months and have a ten-year term. In addition, in August 2016 certain Fortress employees exercised 1.1 million of their tandem options, and Fortress simultaneously exercised 1.1 million of its options, held in New Residential.

### Derivatives

Fortress uses derivative instruments to manage its foreign currency risk. Fortress enters into foreign exchange forward contracts and options to economically hedge the risk of fluctuations in foreign exchange rates with respect to certain foreign currency denominated assets and expected revenues. Gains and losses on these contracts are reported currently in Gains (Losses).

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

The following tables summarize the fair value of Fortress's derivative contracts on a gross basis and any amount of offset as permitted by netting agreements as of September 30, 2016.

|                                    | Gross<br>Amounts of<br>Recognized<br>Assets as of | Gross<br>Amounts<br>Offset in the<br>Condensed<br>Consolidated<br>Balance<br>Sheet as of | Net Amounts<br>of Assets<br>Presented in<br>the<br>Condensed<br>Consolidated<br>Balance Sheet<br>as of | Cash<br>Collateral<br>Received as<br>of | Net Amount<br>as of   |
|------------------------------------|---|--|--|---|-----------------------|
|                                    | September 30,<br>2016                             | September<br>30, 2016  | September 30,<br>2016  | September 30,<br>2016                   | September 30,<br>2016 |
| Offsetting of Derivative Assets    |   |  |  |   |                       |
| Foreign exchange option contracts  | \$ 1,666  | \$ (889 )  | \$ 777   | \$                                      | —\$ 777               |
| Foreign exchange forward contracts | 968   | —  | 968  | —                                       | 968                   |
|                                    | \$ 2,634  | \$ (889 )  | \$ 1,745   | \$                                      | —\$ 1,745             |

|                                      | Gross<br>Amounts of<br>Recognized<br>Liabilities as<br>of | Gross<br>Amounts<br>Offset in the<br>Condensed<br>Consolidated<br>Balance<br>Sheet as of | Net Amounts<br>of Liabilities<br>Presented in<br>the<br>Condensed<br>Consolidated<br>Balance Sheet<br>as of | Cash<br>Collateral<br>Pledged as of | Net Amount<br>as of   |
|--------------------------------------|---|--|---|-------------------------------------|-----------------------|
|                                      | September 30,<br>2016                                     | September<br>30, 2016  | September<br>30, 2016   | September<br>30, 2016               | September<br>30, 2016 |
| Offsetting of Derivative Liabilities |   |  |   |                                     |                       |
| Foreign exchange option contracts    | \$ (13,116 )  | \$ 1,162   | \$ (11,954 )  | \$                                  | —\$ (11,954 )         |
| Foreign exchange forward contracts   | (6,111 )  | —  | (6,111 )  | —                                   | (6,111 )              |

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\$ (19,227 ) \$ 1,162 \$ (18,065 ) \$ —\$ (18,065 )

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

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

|  | Balance Sheet Classification | September 30, 2016 (or nine months ended) |                 |                    | Maturity Date |
|--|------------------------------|---|-----------------|--------------------|---------------|
|  |                              | Fair Value                                | Notional Amount | Gains/(Losses) (B) |               |
| Foreign exchange option contracts (JPY) (A)  | Other assets                 | \$777                                     | \$148,079       | \$ (9,187 )        | Dec 16-Mar 17 |
| Foreign exchange option contracts (JPY) (A)  | Other liabilities            | \$(11,954)                                | \$217,379       | \$ (13,678 )       | Dec 16-Feb 19 |
| Foreign exchange forward contracts (JPY) (A) | Other assets                 | \$9                                       | \$901           | \$ 9               | Dec 16        |
| Foreign exchange forward contracts (JPY) (A) | Other liabilities            | \$(6,075 )                                | \$164,783       | \$ (6,122 )        | Dec 16-Jun 19 |
| Foreign exchange forward contracts (JPY)     | Due from affiliates          | \$923                                     | \$79,287        | \$ 923             | Jun 17        |
| Foreign exchange forward contracts (CAD) (A) | Other assets                 | \$36                                      | \$107,352       | \$ 36              | Dec 16        |
| Foreign exchange forward contracts (CAD)     | Due to affiliates            | \$(36 )                                   | \$107,352       | \$ (36 )           | Dec 16        |

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

(B) Reflects unrealized gains (losses) for the nine months ended September 30, 2016 related to contracts outstanding at period end.

Fortress's average gross notional amount outstanding for the nine months ended September 30, 2016 was \$838.4 million, of which \$475.3 million relates to foreign exchange (JPY) derivative contracts used to economically hedge future estimated incentive income.

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## 4. DEBT OBLIGATIONS

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

| Debt Obligation                   | Face Amount and Carrying Value |                   | Contractual Interest Rate | Final Stated Maturity | September 30, 2016 Amount Available for Draws |
|-----------------------------------|--------------------------------|-------------------|---------------------------|-----------------------|---|
|                                   | September 30, 2016             | December 31, 2015 |                           |                       |   |
| Revolving credit agreement (A)(B) | \$ 105,000                     | \$ 75,000         | LIBOR + 1.75% (C)         | Jan 2021              | \$ 167,332                                    |
| Promissory note (D)               | 77,838                         | 155,677           | 5.00%                     | Nov 2017              | N/A   |
| Total                             | \$ 182,838                     | \$ 230,677        |                           |                       |   |

(A) The 2016 Credit Agreement is not collateralized by any assets of Fortress.

(B) The \$275.0 million revolving debt facility includes a \$15.0 million letter of credit subfacility of which \$2.7 million was utilized as of September 30, 2016.

(C) Subject to unused commitment fees of 0.25% per annum.

Issued to a former Principal in exchange for his Fortress Operating Group units and Class B shares in Fortress.

(D) During the third quarter of 2016, Fortress prepaid \$77.8 million of principal which was originally due in November 2016.

Management believes the fair value of its outstanding debt was \$184.0 million as of September 30, 2016 (classified as a level 3 valuation, which is based on internal models using discounted future contractual cash flows and market interest rates).

Fortress was in compliance with all of its debt covenants as of September 30, 2016. The following table sets forth the financial covenant requirements as of September 30, 2016.

|                                      | September 30, 2016<br>(dollars in millions) |           |       |
|--------------------------------------|---|-----------|-------|
|                                      | Requirement                                 | Actual    | Notes |
| AUM, as defined                      | \$ 30,000                                   | \$ 44,771 | (A)   |
| Consolidated Leverage Ratio          | ≤ 5.0                                       | 0.55      | (B)   |
| Consolidated Interest Coverage Ratio | ≥ 4.00                                      | 29.36     | (B)   |

(A)

Impacted by capital raised in funds, redemptions from funds, and valuations of fund investments. The AUM presented here is based on the definition of Management Fee Earning Assets contained in the 2016 Credit Agreement.

The Consolidated Leverage Ratio is equal to Adjusted Net Funded Indebtedness, as defined, divided by the trailing four quarters' Consolidated EBITDA, as defined. The Consolidated Interest Coverage Ratio is equal to the quotient of (A) the trailing four quarters' Consolidated EBITDA, as defined, divided by (B) the trailing four quarters' interest charges as defined in the 2016 Credit Agreement. Consolidated EBITDA, as defined, is impacted by the same factors as distributable earnings, except Consolidated EBITDA is not impacted by changes in clawback reserves (except when paid) or gains and losses, including impairment, on investments.

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## 5. INCOME TAXES AND TAX RELATED PAYMENTS

Fortress is a publicly traded partnership and has a wholly owned corporate subsidiary. Accordingly, a substantial portion of Fortress's income related to Class A shares is earned by the corporate subsidiary and subject to U.S. federal and state income taxation, taxed at prevailing rates. The remainder of Fortress's income is allocated directly to its shareholders and is not subject to a corporate level of taxation.

The provision for income taxes consists of the following:

|  | Three Months<br>Ended September<br>30,<br>2016 |          | Nine Months<br>Ended September<br>30,<br>2015 |          |
|--|--|----------|---|----------|
| Current                                      |  |          |   |          |
| Federal income tax expense (benefit)         | \$(8,865)                                      | \$12,720 | \$(9,843)                                     | \$11,993 |
| Foreign income tax expense (benefit)         | 2,683  | 1,089    | 10,768  | 7,759    |
| State and local income tax expense (benefit) | 1,993  | 9        | 1,935   | 2,818    |
|  | (4,189)  | 13,818   | 2,860   | 22,570   |
| Deferred                                     |  |          |   |          |
| Federal income tax expense (benefit)         | 10,187   | (9,222)  | 6,652   | 1,612    |
| Foreign income tax expense (benefit)         | (90)   | 52       | 1,836   | 3,517    |
| State and local income tax expense (benefit) | 1,100  | (1,064)  | 515   | (10,915) |
|  | 11,197   | (10,234) | 9,003   | (5,786)  |
| Total expense (benefit)                      | \$7,008  | \$3,584  | \$11,863                                      | \$16,784 |

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

|                              | September<br>30, 2016 | December<br>31, 2015 |
|------------------------------|-----------------------|----------------------|
| Gross deferred tax assets    | \$468,879             | \$469,759            |
| Less:                        |                       |                      |
| Valuation allowance          | (40,674)              | (39,616)             |
| Deferred tax liabilities (A) | (5,968)               | (3,041)              |
| Deferred tax assets, net     | \$422,237             | \$427,102            |

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

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

|   |          |
|---|----------|
| Valuation allowance at December 31, 2015  | \$39,616 |
| Changes due to FIG Corp. ownership change | 217      |
| Net increases (A)                         | 841      |
| Valuation allowance at September 30, 2016 | \$40,674 |

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

For the nine months ended September 30, 2016, a net deferred income tax provision of \$1.2 million was recorded as a credit to other comprehensive income, primarily related to foreign currency translation. For the nine months ended September 30, 2016, a current income tax benefit of \$0.7 million was recorded as a credit to paid-in capital, related to dividend equivalent payments on RSUs (Note 8), as applicable, which are currently deductible for income tax purposes.

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For the nine months ended September 30, 2016, changes in FIG Corp.'s ownership and other items resulted in an increase to deferred tax assets of \$1.4 million with an offsetting increase to the valuation allowance of \$0.2 million. The net increase in deferred tax assets was recorded as a credit to paid-in capital.

Based on the value of RSUs which vested and were delivered during the nine months ended September 30, 2016, Fortress has a tax shortfall of \$2.5 million which was recorded as a credit to income taxes payable and a debit to paid-in capital. For the nine months ended September 30, 2015, Fortress recorded \$4.5 million as additional paid-in capital for excess tax benefits from RSUs delivered during the period and as a financing activity on the condensed consolidated statement of cash flows.

#### Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the nine months ended September 30, 2016, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be \$18.5 million. In addition, during the nine months ended September 30, 2016, the realization of certain tax benefits gave rise to a \$2.7 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 |                            |                    |           |                    |              |           | Total      |
|--|----------------|----------------------------|--------------------|-----------|--------------------|--------------|-----------|------------|
|  | Funds          | Permanent Capital Vehicles | Credit Hedge Funds | PE Funds  | Liquid Hedge Funds | Logan Circle | Other (B) |            |
| September 30, 2016                       |                |                            |                    |           |                    |              |           |            |
| Management fees and incentive income (A) | \$46,448       | \$ 22,748                  | \$ 7,684           | \$ 20,157 | \$ 2               | \$ 464       | \$—       | \$ 97,503  |
| Expense reimbursements (A)               | 34,164         | 8,530                      | 11,411             | 15,442    | 1,152              | 113          | —         | 70,812     |
| Dividends and distributions              | —              | 804                        | —                  | —         | —                  | —            | —         | 804        |
| Other                                    | —              | 2,488                      | —                  | —         | —                  | —            | 17,854    | 20,342     |
| Total                                    | \$ 80,612      | \$ 34,570                  | \$ 19,095          | \$ 35,599 | \$ 1,154           | \$ 577       | \$ 17,854 | \$ 189,461 |

|  | Private Equity |                            |                    |           |                    |              |           | Total      |
|--|----------------|----------------------------|--------------------|-----------|--------------------|--------------|-----------|------------|
|  | Funds          | Permanent Capital Vehicles | Credit Hedge Funds | PE Funds  | Liquid Hedge Funds | Logan Circle | Other (B) |            |
| December 31, 2015                        |                |                            |                    |           |                    |              |           |            |
| Management fees and incentive income (A) | \$41,706       | \$ 49,578                  | \$ 55,864          | \$ 20,540 | \$ 5,880           | \$ 452       | \$—       | \$ 174,020 |



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|                             |          |           |          |          |         |        |          |           |
|-----------------------------|----------|-----------|----------|----------|---------|--------|----------|-----------|
| Expense reimbursements (A)  | 35,982   | 11,052    | 13,250   | 16,006   | 1,867   | 129    | —        | 78,286    |
| Dividends and distributions | —        | 270       | —        | —        | —       | —      | —        | 270       |
| Other                       | —        | 2,383     | —        | —        | —       | —      | 18,852   | 21,235    |
| Total                       | \$77,688 | \$ 63,283 | \$69,114 | \$36,546 | \$7,747 | \$ 581 | \$18,852 | \$273,811 |

Net of allowances for uncollectible management fees and expense reimbursements of \$12.2 million and \$6.6 (A) million as of September 30, 2016, respectively, and of \$12.2 million and \$6.8 million as of December 31, 2015, respectively. Allowances are recorded as General and Administrative expenses.

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

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As of September 30, 2016, amounts due from Fortress Funds recorded in Due from Affiliates included \$43.5 million of past due management fees and \$11.0 million of private equity general and administrative expenses advanced on behalf of a certain Fortress Fund. Although such fund is currently experiencing a liquidity issue, the past due amounts represent less than 6% of such fund's NAV and Fortress believes these fees and reimbursable expenses will ultimately be collected.

As of September 30, 2016, past due amounts recorded in Due from Affiliates also includes \$12.2 million in management fees and \$6.6 million in private equity general and administrative expenses due from another Fortress Fund, which Fortress has fully reserved.

Due to affiliates was comprised of the following:

|  | September<br>30, 2016 | December<br>31, 2015 |
|--|-----------------------|----------------------|
| Principals - tax receivable agreement - Note 5                   | \$ 267,617            | \$ 264,625           |
| Principals - Principal Performance Payments - Note 7             | 23,956                | 42,234               |
| Distributions payable on Fortress Operating Group units - Note 8 | 3,980                 | 7,739                |
| Other  | 16,828                | 4,360                |
| General partner liability - Note 9                               | 47,920                | 46,260               |
| Total  | \$ 360,301            | \$ 365,218           |

#### Other Related Party Transactions

For the nine months ended September 30, 2016 and 2015, Other Revenues included \$4.1 million and \$2.8 million, respectively, of revenues from affiliates, primarily interest and dividends.

During 2016, Fortress advanced \$2.3 million to senior employees who are not an officer of Fortress. The advances bear interest at rates up to LIBOR+4%. All principal and interest is due and payable no later than February 2020. In addition, during the nine months ended September 30, 2016, four senior employees repaid advances aggregating \$2.2 million.

In February 2016, Fortress entered into a sale agreement with Graticule for the sale of certain software and technology-related assets for \$1.7 million in cash with \$1.1 million received by Fortress at closing and an additional \$0.6 million to be received in February 2017. Fortress may also receive an additional cash payment of \$0.5 million (for a total of \$1.1 million of potential additional consideration) in February 2017, subject to certain conditions. This resulted in a \$1.7 million gain included in gains (losses) on the condensed consolidated statement of operations for the nine months ended September 30, 2016.

#### 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:

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|   | September<br>30, 2016 | December<br>31, 2015 |
|---|-----------------------|----------------------|
| Fortress Operating Group units held by the Principals and a former senior employee (see Note 8) | \$241,354             | \$307,539            |
| Employee interests in majority owned and controlled fund advisor and general partner entities   | 24,607                | 61,833               |
| Other   | 1,279                 | 1,747                |
| Total   | \$267,240             | \$371,119            |

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

|   | September<br>30, 2016 | December<br>31, 2015 |
|---|-----------------------|----------------------|
| Fortress Operating Group equity   | \$576,534             | \$764,429            |
| Less: Others' interests in equity of consolidated subsidiaries  | (25,886 )             | (63,580 )            |
| Total Fortress shareholders' equity in Fortress Operating Group   | \$550,648             | \$700,849            |
| Fortress Operating Group units outstanding (A)  | 169,207,335           | 169,514,478          |
| Class A shares outstanding  | 216,839,627           | 216,790,409          |
| Total   | 386,046,962           | 386,304,887          |
| Fortress Operating Group units as a percent of total (B)  | 43.8 %                | 43.9 %               |
| Equity of Fortress Operating Group units held by the Principals and a former senior employee (see Note 8) | \$241,354             | \$307,539            |

(A) Held by the Principals and a former senior employee (see Note 8); exclusive of Class A shares.

(B) As a result, the Registrant owned 56.2% and 56.1% of Fortress Operating Group as of September 30, 2016 and December 31, 2015, respectively.

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

|   | Three Months<br>Ended September<br>30,<br>2016 |            | Nine Months<br>Ended September<br>30,<br>2015 |          |
|---|--|------------|---|----------|
| Fortress Operating Group units held by the Principals and a former senior employee            | \$27,099                                       | \$(11,642) | \$6,728                                       | \$41,318 |
| Employee interests in majority owned and controlled fund advisor and general partner entities | 100  | (69 )      | 907   | 970      |
| Other   | (18 )  | (16 )      | (26 )   | (139 )   |
| Total   | \$27,181                                       | \$(11,727) | \$7,609                                       | \$42,149 |

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

|  | Three Months Ended<br>September 30,<br>2016 |            | Nine Months Ended<br>September 30,<br>2015 |          |
|--|---|------------|--|----------|
| Fortress Operating Group net income (loss)   | \$61,825                                    | \$(22,824) | \$16,112                                   | \$79,870 |
| Adjust:  |   |            |  |          |
| Others' interests in net (income) loss of consolidated subsidiaries                | (82 )                                       | 85         | (881 )                                     | (831 )   |
| Redeemable Non-controlling interests in (income) loss of consolidated subsidiaries | —   | —          | —  | 6        |

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|  |          |            |          |          |
|--|----------|------------|----------|----------|
| Total Fortress shareholders' net income (loss) in Fortress Operating Group                             | \$61,743 | \$(22,739) | \$15,231 | \$79,045 |
| Fortress Operating Group as a percent of total (A)   | 43.9     | % 51.2     | % 44.2   | % 52.3   |
| Fortress Operating Group net income (loss) attributable to the Principals and a former senior employee | \$27,099 | \$(11,642) | \$6,728  | \$41,318 |

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

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

|   | Three Months<br>Ended September<br>30,<br>2016 |            | Nine Months<br>Ended September<br>30,<br>2015 |          |
|---|--|------------|---|----------|
| Transfers (to) from the Principals' and Others' Interests:  |  |            |   |          |
| Increase in Fortress's shareholders' equity for the delivery of Class A shares primarily in connection with vested RSUs                   | \$—  | \$53       | \$3,559                                       | \$8,417  |
| Decrease in Fortress's shareholders' equity for the repurchase and cancellation of Class A shares and FOGUs                               | —  | —          | (3,708)                                       | —        |
| Dilution impact of equity transactions  | —  | 53         | (149)   | 8,417    |
| Increase in Fortress's shareholders' equity for the conversion of Fortress Operating Group units by a former senior employee (see Note 8) | 434  | —          | 434   | —        |
| Total transfers (to) from the Principals' and Others' Interests   | 434  | 53         | 285   | 8,417    |
| Net income (loss) attributable to Class A shareholders  | 31,162   | (14,245)   | 8,191   | 23,784   |
| Change from transfers (to) from the Principals' and Others' Interests and from net income (loss) attributable to Fortress                 | \$31,596                                       | \$(14,192) | \$8,476                                       | \$32,201 |

## 7. EQUITY-BASED AND OTHER COMPENSATION

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

|                                      | Three Months<br>Ended September<br>30,<br>2016 |           | Nine Months Ended<br>September 30,<br>2015 |           |
|--------------------------------------|--|-----------|--|-----------|
| Equity-based compensation, per below | \$6,689  | \$7,174   | \$21,618                                   | \$32,562  |
| Profit-sharing expense, per below    | 56,670   | 39,557    | 148,757                                    | 145,816   |
| Discretionary bonuses                | 59,212   | 54,475    | 179,144                                    | 175,292   |
| Other payroll, taxes and benefits    | 61,588   | 67,821    | 190,124                                    | 193,353   |
|                                      | \$184,159                                      | \$169,027 | \$539,643                                  | \$547,023 |

### Equity-Based Compensation

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

| RSUs      |              | Non-Employees |              |
|-----------|--------------|---------------|--------------|
| Employees |              |               |              |
| Number    | Value<br>(A) | Number        | Value<br>(A) |

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|                                       |              |        |           |        |
|---------------------------------------|--------------|--------|-----------|--------|
| Outstanding at December 31, 2015      | 20,927,169   | \$6.66 | 322,278   | \$6.74 |
| Issued                                | 2,670,695    | \$3.56 | —         | —      |
| Transfers                             | —            | —      | —         | —      |
| Converted                             | (5,894,609 ) | \$6.13 | (131,884) | \$7.38 |
| Forfeited                             | (259,252 )   | \$5.92 | (141,423) | 4.56   |
| Outstanding at September 30, 2016 (B) | 17,444,003   | \$6.37 | 48,971    | \$7.61 |

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|   | Three Months<br>Ended<br>September 30,<br>2016 |         | Nine Months<br>Ended September<br>30,<br>2015 |          |
|---|--|---------|---|----------|
| Expense incurred (B)                    |  |         |   |          |
| Employee RSUs                           | \$6,139  | \$5,831 | \$19,177                                      | \$24,653 |
| Non-employee RSUs                       | (227 )   | 24      | (160 )  | 1,088    |
| Principal Performance Payments (C)      | 741  | 1,294   | 2,494   | 6,796    |
| Restricted shares (D)                   | 36   | 25      | 107   | 25       |
| Total equity-based compensation expense | \$6,689  | \$7,174 | \$21,618                                      | \$32,562 |

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

(B) In future periods, Fortress will further recognize compensation expense on its non-vested equity based awards outstanding as of September 30, 2016 of \$64.5 million, with a weighted average recognition period of 3.6 years.

(C) Represents expense associated with RSUs awarded for Principal Performance Payments in relation to 2013, 2014 and 2015. These RSUs vest ratably over a period of three years. Based on 2016 performance to date, no equity awards would be granted for Principal Performance Payments related to 2016.

(D) Represents expense associated with restricted shares granted to a director during 2015. These restricted shares will vest over a period of two years.

Fortress's management reviewed the estimated forfeiture factor as of September 30, 2016 and, based on the actual forfeiture rate incurred and the remaining vesting period of certain grants, determined that the forfeiture assumptions for certain grants required adjustment. The result of these changes in estimates did not materially impact equity-based compensation expense.

During the nine months ended September 30, 2016, Fortress granted 2.2 million non-dividend paying RSUs to its employees valued at an aggregate of \$7.5 million on the respective grant dates. These RSUs vest over a period of three years.

In February 2016, Fortress awarded 0.5 million dividend paying RSUs as Principal Performance Payments based on 2015 results valued at an aggregate of \$2.0 million on the grant date. These RSUs vest over a period of three years.

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

|                           | Nine Months Ended<br>September 30, 2016 |                   |          |
|---------------------------|---|-------------------|----------|
|                           | Equity-Based<br>Compensation<br>Expense | Profit<br>Sharing | Total    |
| Private equity businesses | \$763                                   | \$5,869           | \$6,632  |
| Credit businesses         | 1,731                                   | 18,087            | 19,818   |
| Total                     | \$2,494                                 | \$23,956          | \$26,450 |



Subsequent to September 30, 2016, each of the Principals executed new employment agreements with Fortress. These agreements create new five-year employment terms running from January 1, 2017 through December 31, 2021, and are on the same economic and other terms as the current employment agreements. The term of the Principals' current employment agreements expires on December 31, 2016. The Fortress Board of Directors also approved certain amendments to the Principal Compensation Plan that (i) removes the vesting requirement for future issuances of equity under the plan, which means that any future equity based payments to Principals will be made in the form of Class A shares rather than RSUs and (ii) provides that all awards relating to 2017 and after will be based on 20% of fund management distributable earnings regardless of whether a Principal sponsors a fund or is the named Chief Investment Officer of the fund.

In April 2010, in connection with the acquisition of Logan Circle, Fortress created the Logan Circle Comp Plan, as amended. The Logan Circle Comp Plan provides for annual bonuses which may be paid partially in RSUs, as well as for potential Class A share awards to certain employees related to the years 2016 and 2017. These awards are annual performance-based awards and depend on the future performance of Logan Circle in the specific years to which they relate. Furthermore, the amounts of RSUs or shares to be awarded are not fixed until the respective year is completed. As such, these awards would be expensed over the related service period. If Logan Circle meets the future performance targets under this plan, the amounts to be awarded could be significant. Through September 30, 2016, no compensation expense was recognized under this plan as the satisfaction of the performance condition and granting of the award were not considered to be probable.

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## Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

|                                    | Three Months<br>Ended September<br>30, |          | Nine Months Ended<br>September 30, |           |
|------------------------------------|--|----------|------------------------------------|-----------|
|                                    | 2016                                   | 2015     | 2016                               | 2015      |
| Private equity funds               | \$—                                    | \$—      | \$—                                | \$—       |
| Permanent capital vehicles (A)     | 2,550                                  | (4,080 ) | 10,040                             | 4,881     |
| Credit hedge funds                 | 15,964                                 | 1,251    | 30,133                             | 31,384    |
| Credit PE funds                    | 28,047                                 | 34,424   | 83,943                             | 79,989    |
| Liquid hedge funds                 | 131                                    | 325      | 685                                | 1,673     |
| Principal Performance Payments (B) | 9,978                                  | 7,637    | 23,956                             | 27,889    |
| Total                              | \$56,670                               | \$39,557 | \$148,757                          | \$145,816 |

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

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

## 8. EARNINGS PER SHARE AND DISTRIBUTIONS

Fortress's potentially dilutive equity instruments fall primarily into two general categories: (i) instruments that Fortress has issued as part of its compensation plan, and (ii) ownership interests in Fortress's subsidiary, Fortress Operating Group, that are owned by the Principals (and a former senior employee through September 2016) and are convertible into Class A shares. Based on the rules for calculating earnings per share, there are two general ways to measure dilution for a given instrument: (a) calculate the net number of shares that would be issued assuming any related proceeds are used to buy back outstanding shares (the treasury stock method), or (b) assume the gross number of shares are issued and calculate any related effects on net income available for shareholders (the if-converted and two-class methods). Fortress has applied these methods as prescribed by GAAP to each of its outstanding equity instruments as shown below.

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

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

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

|  | Three Months Ended<br>September 30, 2016 |             | Nine Months Ended<br>September 30, 2016 |             |
|--|--|-------------|---|-------------|
|  | Basic                                    | Diluted     | Basic                                   | Diluted     |
| Weighted average shares outstanding  |  |             |   |             |
| Class A shares outstanding   | 215,722,403                              | 215,722,403 | 216,581,904                             | 216,581,904 |
| Fully vested restricted Class A share units with dividend equivalent rights  | 303,762                                  | 303,762     | 755,599                                 | 755,599     |
| Restricted Class A shares  | 886,867                                  | 886,867     | 822,628                                 | 822,628     |
| Fortress Operating Group units exchangeable into Class A shares (1)  | —  | 169,437,692 | —                                       | 169,488,696 |
| Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)   | —  | 3,943,120   | —                                       | 2,591,904   |
| Total weighted average shares outstanding  | 216,913,032                              | 220,293,844 | 218,160,160                             | 220,240,731 |
| Basic and diluted net income (loss) per Class A share  |  |             |   |             |
| Net income (loss) attributable to Class A shareholders   | \$31,162                                 | \$ 31,162   | \$ 8,191                                | \$ 8,191    |
| Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)                             | (808)                                    | (808)       | (1,679)                                 | (1,679)     |
| Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates, attributable to Fortress Operating Group units (1) | —  | (2,430)     | —                                       | 2,256       |
| Net income (loss) available to Class A shareholders  | \$30,354                                 | \$ 27,924   | \$ 6,512                                | \$ 8,768    |
| Weighted average shares outstanding  | 216,913,032                              | 220,293,844 | 218,160,160                             | 220,240,731 |
| Basic and diluted net income (loss) per Class A share  | \$0.14                                   | \$ 0.07     | \$0.03                                  | \$ 0.02     |
|  |  |             |   |             |
|  | Three Months Ended<br>September 30, 2015 |             | Nine Months Ended<br>September 30, 2015 |             |
|  | Basic                                    | Diluted     | Basic                                   | Diluted     |
| Weighted average shares outstanding  |  |             |   |             |
| Class A shares outstanding   | 214,984,712                              | 214,984,712 | 211,487,868                             | 211,487,868 |
| Fully vested restricted Class A share units with dividend equivalent rights  | 737,423                                  | 737,423     | 3,871,624                               | 3,871,624   |
| Restricted Class A shares  | 716,942                                  | 716,942     | 778,913                                 | 778,913     |
| Fortress Operating Group units exchangeable into Class A shares (1)  | —  | —           | —                                       | —           |
| Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)   | —  | —           | —                                       | 6,075,338   |
| Total weighted average shares outstanding  | 216,439,077                              | 216,439,077 | 216,138,405                             | 222,213,743 |
| Basic and diluted net income (loss) per Class A share  |  |             |   |             |
| Net income attributable to Class A shareholders  | \$(14,245)                               | \$(14,245)  | \$23,784                                | \$ 23,784   |
| Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)                             | (417)                                    | (417)       | (2,994)                                 | (2,994)     |
| Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates,  | —  | —           | —                                       | —           |

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|   |             |             |             |            |
|---|-------------|-------------|-------------|------------|
| attributable to Fortress Operating Group units (1)  |             |             |             |            |
| Net income (loss) available to Class A shareholders | \$(14,662)  | \$(14,662 ) | \$20,790    | \$ 20,790  |
| Weighted average shares outstanding                 | 216,439,072 | 216,439,077 | 216,138,405 | 22,213,743 |
| Basic and diluted net income per Class A share      | \$(0.07 )   | \$(0.07 )   | \$0.10      | \$ 0.09    |

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

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

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

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 (3) 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 |            | Nine Months Ended |            |
|-------------|--------------------|------------|-------------------|------------|
|             | September 30,      |            | September 30,     |            |
|             | 2016               | 2015       | 2016              | 2015       |
| Share Units | 9,197,150          | 12,477,524 | 9,099,458         | 12,535,142 |

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

In September 2016, a former senior employee exchanged all of his remaining 307,143 Fortress Operating Group units and Class B shares for an equal number of Class A shares.

In March 2016, Fortress completed a modified "Dutch auction" self-tender offer and purchased 4,798,863 of its Class A shares at a purchase price of \$4.75 per share, or an aggregate purchase price of \$22.8 million. Additionally, Fortress incurred \$0.7 million in expenses in connection with the transaction. All of these Class A shares were canceled and cease to be outstanding.

During the nine months ended September 30, 2016, in connection with the delivery of vested RSUs, Fortress paid \$6.6 million of statutory withholding tax on behalf of employees and, therefore, issued only 2.2 million Class A shares in satisfaction of 3.8 million RSUs originally granted. This payment is treated as a financing activity on the condensed consolidated statement of cash flows since it had the same effect as if Class A shares were repurchased.

In November 2015, Fortress purchased from a former principal 56.8 million Fortress Operating Group units and corresponding Class B shares at \$4.50 per share, or an aggregate purchase price of \$255.7 million. All of the Fortress Operating Group units and corresponding Class B shares were canceled and ceased to be outstanding.

In February 2014, Fortress entered into a purchase agreement with Nomura Investment Managers U.S.A. ("Nomura") to acquire 60,568,275 Class A shares for \$363.4 million. During the nine months ended September 30, 2016 and 2015, Fortress paid \$10.6 million and \$9.7 million, respectively, to Nomura related to the purchase agreement.

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

Weighted Average                      Weighted Average

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|  | Three Months Ended |             | Nine Months Ended |             |
|--|--------------------|-------------|-------------------|-------------|
|  | September 30,      |             | September 30,     |             |
|  | 2016               | 2015        | 2016              | 2015        |
| Class A shares   | 215,722,403        | 214,984,712 | 216,581,904       | 211,487,868 |
| Restricted Class A shares (directors)                                    | 886,867            | 716,942     | 822,628           | 778,913     |
| Restricted Class A share units (employees) (A)                           | 303,762            | 737,423     | 755,599           | 3,871,624   |
| Restricted Class A share units (employees) (B)                           | 8,063,715          | 10,825,209  | 7,982,073         | 10,119,674  |
| Fortress Operating Group units (Principals and a former senior employee) | 169,437,692        | 226,331,513 | 169,488,696       | 226,331,513 |
| Total  | 394,414,439        | 453,595,799 | 395,630,900       | 452,589,592 |

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|  | As of<br>September<br>30, 2016 | As of<br>December<br>31, 2015 |
|--|--------------------------------|-------------------------------|
| Class A shares   | 215,952,760                    | 216,061,061                   |
| Restricted Class A shares (directors)                                    | 886,867                        | 729,348                       |
| Restricted Class A share units (employees) (A)                           | 359,605                        | 1,360,960                     |
| Restricted Class A share units (employees) (B)                           | 8,063,715                      | 9,174,707                     |
| Fortress Operating Group units (Principals and a former senior employee) | 169,207,335                    | 169,514,478                   |
| Total  | 394,470,282                    | 396,840,554                   |

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

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

Dividends and distributions during the nine months ended September 30, 2016 are summarized as follows:

|   | Declared in Current Year                                    |                      |                                 |            |
|---|---|----------------------|---------------------------------|------------|
|   | Declared<br>in Prior<br>Year,<br>Paid in<br>Current<br>Year | Declared<br>and Paid | Declared<br>but not<br>yet Paid | Total      |
| Dividends on Class A shares   | \$ —  | \$ 80,082            | \$ —                            | \$ 80,082  |
| Dividend equivalents on restricted Class A share units (A)  | 66  | 2,986                | 103                             | 3,089      |
| Distributions to Fortress Operating Group unit holders<br>(Principals and a former senior employee) (B) | 7,739   | 61,818               | 3,980                           | 65,798     |
| Total distributions   | \$ 7,805  | \$ 144,886           | \$ 4,083                        | \$ 148,969 |

A portion of these dividend equivalents, if any, related to RSUs expected to be forfeited, is included as (A) compensation expense in the condensed consolidated statements 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 a former senior employee).

On November 2, 2016, Fortress declared a base quarterly dividend of \$0.09 per Class A share for the third quarter of 2016. The dividend is payable on November 18, 2016 to holders of record of Class A shares on November 14, 2016.

On July 27, 2016, Fortress declared a base quarterly cash dividend of \$0.09 per Class A share for the second quarter of 2016. The dividend was paid on August 16, 2016 to holders of record of Class A shares on August 10, 2016. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was \$20.2 million.

On May 4, 2016, Fortress declared a cash dividend of \$0.20 per Class A share, comprised of a base quarterly cash dividend of \$0.09 per Class A share for the first quarter of 2016 and a special cash dividend of \$0.11 per Class A



share. The dividend was paid on May 20, 2016 to holders of record of Class A shares on May 17, 2016. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was \$44.9 million.

On February 24, 2016, Fortress declared a base quarterly cash dividend of \$0.08 per Class A share for the fourth quarter of 2015. The dividend was paid on March 21, 2016 to holders of record of Class A shares on March 16, 2016. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was \$18.0 million.

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9. COMMITMENTS AND CONTINGENCIES

Other than as described below, Fortress's commitments and contingencies remain materially unchanged from December 31, 2015.

**General Partner Liability** — Certain of Fortress's consolidated subsidiaries act as the general partner of various Fortress Funds and accordingly have potentially unlimited liability for the obligations of the funds under applicable partnership law principles. In the event that any such fund was to fall into a negative net equity position (Note 2), the full amount of the negative net equity would be recorded on the balance sheet of the general partner entity. Such amount would be recorded on Fortress's balance sheet in consolidation until it is legally resolved. While these entities are limited liability companies and generally have no material assets other than their general partner interests, these entities and Fortress may be subject to litigation in connection with such amounts if fund creditors choose to sue Fortress to seek repayment. See "Litigation" below.

In March 2011, a private equity fund fell into a negative equity position, after considering all of Fortress's interests in such fund and its reserves related thereto. As described above, the amount of the negative equity was recorded, through earnings (losses) from equity method investees, by the general partner entity and is therefore included in the condensed consolidated financial statements of Fortress. When the fund matures and is liquidated, Fortress will record a gain in the event and to the extent it does not fund this negative equity. The amount of negative equity recorded at September 30, 2016 was \$47.9 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 September 30, 2016, 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, which aggregated \$147.5 million as of September 30, 2016, primarily to certain of the Fortress Funds. These commitments can be drawn by the funds on demand.

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

Minimum future rental payments (excluding expense escalations) under these leases as of September 30, 2016 are as follows:

|                                      |         |
|--------------------------------------|---------|
| October 1, 2016 to December 31, 2016 | \$6,299 |
| 2017                                 | 18,241  |
| 2018                                 | 25,827  |
| 2019                                 | 25,083  |

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|            |           |
|------------|-----------|
| 2020       | 24,773    |
| 2021       | 23,689    |
| Thereafter | 245,524   |
| Total      | \$369,436 |

Rent expense, including operating expense escalations, during the nine months ended September 30, 2016 and 2015 was \$20.5 million and \$22.3 million, respectively, and was included in general, administrative and other expense on the condensed consolidated statements of operations.

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10. SEGMENT REPORTING

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

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

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

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

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

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

Incentive Income

- for Fortress Funds which are private equity funds, the private permanent capital vehicle through IPO in May 2015 and credit PE funds, adding (a) incentive income paid (or declared as a distribution) to
- (i) a. Fortress, less an applicable reserve for potential future clawbacks if the likelihood of a clawback is deemed greater than remote by Fortress's CODM (net of the reversal of any prior such reserves that are no longer deemed necessary), less (b) incentive income recorded in accordance with GAAP, for other Fortress Funds, at interim periods, adding (a) incentive income on an accrual basis as if the incentive b. income from these funds were earned on a quarterly basis, less (b) incentive income recorded in accordance with GAAP,
- c. adding the receipt of cash or proceeds from the sale of shares received (a) as incentive income from the publicly traded permanent capital vehicles and (b) pursuant to the exercise of options in the publicly traded permanent capital vehicles, if any, in excess of their strike price,
- d. adding incentive income received from third parties which is subject to contingent repayment less incentive income from third parties that is no longer subject to contingent repayment,

Other Income

- (ii)

with respect to income from certain investments in the Fortress Funds and certain other interests or assets that cannot be readily transferred or redeemed:

- for equity method investments in the private equity funds, private permanent capital vehicle through IPO in May 2015 and credit PE funds as well as indirect equity method investments in hedge fund special investment accounts
- a. (which generally have investment profiles similar to private equity funds), treating these investments as cost basis investments by adding (a) realizations of income, including dividends, from these funds, less (b) impairment with respect to these funds, if necessary, less (c) equity method earnings (or losses) recorded in accordance with GAAP,
  - b. subtracting gains (or adding losses) on options held in the publicly traded permanent capital vehicles,
  - c. subtracting unrealized gains (or adding unrealized losses) on derivatives, direct investments in publicly traded portfolio companies and in the publicly traded permanent capital vehicles,

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- (iii) subtracting management fee income recorded in accordance with GAAP in connection with the receipt of options from the publicly traded permanent capital vehicles, if any,
- (iv) for 2015, subtracting the gain on transfer of Graticule,  
Expenses
  - adding or subtracting the employee profit sharing portion of (i) unrealized gains (losses) related to foreign exchange derivative contracts used to economically hedge future estimated incentive income and (ii) intrinsic
  - (v) clawback, if any, which represents incentive income previously received from a fund that would be clawed back if the fund were liquidated at the end of the period at its NAV,
  - adding back equity-based compensation expense (including options in the publicly traded permanent capital
  - (vi) vehicles assigned to employees, RSUs (including the portion of related dividend and distribution equivalents recorded as compensation expense) and restricted shares),
  - (vii) adding back the amortization of intangible assets and any impairment of goodwill or intangible assets recorded under GAAP,
  - (viii) for 2015, adding back the expense related to the transfer of interest in Graticule,
  - adding the income (or subtracting the loss) allocable to the interests in consolidated subsidiaries attributable to
  - (ix) 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.

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

- any difference between the GAAP carrying amount of equity method investments and their carrying amount for (i) segment reporting purposes, which is generally fair value for publicly traded investments and net asset value for nonpublic investments,
- (ii) employees' and others' portions of investments, which are reported gross for GAAP purposes (as assets offset by Principals' and others' interests in equity of consolidated subsidiaries) but net for segment reporting purposes,
- (iii) the difference, if any, between the GAAP carrying amount of intangible assets and goodwill and their carrying amount for segment reporting purposes resulting from the distributable earnings adjustments listed above, and
- (iv) at interim periods, the accrued incentive income recorded for distributable earnings purposes in relation to the incentive income reconciling item in (i)(b) above.

Embedded Incentive Income

As of September 30, 2016, Fortress had \$1.3 billion of gross undistributed incentive income and no intrinsic clawback related to distributed incentive income exists for any of the Fortress Funds (Note 2). Of the \$1.3 billion, \$69.4 million has been recognized in distributable earnings. This amount represents accrued hedge fund, permanent capital vehicle and Logan Circle incentive income recorded during the nine months ended September 30, 2016.

In addition, Fortress has foreign exchange derivative contracts, related to the Japanese Yen, used to economically hedge future estimated incentive income with a net unrealized loss of \$16.3 million as of September 30, 2016. If these contracts would have been settled as of September 30, 2016, Fortress would have reduced gross distributable earnings by \$16.3 million, or by \$9.8 million net of employee interests.

Furthermore, if Fortress had (i) exercised all of its in-the-money publicly traded permanent capital vehicle options (Note 3) and sold all of the resulting shares and (ii) sold all of its publicly traded permanent capital vehicle shares which it received as incentive income, it would have recorded \$26.2 million of gross additional distributable earnings, or \$25.4 million net of employee interests, based on their respective September 30, 2016 closing prices.

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## Embedded Gain/Loss and Impairment of Investments for DE Purposes

During the nine months ended September 30, 2016, Fortress recorded \$3.2 million of impairment on its direct and indirect investments in its funds for segment reporting purposes. Fortress had \$1.8 million of unrealized losses on certain investments that have not been recorded as impairment. As of September 30, 2016, Fortress's share of the net asset value of its direct and indirect investments exceeded its segment cost basis by \$474.5 million, representing a net unrealized gain.

## Clawback Reserve on Incentive Income for DE Purposes

As of September 30, 2016, Fortress has no intrinsic clawback obligation for any of its private equity funds and credit PE funds (Note 2). As such, Fortress's CODM has determined no clawback DE reserve is necessary.

## Segment Results of Operations

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

## September 30, 2016 and the Nine Months Then Ended

|  | Private Equity |                            |                    |           |                    |              |             | Total     |
|--|----------------|----------------------------|--------------------|-----------|--------------------|--------------|-------------|-----------|
|  | Funds          | Permanent Capital Vehicles | Credit Hedge Funds | PE Funds  | Liquid Hedge Funds | Logan Circle | Unallocated |           |
| Segment revenues   |                |                            |                    |           |                    |              |             |           |
| Management fees  | \$72,681       | \$81,886                   | \$112,572          | \$94,842  | \$13,391           | \$42,622     | \$—         | \$417,994 |
| Incentive income   | —              | 26,191                     | 84,015             | 196,131   | 996                | 382          | —           | 307,715   |
| Segment revenues - total   | \$72,681       | \$108,077                  | \$196,587          | \$290,973 | \$14,387           | \$43,004     | \$—         | \$725,709 |
| Fund management distributable earnings (loss) before earnings from the Affiliated Manager and Principal Performance Payments (B) | \$45,357       | \$45,090                   | \$87,014           | \$97,042  | \$(10,340)         | \$4,296      | \$—         | \$268,459 |
| Fund management distributable earnings (loss) before Principal Performance Payments (B)  | \$45,357       | \$45,090                   | \$87,014           | \$97,042  | \$(5,411)          | \$4,296      | \$—         | \$273,388 |
| Fund management distributable earnings (loss)  | \$45,333       | \$39,244                   | \$73,149           | \$92,820  | \$(5,411)          | \$4,296      | \$—         | \$249,431 |
|  | \$44,524       | \$41,174                   | \$76,242           | \$106,936 | \$(8,965)          | \$4,828      | \$(9,962)   | \$254,777 |



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Pre-tax distributable earnings (loss)

Total segment assets \$656,342 \$109,808 \$141,014 \$247,274 \$70,344 \$48,620 \$882,652 (A)\$2,156,054

Three Months Ended September 30, 2016

|  | Private Equity |                            |                    |          |                    |              | Unallocated | Total     |
|--|----------------|----------------------------|--------------------|----------|--------------------|--------------|-------------|-----------|
|  | Funds          | Permanent Capital Vehicles | Credit Hedge Funds | PE Funds | Liquid Hedge Funds | Logan Circle |             |           |
| Segment revenues   |                |                            |                    |          |                    |              |             |           |
| Management fees  | \$21,191       | \$27,456                   | \$38,100           | \$33,182 | \$1,291            | \$14,677     | \$—         | \$135,897 |
| Incentive income   | —              | 10,271                     | 44,256             | 57,880   | 2                  | 318          | —           | \$112,727 |
| Segment revenues - total   | \$21,191       | \$37,727                   | \$82,356           | \$91,062 | \$1,293            | \$14,995     | \$—         | \$248,624 |
| Fund management distributable earnings (loss) before earnings from the Affiliated Manager and Principal Performance Payments (B) | \$13,801       | 15,579                     | \$41,800           | \$28,275 | \$(6,150)          | \$1,808      | \$—         | \$95,113  |
| Fund management distributable earnings (loss) before Principal Performance Payments (B)  | \$13,801       | 15,579                     | \$41,800           | \$28,275 | \$(3,298)          | \$1,808      | \$—         | \$97,965  |
| Fund management distributable earnings (loss)  | \$13,794       | 13,672                     | \$34,357           | \$27,653 | \$(3,298)          | \$1,808      | \$—         | \$87,986  |
| Pre-tax distributable earnings (loss)  | \$13,803       | 14,288                     | \$35,799           | \$31,550 | \$(4,978)          | \$1,944      | \$(2,725)   | \$89,681  |

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## Nine Months Ended September 30, 2015

|  | Private Equity |                            |                    | PE Funds  | Liquid Hedge Funds | Logan Circle | Unallocated | Total     |
|--|----------------|----------------------------|--------------------|-----------|--------------------|--------------|-------------|-----------|
|  | Funds          | Permanent Capital Vehicles | Credit Hedge Funds |           |                    |              |             |           |
| Segment revenues   |                |                            |                    |           |                    |              |             |           |
| Management fees  | \$86,891       | \$68,827                   | \$95,726           | \$86,431  | \$55,385           | \$40,364     | \$ —        | \$433,624 |
| Incentive income   | —              | 75,517                     | 74,183             | 153,924   | 450                | 46           | —           | 304,120   |
| Segment revenues - total   | \$86,891       | \$144,344                  | \$169,909          | \$240,355 | \$55,835           | \$40,410     | \$ —        | \$737,744 |
| Fund management distributable earnings (loss) before earnings from the Affiliated Manager and Principal Performance Payments (B) |                |                            |                    |           |                    |              |             |           |
| Fund management distributable earnings (loss) before Principal Performance Payments (B)  | \$44,747       | \$86,296                   | \$80,973           | \$71,117  | \$(13,775)         | \$(854)      | \$ —        | \$268,504 |
| Fund management distributable earnings (loss) before Principal Performance Payments (B)  | \$44,747       | \$86,296                   | \$80,973           | \$71,117  | \$(3,268)          | \$(854)      | \$ —        | \$279,011 |
| Fund management distributable earnings (loss)  | \$44,747       | \$73,191                   | \$69,251           | \$67,629  | \$(3,268)          | \$(854)      | \$ —        | \$250,696 |
| Pre-tax distributable earnings (loss)  | \$44,851       | \$74,364                   | \$70,769           | \$77,012  | \$(1,164)          | \$(1,595)    | \$(3,355)   | \$260,882 |

## Three Months Ended September 30, 2015

|  | Private Equity |                            |                    | PE Funds | Liquid Hedge Funds | Logan Circle | Unallocated | Total     |
|--|----------------|----------------------------|--------------------|----------|--------------------|--------------|-------------|-----------|
|  | Funds          | Permanent Capital Vehicles | Credit Hedge Funds |          |                    |              |             |           |
| Segment revenues   |                |                            |                    |          |                    |              |             |           |
| Management fees  | \$28,515       | \$27,118                   | \$36,216           | \$28,986 | \$15,704           | \$13,831     | \$ —        | \$150,370 |
| Incentive income   | —              | (1,476)                    | 1,309              | 70,301   | 395                | (65)         | —           | 70,464    |
| Segment revenues - total   | \$28,515       | \$25,642                   | \$37,525           | \$99,287 | \$16,099           | \$13,766     | \$ —        | \$220,834 |
| Fund management distributable earnings (loss) before earnings from the Affiliated Manager and Principal Performance Payments (B) |                |                            |                    |          |                    |              |             |           |
| Fund management distributable earnings (loss) before Principal Performance Payments (B)  | \$15,665       | \$10,430                   | \$15,749           | \$34,518 | \$(5,211)          | \$302        | \$ —        | \$71,453  |
| Fund management distributable earnings (loss) before Principal Performance Payments (B)  | \$15,665       | \$10,430                   | \$15,749           | \$34,518 | \$(2,381)          | \$302        | \$ —        | \$74,283  |
| Fund management distributable earnings (loss)  | \$15,665       | \$7,821                    | \$12,369           | \$32,871 | \$(2,381)          | \$302        | \$ —        | \$66,647  |

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Pre-tax distributable earnings (loss) \$15,691 \$8,282 \$12,855 \$38,398 \$(4,492) \$(5 ) \$(1,512 ) \$69,217

(A) Unallocated assets includes cash of \$343.1 million and net deferred tax assets of \$422.2 million.

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

Reconciling items between segment measures and GAAP measures:

|  | Three Months<br>Ended September<br>30, |           | Nine Months Ended<br>September 30, |            |
|--|--|-----------|------------------------------------|------------|
|  | 2016                                   | 2015      | 2016                               | 2015       |
| Fund management distributable earnings   | \$87,986                               | \$66,647  | \$249,431                          | \$250,696  |
| Investment income (loss)   | 4,199                                  | 3,404     | 13,709                             | 12,797     |
| Interest expense   | (2,504 )                               | (834 )    | (8,363 )                           | (2,611 )   |
| Pre-tax distributable earnings   | 89,681                                 | 69,217    | 254,777                            | 260,882    |
| Adjust incentive income  |  |           |                                    |            |
| Incentive income received from or declared by private equity funds, the private permanent capital vehicle through IPO in May 2015 and credit PE funds, subject to contingent repayment | (57,880 )                              | (70,301 ) | (196,131 )                         | (154,372 ) |
| Incentive income received from third parties, subject to contingent repayment  | (1,886 )                               | (432 )    | (4,944 )                           | (4,299 )   |
| Incentive income from private equity funds, the private permanent capital vehicle through IPO in May 2015 and credit PE funds, not subject to contingent repayment                     | 37,668                                 | 50,183    | 82,287                             | 115,892    |
| Incentive income from hedge funds, permanent capital vehicles and Logan Circle, subject to annual performance achievement  | (35,631 )                              | (277 )    | (69,350 )                          | (46,677 )  |
| Incentive income from third parties, not subject to contingent repayment   | 13,793                                 | —         | 13,793                             | —          |
| Incentive income received related to the exercise of options   | (3,981 )                               | (426 )    | (3,981 )                           | (57,041 )  |
|  | (47,917 )                              | (21,253 ) | (178,326 )                         | (146,497 ) |
| Adjust other income (loss)   |  |           |                                    |            |
| Distributions of earnings from equity method investees*  | (4,108 )                               | (5,483 )  | (14,839 )                          | (18,049 )  |
| Earnings (losses) from equity method investees*  | 24,833                                 | (22,648 ) | (7,563 )                           | (28,867 )  |
| Gains (losses) on options in equity method investees   | 3,842                                  | (26,710 ) | 13,847                             | (3,584 )   |
| Gains (losses) on other investments  | (1,178 )                               | (13,520 ) | (35,262 )                          | (7,541 )   |
| Impairment of investments (see discussion above)   | 359                                    | 946       | 3,184                              | 4,346      |
| Adjust income from the receipt of options  | 2,262                                  | —         | 2,262                              | 25,158     |
| Gain on transfer of Graticule (see Note 1)   | —                                      | —         | —                                  | 134,400    |
|  | 26,010                                 | (67,415 ) | (38,371 )                          | 105,863    |
| Adjust employee, Principal and director compensation   |  |           |                                    |            |
| Adjust employee, Principal and director equity-based compensation expense (including publicly traded permanent capital vehicle options assigned)                                       | (3,424 )                               | (3,681 )  | (21,961 )                          | (29,693 )  |
| Adjust employee portion of incentive income from private equity funds and credit PE funds, accrued prior to the realization of incentive income  | 1,373                                  | 1,557     | 15,244                             | 696        |
|  | (2,051 )                               | (2,124 )  | (6,717 )                           | (28,997 )  |
| Adjust for the transfer of interest in Graticule (see Note 1)  | —                                      | —         | —                                  | (101,000 ) |
|  | (659 )                                 | (423 )    | (1,977 )                           | (588 )     |

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|   |           |            |            |            |
|---|-----------|------------|------------|------------|
| Adjust amortization of intangible assets and impairment of goodwill and intangible assets |           |            |            |            |
| Adjust non-controlling interests related to Fortress Operating Group units                | (27,099 ) | 11,642     | (6,728 )   | (41,318 )  |
| Adjust tax receivable agreement liability   | —         | (390 )     | (2,699 )   | (7,890 )   |
| Adjust income taxes and other tax related items   | (6,803 )  | (3,499 )   | (11,768 )  | (16,671 )  |
| Total adjustments   | (58,519 ) | (83,462 )  | (246,586 ) | (237,098 ) |
| Net Income (Loss) Attributable to Class A Shareholders                                    | 31,162    | (14,245 )  | 8,191      | 23,784     |
| Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries           | 27,181    | (11,727 )  | 7,609      | 42,149     |
| Redeemable non-controlling interests in Income (Loss) of Consolidated Subsidiaries        | —         | —          | —          | (6 )       |
| Net Income (Loss) (GAAP)  | \$58,343  | \$(25,972) | \$15,800   | \$65,927   |

\* This adjustment relates to all of the private equity, private permanent capital vehicle through IPO in May 2015, credit PE Fortress Funds and hedge fund special investment accounts in which Fortress has an investment.

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

|   |           |                    |            |            |
|---|-----------|--------------------|------------|------------|
|   |           | September 30,      |            |            |
|   |           | 2016               |            |            |
| Total segment assets  |           | \$ 2,156,054       |            |            |
| Adjust equity investments from segment carrying amount                            |           | (13,133 )          |            |            |
| Adjust investments gross of employees' and others' portion                        |           | 7,872              |            |            |
| Adjust intangible assets  |           | (26,075 )          |            |            |
| Adjust receivables for incentive income subject to annual performance achievement |           | (66,803 )          |            |            |
| Total assets (GAAP)   |           | \$ 2,057,915       |            |            |
|   |           |                    |            |            |
|   |           | Three Months Ended |            |            |
|   |           | September 30,      |            |            |
|   |           | 2016               |            |            |
|   |           | 2015               |            |            |
|   |           | Nine Months Ended  |            |            |
|   |           | September 30,      |            |            |
|   |           | 2016               |            |            |
|   |           | 2015               |            |            |
| Total segment revenues  | \$248,624 | \$220,834          | \$725,709  | \$737,744  |
| Adjust management fees  | (212 )    | (555 )             | (920 )     | (67 )      |
| Adjust incentive income*  | (64,332 ) | (21,253 )          | (195,520 ) | (148,232 ) |
| Adjust income from the receipt of options   | 2,262     | —                  | 2,262      | 25,158     |
| Adjust other revenues (including expense reimbursements)**                        | 74,803    | 64,993             | 193,937    | 184,593    |
| Total revenues (GAAP)   | \$261,145 | \$264,019          | \$725,468  | \$799,196  |

\* Incentive income received from third parties, not subject to contingent repayment of \$16.4 million and \$0.0 million for the three months ended September 30, 2016 and September 30, 2015, respectively, and \$17.2 million and \$1.7 million for the nine months ended September 30, 2016 and September 30, 2015, respectively, are included in segment measures as part of incentive income while included in GAAP as part of other revenues.

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

## 11. SUBSEQUENT EVENTS

These financial statements include a discussion of material events, if any, which have occurred subsequent to September 30, 2016 (referred to as "subsequent events") through the issuance of these condensed consolidated financial statements. Events subsequent to that date have not been considered in these condensed consolidated financial statements.

Subsequent to September 30, 2016, Fortress formed and made a \$20.0 million loan to a new credit PE fund. Fortress determined that the fund qualifies as a variable interest entity and that it is the primary beneficiary and therefore will consolidate the fund. Fortress expects to deconsolidate the fund when sufficient third party capital is raised as the fund's unrelated limited partners have the substantive ability to liquidate the fund or otherwise remove Fortress as general partner without cause based on a simple unaffiliated majority vote.

For additional subsequent events, see Notes 3, 7 and 8.



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

Overview

Our Business

Fortress is a leading, highly diversified global investment management firm with approximately \$70.1 billion in AUM as of September 30, 2016. 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 1,750 institutional clients and private investors worldwide. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our alternative investment funds, receive reimbursements of certain expenses from funds we manage and earn investment income (loss) from our investments in our funds. We continue to invest capital in our alternative investment businesses.

The performance of our funds was mixed for the nine months ended September 30, 2016, with positive performance in some funds and negative performance in others, and overall our segment operating results were slightly down in comparison to the same period of 2015. In addition, we have improved our capital structure by repurchasing our equity through a modified "Dutch auction" self-tender offer completed in March 2016. For more information about these topics, please refer to "— Assets Under Management," "— Performance of our Funds," and "— Liquidity and Capital Resources" below.

As of September 30, 2016, we managed the following businesses:

Private Equity — a business that manages approximately \$13.9 billion of AUM comprised of two business segments: (i) general buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America and Western Europe; and (ii) permanent capital vehicles, which includes publicly traded companies that are externally managed by Fortress pursuant to management agreements and a senior living property management business. The publicly traded companies invest in a wide variety of real estate related assets, including securities, loans, real estate properties and mortgage servicing related assets, media assets, senior living properties and transportation and infrastructure assets. All of the capital of Worldwide Transportation and Infrastructure Investors ("WWTAI"), formerly a private fund managed by Fortress, was contributed to Fortress Transportation and Infrastructure Investors LLC ("FTAI") which completed its initial public offering in May 2015.

Credit Funds — a business that manages approximately \$18.3 billion of AUM comprised of two business segments: (i) credit hedge funds which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager or



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

Liquid Hedge Funds — a business that manages approximately \$4.5 billion of AUM which includes \$4.2 billion of AUM relating to Graticule Asset Management Asia ("Graticule") as a result of the Fortress Asia Macro Funds and related managed accounts transition on January 5, 2015. Fortress also received fees for providing infrastructure services (technology, back office, and related services) to Graticule through the termination of the infrastructure services agreement in May 2016. In addition, this business includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers and direct investments.

In June 2016, Fortress transferred its rights as general partner and investment manager of the Fortress Convex Asia Funds to a third party.

During the third quarter of 2016, Fortress closed the Fortress Centaurus Global Funds.

In the fourth quarter of 2015, Fortress closed the Fortress Macro Funds and related managed accounts. Michael Novogratz, a former principal, officer and director of Fortress, retired effective January 2016. In November 2015, Fortress purchased from Mr. Novogratz 56.8 million Fortress Operating Group units and corresponding Class B shares at \$4.50 per share, or an aggregate purchase price of \$255.7 million. In connection with this purchase, Fortress paid \$100.0 million of cash in November 2015 and issued a \$155.7 million promissory note, of which one half of the principal amount matures in November 2016 and the remainder in November 2017. During the third quarter of 2016, Fortress prepaid \$77.8 million of principal which was originally due in November 2016.

Logan Circle — our traditional asset management business, which has approximately \$33.4 billion of AUM, provides institutional clients actively managed investment solutions across a broad spectrum of fixed income strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt.

#### Understanding the Asset Management Business

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

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

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

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

both private equity and hedge funds, and generally make investments that are relatively illiquid in nature. Our credit hedge funds include the Mount Kellett Funds of which Fortress is co-manager.

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

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

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

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

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

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

Each of these objectives is discussed below.

#### Assets Under Management

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

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

**Realization of private equity investments and return of capital distributions:** In "closed-end" funds, AUM decreases when we return capital to fund investors as investments are realized. Investments are realized when they are sold or otherwise converted to cash by the manager. Similarly, AUM decreases in publicly traded investment vehicles, including the publicly traded permanent capital vehicles, when return of capital distributions are made to investors.

**Redemptions:** In "open-end" funds, AUM decreases after fund investors ask for their capital to be returned, or "redeemed," at periodic intervals. Typically, fund investors make this decision based on the same factors they used in making the original investment, which may have changed over time or based on circumstances, as well as on their liquidity needs.

**Fund performance:** AUM increases or decreases in accordance with the performance of fund investments.

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

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

#### Performance

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

-

Fund returns: Fund returns express the rate of return a fund earns on its investments in the aggregate. They can be compared to the returns of other managers, to returns offered by other investments or to broader indices. They can also be compared to the performance hurdles necessary to generate incentive income. We disclose our fund returns below, under "— Performance of Our Funds."

• Proximity to incentive income threshold: This is a measure of a fund's performance relative to the performance criteria it needs to achieve in order for us to earn incentive income.

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

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

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

We generally earn incentive income from private equity style funds based on a percentage of the returns of the fund, subject to the achievement of a minimum return (the "preferred" return) to fund investors. Incentive income is generally paid as each investment in a fund is realized, subject to a "clawback." At the termination of a fund, a computation is done to determine how much incentive income we should have earned based on the fund's overall performance, and any incentive income payments received by us in excess of the amount we should have earned must be returned by us (or "clawed back") to the fund for distribution to fund investors. Certain of our private equity style funds pay incentive income only after all of the fund's invested capital has been returned.

We generally earn incentive income from publicly traded permanent capital vehicles based on a percentage of operating results in excess of specified returns to shareholders, generally calculated on a cumulative but not compounding basis. Generally, incentive income is earned quarterly and once incentive is earned, it is not subject to clawback. However, if at a later date the total incentive income received by us is in excess of the cumulative amount calculated as of this later date, we would have to make up that difference in order for us to begin earning incentive income again.

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

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

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

#### Liquidity, Debt and Expense Management

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

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





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

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

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

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

## Understanding our Financial Statements

### Balance Sheet

Our assets consist primarily of the following:

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

Our liabilities consist primarily of the following:

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

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

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

- 6) Financial covenants under our debt obligations.
- 7) Likelihood of clawback of incentive income.

Statement of Operations

Our revenues and other income consist primarily of the following:

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

Our expenses consist primarily of the following:

1) Employee compensation paid in cash, including profit sharing compensation.

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 Note 7 to our condensed consolidated financial statements).

3) Other general and administrative expenses and interest expense.

4) Taxes.

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

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

#### Managing Business Performance

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

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

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

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

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

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Market Considerations

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

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

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

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

In the third quarter of 2016, global markets generally recovered and volatility fell following the initial shock and uncertainty that followed the United Kingdom Leave vote in the EU Referendum. Performance in equities was positive across all major markets and emerging market equities outperformed developed market equities. The U.S. Dollar depreciated against most major currencies, including the Euro and the Japanese Yen, but increased against the British Pound. Yields on global government bonds were up slightly in the second quarter after reaching lows for the year earlier in the summer.

In the U.S., during the third quarter of 2016, there was a continued focus on the path of U.S. monetary policy and its impact on rates. The Federal Reserve raised the federal funds target rate by 25 basis points in mid-December 2015, the first rate hike in nine years, which reflected the Federal Reserve's confidence that the U.S. economy was on a path to "sustainable improvement". During the third quarter of 2016, the Federal Reserve decided to keep interest rates unchanged at both meetings. This posture reflected improvements in the labor market offset by softer corporate spending and an inflation level that continued to run below the longer-run objective.

European equity markets rebounded in the third quarter following large declines post the referendum on British exit from the European Union ("Brexit"). At the August meeting the Bank of England cut their bank rate by 25 basis points and introduced a package of measures to support growth and the inflation target, including the purchase of corporate

bonds and an expansion of the government bonds purchase program. Meanwhile, at its two meetings during the quarter, the ECB maintained benchmark rates and the current package of stimulus measures and refrained from expanding or extending the duration of the program. Over the third quarter of 2016, the Euro strengthened by 1.16% against the U.S. Dollar. The British Pound continued to weaken against the U.S. Dollar in the third quarter, declining 2.55%.

Japanese equities finished up in the third quarter of 2016. Similar to European equity markets, the Japanese equity market rebounded following a significant downturn with the Brexit referendum results. The Bank of Japan met twice during the quarter and continued its monetary expansion of ¥80.0 trillion a year and maintained its negative interest rate policy. However, it increased the ETF purchase program, and refined its government bond buying program and inflation objective as headline inflation continues to run below zero. The Japanese Yen strengthened by 1.8% against the U.S. Dollar over the third quarter of 2016, and is now 15.7% stronger on the year versus the U.S. Dollar.

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

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

Improved economic conditions over the last several years, including relatively low interest rates, have benefited our business in a number of ways, including, but not limited to, a financing environment that has enabled our private equity funds and their portfolio companies to secure long-term financing, refinance debt at attractive levels, raise public and private equity capital and improve portfolio company profitability. Improving economic conditions and higher valuations in private equity funds have also contributed to our ability to raise capital for new investment vehicles and realize investments in existing funds. While improved conditions have created a more challenging environment for identifying new investments, we continue to deploy meaningful amounts of new capital. Recent market conditions, especially in the second half of 2015, however, have negatively affected the terms on which some of our publicly traded permanent capital vehicles and portfolio companies were able to raise debt and equity capital but, as a general matter, positively impacted the environment for making new investments.

Following a period of deleveraging, that resulted in significant opportunities for investors with sufficient capital to acquire assets at reduced prices, near-term investment opportunities have become more sporadic in nature given pricing and market dynamics. However, potential opportunities exist, particularly where access to capital is restricted and in Europe where economies may remain uncertain.

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

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

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

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

Solving for funding gaps and low interest rates have caused pension plans and other institutional investors to look to alternative investments in order to increase the yield on their investments. As a result, the amount of capital being invested into the alternative investment industry appears to have increased during the year ended December 31, 2015 and into the first three months of 2016. The outlook for the rest of the year remains generally positive, though the pace of growth may be decreasing. In addition, weaker performance of certain asset classes within the alternative investment industry may temper positivity in the industry. In addition, 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 time frame than what is

permitted under the terms of many existing funds. Investors in long-term, locked-up (i.e., "private equity style") funds have engaged in longer, more intensive and detailed due diligence procedures prior to making commitments to invest in such funds, which has led to the general perception across the alternative asset management industry that capital raising for long-term capital will require longer time periods, a greater commitment of capital raising resources and will generally be more difficult overall than it was previously. Moreover, some investors are increasingly shifting to managed accounts with fee structures that are less favorable to us.

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

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

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



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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 |           | Credit (K) |         | Liquid  | Logan    | Total    |
|---|----------------|-----------|------------|---------|---------|----------|----------|
|   | Funds          | Permanent | Hedge      | PE      | Hedge   | Circle   |          |
|   | (J)            | Capital   | Funds      | Funds   | Funds   |          |          |
|   |                | Vehicles  | (L)        |         | (L)     |          |          |
| AUM December 31, 2015   | \$8,991        | \$ 6,816  | \$8,799    | \$9,308 | \$5,409 | \$31,178 | \$70,501 |
| Capital raised (A)  | —              | 279       | 268        | 176     | 79      | —        | 802      |
| Increase in invested capital                                    | 19             | —         | 66         | 680     | —       | —        | 765      |
| Capital acquisitions (B)  | —              | —         | 682        | —       | —       | —        | 682      |
| Redemptions (C)   | —              | —         | (65 )      | —       | (467 )  | —        | (532 )   |
| RCA distributions (D)   | —              | —         | (314 )     | —       | —       | —        | (314 )   |
| Return of capital distributions (E)                             | (717 )         | (105 )    | (4 )       | (979 )  | (29 )   | —        | (1,834 ) |
| Adjustment for capital reset (F)                                | (650 )         | —         | —          | —       | —       | —        | (650 )   |
| Crystallized incentive income (G)                               | —              | —         | (63 )      | —       | —       | —        | (63 )    |
| Equity buyback  | —              | (125 )    | —          | —       | —       | —        | (125 )   |
| Change in AUM of the Affiliated<br>Manager and co-managed funds | —              | —         | (1,015 )   | —       | (256 )  | —        | (1,271 ) |
| Divested Businesses (H)   | —              | —         | —          | —       | (177 )  | —        | (177 )   |
| Net client flows (traditional)                                  | —              | —         | —          | —       | —       | (1,174 ) | (1,174 ) |
| Income (loss) and foreign exchange (I)                          | (572 )         | (19 )     | 450        | 298     | (18 )   | 3,382    | 3,521    |
| AUM September 30, 2016 (J)                                      | \$7,071        | \$ 6,846  | \$8,804    | \$9,483 | \$4,541 | \$33,386 | \$70,131 |

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

(B) In March 2016, Fortress was appointed investment manager of certain non-Fortress originated funds (the "JP Funds").

(C) Excludes redemptions which reduced AUM subsequent to September 30, 2016, if any. Redemptions are further detailed below.

Represents distributions from (i) assets held within redeeming capital accounts ("RCA") in our Drawbridge Special

(D) 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.

For private equity funds and credit PE funds, return of capital distributions are based on realization events. Such distributions include, in the case of private equity funds and credit PE funds that are in their capital commitment periods, callable capital distributions. For certain hedge funds, return of capital distributions represent

(E) distributions from special investments to investors who fully redeemed their capital from the fund. For credit hedge funds, return of capital distributions include income distributions from Fortress Japan Income Fund. For publicly traded permanent capital vehicles, return of capital distributions represent the portion of dividends paid and categorized as return of capital.

(F) Effective January 1, 2016, Fortress no longer earns management fees from Fund III and Fund III Coinvestment which had AUM of \$0.7 billion as of December 31, 2015.

The reset date of certain credit PE funds is the first day following the expiration of the capital commitment period of the fund, which is generally three years subsequent to the fund's final investor close. For these funds, during the capital commitment period, AUM is based on capital commitments. Thereafter, AUM is generally based on aggregate capital contributed, reduced by certain distributions and 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) Includes \$176.7 million of AUM related to the Fortress Convex Asia Funds which Fortress transferred its rights as general partner and investment manager of the fund to a third party.

Represents the change in AUM resulting from realized and unrealized changes in the reported value of the funds.

(I) For certain private equity funds, also includes the impact of a change in AUM basis from invested capital to fair value for certain portfolio companies which became publicly traded.

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

(K) As of September 30, 2016, the private equity funds and credit funds had approximately \$0.6 billion and \$6.4 billion of uncalled and callable capital, respectively, that will become assets under management if deployed/called, of which an aggregate of \$2.8 billion is only available for follow-on investments, management fees and other fund expenses.

(L) As of September 30, 2016, liquid hedge funds AUM included \$4.2 billion related to the Affiliated Manager and credit hedge funds AUM included \$1.8 billion related to co-managed funds.

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## Redemptions

The credit hedge funds allow investors to request that their capital be returned generally on an annual basis. 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 2016 return of capital request notice date is October 2, 2016 for capital to be returned after December 31, 2016. 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 for 2009 through 2015 (onshore fund only except for 2015 which included the offshore fund) 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." The Mount Kellett Funds, which are co-managed by Fortress, and the JP Funds are not subject to redemptions.

For our liquid hedge funds, prior to 2016, the Fortress Partners Funds and Drawbridge Global Macro Funds were subject to redemption.

During the fourth quarter of 2015, Fortress closed the Fortress Macro Funds and related managed accounts and in June 2016, Fortress transferred its rights as general partner and investment manager of the Fortress Convex Asia Funds to a third party. Additionally, during the third quarter of 2016, Fortress closed the Fortress Centaurus Global Funds. As such, the table below has been updated to exclude these funds and related managed accounts.

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

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

Redemption Notices / Return of Capital Requests Received and Outstanding through September 30, 2016 (in thousands):

| Request/Notice<br>Receipt<br>Period | Credit<br>Hedge<br>Return of<br>Capital<br>Requests<br>Received | Payments<br>Made<br>with<br>Respect<br>to<br>those<br>Requests<br>-<br>Inception<br>to Date<br>(A) | Credit<br>Hedge<br>Fund<br>Remaining<br>Outstanding<br>Requests | Liquid<br>Hedge<br>Fund<br>Redemption<br>Notices<br>Received | Payments<br>Made<br>with<br>Respect<br>to<br>those<br>Inception<br>to<br>Date | Liquid<br>Hedge<br>Fund<br>Remaining<br>Outstanding<br>Notices |     |
|-------------------------------------|---|--|---|--|---|--|-----|
|                                     |   | (A)  | (B)   | (B)  | (B)   | (B)  |     |
| 2016                                | \$725,564 (E)   | \$49,831   | \$675,733   | (B)  | (B)   | (B)  |     |
| 2015                                | 773,268   | 373,353  | 425,763   | \$303,575  | \$292,602   | \$   | —   |
| 2014                                | 220,185   | 136,242  | 99,328  | 307,726  | 326,817   | —  |     |
| Prior                               |   |  | 198,755 (C)   |  |   | —  | (C) |
|                                     |   |  | \$1,399,579 (D)   |  |   | \$   | —   |

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

(B)

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For 2016, the remaining investor capital of the Fortress Partners Funds and Drawbridge Global Macro Funds are comprised of sidepocket investments and are not subject to redemption.

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

For credit hedge funds, reflects (i) \$723.9 million in RCAs which are to be paid over time as the underlying investments are realized and (ii) \$675.7 million of 2016 redemption requests outstanding as of September 30,

(D) 2016. All or a portion of the \$675.7 million of 2016 redemption requests outstanding may also be deemed as RCA.

Any 2016 redemption requests not deemed to be RCA will be paid in the first quarter of 2017. The determination of whether the current year's redemption requests are RCA is generally made by December 31.

(E) In October 2016, Fortress's credit hedge funds received \$33.3 million of additional redemption requests.

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

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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                |                    | Returns (B)                     |    |
|---|----------------|-------------------|--------------------|--------------------|---------------------------------|----|
|   |                |                   | September 30, 2016 | September 30, 2015 | Inception to September 30, 2016 |    |
| Private Equity  |                |                   |                    |                    |                                 |    |
| Private Equity Funds that Report IRR's                          |                |                   |                    |                    |                                 |    |
| Fund I  | Nov-99         | Closed May-13     | \$ N/A             | \$ N/A             | 25.7                            | %  |
| Fund II   | Jul-02         | Closed Dec-15     | N/A                | —                  | 35.5                            | %  |
| Fund III  | Sep-04         | In Liquidation    | —                  | 763                | 1.4                             | %  |
| Fund III Coinvestment   | Nov-04         | In Liquidation    | —                  | 40                 | 0.9                             | %  |
| Fund IV   | Mar-06         | Jan-17            | 1,522              | 1,612              | (0.8)                           | )% |
| Fund IV Coinvestment  | Apr-06         | Jan-17            | 280                | 315                | (2.0)                           | )% |
| Fund V  | May-07         | Feb-18            | 3,458              | 4,499              | 5.1                             | %  |
| Fund V Coinvestment   | Jul-07         | Feb-18            | 294                | 425                | (5.4)                           | )% |
| GAGACQ Coinvestment Fund (GAGFAH)                               | Sep-04         | Closed Dec-14     | N/A                | N/A                | 19.4                            | %  |
| FRID (GAGFAH)   | Mar-05         | Closed Nov-14     | N/A                | N/A                | (0.3)                           | )% |
| FRIC (Brookdale)  | Mar-06         | Closed Dec-14     | N/A                | N/A                | (1.6)                           | )% |
| FICO (Intrawest)  | Aug-06         | Jan-17            | —                  | —                  | (100.0)                         | )% |
| FHIF (Holiday)  | Dec-06         | Jan-17            | 459                | 583                | 2.9                             | %  |
| FECI (Florida East Coast Railway/Florida East Coast Industries) | Jun-07         | Feb-18            | 379                | 422                | (0.6)                           | )% |
| MSR Opportunities Fund I A                                      | Aug-12         | Aug-22            | 123                | 177                | 13.1                            | %  |
| MSR Opportunities Fund I B                                      | Aug-12         | Aug-22            | 31                 | 45                 | 12.9                            | %  |
| MSR Opportunities Fund II A                                     | Jul-13         | Jul-23            | 105                | 133                | 8.0                             | %  |
| MSR Opportunities Fund II B                                     | Jul-13         | Jul-23            | 2                  | 2                  | 7.4                             | %  |
| MSR Opportunities MA I  | Jul-13         | Jul-23            | 24                 | 31                 | 8.1                             | %  |
| Italian NPL Opportunities Fund                                  | Dec-13         | Sep-24            | 228                | 20                 | (C)                             |    |
| Fortress Equity Partners  | Mar-14         | Mar-24            | 166                | 128                | (C)                             |    |

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| Name of Fund                                      | Inception Date | Maturity Date (A) | AUM                |                    | Returns (B)<br>Nine Months Ended    |                    |
|---|----------------|-------------------|--------------------|--------------------|-------------------------------------|--------------------|
|   |                |                   | September 30, 2016 | September 30, 2015 | Inception to September 30, 2016 (D) | September 30, 2015 |
| <b>Publicly Traded Permanent Capital Vehicles</b> |                |                   |                    |                    |                                     |                    |
| Newcastle Investment Corp.                        | Jun-98         | Permanent         | \$ 680             | \$ 680             | N/A                                 | 10.6 %             |
| New Residential Investment Corp.                  | May-13         | Permanent         | 2,948              | 2,689              | N/A                                 | 13.3 %             |
| Eurocastle Investment Limited                     | Oct-03         | Permanent         | 486                | 605                | N/A                                 | 14.0 %             |