Fortress Investment Group LLC
Form 10-Q
August 03, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-33294
Fortress Investment Group LLC
(Exact name of registrant as specified in its charter)

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

(212) 798-6100
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.
Class A Shares: 219,367,912 outstanding as of July 28, 2017.
Class B Shares: 169,207,335 outstanding as of July 28, 2017.

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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 and credit PE funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with certain private equity funds includes the mark-to-market value of certain public securities held within the funds,
(ii) the contributed capital or book equity (as defined) of our publicly traded permanent capital vehicles,
(iii) the NAV of our hedge funds, including the Value Recovery Funds which pay fees based on realizations,
(iv) the NAV or fair value of our managed accounts, to the extent management fees are charged, and
(v) AUM of the funds related to the affiliated manager and co-managed funds.

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

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

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

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

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

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

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

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

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

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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)

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

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

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

See notes to condensed consolidated financial statements.

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

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

Continued on next page.

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

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

See notes to condensed consolidated financial statements.

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

1. ORGANIZATION AND BASIS OF PRESENTATION

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

Proposed Acquisition by SoftBank

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

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

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

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

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

negotiations regarding alternative acquisition proposals, subject to a customary "fiduciary out" exception.

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

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

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

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

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

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

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

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

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

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

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

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Proposed Logan Circle Sale

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

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

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

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

Fortress's Business

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

1) Private equity:
a) General buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America, the Caribbean and Western Europe; and
b)

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

2) Credit funds:

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

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

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

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

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

All significant intercompany accounts and transactions have been eliminated.

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

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

Recent Accounting Pronouncements

Effective January 1, 2017, Fortress adopted Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 permits a policy election to account for forfeitures as they occur or to continue to estimate the number

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

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

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

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

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

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

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2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

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

Management Fees and Incentive Income

Fortress recognized management fees and incentive income as follows:

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

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

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

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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 six months ended June 30, 2017 and 2016. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, $46.8 million and $33.7 million of additional incentive income would have been recognized during the six months ended June 30, 2017 and 2016, respectively. Incentive income based on achieving annual performance criteria that has not yet been recognized, if any, is not recorded on the balance sheet and is included as "undistributed" deferred incentive income in the table below.

During the six months ended June 30, 2017 and 2016, Fortress recognized $24.3 million and $44.6 million, respectively, of incentive income distributions from its credit PE funds which were non-clawbackable or represented "tax distributions." Tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

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

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

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

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

(A) All related contingencies have been resolved.

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

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

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

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

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

	June 30, 2017
Distributed incentive income - Private Equity Funds	$781,459
Distributed incentive income - Private Equity Funds in Investment Period or Commitment Period	—
Distributed incentive income - Credit PE Funds	1,271,832
Distributed incentive income - Credit PE Funds in Investment Period or Commitment Period	1,094
Distributed incentive income - Permanent Capital Vehicle (see footnote (P) of incentive income threshold tables)	7,043
Less:	
Fortress Funds which are not subject to a clawback provision:	
–NIH	(94,513)
–GAGACQ Fund	(51,476)
Portion of Fund I distributed incentive income	(183,196)

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

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

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

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

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

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions	Net Assets (NAV)	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)	G Int Cl (J)
Private Equity Funds											
NIH (1998)	Closed Jun-15	$415,574	$(823,588)	$—	$ N/A	$ N/A	$ N/A	$—	$94,513	$—	$–
Fund I (1999) (K)	Closed May-13	1,015,943	(2,847,929)	—	N/A	N/A	N/A	—	344,939	—	—
Fund II (2002)	Closed Dec-15	1,974,298	(3,446,405)	—	N/A	N/A	N/A	—	289,531	—	—
Fund III (2004)	In Liquidation	2,762,992	(2,221,941)	800,259	569,418	2,736,093	2,476,675	—	—	—	—
Fund III Coinvestment (2004)	In Liquidation	273,649	(243,771)	44,073	14,195	314,456	300,261	—	—	—	—
Fund IV (2006)	(B)	3,639,561	(1,537,150)	2,018,392	(87,981)	3,774,798	3,862,722	—	—	—	—
Fund IV Coinvestment (2006)	(B)	762,696	(323,613)	339,769	(99,314)	805,757	905,071	—	—	—	—
Fund V (2007)	Feb-18	4,103,713	(1,928,729)	3,721,356	1,688,912	3,510,432	1,956,354	—	—	—	—
Fund V Coinvestment (2007)	Feb-18	990,480	(283,431)	334,930	(372,119)	953,504	1,325,623	—	—	—	—
GAGACQ Fund (2004) (GAGFAH)	Closed Nov-09	545,663	(595,401)	—	N/A	N/A	N/A	—	51,476	—	—
FRID (2005) (GAGFAH)	Closed Nov-14	1,220,229	(1,202,153)	—	N/A	N/A	N/A	—	—	—	—
FRIC (2006) (Brookdale)	Closed Dec-14	328,754	(291,330)	—	N/A	N/A	N/A	—	—	—	—
FICO (2006) (Intrawest)	(B)	724,525	—	(68,718)	(792,943)	911,355	1,704,298	—	—	—	—
FHIF (2006) (Holiday)	(B)	1,543,463	(954,223)	827,361	238,121	1,563,891	1,325,530	—	—	—	—
FECI (2007) (Florida East Coast/Flagler)	Feb-18	982,779	(876)	849,012	(132,884)	1,118,379	1,251,263	—	—	—	—

MSR Opportunities Fund I A (2012)	Aug-22	341,135	(250,517)	239,148,564	—	N/A	13,502	799	799	—	
MSR Opportunities Fund I B (2012)	Aug-22	82,760	(60,502)	57,961,703	—	N/A	3,368	201	201	—	
MSR Opportunities Fund II A (2013)	Jul-23	160,653	(71,590)	115,261,451	12,912	446	57	—	—	—	
MSR Opportunities Fund II B (2013)	Jul-23	2,291	(997)	1,648,554	386	36	—	—	—	—	
MSR Opportunities MA I (2013)	Jul-23	36,868	(16,508)	26,602,848	—	N/A	22	—	—	—	
							$16,949	$781,459	$1,000	$–	
Private Equity Funds in Investment or Commitment Period											
Italian NPL Opportunities Fund (2013)	Sep-24	340,585	(124,064)	478,267,152	—	N/A	39,042	—	—	—	
Fortress Equity Partners (2014)	Mar-24	189,968	—	1,178,685,517	—	N/A	197,691	—	—	—	
							$236,733	$—	$—	$–	

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

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

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

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

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

(B) Represents the contractual maturity date including the assumed exercise of all extension options, which in some cases may require the approval of the applicable fund advisory board. Private equity funds that have reached their maturity date are included in the table to the extent they have generated incentive income. Although Fund IV, Fund IV Coinvestment, FICO (Intrawest) and FHIF (Holiday) have passed their contractual maturity, Fortress continues to actively manage the funds' portfolio of investments which include various operating companies.

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

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

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

(F) For fund investors whose NAV is below the incentive income threshold, represents the immediate increase in NAV needed for these investors for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see (J) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (I) below). For the publicly traded permanent capital vehicles, represents the immediate increase of the entity's applicable supplemental measure of operating performance needed for Fortress to begin earning incentive income. As of June 30, 2017, Fortress does not expect to earn incentive income from Drive Shack for an indeterminate period of time.

(G) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV. The undistributed incentive income amounts presented in this table are based on the estimated results of the investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles. As of June 30, 2017, a portion of MSR Opportunities Fund II A, Long Dated Value Fund I and Credit Opportunities Fund IV's capital are above their incentive income threshold.

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

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

(J) Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. "Gross" and "Net" refer to amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. As of June 30, 2017, Fortress has no intrinsic clawback obligation for any of its private equity funds and credit PE funds.

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

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

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

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

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

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

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

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

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

(S) Includes onshore and offshore funds.

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

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

Credit PE Funds

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

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

Credit Hedge Funds

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

	Credit Hedge
Fortress	$8,652

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

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3. INVESTMENTS AND FAIR VALUE

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

Investments can be summarized as follows:

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

(A) Represents the publicly traded permanent capital vehicles.

Gains (losses) are summarized as follows:

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

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

These gains (losses) were generated as follows:

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

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

Investments

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

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

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

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

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

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

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

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

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

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

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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 and Other are not presented as they are insignificant to Fortress's investments.

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

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

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

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

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

Investments in Variable Interest Entities and Other Unconsolidated Entities

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

Consolidation of a certain Fortress Fund

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

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

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

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

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

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

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

(A) Represents financial obligations of the VIEs which are not recourse to Fortress and assets of the VIEs which Fortress does not have the right to make use of to satisfy its obligations. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these VIEs have additional debt within

unconsolidated subsidiaries. The debt obligations of the VIEs are not cross collateralized with the debt obligations of Fortress. Fortress has no obligation to satisfy the liabilities of the VIEs. The VIE's debt obligations have no impact on Fortress's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.

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

(C) Includes permanent capital vehicles that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because the group of at-risk equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance. Fortress is not the primary beneficiary of these entities. Fortress and its related parties under common control as a group, where applicable, do not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to these entities.

(D) Includes entities, primarily investing vehicles set up on behalf of the Fortress Funds to make investments, that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because either (i) the group of at-risk

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equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance and/or (ii) the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity's activities either involve or are conducted on behalf of that investor and its related parties. Fortress is not the primary beneficiary of these entities. Fortress and its related parties under common control as a group, where applicable, do not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to these entities. During the six months ended June 30, 2017, a credit PE fund entity was liquidated and a reconsideration event occurred at another credit PE fund entity whereby Fortress no longer has a variable interest in the entity.

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

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

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

Fair Value of Financial Instruments

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

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

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

(A) Represents the publicly traded permanent capital vehicles.

See Note 4 regarding the fair value of outstanding debt.

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

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

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

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

Derivatives

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

Fortress's derivative instruments are carried at fair value and are generally valued using models with observable market inputs that can be verified and which do not involve significant judgment. The significant observable inputs used in determining the fair value of the Level 2 derivative contracts are contractual cash flows and market based parameters such as foreign exchange rates.
The following tables summarize the fair value of Fortress's derivative contracts on a gross basis and any amount of offset as permitted by netting agreements as of June 30, 2017.

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

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

$ (7,519)	$ 372	$ (7,147)	$ —$(7,147)

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

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

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

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

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

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

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4. DEBT OBLIGATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Valuation allowance at December 31, 2016	$27,819
Changes due to FIG Corp. ownership change	370
Net increases (A)	4,614
Valuation allowance at June 30, 2017	$32,803

(A)

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

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

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

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

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

Tax Receivable Agreement

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

6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

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

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

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

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

Due to affiliates was comprised of the following:

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

Other Related Party Transactions

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

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

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

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Principals' and Others' Interests in Consolidated Subsidiaries

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

This balance sheet caption was comprised of the following:

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

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

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

(A) Held by the Principals; exclusive of Class A shares.

(B) As a result, the Registrant owned 56.5% and 56.2% of Fortress Operating Group as of June 30, 2017 and December 31, 2016, respectively.

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

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

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

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

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

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

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

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

7. COMPENSATION

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

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

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

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

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Equity-Based Compensation

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

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

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

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

(B) In future periods, Fortress will further recognize compensation expense on its non-vested equity based awards outstanding as of June 30, 2017 of $54.7 million, with a weighted average recognition period of 3.1 years.

(C) Represents expense associated with RSUs awarded for Principal Performance Payments in relation to 2014, 2015 and 2016. These RSUs vest ratably over a period of three years. In addition, a portion of the expense is related to 2017 performance to date, which would result in approximately 1.0 million Class A shares being granted. These Class A shares would be fully vested on the grant date.

(D) Represents expense associated with restricted shares granted to a director during 2015. These restricted shares will vest over a period of two years with final vesting in July 2017.

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

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

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

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

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

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

Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

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

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

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

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

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

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

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

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

(3) Certain restricted Class A share units granted to employees are not entitled to dividend or dividend equivalent payments until they are vested and are therefore non-participating securities. These units are not included in the computation of basic earnings per share. They

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are included in the computation of diluted earnings per share when the effect is dilutive using the treasury stock method. The effect of the units on the calculation is generally anti-dilutive during periods of net losses. The weighted average restricted Class A share units which are not entitled to receive dividend or dividend equivalent payments outstanding were:

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

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

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

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

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

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

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

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

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

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

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

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

9. COMMITMENTS AND CONTINGENCIES

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

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

In March 2011, a private equity fund fell into a negative equity position, after considering all of Fortress's interests in such fund and its reserves related thereto. As described above, the amount of the negative equity was recorded, through earnings (losses) from equity method investees, by the general partner entity and is therefore included in the condensed consolidated financial statements of Fortress. When the fund matures and is liquidated, Fortress will record a gain in the event and to the extent it does not fund this negative equity. The amount of negative equity recorded at June 30, 2017 was $49.6 million.

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

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

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Private Equity Fund, Credit PE Fund and Credit Hedge Fund Capital Commitments — Fortress has remaining capital commitments, which aggregated $169.9 million as of June 30, 2017, primarily to certain of the Fortress Funds. These commitments can be drawn by the funds on demand.

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

Minimum future rental payments (excluding expense escalations) under these leases as of June 30, 2017 are as follows:

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

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

10. SEGMENT REPORTING

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

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

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

Management assesses the net performance of each segment based on its "distributable earnings" ("DE") and utilizes "fund management distributable earnings" or "fund management DE" as a supplemental measure of segment performance. Neither distributable earnings nor fund management DE is a measure of cash generated by operations which is available for distribution. Rather, they are supplemental measures of operating performance used by management in analyzing its segments and overall results. Neither distributable earnings nor fund management DE should be considered as an alternative to cash flow, in accordance with GAAP, as a measure of Fortress's liquidity,

and they are not necessarily indicative of cash available to fund cash needs (including dividends and distributions).

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

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

Incentive Income

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

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

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

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

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

Other Income

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

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

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

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

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

Expenses

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

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

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

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

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

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

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

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

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

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

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

Embedded Incentive Income

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

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

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

Embedded Gain/Loss and Impairment of Investments for DE Purposes

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

Clawback Reserve on Incentive Income for DE Purposes

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

Segment Results of Operations

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

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June 30, 2017 and the Six Months Then Ended

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

Three Months Ended June 30, 2017

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

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

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

Six Months Ended June 30, 2016

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

Three Months Ended June 30, 2016

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

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

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

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

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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)

Reconciling items between segment measures and GAAP measures:

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

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

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

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

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

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

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

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

11. SUBSEQUENT EVENTS

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

For additional subsequent events, see Notes 1 and 6.

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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

Proposed Acquisition by SoftBank

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

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

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

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

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

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

Parent has secured from SoftBank Group Corp. ("SoftBank") committed equity financing for the entire amount of the purchase price payable under the Merger Agreement, and the Company has received a corresponding limited guarantee from SoftBank that also requires SoftBank to comply with certain specified covenants under the Merger Agreement. The Merger Agreement permits

the syndication of a portion of Parent's equity, subject to certain conditions and limitations, provided that no such syndication will reduce SoftBank's obligations under the equity commitment letter or limited guarantee. At the completion of the equity syndication period specified under the Merger Agreement, Parent had not entered into any investment agreements with any potential equity investors.

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

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

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

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

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

In connection with entering into the Founders Agreement, the Second Amended and Restated Fortress Investment Group LLC Principal Compensation Plan (the "PCP") will be further amended and restated, effective as of and subject to the closing, to make certain clarifying and conforming changes. Under the PCP, the Principals will continue to receive annual payments based on their respective success in raising and investing new and existing funds and the

performance of the Fortress funds during a given fiscal year and, for the credit hedge fund business, on the performance of the existing AUM of Fortress's flagship hedge funds during a given year.

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

Proposed Logan Circle Sale

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

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

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

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

Our Business

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

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

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

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

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

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

Logan Circle — our traditional asset management business, which has approximately $35.5 billion of AUM, provides institutional clients actively managed investment solutions across a broad spectrum of fixed income strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt.

Understanding the Asset Management Business

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

Private equity style funds are typically "closed-end" funds, which means they work as follows. We solicit fund investors to make capital commitments to a fund. Fund investors commit a certain amount of capital when the fund is formed. We may "draw" or "call" this capital from the fund investors as the fund makes investments. Capital is

returned to fund investors as investments are realized. The fund has a set termination date and we must use an investment strategy that permits the fund to realize all of the investments it makes in the fund within that period. Fund investors may not withdraw or redeem capital, barring certain extraordinary circumstances, and additional fund investors are not permitted to join the fund once it is fully formed. Typically, private equity style funds make longer-term, less liquid (i.e. less readily convertible to cash) investments.

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

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

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

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

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

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

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

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

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

Each of these objectives is discussed below.

Assets Under Management

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

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

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

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

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

Performance

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

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

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

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

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

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

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

Liquidity, Debt and Expense Management

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

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

We must structure our expenses, primarily compensation expense which is our most significant expense, so that key employees are fairly compensated and can be retained, while ensuring that expenses are not fixed in such a way as to

endanger our ability to operate in times of lower performance or reduced liquidity. To this end, we generally utilize discretionary bonuses, profit sharing and equity-based compensation as significant components of our compensation plan.

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

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

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

Understanding our Financial Statements

Balance Sheet

Our assets consist primarily of the following:

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

Our liabilities consist primarily of the following:

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

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

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

Statement of Operations

Our revenues and other income consist primarily of the following:

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

Our expenses consist primarily of the following:

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

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

3) Other general and administrative expenses and interest expense.

4) Taxes.

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

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

Managing Business Performance

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

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

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

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

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

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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.

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

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

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

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

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

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

consecutive quarter to 11.3% year-over-year in June as China benefited from the boost in global demand. Lastly, the Chinese A-Share Equity Index rallied 10.12% over the quarter as a result of the decision by the MSCI to include 222 large-cap A-Share stocks to its emerging market indices.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

expenses.

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

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Redemptions

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

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

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

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

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

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

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

(C) Reflects (i) $1.1 billion in RCAs which are to be paid over time as the underlying investments are realized and (ii) $27.3 million of 2017 redemption requests outstanding as of June 30, 2017. All or a portion of the $27.3 million of 2017 redemption requests outstanding may also be deemed as RCA. Any 2017 redemption requests not deemed to be RCA will be paid in the first quarter of 2018. The determination of whether the current year's redemption requests are RCA is generally made by December 31.

(D) Effective January 1, 2017, the remaining investor capital of the Worden Fund is comprised of RCA which is not subject to redemption.

We note that performance between the notice / request date and the payment date may result in differences between the amount of redemption notices / return of capital requests received and the ultimate payments. The table above

reflects the actual notices / requests received, the actual payments made, and the actual remaining NAV of related investors. Therefore, the aggregate notices / requests received will not equal the total payments made plus the remaining outstanding notices / requests, due primarily to post-notice performance and redemption cancellations.

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Performance of Our Funds

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

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

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

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

(A) For funds with a contractual maturity date, maturity date represents the final contractual maturity date including the assumed exercise of extension options, which in some cases require the approval of the applicable fund advisory board. Fund III and Fund III Coinvestment have passed their contractual maturity date and are in the process of an orderly wind down. Although Fund IV, Fund IV Coinvestment, FICO (Intrawest) and FHIF (Holiday) have passed their contractual maturity, Fortress continues to actively manage the funds' portfolio of investments which include various operating companies. The publicly traded permanent capital vehicles are

considered to have permanent equity as they have an indefinite life and no redemption terms. Investor capital in the liquid hedge funds is generally redeemable at the option of the fund investors; however, the Drawbridge Global Macro Funds' and Fortress Partner Funds' investor capital is not redeemable by its investors and such capital will only be distributed as underlying sidepocket investments are realized, in accordance with their governing documents. The Drawbridge Special Opportunities Funds and Worden Fund may pay redemptions over time, as the underlying sidepocket investments are realized, in accordance with their governing documents ("PE style redemption"). The JP Funds' AUM includes $436.7 million of permanent equity which is not subject to redemption. The Value Recovery Funds generally do not allow for redemptions, but are in the process of realizing their remaining investments in an orderly liquidation. Management notes that funds which had a term of three years or longer at inception, funds which have permanent equity, funds which have a PE style redemption and funds which do not allow for redemptions aggregated approximately 87% of our alternative investment AUM as of June 30, 2017.

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

(B) Represents the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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Results of Operations

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

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

Factors Affecting Our Results

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

- changes in our AUM;

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

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Each of these factors is described below.

Average Management Fee Paying AUM

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

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

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

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

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

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

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

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

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

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

Management Fees

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

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

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Incentive Income

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

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

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

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

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

Fund Management and Investment Platform

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

which decreased compared to 1,882 such employees as of June 30, 2016.

Revenues

Six months ended June 30

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

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

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

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

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

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

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

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

Expenses

Six months ended June 30

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

Total compensation and benefits decreased by $10.1 million primarily due to a $40.4 million decrease in profit sharing expenses related to our credit PE funds and permanent capital vehicles, including the impact of tandem options, as a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in

the respective funds. This decrease was offset by (i) a $16.7 million increase in discretionary bonuses, (ii) a $7.0 million increase in profit sharing expense related to our credit hedge funds and private equity funds, as a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective funds, (iii) a $4.0 million increase in Principal Performance Payments in our private equity business and credit business as a result of changes in the performance of relevant funds and (iv) a $3.3 million increase in other payroll, taxes and benefits.

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

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

Revenues

Three months ended June 30

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

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

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

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

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

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

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

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

Expenses

Three months ended June 30

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

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

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

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

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

Current and Future Compensation Expense

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

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

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

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

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

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

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

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Other Income (Loss)

Six months ended June 30

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

Three months ended June 30

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

Income Taxes

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

Six months ended June 30

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

Three months ended June 30

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

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

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

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

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

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

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

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

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

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

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

Six months ended June 30

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

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

Three months ended June 30

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

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Segment Analysis

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

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

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

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

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

Incentive Income

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

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

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

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

Other Income

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

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

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

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

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

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Expenses

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

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

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

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

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

Private Equity Funds

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

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

Six months ended June 30

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

Revenues

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

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

Expenses

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

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Net Investment Income

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

Three months ended June 30

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

Revenues

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

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

Expenses

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

Net Investment Income

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

Permanent Capital Vehicles

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

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

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Six months ended June 30

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

Revenues

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

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

Expenses

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

Net Investment Income

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

Three months ended June 30

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

Revenues

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

Incentive income was $48.2 million for the three months ended June 30, 2017, a net increase of $34.5 million, compared to $13.7 million of incentive income recognized for the three months ended June 30, 2016. The increase in

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

Expenses

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

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Net Investment Income

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

Credit Hedge Funds

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

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

Six months ended June 30

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

Revenues

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

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

Expenses

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

Net Investment Income

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

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Three months ended June 30

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

Revenues

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

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

Expenses

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

Net Investment Income

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

Credit PE Funds

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

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

Six months ended June 30

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

Revenues

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

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

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

Expenses

Expenses were $104.5 million for the six months ended June 30, 2017, a net decrease of $30.2 million, compared to $134.7 million for the six months ended June 30, 2016. The decrease in expenses was primarily attributable to decreases of $31.7 million and $0.4 million in profit sharing compensation expense and accruals for Principal Performance Payments, respectively, related to the decrease in incentive income as described above. These decreases were partially offset by (i) a $1.2 million net increase in general and administrative and corporate allocable expenses and (ii) a $0.5 million increase in compensation and benefits expense for the six months ended June 30, 2017, as compared to the prior period.

Net Investment Income

Net investment income was $4.8 million for the six months ended June 30, 2017, a decrease of $5.4 million, compared to $10.2 million for the six months ended June 30, 2016. The decrease in net investment income was primarily attributable to a $5.4 million decrease in distribution of earnings related to realization events in our credit PE funds.

Three months ended June 30

Pre-tax distributable earnings decreased by $39.5 million primarily due to:

Revenues

Management fees were $30.4 million for the three months ended June 30, 2017, a net decrease of $0.4 million, compared to $30.8 million for the three months ended June 30, 2016. The decrease in management fees was attributable to a decrease of $3.6 million primarily attributed to Credit Opportunities Funds II and III and related managed accounts and Japan Opportunities Funds I and II as a result of an decrease in their average AUM primarily due to net capital distributed during 2017 and 2016. This decrease was partially offset by increases of (i) $2.5 million related to Credit Opportunities Fund IV and related managed accounts as a result of an increase in their average AUM primarily due to net capital contributed during 2017 and 2016 and (ii) $0.5 million primarily related to Secured Lending Fund I, which commenced in the fourth quarter of 2016.

Incentive income was $19.9 million for the three months ended June 30, 2017, a net decrease of $65.5 million compared to $85.5 million for the three months ended June 30, 2016. The decrease in incentive income is primarily attributed to decreases of (i) $42.2 million in incentive income received from Japan Opportunity Funds I and II, (ii) $17.2 million in incentive income received from Credit Opportunities Fund I and related managed accounts, (iii) $5.2 million in incentive income received from Real Estate Opportunities Fund I and REOC Fund and (iv) $2.6 million in

incentive income received from the Real Assets Fund for the three months ended June 30, 2017, as compared to the prior period. These decreases were partially offset by increases of (i) $1.0 million in incentive income received from Credit Opportunities Funds II and III and their related managed accounts and (ii) $0.7 million in incentive income received from Japan Opportunity Funds III for the three months ended June 30, 2017, as compared to the prior period.

Expenses

Expenses were $43.8 million for the three months ended June 30, 2017, a decrease of $32.2 million, compared to $76.0 million for the three months ended June 30, 2016. The decrease in expenses was primarily attributable to decreases of (i) $33.0 million and $1.9 million in profit sharing compensation expense and accruals for Principal Performance Payments, respectively, related to the decrease in incentive income as described above. These decreases were partially offset by (i) a $1.4 million increase in compensation and benefits expense and (ii) a $1.2 million net increase in general and administrative and corporate allocable expenses for the three months ended June 30, 2017, as compared to the prior period.

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Net Investment Income

Net investment income was $1.3 million for the three months ended June 30, 2017, a decrease of $5.7 million, compared to $7.0 million for the three months ended June 30, 2016. The decrease in net investment income was primarily attributable to a decrease in distribution of earnings related to realization events in our credit PE funds.

Liquid Hedge Funds

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

	Six Months Ended June 30,		2017 vs. 2016	Three Months Ended June 30,		2017 vs. 2016
	2017	2016	$	2017	2016	$
Segment revenues						
Management Fees	$639	$12,100	$(11,461)	$322	$5,464	$(5,142)
Incentive Income	50	994	(944)	50	(477)	527
Segment revenues — total	$689	$13,094	$(12,405)	$372	$4,987	$(4,615)
Pre-tax distributable earnings (loss)	$13,554	$(3,987)	$17,541	$5,551	$(5,433)	$10,984

Six months ended June 30

Pre-tax distributable earnings increased by $17.5 million primarily due to:

Revenues

Management fees were $0.6 million for the six months ended June 30, 2017, a net decrease of $11.5 million, compared to $12.1 million for the six months ended June 30, 2016. The decrease in management fees was primarily attributable to decreases of (i) $7.9 million from the Affiliated Manager as a result of the termination of the infrastructure services agreement with Graticule in May 2016, (ii) $1.3 million from Fortress Partners Funds as a result of a decrease in average AUM, (iii) $1.1 million related to Fortress's transfer of its rights as the general partner and investment manager of the Fortress Convex Asia Funds to a third party during the second quarter of 2016 and (iv) $1.0 million related to Fortress Centaurus Global Funds which were closed by Fortress during the third quarter of 2016.

Incentive income was less than $0.1 million for the six months ended June 30, 2017, a decrease of $0.9 million, compared to $1.0 million for the six months ended June 30, 2016. The decrease in incentive income was primarily attributable to incentive income received from Fortress Partners Funds during the six months ended June 30, 2016.

Expenses

Expenses were $4.5 million for the six months ended June 30, 2017, a decrease of $12.8 million, compared to $17.3 million for the six months ended June 30, 2016. The decrease in expenses was primarily attributable to decreases of (i) $6.2 million in compensation and benefits expense, (ii) $6.0 million in general and administrative and corporate allocable expenses and (iii) $0.6 million in profit sharing compensation expense for the six months ended June 30, 2017, as compared to the prior period.

Earnings from the Affiliated Manager

Earnings from the Affiliated Manager was $6.5 million for the six months ended June 30, 2017, an increase of $4.4 million, compared to $2.1 million for the six months ended June 30, 2016. The increase in earnings from the Affiliated Manager was primarily due to an increase in Graticule's earnings, which was primarily a result of an increase in net performance by the Affiliated Manager during the six months ended June 30, 2017, as compared to the prior period.

Net Investment Income

Net investment income (loss) was $10.9 million for the six months ended June 30, 2017, a net increase of $12.8 million, compared to $(1.9) million for the six months ended June 30, 2016. The increase in net investment income was primarily attributable to (i) an $11.5 million increase in distribution of earnings related to realization events in special investments in our liquid hedge funds, primarily from Fortress Partners Fund, (ii) an $1.5 million decrease in impairment charges with respect to our special investments in our liquid hedge funds for the six months ended June 30, 2017, as compared to the prior period and (iii) a $1.2 million decrease

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in losses in earnings from our investments in our liquid hedge funds. These increases were partially offset by a decrease of $1.4 million in other net investment income primarily attributed to a $1.7 million gain recognized from the sale of certain software and technology-related assets during the six months ended June 30, 2016.

Three months ended June 30

Pre-tax distributable earnings increased by $11.0 million primarily due to:

Revenues

Management fees were $0.3 million for the three months ended June 30, 2017, a net decrease of $5.1 million, compared to $5.5 million for the three months ended June 30, 2016. The decrease in management fees was primarily attributable to decreases of (i) $3.4 million from the Affiliated Manager as a result of the termination of the infrastructure services agreement with Graticule in May 2016, (ii) $0.6 million related to Fortress's transfer of its rights as the general partner and investment manager of the Fortress Convex Asia Funds to a third party during the second quarter of 2016, (iii) $0.8 million primarily from Fortress Partners Funds as a result of a decrease in average AUM, and (iv) $0.5 million related to Fortress Centaurus Global Funds which were closed by Fortress during the third quarter of 2016.

Incentive income (loss) was less than $0.1 million for the three months ended June 30, 2017, a net increase of $0.5 million, compared to $(0.5) million for the three months ended June 30, 2016. The increase in incentive income was primarily attributable to the reversal of accrued incentive income related to Fortress Centaurus Global Funds during the three months ended June 30, 2016.

Expenses

Expenses were $2.1 million for the three months ended June 30, 2017, a decrease of $5.4 million, compared to $7.5 million for the three months ended June 30, 2016. The decrease in expenses was primarily attributable to decreases of (i) $3.0 million in general and administrative and corporate allocable expenses and (ii) $2.4 million in compensation and benefits expense for the three months ended June 30, 2017, as compared to the prior period.

Earnings from the Affiliated Manager

Earnings from the Affiliated Manager was $5.4 million for the three months ended June 30, 2017, an increase of $4.2 million, compared to $1.2 million for the three months ended June 30, 2016. The increase in earnings from the Affiliated Manager was primarily due to an increase in Graticule's earnings, which was primarily a result of an increase in net performance by the Affiliated Manager during the three months ended June 30, 2017, as compared to the prior period.

Net Investment Income

Net investment income (loss) was $1.9 million for the three months ended June 30, 2017, an increase of $6.0 million, compared to $(4.1) million for the three months ended June 30, 2016. The increase in net investment income was primarily attributable to (i) a $3.4 million increase in earnings from our investments in our liquid hedge funds, (ii) a $1.8 million increase in distribution of earnings related to realization events in special investments in our liquid hedge funds, primarily from Fortress Partners Fund and (iii) a $0.7 million decrease in impairment charges with respect to our special investments in our liquid hedge funds for the three months ended June 30, 2017, as compared to the prior period.

Logan Circle

The following table presents our results of operations for our Logan Circle segment:

	Six Months Ended June 30,		2017 vs. 2016	Three Months Ended June 30,		2017 vs. 2016
	2017	2016	$	2017	2016	$
Segment Revenues						
Management Fees	$29,478	$27,945	$1,533	$14,882	$14,357	$525
Incentive Income	582	64	518	228	64	164
Segment revenues — total	$30,060	$28,009	$2,051	$15,110	$14,421	$689
Pre-tax distributable earnings (loss)	$1,198	$2,884	$(1,686)	$(100)	$2,109	$(2,209)

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Six months ended June 30

Pre-tax distributable earnings decreased by $1.7 million primarily due to:

Revenues

Management fees were $29.5 million for the six months ended June 30, 2017, an increase of $1.5 million, compared to $27.9 million for the six months ended June 30, 2016. The increase in management fees is primarily attributed to a net increase in average AUM by Logan Circle for the six months ended June 30, 2017, as compared to the prior period.

Incentive income was $0.6 million for the six months ended June 30, 2017, a net increase of $0.5 million, compared to less than $0.1 million for the six months ended June 30, 2016. The increase in incentive income is primarily the result of returns exceeding performance thresholds for the six months ended June 30, 2017 for a certain fund and managed accounts, as compared to the prior period.

Expenses

Expenses were $29.2 million for the six months ended June 30, 2017, an increase of $3.7 million, compared to $25.5 million for the six months ended June 30, 2016. The increase in expenses was primarily attributable to increases of (i) $3.0 million in general and administrative and corporate allocable expenses, of which $2.3 million was incurred by Fortress in connection with the announced sale of the Logan Circle business and (ii) $0.7 million in compensation and benefits expense for the six months ended June 30, 2017, as compared to the prior period.

Net Investment Income

Net investment income was $0.3 million for the six months ended June 30, 2017 and $0.4 million for the six months ended June 30, 2016. Net investment income consists primarily of earnings from our investment in a Logan Circle fund.

Three months ended June 30

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

Revenues

Management fees were $14.9 million for the three months ended June 30, 2017, an increase of $0.5 million, compared to $14.4 million for the three months ended June 30, 2016. The increase in management fees is primarily attributed to a net increase in average AUM by Logan Circle for the three months ended June 30, 2017, as compared to the prior period.

Incentive income was $0.2 million for the three months ended June 30, 2017, a net increase of $0.2 million, compared to less than $0.1 million for the three months ended June 30, 2016. The increase in incentive income is primarily the result of returns exceeding performance thresholds for the three months ended June 30, 2017 for a certain fund and managed accounts, as compared to the prior period.

Expenses

Expenses were $15.4 million for the three months ended June 30, 2017, an increase of $2.8 million, compared to $12.6 million for the three months ended June 30, 2016. The increase in expenses were primarily attributable to increases of (i) $2.3 million in general and administrative and corporate allocable expenses, of which $2.0 million was incurred by Fortress in connection with the announced sale of the Logan Circle business and (ii) $0.5 million in compensation and benefits expense for the three months ended June 30, 2017, as compared to the prior period.

Net Investment Income

Net investment income was $0.2 million for the three months ended June 30, 2017 and $0.3 million for the three months ended June 30, 2016. Net investment income consists primarily of earnings from our investment in a Logan Circle fund.

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Unallocated

	Six Months Ended June 30,		2017 vs. 2016	Three Months Ended June 30,		2017 vs. 2016
	2017	2016	$	2017	2016	$
Pre-tax distributable loss	$(25,195)	$(7,237)	$(17,958)	$(2,900)	$(3,503)	$603

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

Six months ended June 30

Pre-tax distributable loss increased by $18.0 million primarily due to an increase of $22.5 million in expenses incurred by Fortress related to our proposed acquisition by SoftBank for the six months ended June 30, 2017. This increase was partially offset by (i) a $2.5 million increase in foreign currency transaction gains and (ii) a $1.8 million decrease in interest expense primarily related to a decrease in the average debt balance for the six months ended June 30, 2017, as compared to the prior period.

Three months ended June 30

Pre-tax distributable loss decreased by $0.6 million primarily due to (i) a $1.6 million increase in foreign currency transaction gains and (ii) a $0.8 million decrease in interest expense primarily related to a decrease in the average debt balance for the three months ended June 30, 2017, as compared to the prior period. This decrease was partially offset by an increase of $1.9 million in expenses incurred by Fortress related to our proposed acquisition by SoftBank for the three months ended June 30, 2017.

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Embedded Gains (Losses)

The following table reflects all of our investments which are not marked to market through distributable earnings for segment reporting purposes as of June 30, 2017:

Fund	Fortress Share of NAV (A)	Fortress Segment Cost Basis (B)	Excess (C)	(Deficit) (C)
Main Funds				
Fund III and Fund III Coinvestment	$5,019	$—	5,019	$ N/A
Fund IV and Fund IV Coinvestment	72,834	21,719	51,115	N/A
Fund V and Fund V Coinvestment	143,514	4	143,510	N/A
Long Dated Value Funds	10,778	239	10,539	N/A
Real Assets Fund	753	—	753	N/A
Credit Opportunities Funds	118,130	60,272	57,858	N/A
Asia Funds (Japan Opportunity Funds and Global Opportunities Funds)	34,172	16,608	17,564	—
Real Estate Opportunities Funds	14,687	10,055	4,632	N/A
Secured Lending Fund I	137	134	3	N/A
MSR Opportunities Funds	2,125	1,560	565	N/A
Italian NPL Opportunities Fund	4,528	2,382	2,146	N/A
Other Funds (combined)				
Private investment #1	251,719	207,348	44,371	N/A
Private investment #2	39,333	553	38,780	N/A
Permanent capital vehicles				
Eurocastle (EURONEXT: ECT)	2,392	78	2,314	N/A
Drive Shack (NYSE: DS)	544	60	484	N/A
New Residential (NYSE: NRZ)	8,069	413	7,656	N/A
New Media (NYSE: NEWM)	1,009	54	955	N/A
New Senior (NYSE: SNR)	1,737	229	1,508	N/A
FTAI (NYSE: FTAI) (D)	6,447	6,283	164	N/A
Other				
Hedge fund sidepocket investments	2,801	1,858	1,063	(120)
Direct investments - Other	89,274	23,791	65,530	(47)
Total	$810,002	$353,640	$456,529	$ (167)

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

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

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

(D) All of the capital of WWTAI was contributed to FTAI which completed its initial public offering ("IPO") in May 2015. Excludes the FTAI shares received at IPO as incentive income, with a fair value of $5.5 million as of June 30, 2017.

Sensitivity

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

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Liquidity and Capital Resources

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

The receipt of management fees generally occurs on a fixed and fairly predictable schedule, subject to changes in the NAV of the Fortress Funds (due to performance or capital transactions). From time to time, we may elect, in our discretion, to defer the receipt of management or other fees or reimbursements, to which we are legally entitled, in order to optimize the operations of the underlying funds. As of June 30, 2017, amounts due from our funds included $45.8 million of past due management fees and $11.4 million of private equity general and administrative expenses advanced on behalf of a certain Fortress Fund. Although such fund is currently experiencing a liquidity issue, the past due amounts represent less than 7% of such fund's NAV and we believe these fees and reimbursable expenses will ultimately be collected. Subsequent to June 30, 2017, Fortress received $25.6 million of past due management fees as a result of a realization event at the fund. The amount of deferred management fees and reimbursements may increase in the future. Also, while we still believe that we will receive these amounts, if these deferrals continue or increase, they could meaningfully constrain our liquidity in the future.

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

We expect that our cash on hand and our cash flows from operating activities, capital receipts from balance sheet investments and available financing will be sufficient to satisfy our liquidity needs with respect to expected current commitments relating to investments and with respect to our debt obligations over the next twelve months. We estimate that our expected management fee receipts over the next twelve months, a portion of which may be deferred, will be sufficient (along with our cash on hand of $341.7 million as of June 30, 2017, our available draws under our credit facility of $168.1 million as of June 30, 2017, and capital receipts from our balance sheet investments) to meet our operating expenses (including compensation and lease obligations), required debt payments, tax distribution requirements, incentive income clawback obligations (if any), and fund capital commitments, in each case to be funded during the next twelve months (see obligation tables below). From time to time, we evaluate alternative uses for excess cash resources, including debt prepayments, payment of recurring or special dividends, funding investments or share repurchases, which may be subject to approval by our board of directors and will depend on various factors. These uses of cash would not (barring changes in other relevant variables, such as EBITDA and Consolidated

EBITDA, as defined in our credit agreement) cause us to violate any of our financial covenants under our credit agreement. We believe that the compensation we will be able to pay from these available sources will be sufficient to retain key employees and maintain an effective workforce. We may elect, if we deem it appropriate, to defer certain payments due to our principals and affiliates or raise capital to enable us to make payments required under our credit agreement or for other working capital needs.

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

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policies and rates applicable thereto, the rates at which we are willing to borrow, and the relative attractiveness of alternative investment or lending opportunities. Furthermore, raising equity capital could be dilutive to our current shareholders and issuing debt obligations could result in significant increases to operating costs. The level of our share price may also limit our ability to use our equity as currency in the potential acquisition of businesses, other companies or assets.

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

As of June 30, 2017, our most significant cash commitments and contractual cash requirements are our lease obligations, debt obligations, tax receivable agreement obligation and our capital commitments to our funds. Further, our potential liability for the contingent repayment of incentive income is discussed under "— Contractual Obligations" section herein.

Capital Commitments

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

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

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Our outstanding capital commitments as of June 30, 2017 consisted of the following.

	Outstanding Commitment
Private Equity Funds	
Fund III Coinvestment	$ 2
Fund IV	4,053
Fund IV Coinvestment	3
Fund V	6,143
Fund V Coinvestment	2
FHIF (Holiday)	8,089
FECI (Florida East Coast Railway/Florida East Coast Industries)	1,551
MSR Opportunities Fund I A	5
MSR Opportunities Fund I B	5
MSR Opportunities Fund II A	274
MSR Opportunities Fund II B	2
MSR Opportunities MA I	66
Private Equity Funds in Investment or Commitment Period	
Italian NPL Opportunities Fund	6,914
Credit PE Funds	
Credit Opportunities Fund	4,379
Credit Opportunities Fund II	1,918
Credit Opportunities Fund III	3,818
FCO Managed Accounts	11,688
Long Dated Value Fund I	1,960
Long Dated Value Fund II	3,140
Long Dated Value Fund III	265
LDVF Patent Fund	64
Real Assets Fund	11,068
Japan Opportunity Fund	4,667
Japan Opportunity Fund II	19,152
Global Opportunities Fund	699
Real Estate Opportunities Fund	618
Real Estate Opportunities REOC Fund	58
CFT Co-invest Fund	220
Credit PE Funds in Investment or Commitment Period	
FCO Managed Accounts	27,224
Credit Opportunities Fund IV	3,772
Life Settlements Fund	51
Life Settlements Fund MA	33
Real Estate Opportunities Fund II	8,260
Japan Opportunity Fund III	6,803
Global Opportunities Fund II	2,749
Secured Lending Fund I	366
FJOF3 Residential Coinvestment Fund	7,870
Credit Hedge Fund	

Credit Asset-Based Income Fund	21,345
Other	586
Total	$ 169,882

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Lease Obligations

Minimum future rental payments (excluding expense escalations) under our operating leases as of June 30, 2017 are as follows:

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

Debt Obligations

As of June 30, 2017, our debt obligations consisted of our credit agreement and promissory note, as described below.

In January 2016, we 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 our then existing credit agreement which had $75.0 million outstanding as of December 31, 2015. The 2016 Credit Agreement is not collateralized by the assets of Fortress. The 2016 Credit Agreement generally bears interest at an annual rate equal to LIBOR plus an applicable rate that fluctuates depending upon the credit rating of the borrower's senior unsecured long term debt and a commitment fee on undrawn amounts that fluctuates depending upon such credit rating, as well as other customary fees. The 2016 Credit Agreement matures in January 2021.

Increases in the interest rate on our debt obligations under the 2016 Credit Agreement, whether through amendments, refinancings, increases in LIBOR, or a downgrade of our credit rating, may result in a direct reduction in our earnings and cash flow from operations and, therefore, impact our liquidity.

The following table presents summarized information regarding our debt obligations:

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

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

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

As a result of our initial public offering and related transactions, secondary public offerings, and other transactions, FIG Asset Co. LLC lent aggregate excess proceeds of approximately $811.2 million to FIG Corp., pursuant to a demand note, as amended. As of June 30, 2017, the outstanding balance was approximately $590.7 million including unpaid interest. This intercompany debt is eliminated in consolidation.

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Covenants

The borrower and the guarantors are required to prepay any amounts outstanding under the 2016 Credit Agreement upon the occurrence of certain events.

The events of default under the 2016 Credit Agreement are typical of such agreements and include payment defaults, failure to comply with credit agreement covenants, cross-defaults to material indebtedness, bankruptcy and insolvency, and change of control. A default under the 2016 Credit Agreement would likely have a material, adverse impact on our liquidity.

The 2016 Credit Agreement contains customary representations and warranties and affirmative and negative covenants that, among other things, restrict the ability of the borrower, the guarantors and certain of their subsidiaries to create or incur certain liens, incur or guarantee additional indebtedness, merge or consolidate with other companies or transfer all or substantially all of their respective assets, transfer or sell assets, make restricted payments, engage in transactions with affiliates and insiders, and incur restrictions on the payment of dividends or other distributions.

These covenants are subject to a number of limitations and exceptions set forth in the 2016 Credit Agreement. In addition, the borrower must not:

- Permit AUM (as defined as Management Fee Earning Assets in the 2016 Credit Agreement) to be less than $30.0 billion as of the end of any fiscal quarter;
- Permit the Consolidated Leverage Ratio (a measure of Adjusted Net Funded Indebtedness compared to Consolidated EBITDA, each such term as defined in the 2016 Credit Agreement) to be greater than 2.50 to 1.0 as of the end of any fiscal quarter for the four-quarter period ending on such date; or
- Permit the Consolidated Interest Coverage Ratio (a measure of Consolidated EBITDA compared to Consolidated Interest Charges, each such term as defined in the 2016 Credit Agreement) to be less than 4.00 to 1.0 as of the end of any fiscal quarter for the four-quarter period ending on such date.

The following table sets forth the financial covenant requirements under the 2016 Credit Agreement as of June 30, 2017:

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

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

(B) The Consolidated Leverage Ratio is equal to Adjusted Net Funded Indebtedness, as defined, divided by the trailing four quarters' Consolidated EBITDA, as defined. The Consolidated Interest Coverage Ratio is equal to the quotient of (A) the trailing four quarters' Consolidated EBITDA, as defined, divided by (B) the trailing four quarters' interest charges as defined in the 2016 Credit Agreement. Adjusted Net Funded Indebtedness and Consolidated EBITDA are computed as shown below (in millions). 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.

	June 30, 2017 (in millions)
Outstanding debt	$ 182.8
Plus: Outstanding letters of credit	1.9
Less: Cash (up to $50 million)	—
Adjusted Net Funded Indebtedness	$ 184.7

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	Twelve Months Ended June 30, 2017 (in millions)
Fortress Investment Group LLC net income	$ 248.2
Depreciation and amortization, interest expense and income taxes	63.8
Extraordinary or non-recurring gains and losses	22.2
Incentive Income Adjustment	38.8
Other Income Adjustment	(56.6)
Compensation expenses recorded in connection with the assignment of certain publicly traded permanent capital vehicle Options and Stock Based Compensation	43.3
Non-controlling interest and tax receivable agreement adjustments	4.7
(Income) loss of excluded entities (as defined in the 2016 Credit Agreement)	0.1
Consolidated EBITDA	$ 364.5
Interest charges	$ 8.8

The foregoing summary is not complete and is qualified in its entirety by reference to the 2016 Credit Agreement, which is filed as an exhibit and incorporated by reference herein.

Dividends / Distributions

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

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

During the six months ended June 30, 2017, Fortress Operating Group declared distributions of $40.4 million to the principals.

Cash Flows

Our primary cash flow activities are: (i) generating cash flow from operations, (ii) making investments to and receiving distributions from the Fortress Funds, (iii) meeting financing needs through, and making required payments under, our credit agreement and other debt, and (iv) distributing cash flow to equity holders, as applicable.

As described above in "— Results of Operations," our AUM has changed throughout the periods reflected in our financial statements included in this Quarterly Report on Form 10-Q. This change is a result of the Fortress Funds raising and investing capital, and generating gains from investments, offset by redemptions, capital distributions and losses.

Our dividend policy has certain risks and limitations, particularly with respect to liquidity. Although we may pay dividends in accordance with our stated dividend policy, we may not pay the amount of dividends suggested by our policy, or at all, if, among other things, we do not have the cash necessary to pay the intended dividends, if such payment would violate the terms of our credit agreement, or if our board of directors determines it would be prudent to reduce or eliminate future dividend payments. To the extent we do not have cash on hand sufficient to pay dividends, we may borrow funds to pay dividends, but we are not obligated to do so. By paying cash dividends rather than investing that cash in our future growth, we risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our operations or unanticipated capital expenditures, should the need arise.

Operating Activities

Our net cash flow provided by (used in) operating activities was $(53.4) million and $18.1 million during the six months ended June 30, 2017 and 2016, respectively.

Our net cash flow provided by (used in) operating activities are generally comprised of the collection of management fees from the funds we manage or co-manage, the collection of incentive income from our permanent capital vehicles, private equity funds

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and credit PE funds (whether recognized as revenue in the current period or deferred to future periods), payments for compensation and benefits (including profit sharing and Principals' Compensation), general and administrative expenses, interest expense and income taxes. Additionally, net cash provided by (used in) operations includes the activities of the investment funds we consolidate. Such cash flows are of the consolidated funds and do not directly impact the cash flow related to our Class A shareholders.

The decrease in net cash from operating activities in 2017 was primarily due to a $38.2 million decrease of management fees received from the funds we manage or co-manage, a decrease of $17.6 million provided by the investment funds we consolidate, a $14.9 million increase in cash paid for general and administrative expenses, a $19.2 million increase in amounts paid for compensation and benefits, an increase in cash paid for taxes of $5.1 million and a $4.8 million decrease in cash collected, net of cash distributed, from affiliates. The decrease in net cash provided by operating activities was partially offset by a $20.4 million increase in distributions of earnings from equity method investees, an increase in cash received for incentive income of $16.1 million (the first quarter of 2016 includes the repayment of our clawback obligation to Fund III related to prior incentive income distributions received) and a decrease in cash paid interest of $1.7 million.

Investing Activities

Our net cash flow provided by investing activities was $120.3 million and $118.9 million during the six months ended June 30, 2017 and 2016, respectively. Our investing activities primarily included: (i) contributions to equity method investees of $(12.9) million and $(7.1) million during the six months ended June 30, 2017 and 2016, respectively, (ii) distributions of capital from equity method investees (which includes distributions of incentive income that were reinvested in our credit and liquid hedge funds) of $141.2 million and $135.6 million during six months ended June 30, 2017 and 2016, respectively, (iii) purchases of fixed assets of $(8.0) million and $(10.6) million during these periods, respectively, and (iv) $0.9 million from the sale of direct investments during the six months ended June 30, 2016.

Financing Activities

Our net cash flow used in financing activities was $(122.2) million and $(197.9) million during the six months ended June 30, 2017 and 2016, respectively. Our financing activities primarily included (i) distributions made to principals, including those classified within "principals' and others' interests in consolidated subsidiaries," of $(40.4) million and $(54.3) million during six months ended June 30, 2017 and 2016, respectively, (ii) distributions to employees and others related to their interests in consolidated subsidiaries of $(26.3) million and $(66.7) million during six months ended June 30, 2017 and 2016, respectively, (iii) contributions from employees and others related to their interests in consolidated subsidiaries of $3.7 million during six months ended June 30, 2017 and less than $0.1 million during the six months ended June 30, 2016, (iv) dividend and dividend equivalent payments of $(41.2) million and $(62.9) million during six months ended June 30, 2017 and 2016, respectively, (v) our borrowing of $175.0 million and debt repayment of $(145.0) million in connection with the 2016 Credit Agreement, in addition to $(3.5) million of payments for deferred financing costs during the six months ended June 30, 2016, (vi) payments related to the purchase agreement with Nomura of $(8.4) million and $(10.6) million during six months ended June 30, 2017 and 2016, respectively, (vii) payments of $(23.4) million to purchase 4,798,863 Class A shares through a modified "Dutch Auction" self-tender offer during the six months ended June 30, 2016 and (viii) withholding tax paid on behalf of employees with respect to the delivery of RSUs, effectively repurchasing Class A shares, of $(9.6) million and $(6.6) million during six months ended June 30, 2017 and 2016, respectively.

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Critical Accounting Policies

General

Consolidation

The determination of whether or not to consolidate entities under GAAP requires significant judgment. To make these judgments, management performs an entity-by-entity analysis with consideration of 1) whether Fortress has a variable interest in the entity, 2) whether the entity is a variable interest entity ("VIE"), and 3) whether Fortress consolidates the entity.

When determining whether Fortress has a variable interest in entities it evaluates for consolidation, Fortress considers interests in the entities and fees it receives to act as a decision maker or service provider to the entity being evaluated. If Fortress determines that it does not have a variable interest in an entity, no further consolidation analysis is performed as Fortress would not be required to consolidate the entity. Fees received by Fortress are not variable interests if (i) the fees are compensation for services provided and are commensurate with the level of effort required to provide those services, (ii) the service arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm's length and (iii) Fortress's other economic interests in the VIE held directly and indirectly through its related parties, as well as economic interests held by related parties under common control, where applicable, would not absorb more than an insignificant amount of the entity's losses or receive more than an insignificant amount of the entity's benefits. If fees paid to Fortress were determined to be a variable interest, it could result in Fortress being the primary beneficiary of and thus consolidating the entity being evaluated. Evaluation of these criteria requires judgment.

For those entities in which it has a variable interest, Fortress performs an analysis to first determine whether the entity is a VIE. This determination includes considering whether the entity's equity investment at risk is sufficient, whether 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, and whether the entity's at-risk equity holders have the characteristics of a controlling financial interest.

Fortress is the general partner/manager of and has a variable interest in certain limited partnerships and similar entities. One of the factors that Fortress considers in evaluating whether these entities are VIEs is whether a simple majority (or lower threshold) of limited partners with equity at risk are able to exercise substantive kick-out rights. Kick-out rights are generally defined as the ability to remove the general partner/manager or to dissolve the entity without cause. If the limited partners with equity at risk are not able to exercise substantive kick-out rights, then the entity is a VIE. Fortress is also the manager of and has a variable interest in certain entities other than limited partnerships. One of the factors that Fortress considers in evaluating whether these entities are VIEs is whether the investors have power through voting rights or similar rights (such as those of a common shareholder in a corporation); and if not, whether a single equity holder has the unilateral ability to exercise substantive kick-out rights. If investors do not have power through voting rights or similar rights or a single equity holder does not have the unilateral ability to exercise substantive kick-out rights, then the entity is a VIE. These analyses require judgment.

A VIE must be consolidated by its primary beneficiary. The primary beneficiary of a VIE is generally defined as the party who has a controlling financial interest in the VIE. Fortress shall be deemed to have a controlling financial interest in a VIE if it and its related parties under common control as a group, where applicable, have (i) the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. For purposes of evaluating (ii) above, fees paid to Fortress are excluded if the fees are compensation for services provided commensurate with the level of effort required to be performed and the arrangement includes only customary

terms, conditions or amounts present in arrangements for similar services negotiated at arm's length. This analysis requires judgment. The primary beneficiary evaluation is generally performed qualitatively. However, quantitative information may also be considered in the analysis, as appropriate. Changes in the economic interests (either by Fortress, affiliates of Fortress or third parties) or amendments to the governing documents of the VIE could affect an entity's status as a VIE or the determination of the primary beneficiary. The primary beneficiary evaluation is updated continuously.

For voting interest entities ("VOEs"), Fortress shall consolidate the entity if it has a controlling financial interest. Fortress has a controlling financial interest in a VOE if (i) for legal entities other than limited partnerships, Fortress owns a majority voting interest in the VOE or, for limited partnerships and similar entities, Fortress owns a majority of the entity's kick-out rights through voting limited partnership interests and (ii) non-controlling shareholders or partners do not hold substantive participating rights and no other conditions exist that would indicate that Fortress does not control the entity.

For entities over which Fortress exercises significant influence but which do not meet the requirements for consolidation, Fortress uses the equity method of accounting whereby it records its share of the underlying income of these entities. These entities include

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the Fortress Funds. The evaluation of whether Fortress exerts control or significant influence over the financial and operational policies of an entity requires judgment based on the facts and circumstances surrounding each individual entity.

The analysis as to whether to consolidate an entity is subject to a significant amount of judgment. Some of the criteria considered are the determination as to the degree of control over an entity by its various equity holders, the design of the entity, how closely related the entity is to each of its equity holders, the relation of the equity holders to each other and a determination of the primary beneficiary in entities in which we have a variable interest. These analyses involve estimates, based on the assumptions of management, as well as judgments regarding significance and the design of the entities. If, as a result of such analysis, Fortress was required to consolidate an entity, it could have a material impact on our gross revenues, expenses, net income, assets, liabilities and total equity. However, we would not expect it to materially impact our net income, or equity, attributable to Class A shareholders.

As of June 30, 2017, the investment vehicles in which Fortress held a variable interest were comprised of 55 VIEs and 87 voting interest entities. For additional discussion about our VIEs and other unconsolidated entities see Note 3 to Part I, Item 1, "Financial Statements — Investments and Fair Value."

Revenue Recognition on Incentive Income

Incentive income is calculated as a percentage of the returns, or profits, earned by the Fortress Funds subject to the achievement of performance criteria. Incentive income from certain of the private equity funds and credit PE funds we manage is subject to contingent repayment (or clawback) and may be paid to us as particular investments made by the funds are realized. If, however, upon liquidation of a fund the aggregate amount paid to us as incentive income exceeds the amount actually due to us based upon the aggregate performance of the fund, the excess is required to be returned by us (i.e. "clawed back") to that fund. We have elected to adopt the preferred method of recording incentive income subject to contingencies. Under this method, we do not recognize incentive income subject to contingent repayment (or clawback) until all of the related contingencies have been resolved. Deferred incentive income related to a particular private equity fund or credit PE fund, each of which has a limited life, would be recognized upon the termination of the private equity fund or credit PE fund, or when distributions from a fund exceed the point at which a clawback of a portion or all of the historic incentive income distributions could no longer occur. Recognition of incentive income allocated to us prior to that date is deferred and recorded as a deferred incentive income liability. For GAAP purposes, the determination of when incentive income is recognized as income is formulaic in nature, resulting directly from each fund's governing documents. For certain funds, a portion (or all) of any incentive income distribution may be deemed a "tax distribution." Tax distributions are not subject to contingencies. The determination of the amount of a distribution which represents a tax distribution is based on an estimate of both the amount of taxable income generated and the applicable tax rate. Estimates of taxable income are subject to significant judgment.

Profit Sharing Arrangements

Pursuant to employment arrangements, certain of Fortress's employees are granted profit sharing interests and are thereby entitled to a portion of the incentive income realized from certain Fortress Funds. Accordingly, incentive income resulting from a realization event within a fund gives rise to the incurrence of a profit sharing obligation and amounts payable under these profit sharing plans are recorded as compensation expense when they become probable and reasonably estimable.

For profit sharing plans related to hedge funds and permanent capital vehicles, compensation expense related to incentive income is accrued in the period to which it relates regardless of when incentive income is recognized. In addition, certain of Fortress's employees are granted rights in options it holds in the publicly traded permanent capital vehicles (the "tandem options"). The fair value of the tandem options are recorded as profit sharing compensation

expense at the grant date. Subsequent to the grant date, the related liability, included in accrued compensation and benefits, is marked to fair value through compensation expense until such time as the rights are exercised or expire.

For profit sharing plans related to private equity funds and credit PE funds, where incentive income is received as investments are realized but is subject to clawback (see "— Revenue Recognition on Incentive Income" above), although Fortress defers the recognition of incentive income until all contingencies are resolved, accruing expense for employee profit sharing is based upon when it becomes probable and reasonably estimable that incentive income will be received and therefore a profit sharing liability has been incurred. Based upon this policy, the recording of an accrual for profit sharing expense to employees generally precedes the recognition of the related incentive income revenue. As a result, incentive income realization events for the private equity funds and credit PE funds, which benefit Fortress economically, cause our GAAP earnings to decline in the short term as expense is recognized before the corresponding revenue. Such profit sharing expense may be reversed upon determination that the expense is no longer probable of being incurred based on the performance of the fund.

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Our determination of the point at which it becomes probable and reasonably estimable that incentive income will be earned and therefore a corresponding profit sharing expense should be recorded is based upon a number of factors, including the level of realized gains generated by the underlying funds which ultimately give rise to incentive income payments. A realization event has occurred when an investment within a fund generates proceeds in excess of its related invested capital, such as when an investment is sold at a gain. Changes in the judgments and estimates made in arriving at the appropriate amount of profit sharing expense accrual could materially impact net income.

For further information on amounts paid and payable in the future under our profit sharing arrangements, please see Note 2 to Part I, Item 1, "Financial Statements — Management Agreements and Fortress Funds."

Valuation of Investments

Our investments in the Fortress Funds are recorded based on the equity method of accounting. The Fortress Funds, excluding the permanent capital vehicles, themselves apply specialized accounting principles for investment companies. As such, our results are based on the reported fair value of the investments held by the funds as of the reporting date with our pro rata ownership interest (based on our investment in each fund) in the changes in each fund's NAV reflected in our results of operations. Fair value generally represents the amount at which an investment could be exchanged in an orderly transaction between willing parties, other than in a forced or liquidation sale. We are the manager or co-manager of these funds and we determine the valuation of the underlying investments, many of which are illiquid and/or without a public market. The fair value of these illiquid investments is generally estimated based on proprietary models developed by us, which include discounted cash flow analyses, public market comparables, and other techniques and may be based, at least in part, on independently sourced market parameters. The material estimates and assumptions used in these models include the timing and expected amount of cash flows, the appropriateness of discount rates used, and, in some cases, the ability to execute, timing of, and estimated proceeds from expected financings. Significant judgment and estimation goes into the selection of an appropriate valuation methodology as well as the assumptions which generate these models, and the actual values realized with respect to investments could be materially different from values obtained based on the use of those estimates. The valuation methodologies applied impact the reported value of our investments in the Fortress Funds in our condensed consolidated financial statements.

With respect to valuation information provided by independent valuation agents, or pricing services, Fortress performs procedures to verify that such information is reasonable and determined in accordance with GAAP, and that the information is properly classified in the valuation hierarchy. Depending on the circumstances, these procedures generally include the following: (i) using established procedures to assess and approve agents, and their valuation methodologies, prior to their selection, (ii) obtaining a report from an independent auditing firm regarding the reliability of the internal controls of the pricing service providers, if available, (iii) performing due diligence on the agent's processes and controls, including developing an understanding of the agent's methodologies, (iv) obtaining broker quotations and/or performing an internal valuation in order to gauge the reasonableness of the information provided by the agent, (v) challenging the information provided, as appropriate, and (vi) performing back-testing of valuation information against actual prices received in transactions.

In addition, our investments in the publicly traded permanent capital vehicles, including options, are held at fair value. The assumptions used in valuing the options include volatility, amongst others, which is subject to judgment and estimation. We base this assumption on historical experience, current expectations, the market environment, and other factors.

Private Equity Funds

Under the valuation policies and guidelines of our private equity funds, investments are categorized into two types, those for which there is a public market quotation and those for which there is no public market quotation. Investments for which there is a public market quotation are valued at their quoted market price as of the valuation date. A discount may be applied to those investments with sale restrictions. Investments for which there is no public market quotation are referred to as private securities and are valued at fair value. Our guidelines state that the fair values of private investments are generally based on the following methods:

1. Market transactions of similar or identical investments
2. Analytical methods (including, but not limited to, income approach and market approach)

Our private equity funds have used the price of market transactions in similar or identical investments as a valuation method. In cases in which there has been a significant transaction in a similar or identical private security held by our private equity funds, the value of the private investment is based upon the price of such recent private transaction.

If the fair value of private investments held by our private equity funds cannot be valued by reference to a market transaction, then the primary analytical methods used to estimate fair value are the discounted cash flow method, the market approach by

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reference to performance statistics of similar public companies (for example, EBITDA multiples) or the use of third party valuations. Sensitivity analysis is applied to the estimated future cash flows using various factors depending on the investment, including assumed growth rates (in cash flows), capitalization rates (for determining terminal values) and appropriate discount rates based on the investment to determine a range of reasonable values. The valuation based on the inputs determined to be the most probable is used as the fair value of the investment.

Credit Hedge Funds

In our credit hedge funds, investments are valued using quoted market prices, to the extent available. For investments where quoted market prices are not readily available, fair value is generally based on the methods and techniques described below to estimate the fair value of the relevant type of investment. Also, independent valuation agents are generally used to confirm the fund's estimate of fair value of investments, except investments in other funds, where quoted market prices are not readily available.

Private loans — The most common method used to value private loans is a discounted cash flow analysis. In this method, the estimated future payments to be made by the borrower under the loan agreement are discounted to the present using a discount rate appropriate to the risk level of the borrower and current market interest rates.

If it is likely that a borrower will not be able to repay a loan in full, the loan may be valued by a recoverability analysis, which values the total amount of assets of the borrower that might be sold to raise proceeds to repay the loan (and debt, if any, that has a higher claim against assets) if necessary. Under this method, all assets of the borrower must be analyzed and valued. If the total value is less than the total payments due under the loan (and debt, if any, that has a higher claim against assets), the fair value of the loan will be reduced.

Asset-backed securities and collateralized debt obligations for which there are no quoted market prices are valued using a discounted cash flow analysis based on the estimated cash flows to be generated by the relevant underlying assets and the appropriate interest rate based on the nature of the underlying assets.

Real estate is usually valued based on sales of comparable property and/or the discounted cash flow method. The value of real estate which is net leased is also influenced by the credit quality of major tenants, as their ability to make lease payments is relevant to the value of the property under lease.

Other investments valued using methods, including internal models, with significant unobservable market parameters consist primarily of investments in other funds and certain illiquid investments.

Credit PE Funds

Investments held within our credit PE funds are valued in a consistent manner with either the private equity funds or credit hedge funds, as applicable depending on the nature of the investment.

Liquid Hedge Funds

With the exception of investments in other funds, investments held within our liquid hedge funds are valued in a consistent manner with either the private equity funds or credit hedge funds as applicable depending on the nature of the investment.

Investments in other funds are valued primarily based on the net asset values provided by the fund managers of those funds.

Traditional Asset Management Business

Investments made within this business are valued in a consistent manner with our funds' policies as described above.

Sensitivity

Changes in the fair value of our funds' investments would impact our results of operations as described in Part I, Item 3, "Quantitative and Qualitative Disclosures About Market Risk."

As discussed above, the determination of investment fair values involves management's judgments and estimates. The degree of judgment involved is dependent upon the availability of quoted market prices or observable market parameters. The following table summarizes the investments held by the Fortress Funds by valuation methodology as of June 30, 2017. As of June 30, 2017, revenues from our traditional asset management business are not material to our operations and are therefore not included in the analysis below.

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The categories displayed below correspond directly with the disclosures which are required under fair value accounting guidance.

Basis for Determining Fair Value	Private Equity Funds	Credit Hedge Funds	Credit PE Funds	Liquid Hedge Funds (B)	Total Fund Holdings
1. Quoted market prices	0 %	1 %	5 %	0 %	2 %
2. Other observable market parameters	30 %	6 %	6 %	0 %	13 %
3. Significant unobservable market parameters (A)	70 %	93 %	89 %	100 %	85 %
Total	100 %	100 %	100 %	100 %	100 %

(A) A substantial portion of our funds' level 3 investment valuations are based on third party pricing services, broker quotes, or third party fund manager statements, in addition to internal models. In particular, approximately 95% and 37% of our credit hedge funds' and credit PE funds', respectively, level 3 valuations were based on such sources. Approximately 4% of the investments included in level 3 for the credit hedge funds are valued using NAV as a practical expedient.

(B) The level 3 investments in the liquid hedge funds segment are primarily related to the illiquid SPV and sidepocket investments within the Fortress Partners Funds and Drawbridge Global Macro Funds. Liquid hedge funds excludes the Affiliated Manager.

As of June 30, 2017, $7.0 billion of investments in our private equity funds, $9.4 billion of investments in our credit hedge funds, $10.8 billion of investments in our credit PE funds and $0.1 billion of investments in our liquid hedge funds are valued with significant unobservable market parameters. A 10% increase or decrease in the value of investments held by the Fortress Funds valued at level 3 would have had the following effects on our results of operations on an unconsolidated basis for the six months ended June 30, 2017, consistent with the table above:

	Private Equity Funds	Credit Hedge Funds	Credit PE Funds	Liquid Hedge Funds
Management fees, per annum on a prospective basis	$1.1 million or ($2.4 million) (A)	$16.4 million or ($16.4 million)	$0.1 million or ($1.4 million) (A)	less than $0.1 million or less than ($0.1 million)
Incentive income	N/A (B)	N/A (C)	N/A (B)	N/A (C)
Earnings from equity method investees	$36.4 million or ($36.4 million)	$6.5 million or ($6.5 million)	$14.7 million or ($14.7 million)	$0.2 million or ($0.2 million)

The tables above exclude non-investment assets and liabilities of the funds, which are not classified in the fair value hierarchy. Such net assets may be material, particularly within the hedge funds.

(A) Private equity fund and credit PE fund management fees would be generally unchanged as, for investments in non-publicly traded securities, they are generally not based on the NAV of the funds, but rather on the amount of capital invested in the funds. However, if the value of a portfolio investment of certain private equity funds and credit PE funds is reduced below its invested capital, there would be a reduction in management fees. As of June 30, 2017, $1.1 billion of such portfolio investments valued at level 3 were carried at or below their invested capital. Management fees are generally calculated as of certain reset dates. The amounts disclosed show what the estimated effects would be to management fees over the next year assuming June 30, 2017 is the current reset date.

(B) Private equity fund and credit PE fund incentive income would be unchanged as it is not recognized until received and all contingencies are resolved. Furthermore, incentive income would be based on the actual price realized in a

transaction, not based on a valuation.

(C) Hedge fund incentive income would be unchanged as it is not recognized until all contingencies are resolved in the fourth quarter (and the Value Recovery Funds, Mount Kellett Funds and JP Funds generally do not pay any current incentive income). Incentive income is generally not charged on amounts invested by liquid hedge funds in funds managed by external managers.

Income Taxes

FIG Corp. has recorded a significant deferred tax asset, primarily in connection with our initial public offering and related transactions. These transactions resulted in the basis of Fortress Operating Group's net assets being in excess of its book basis, which will result in future tax deductions. A substantial portion of this asset is offset by a liability associated with the tax receivable agreement with our Principals.

The realization of the deferred tax assets is dependent on the amount of our future taxable income before deductions related to the establishment of the deferred tax asset. The deferred tax asset is comprised of a portion that would be realized in connection with future ordinary income and a portion that would be realized in connection with future capital gains.

We project that we will have sufficient future taxable ordinary income in the normal course of business without any projected significant change in circumstances to fully realize the portion of the deferred tax asset that would be realized in connection with future ordinary income. Our projections do not include material changes in AUM or incentive income from the current levels. However, the projections do contain an estimated marginal growth assumption. Based on our historical and projected taxable

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income, we have concluded that the realization of the portion of the deferred tax asset that would be realized in connection with future taxable ordinary income is more likely than not. If our estimates change in the future and it is determined that it is more likely than not that some portion, or all, of this portion of the deferred tax asset will not be realized, a valuation allowance would be recorded for that portion. However, in most cases, any tax expense recorded in connection with the establishment of a valuation allowance or the reversal of a deferred tax asset would be partially offset by other income recorded in connection with a corresponding reduction of a portion of the tax receivable agreement liability (see below). The following table sets forth our federal taxable income for historical periods before deductions relating to the establishment of the deferred tax assets, other than deferred tax assets arising from equity-based compensation, as well as the average of ordinary income needed over the approximate period of the deductibility (approximately 15 years from the date of establishment, based on the amortization period of the tax basis intangible assets recorded) in order to fully realize the portion of the deferred tax asset that would be realized in connection with future ordinary income (in millions):

2013	$90.7
2014	$150.9
2015	$124.7
2016: Estimated	$150.3
2017: Estimated	$198.2
2018 - 2025: Average Required	$68.7

We have made an assessment of the realizability of the portion of the deferred tax asset that would only be realized in connection with future capital gains. We have established a full valuation allowance for this portion of the deferred tax asset as management does not believe that the projected generation of material taxable capital gains is sufficiently assured in the foreseeable future. The establishment of the valuation allowance resulted in a reduction of the obligations associated with the tax receivable agreement and a corresponding reduction of the deferred tax asset.

For further information on our effective tax rate, and the tax receivable agreement, see Note 5 to our financial statements in Part I, Item 1, "Financial Statements — Income Taxes and Tax Related Payments." Our effective tax rate for GAAP reporting purposes may be subject to significant variation from period to period. In addition, legislation has been introduced in the United States, which, if enacted in its current or similar form, could cause us to incur a material increase in our tax liability. See Part II, Item 1A, "Risk Factors — Risks Related to Taxation — Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis."

Equity-Based Compensation

We currently have several categories of equity-based compensation which are described in Note 7 to Part I, Item 1, "Financial Statements — Compensation." As a result of the adoption of the ASU 2016-09 effective January 1, 2017, Fortress accounts for forfeitures as they occur, rather than estimating expected forfeitures. Previously, the aggregate fair value of each of the RSU grants that are subject to service conditions was reduced by an estimated forfeiture factor (that is, the estimated amount of awards which will be forfeited prior to vesting).

The risk-free discount rate assumptions used in valuing certain awards were based on the applicable U.S. Treasury rate of like term. The dividend yield assumptions used in valuing certain awards were based on our actual dividend rate at the time of the award; the dividend growth rate used with respect to one type of award was based on management's judgment and expectations.

The following elements of the accounting for equity-based compensation are subject to significant judgment and estimation:

- the determination of the grant date;
- the discount related to RSUs which do not entitle the recipients to dividend equivalents prior to the delivery of Class A shares. This discount was based on the estimated present value of dividends to be paid during the service period, which in turn was based on an estimated initial dividend rate, an estimated dividend growth rate and a risk-free discount rate of like term.

Each of these elements, particularly dividend growth rate used in valuing certain awards, are subject to significant judgment and variability and the impact of changes in such elements on equity-based compensation expense could be material. Increases in the assumed dividend growth rate would (i) decrease compensation expense related to RSUs which do not entitle recipients to dividend equivalents since the estimated value of the foregone dividends would have increased, thereby increasing the discount related to

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their non-receipt, and (ii) decrease compensation expense related to RSUs with no service conditions since the discount for delayed delivery would have increased. Changes in these assumptions will only affect awards made in the future and awards whose accounting is impacted by changes in their fair value (generally those to non-employees).

Recent Accounting Pronouncements

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

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

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

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

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") which is a comprehensive new revenue recognition standard for contracts with customers that will

supersede most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The entity will recognize revenue to reflect the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. In July 2015, the FASB deferred the effective date of the new revenue recognition standard. The new standard is effective for Fortress beginning January 1, 2018. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. Fortress currently recognizes incentive income subject to contingent repayment once all contingencies have been resolved. Whereas ASU 2014-09 requires an entity to recognize such revenue when it concludes that it is probable that a significant reversal in the cumulative amount of revenue recognized will not occur when the uncertainty is resolved. As such, the adoption of ASU 2014-09 may require Fortress to recognize incentive income earlier than as prescribed under current guidance.

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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.

Market Risks

Our predominant exposure to market risk is related to our role as investment manager for the Fortress Funds and the sensitivities to movements in the fair value of their investments on management fee and incentive income revenue, as well as on returns on our investments in such funds. For a discussion of the impact of market risk factors on our financial instruments refer to Part I, Item 3 "Quantitative and Qualitative Disclosures About Market Risk" and "— Critical Accounting Policies — Valuation of Investments" above.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

See Note 9 to Part I, Item 1 "Financial Statements" for a discussion of our commitments and contingencies.

Contractual Obligations

As of June 30, 2017, our most significant contractual obligations are our lease obligations, debt obligations, tax receivable agreement obligations and our capital commitments to our funds.

Our total future contractual obligations increased from $983.0 million as of December 31, 2016 to $1,005.8 million as of June 30, 2017.

Our total operating lease agreement obligations increased from $362.2 million as of December 31, 2016 to $367.4 million as of June 30, 2017.

Our debt obligations payable decreased from $198.8 million as of December 31, 2016 to $198.3 million as of June 30, 2017, including estimates for interest payments and unused commitment fees.

We refer to the amount of clawback that would be due based on a liquidation of the related Fortress Funds at their net asset value as intrinsic clawback. There was no intrinsic clawback as of June 30, 2017 and December 31, 2016.

Our estimated liability under the tax receivable agreement increased from $244.3 million as of December 31, 2016 to $244.5 million as of June 30, 2017.

Our outstanding capital commitments, including our commitments to our funds, have increased from $143.0 million as of December 31, 2016 to $169.9 million as of June 30, 2017.

In the fourth quarter of 2016, we executed new employment agreements with our principals which create new five-year employment terms running from January 1, 2017 through December 31, 2021, and are on the same economic and other terms as the employment agreements which expired on December 31, 2016. These agreements do not contain fixed and determinable payments, other than a base salary of $0.2 million per annum per principal, as all payments are performance based. Payments under these agreements may be material.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our predominant exposure to market risk is related to our role as investment manager for the Fortress Funds and the sensitivities to movements in the fair value of their investments on management fee and incentive income revenue and investment income (loss).

The fair value of the financial assets and liabilities of the Fortress Funds may fluctuate in response to changes in the value of securities, foreign exchange, commodities and interest rates. Fluctuations in the fair value of the Fortress Funds will continue to directly affect the carrying value of our investments in the Fortress Funds and thereby our earnings (losses) from equity method investees, as well as the management fees and incentive income we record, to the extent that they are earned based on fair value or NAV. As of June 30, 2017, revenues from our traditional asset management business are not material to our operations and are therefore not included in the analysis below.

Risks are analyzed across funds from the "bottom up" and from the "top down" with a particular focus on asymmetric risk. Management gathers and analyzes data, monitors investments and markets in detail, and constantly strives to better quantify, qualify and circumscribe relevant risks.

Although the Fortress Funds share many common themes, each segment within the company has its own investment and risk management process and related infrastructure to address those risks.

- the investment process of our private equity funds involves a detailed analysis of potential acquisitions, and asset management teams assigned to oversee the strategic development, financing and capital deployment decisions of each portfolio investment;

- our credit hedge funds, credit PE funds and publicly traded permanent capital vehicles perform credit and cash-flow analysis of borrowers, tenants and credit-based assets, and have asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers, tenants and other obligors, asset pool performance statistics, tracking of cash payments relating to investments, and ongoing analysis of the credit status of investments; and

- our liquid hedge funds continuously monitor a variety of markets for attractive trading opportunities, applying various risk management techniques to analyze risk related to specific assets or portfolios, as well as fund-wide risks.

The following table summarizes our financial assets and liabilities that may be impacted by various market risks such as equity prices and exchange rates as of June 30, 2017 (in thousands):

Assets:	
Investments	$849,660
Investments in options	65,494

Since Fortress's investments in the various Fortress Funds are not equal, Fortress's risks from a management fee and incentive income perspective (which mirror the funds' investments) and its risks from an investment perspective are not proportional.

Fortress Funds' Market Risk Impact on GAAP Management Fees

Our management fees are generally based on: (i) capital commitments to a Fortress Fund, (ii) capital invested in a Fortress Fund, (iii) the NAV of a Fortress Fund or (iv) the contributed capital or book equity (as defined) of a publicly traded permanent capital vehicle, as described in our condensed consolidated financial statements. Management fees will only be impacted by changes in market risk factors to the extent they are based on NAV. These management fees

will be increased (or reduced) in direct proportion to the impact of changes in market risk factors on the investments in the related funds and would occur only in periods subsequent to the change, as opposed to having an immediate impact. The proportion of our management fees that are based on NAV is dependent on the number and types of Fortress Funds in existence and the current stage of each fund's life cycle. As of June 30, 2017, approximately 30% of the management fees earned from our alternative investment businesses (excluding fees based on senior living property revenues) were based on the NAV of the applicable funds.

- For the private equity funds and certain credit PE funds, management fees are charged on committed capital during the investment period of a new fund, and then generally on invested capital after the investment or commitment period, with the exception of private equity funds formed after March 2006. For private equity funds formed after March 2006 that

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are no longer in the investment period, management fees are earned on NAV with respect to investments in publicly traded entities. Reductions in net asset value below invested capital for any fund investment will also cause reductions in management fees.

- For the permanent capital vehicles, management fees are generally calculated based on the contributed capital or book equity (as defined) or on revenues for the senior living property management business.
- For hedge funds, other than the Value Recovery Funds, management fees are based on their NAV, which in turn is dependent on the estimated fair values of their investments, and on the non-investment assets and liabilities of the funds. For the Value Recovery Funds, management fees are based on realizations, which are not dependent on current estimated fair value.

Changes in values of investments could also indirectly affect future management fees by, among other things, reducing the funds' access to capital or liquidity and their ability to currently pay management fees.

Fortress Funds' Market Risk Impact on GAAP Incentive Income

Our incentive income is generally based on a percentage of returns, or profits, of the various Fortress Funds subject to the achievement of performance criteria. Our incentive income will be impacted by changes in the values of the funds' investments which, in turn, are impacted by changes in market risk factors. However, several major factors will influence the degree of impact: (i) the performance criteria for each individual fund in relation to how that fund's results of operations are impacted by changes in the values of its investments, (ii) the period over which the Fortress Funds apply performance criteria (i.e. quarterly, annually or over the life of the fund), (iii) to the extent applicable, the previous performance of each fund in relation to its performance criteria, and (iv) whether each fund's incentive income is subject to contingent repayment. As a result, the impact of changes in market risk factors on incentive income will vary significantly from fund to fund, as summarized below, and is heavily dependent on the prior performance of each fund, and is therefore not readily predicted or estimated.

- Incentive income from our private equity funds and credit PE funds is not recorded as revenue but instead is deferred under GAAP until the related clawback contingency is resolved. Deferred incentive income, which is subject to contingencies, will be recognized as revenue to the extent it is received and all the associated contingencies are resolved. A change in the fair value of investments held by all of the private equity and credit PE funds would not impact incentive income under GAAP as it is not recognized until received and all contingencies are resolved. However, a 10% increase or decrease in the fair values of investments held by all of the private equity funds and credit PE funds where incentive income is subject to contingencies at June 30, 2017 would increase or decrease undistributed incentive income by $302.8 million or $(266.5) million, respectively; however, this would have no effect on our current reported financial condition or results of operations.
- Incentive income from the publicly traded permanent capital vehicles is generally not impacted by changes in the fair values of their investments, except to the extent they represent impairment, since these changes generally do not impact the measure of current operating results in excess of specified returns to the company's shareholders upon which the incentive income is calculated. Generally, operating results for purposes of computing incentive income excludes unrealized changes in the values of the publicly traded permanent capital vehicles' investments (primarily real estate, loans, securities and other financial instruments), except for certain items (for example, the unrealized gain or loss on non-hedge derivatives).
- Incentive income from our hedge funds is directly impacted by changes in the fair value of their investments. Incentive income from certain of our hedge funds is earned based on achieving annual performance criteria. For certain hedge funds, a 10% decrease in the NAV of the funds on June 30, 2017 would have resulted in a loss to investors for the quarter. In future periods, this loss could create, or cause a fund to fall further below, a "high water mark" (minimum future return to recover the loss to the investors) for our funds' performance which would need to be achieved prior to any incentive income being earned by us. The Value Recovery Funds only pay incentive income if aggregate distributions exceed an agreed threshold and, therefore, this potential incentive income is not directly

impacted by changes in fair value.

Fortress Funds' Market Risk Impact on GAAP Investment Income

Our investments in the Fortress Funds, other than our publicly traded permanent capital vehicles and consolidated VIEs, are accounted for under the equity method. To the extent they are investment companies, our investments are directly affected by the impact of changes in market risk factors on the investments held by such funds, which could vary significantly from fund to fund.

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Market Risk — Quantitative Analysis

The following table presents information on the impact to Fortress of a 10% change in the net asset values of the Fortress Funds at June 30, 2017 (in millions).

	10% Positive Change					
	GAAP Revenues			Segment Revenues (A)		
	Management Fees (B)	Incentive Income (D)	Earnings from Equity Method Investees	Management Fees (B)	Incentive Income (D)	Investment Income (F)
Private Equity						
Funds (C)	$4.4	$ N/A	$ 52.0	$4.4	$ N/A	$ N/A
Permanent capital vehicles (E)	0.8	N/A	N/A	0.8	—	N/A
Credit						
Hedge Funds	12.9	N/A	5.0	12.9	93.5	5.1
PE Funds	0.6	N/A	18.2	0.6	N/A	N/A
Liquid Hedge Funds	—	N/A	0.2	—	N/A	N/A
Total	$18.7	$ N/A	$ 75.4	$18.7	$ 93.5	$ 5.1

	10% Negative Change					
	GAAP Revenues			Segment Revenues (A)		
	Management Fees (B)	Incentive Income (D)	Earnings from Equity Method Investees	Management Fees (B)	Incentive Income (D)	Investment Income (F)
Private Equity						
Funds (C)	$(5.6)	$ N/A	$ (52.0)	$(5.6)	$ N/A	$ N/A
Permanent capital vehicles (E)	(0.8)	N/A	N/A	(0.8)	—	N/A
Credit						
Hedge Funds	(12.9)	N/A	(5.0)	(12.9)	(40.0)	(5.1)
PE Funds	(1.9)	N/A	(18.2)	(1.9)	N/A	N/A
Liquid Hedge Funds	—	N/A	(0.2)	—	N/A	N/A
Total	$(21.2)	N/A	$ (75.4)	$(21.2)	$ (40.0)	$ (5.1)

(A) See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Segment Analysis" for a discussion of the differences between GAAP and segment basis revenues.

(B) Changes in management fees represent an annual change for the one year period following the measurement date assuming there is no change to the investments held by the funds during that period. For private equity funds and credit PE funds, it assumes that the management fees reset as of the reporting date. Private equity fund and credit PE fund management fees would be generally unchanged as, for investments in non-publicly traded securities, they are not based on the value of the funds, but rather on the amount of capital invested in the funds. However, if the NAV of a portfolio company of certain private equity funds and credit PE funds is reduced below its invested capital, there would be a reduction in management fees. As of the reporting date, $1.9 billion of such private equity fund or credit PE fund portfolio companies were carried at or below their invested capital.

(C) The private equity Fortress Funds held concentrated positions in certain industries as of June 30, 2017, as illustrated in the following table:

Industry	Percentage of Investments Based on Fair Value
Transportation and Infrastructure	39 %
Financial Services and Assets	38 %
Senior Living	11 %
Real Estate	7 %
Other	5 %
	100 %

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(D) For GAAP Revenues, incentive income for private equity funds and credit PE funds would be unchanged as it is not recognized until received and all contingencies are resolved and for liquid hedge funds incentive income is based on realizations. Furthermore, incentive income would be based on the actual price realized in a transaction, not based on a valuation. Credit hedge fund incentive income would be unchanged as it is not recognized until all contingencies are resolved in the fourth quarter (and the Value Recovery Funds, Mount Kellett Funds and JP Funds generally do not pay any current incentive income). Incentive income is generally not charged on amounts invested by liquid hedge funds in funds managed by external managers.

For Segment Revenues, private equity fund, credit PE fund and liquid hedge fund incentive income is based on realizations. However, a reduction in the fair value of investments could impact our conclusion regarding the potential segment basis incentive income reserve for our funds which are subject to clawback.

(E) Our investments in the common shares of the publicly traded permanent capital vehicles are held at fair value, based on the market value of the shares we own. Gains (losses) on our shares in the publicly traded permanent capital vehicles and options granted to us by certain of the publicly traded permanent capital vehicles are affected by movements in the equity price of the shares. A 10% increase (decrease) in the share price would increase (decrease) unrealized gains (losses) by $31.4 million or $(25.8) million, respectively, and compensation and benefits expense would increase by $4.3 million or decrease by $(3.3) million, respectively. Furthermore, management fees and incentive income for certain of the publicly traded permanent capital vehicles are generally not directly impacted by changes in the fair value of their investments (unless the changes are deemed to be impairment, which could impact incentive income).

(F) For segment revenues, investment income for private equity funds, permanent capital vehicles, credit PE funds and hedge fund sidepocket investments would not be impacted as unrealized changes are not recorded through distributable earnings.

Interest Rate Risk

Fortress Operating Group has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore impact the amount of interest payments, future earnings and cash flows. Based on debt obligations payable as of June 30, 2017, we estimate that interest expense relating to variable rate debt obligations payable would increase $1.1 million on an annual basis in the event interest rates (LIBOR) were to increase by 100 basis points.

Exchange Rate Risk

Our investments in non-U.S. dollar denominated Fortress Funds and entities are exposed to foreign exchange risk. As of June 30, 2017, we had $55.1 million of investments and related receivables in non-U.S. dollar denominated Fortress Funds and entities. If applicable foreign exchange rates were to weaken by 10% against the U.S. dollar, we estimate the carrying value of our investments and related receivables in non-U.S. dollar denominated Fortress Funds and entities would decrease by $5.0 million. If applicable foreign exchange rates were to strengthen by 10% against the U.S, dollar, we estimate the carrying value of our investments and related receivables in non-U.S. dollar denominated Fortress Funds and entities would increase by $6.1 million.

As of June 30, 2017, we have $102.2 million of deferred incentive income related to non-U.S. dollar denominated Fortress Funds which is subject to contingent repayment in the applicable foreign currency. If applicable foreign exchange rates were to weaken by 10% against the U.S. dollar, we estimate the carrying value of this liability would decrease by $9.3 million. If applicable foreign exchange rates were to strengthen by 10% against the U.S. dollar, we estimate the carrying value of this liability would increase by $11.4 million.

As of June 30, 2017, we also have foreign exchange derivative contracts, related to the Japanese Yen, used to economically hedge future non-U.S. dollar denominated revenues with a net unrealized gain position of $3.9 million. If the Japanese Yen were to weaken by 10% against the U.S. dollar, we estimate our net unrealized gain position in

these contracts would increase by $17.8 million (resulting in a net unrealized gain position of $21.7 million) and if the Japanese Yen were to strengthen by 10% against the U.S. dollar, we estimate our net unrealized gain position in these contracts would decrease by $21.6 million (resulting in a net unrealized loss position of $17.7 million).

In addition, we held $19.5 million of foreign-denominated cash, primarily Euro, Hong Kong dollar and Japanese Yen as of June 30, 2017.

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ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are and may become from time to time involved in legal proceedings incidental to the conduct of our business. Our industry is generally subject to scrutiny by government regulators, which could result in legal proceedings related to regulatory compliance matters, including but not limited to regulatory investigations and inquiries. As a result, we maintain insurance policies in amounts and with the coverage and deductibles we believe are adequate, based on the nature and risks of our business, historical experience and industry standards. Although we are unable to predict with certainty the eventual outcome of any litigation, regulatory investigation or inquiry, in the opinion of management, we do not expect our current or threatened legal proceedings to have a material adverse effect on our business, financial position or results of operations. However, increased regulatory scrutiny of asset managers, including private equity funds and hedge fund trading activities, may cause us to re-examine our beliefs regarding the likelihood that regulatory investigations or inquiries and defense-related costs could have a material adverse effect on our business. In addition, given the inherent unpredictability of these types of proceedings, it is possible that future adverse outcomes could have a material effect on our financial results.

Item 1A. Risk Factors

We face a variety of significant and diverse risks, many of which are inherent in our business. Described below are certain risks that we currently believe could materially affect us, including risks relating to the proposed Merger. Other risks and uncertainties that we do not presently consider to be material or of which we are not presently aware may become important factors that affect us in the future. The occurrence of any of the risks discussed below could materially and adversely affect our business, prospects, financial condition, results of operations or cash flow.

Risks Related to Our Business

We depend on Messrs. Briger, Edens and Nardone, and the loss of any of their services could have a material adverse effect on us.

The success of our business depends on the efforts, judgment and personal reputations of our principals, Peter Briger, Wesley Edens and Randal Nardone. One of our principals, Randal Nardone, was appointed Chief Executive Officer of the Company in addition to his other duties. Our principals' reputations, expertise in investing, relationships with our investors and relationships with members of the business community on whom our funds depend for investment opportunities and financing, are each critical elements in operating and expanding our businesses. We believe our performance is strongly correlated to the performance of these individuals. Accordingly, the retention of our principals is crucial to our success. In addition, if any of our principals were to join or form a competitor, some of our investors could choose to invest with that competitor rather than in our funds. The loss of the services of any of our principals could have a material adverse effect on us, including our ability to retain and attract investors and raise new funds, and the performance of our funds. Two or more of our principals occasionally travel together, which concentrates the potential impact of an accident on our Company. We do not carry any key man insurance that would provide us with proceeds in the event of the death or disability of any of our principals.

Each of our principals has an employment agreement with us, which extends to January 1, 2022. If a principal terminates his employment voluntarily or we terminate his employment for cause (as defined in the agreement), the principal will be subject to eighteen-month post-employment covenants requiring him not to compete with us. However, if we terminate a principal's employment without cause, the principal will not be subject to the non-competition provisions.

There is no guarantee that our principals will not resign, join our competitors or form a competing company, or that the non-competition provisions in the employment agreements would be upheld by a court. If any of these events were to occur, our business, prospects, financial condition and results of operations could be materially adversely affected.

Further, in connection with entering into the Merger Agreement, on February 14, 2017, the principals, the Company and certain other parties entered into the Founders Agreement. In the Founders Agreement, each of the principals agreed to place 50% of the after tax proceeds from the sale by them and certain of their affiliated entities of FOGUs into escrow at the closing of the transactions contemplated by the Founders Agreement (such amount, the "Escrowed Amount"). Eighty percent (80%) of the Escrowed Amount will be released to the applicable seller of FOGUs upon the fourth anniversary of such closing, and the remaining Escrowed Amount will be released to the applicable seller of FOGUs upon the fifth anniversary of such closing. If, prior to the applicable release date, (i) a principal's employment is terminated by the Company for any reason, (ii) a principal resigns for "good reason" (as

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defined in the Founders Agreement) or (iii) a principal's employment is terminated due to death or disability (each, an "Early Release Event"), the Escrowed Amount with respect to such principal and his affiliated entities will be released to the applicable principal and his affiliated entities. If, prior to the applicable release date, the applicable principal's employment is terminated by the principal for any reason other than due to a resignation with "good reason" or the principal's death or disability, the Escrowed Amount will be forfeited to Parent. In addition, in the Founders Agreement, the Company agreed that it will not, nor shall it cause or permit any of its subsidiaries to, terminate the employment of any principal due to his Disability (as defined in such principal's employment agreement) from and after the date of the Founders Agreement through the closing of the transactions contemplated by the Founders Agreement. Notwithstanding anything to the contrary, in the event that, at the closing of the transactions contemplated by the Founders Agreement, a principal is no longer employed by the Company and its subsidiaries for any reason (other than due to such principal's death), then the Escrowed Amount, in each case, with respect to such principal and his affiliated entities, shall be paid to the Parent at such closing.

Several of our funds have "key person" provisions pursuant to which the failure of one or more of our principals or senior employees (other than our principals) to be actively involved in the business provides investors with the right to redeem their investment or otherwise limits our rights to manage the funds. The loss of the services of any one of such senior employees could have a material adverse effect on certain of our funds to which such key person provisions relate and in some circumstances on us.

Certain of our existing funds have key person provisions relating to our principals or senior employees other than our principals, and the resignation or termination of any such senior employee could result in a material adverse effect on the applicable fund or funds and on us.

Investors in our flagship credit hedge funds may redeem their investment without paying redemption fees if Mr. Briger ceases to perform his functions with respect to the fund for 90 consecutive days. The loss of Mr. Briger or his inability to perform his services for 90 days could therefore result in substantial withdrawal requests from investors in our credit hedge funds and, in the event that a replacement for him is not approved, the termination of a substantial portion of the funds' financing arrangements. Such withdrawals and terminations would have a material adverse effect on the credit hedge funds and us by reducing our management fees from those funds. Further, such withdrawals and terminations could lead possibly to the eventual liquidation of the funds and a corresponding elimination of our management fees and potential to earn incentive income from those funds. Similarly, our credit PE funds contain key man provisions with respect to Mr. Briger, which would limit the ability of the funds to make future investments or call capital if both Mr. Briger and the funds' co-chief investment officer, Constantine Dakolias, were to cease to devote time to the funds. The loss of Mr. Briger could, therefore, ultimately result in a loss of a material portion of our earnings attributable to our credit hedge fund and/or credit PE business segments.

If either Mr. Edens or Mr. Nardone ceases to devote certain minimum portions of their business time to the affairs of certain of our private equity funds, the funds will not be permitted to make further investments, and then-existing investments may be liquidated if investors vote to do so. Our ability to earn management fees and realize incentive income from our private equity funds therefore would be adversely affected if we cannot make further investments or if we are required to liquidate fund investments at a time when market conditions result in our obtaining less for investments than could be obtained at later times. In addition, we may be unable to raise additional private equity funds if existing private equity fund key-man provisions are triggered. The loss of either Mr. Edens or Mr. Nardone could, therefore, ultimately result in a loss of substantially all of our earnings attributable to our private equity funds.

In January 2015, the Fortress Asia Macro Funds transitioned into an autonomous business, named Graticule, with Fortress as a non-controlling shareholder. Adam Levinson, Chief Investment Officer of Graticule, continues to invest for Graticule. The loss of Mr. Levinson or his departure from Graticule could result in substantial withdrawal requests from investors in funds managed by Graticule. Substantial withdrawals would have a material adverse effect on

Graticule and could possibly lead to the liquidation of the funds and a corresponding elimination of our earnings from those funds.

In addition, the terms of certain of our existing funds may be amended over time to add additional key persons, and senior employees (including, but not limited to, our principals) may also be deemed as key persons for funds that are formed in the future. Any such events would potentially have a direct material adverse effect on our revenues and earnings (depending on the size of the particular fund to which a key person event relates), and would likely harm our ability to maintain or grow management fee paying assets under management in existing funds or raise additional funds in the future.

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Our ability to retain our managing directors is critical to our success, and our ability to grow depends on our ability to attract additional key personnel.

Our success depends on our ability to retain our managing directors and the other members of our investment management team and to recruit additional qualified personnel. We refer to these key employees (other than our principals) collectively as our "investment professionals." Our investment professionals possess substantial experience and expertise in investing, are responsible for locating and executing our funds' investments, have significant relationships with the institutions that are the source of many of our funds' investment opportunities, and in certain cases have strong relationships with our investors. Therefore, if our investment professionals join competitors or form competing companies, it could result in the loss of significant investment opportunities and certain existing investors. As a result, the loss of even a small number of our investment professionals could impact the performance of our funds, which could have a material adverse effect on our results of operations as well as our ability to retain and attract investors and raise new funds. Also, while we have non-competition and non-solicitation agreements with certain investment professionals, there is no guarantee that the agreements to which our investment professionals are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. In particular, some jurisdictions in which we operate our businesses (for example, California) have public policies limiting the enforcement of restrictive covenants applicable to employees. In addition, these agreements will expire after a certain period of time following resignation or termination, at which point such persons would be free to compete against us and solicit investors in our funds, clients and employees.

Efforts to retain or attract investment professionals may result in significant additional expenses, which could adversely affect our profitability, and changes in law could hamper our recruitment and retention efforts. We might not be able, or may elect not, to provide future investment professionals with equity interests in our business to the same extent or with the same tax consequences as our existing investment professionals, and the retentive utility of grants of equity of our public company is affected during periods of slow or negative stock price performance. Therefore, in order to recruit and retain existing and future investment professionals, we may need to increase the level of cash compensation that we pay to them. Accordingly, as we promote or hire new investment professionals over time, we may increase the level of cash compensation we pay to our investment professionals, which would cause our total employee compensation and benefits expense as a percentage of our total revenue to increase and adversely affect our profitability.

In addition, we may deem it necessary to maintain compensation levels to retain employees even during periods when we generate lesser revenues than in previous periods, which would reduce our profit margins. Also, if proposed legislation were to be enacted by the U.S. Congress to treat carried interest as ordinary income rather than as capital gain for U.S. federal income tax purposes, such legislation would materially increase the amount of taxes that we and our investment professionals that are compensated in part with carried interest would be required to pay on such compensation, thereby adversely affecting our ability to recruit, retain and motivate our current and future professionals. See "— Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis."

Furthermore, in recent years, various legislative and regulatory bodies have focused on the issue of compensation in the financial services industry. In Europe, due to the nature and scope of our activities there, we do not anticipate that recent remuneration regulations in the European Union will have a material impact on our existing compensation structure. In the U.S., the SEC has proposed mandatory clawback rules which would require listed companies to adopt a clawback policy providing for recovery of incentive-based compensation awarded to executive officers if the company is required to prepare an accounting restatement resulting from material noncompliance with financial reporting requirements. However, legal requirements flowing out of these bodies continue to be updated and the

specific long-term impact on us is not yet clear. There is the potential that new compensation rules will make it more difficult for us to attract and retain investment professionals by capping the amount of variable compensation compared to fixed pay, requiring the deferral of certain types of compensation over time, implementing "clawback" requirements, or other rules deemed onerous by such investment professionals.

Certain of our businesses face particular retention issues with respect to investment professionals whose compensation is tied, often in large part, to performance thresholds or "high water marks." This retention risk is heightened during periods where market conditions make it more difficult to generate positive investment returns and where capital markets provide fewer opportunities for realization of portfolio company investments. Several investment professionals receive performance-based compensation at the end of each year based upon their annual investment performance, and this performance-based compensation has historically represented a substantial majority of the compensation those professionals are entitled to receive during the year. If an investment professional's annual performance is negative, or insufficient to overcome prior negative results, the professional may not be entitled to any performance-based compensation for the year. If an investment professional or fund, as the case may be, does not produce investment results sufficient to merit performance-based compensation, any affected investment professional may be incentivized to join a competitor because doing so would allow the professional to eliminate the burden of having to satisfy the

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high water mark before earning performance-based compensation. Similarly, many of our investment professionals in our private equity fund and credit PE fund businesses are compensated with grants of carried interest in our funds. During periods of economic volatility, realization events in our private equity fund and credit PE fund businesses may be delayed, and it may therefore take significantly longer for investments to result in payments to such professionals. In addition, in the event that overall returns for any of our private equity funds or credit PE funds result in the generation of less incentive income than anticipated, such professionals' grants of carried interest in such fund will have similarly decreased in value. To retain such professionals, the fund's manager may elect to compensate the professional using a portion of the management fees earned by the manager, which would, in turn, reduce the amount of cash available to the public company, thereby reducing the amount available for distribution to our Class A shareholders or for other liquidity needs.

Operational risks may disrupt our businesses, result in losses or limit our growth.

We face operational risk from errors made in the negotiation, execution, confirmation or settlement of transactions on behalf of our funds. We also face operational risk from transactions not being properly recorded, valued, evaluated or accounted for in our funds. In particular, our credit fund businesses and certain permanent capital vehicles are highly dependent on our ability to process, value and evaluate, on a daily basis, transactions across markets and geographies in a time-sensitive, efficient and accurate manner. Consequently, we rely heavily on our financial, accounting and other data processing systems. For example, the efficacy of investment and trading strategies may depend largely on the ability to establish and maintain an overall market position in a combination of financial instruments. If a fund's trading orders are not executed in a timely and efficient manner due to systems failures, human error or otherwise, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position. In addition, new investment products have created, and future investment products may create, a significant risk that our existing systems may not be adequate to identify or control the relevant risks in the investment strategies employed by such new investment products. If any of these systems do not operate properly, are inadequately designed, disabled, or are the target of a cyber security attack (which is an ongoing threat), we could suffer financial loss, disruption of our businesses, liability to our funds and their investors, regulatory intervention and reputational damage.

In addition, we operate in an industry that is highly dependent on its information systems and technology. We believe that we have designed, purchased and installed high-quality information systems to support our business. There can be no assurance, however, that our information systems and technology will continue to be able to accommodate our operations, or that the cost of maintaining such systems will not increase from its current level. Such a failure to accommodate our operations, or a material increase in costs related to such information systems, could have a material adverse effect on us.

Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. Additionally, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to confidential or other information that we maintain, including information with respect to us, investors in our funds and our counterparties. Despite our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because cyber-attacks can originate from a wide variety of sources, including third parties outside the company such as persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. One or more such events could potentially jeopardize such confidential and other

information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our fund investors', counterparties' or third parties', which could result in significant losses, increased costs, liability to our funds and investors, regulatory intervention or reputational damage to us. If an actual or perceived breach of our systems or networks occurs, the negative perception of the effectiveness of our security measures arising as a result could cause us to lose existing investors or impede our ability to attract new investors. Moreover, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures arising from operational and security risks, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

Furthermore, we depend on our headquarters, which is located in New York City, and related infrastructure for the operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, may have an adverse impact on our ability to continue to operate our business without interruption, which could have a material adverse effect on us. Although we have disaster recovery programs in place, there can be no assurance that these will be sufficient

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to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses.

Finally, we rely on third-party service providers for certain aspects of our business. In particular, a number of our funds rely on a general ledger software provider and Logan Circle relies on third parties to provide critical front- and back-office systems support. Any interruption or deterioration in the performance of these third parties, particularly with respect to the services provided to Logan Circle, could impair the quality of operations and could impact our reputation and adversely affect our business and limit our ability to grow.

Our removal as the investment manager, or the liquidation, of one or more of our funds or permanent capital vehicles could have a material adverse effect on our business, results of operations and financial condition.

We derive a substantial portion of our revenues from funds and permanent capital vehicles managed pursuant to investment management agreements that may be terminated or fund partnership agreements that permit investors to request liquidation of investments in our funds on short notice.

The terms of our funds generally give either the general partner of the fund or the fund's board of directors the right to terminate our investment management agreement with the fund. However, insofar as we control the general partner of our funds that are limited partnerships, the risk of termination of any investment management agreement for such funds is limited, subject to our fiduciary or contractual duties as general partner. This risk is more significant for our offshore hedge funds for which we do not serve as the general partner and which represent a significant portion of our hedge fund AUM. In addition, the boards of directors of certain hedge funds and our publicly traded permanent capital vehicles, and the holders of a simple majority of the outstanding shares of our publicly traded permanent capital vehicles, have the right under certain circumstances to terminate the investment management agreements or otherwise attempt to renegotiate the terms of such agreements with the applicable fund or publicly traded permanent capital vehicle. In the past, shareholders in certain of our permanent capital vehicles have from time to time attempted to place pressure on the boards of directors of such vehicles through the use of so called "activist" tactics, such as threats to wage proxy fights for control of such boards. In the event that an activist shareholder were to acquire control of the board of directors of a permanent capital vehicle, such shareholder may acquire the legal ability to direct the termination of our management agreement with such vehicle. Termination of these agreements, or revisions to the terms that are detrimental to the manager, could affect the fees we earn from the relevant funds or permanent capital vehicles, which could have a material adverse effect on our results of operations.

In addition, investors in our private equity funds or credit PE funds and certain hedge funds have the ability to act, without cause, to accelerate the date on which the fund must be wound down. We will cease earning management fees on the assets of any such fund that is wound down. In addition, our ability to realize incentive income from such funds would be adversely affected if we are required to liquidate fund investments at a time when market conditions result in our obtaining less for investments than could be obtained at later times.

We may become involved in lawsuits or investigations that could result in significant liabilities and reputational harm, which could materially adversely affect our results of operations, financial condition and liquidity.

We could be sued by many different parties, including, but not limited to, our fund investors, creditors of our funds, shareholders of the companies in which our funds have investments or we manage and their respective investors, our shareholders, our employees, regulators, and residents of senior living facilities that we manage. We have been a defendant in many lawsuits filed by various parties in recent years. In addition, we may participate in transactions that involve litigation (including the enforcement of property rights) from time to time, and such transactions may expose us to increased risk from countersuits. Any of these parties could bring an array of claims not just against us but also against our funds and their portfolio companies, permanent capital vehicles or other investments based on a variety of

allegations relating to, among other things, conflicts of interest, improper related party transactions, breaches of financing or other agreements, violations of any of a multitude of laws applicable to us, non-compliance with organizational documents, misconduct by employees and improper influence over the companies in which our funds or accounts have investments. It is likely that we would be brought into any lawsuit that involves a fund, portfolio company or permanent capital vehicle related issue. We also face the risk of lawsuits relating to claims for compensation, which may individually or in the aggregate be significant in amount, particularly since our workforce consists of many very highly paid investment professionals. Such claims are more likely to occur when individual employees experience significant volatility in their year-to-year compensation due to trading performance or other issues, and in situations where previously highly compensated employees are terminated for performance or efficiency reasons, as has occurred recently. The cost of settling such claims could adversely affect our results of operations.

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Lawsuits or investigations in which we may become involved could be very expensive and highly damaging to our reputation, even if the underlying claims are without merit. We could potentially be found liable for significant damages. For instance, in a lawsuit based on an allegation of negligent management of any of our funds, plaintiffs could potentially recover damages in an amount equal to the fund's investment losses. In general, the applicable standard of care in our contracts with fund or account investors is gross negligence or willful misconduct. However, the majority of the capital in our Logan Circle business is managed under a negligence or reasonable person standard of care, which is more favorable to plaintiffs.

Fund investments may also be subject to litigation, which could impact the value of the investment and harm the performance of one or more of our funds. Although we have certain indemnification rights from the funds we manage, these rights may be challenged. Moreover, we could incur legal, settlement and other costs in an amount that exceeds the insurance coverage maintained by us or by our funds. The costs arising out of litigation or investigations could have a material adverse effect on our results of operations, financial condition and liquidity.

Certain of our consolidated subsidiaries have potentially unlimited liability for the obligations of various Fortress Funds under applicable partnership law principles, because they act as general partners of such funds. In the event that any such fund was to fall into a negative net equity position, the full amount of the negative net equity would be recorded as a liability on the balance sheet of the general partner entity. Such liability would be recorded on our balance sheet in consolidation until the time such liability was legally resolved.

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), so-called "whistleblower" provisions entitle persons who report alleged wrongdoing to the SEC to cash rewards and the SEC has awarded significant cash awards pursuant to these provisions. Dealing with such claims could generate significant expenses and take up significant management time, even for frivolous and non-meritorious claims. Moreover, there may be a related increase in regulatory investigations or inquiries relating to trading and other investment activities, including potential conflicts of interest relating to such activities, of alternative asset management managers such as us. Such investigations or inquiries may impose additional expense on us, may require the attention of senior management and may result in fines and/or reputational damage whether or not any of our funds are deemed to have violated any regulations.

The U.S. government's increased focus on the regulation of the financial services industry may adversely affect our business.

Our business may be adversely affected by new or revised legislation or regulations imposed by the U.S. government, the SEC, the Commodity Futures Trading Commission ("CFTC") or other U.S. governmental regulatory bodies or self-regulatory organizations that supervise the financial markets. We may also be adversely affected by changes in the interpretation or enforcement of existing laws and rules. Dodd-Frank has imposed significant new rules on almost every aspect of the U.S. financial services industry, including aspects of our business and the markets in which we operate, which may adversely affect our business. These rules address, among other things, the following topics:

- oversight and regulation of systemic market risk (including the power to liquidate certain institutions);
- regulation by the Federal Reserve of non-bank institutions;
- prohibitions on insured depositary institutions and their affiliates from conducting proprietary trading and investing in private equity funds and hedge funds;
- new registration, recordkeeping and reporting requirements for private fund investment advisers;
- comprehensive regulation of the OTC derivatives markets;
- minimum equity retention requirements for issuers of asset-backed securities;
- the establishment of a bureau of consumer financial protection;
- new requirements and higher liability standards on credit rating agencies;

- increased disclosure of executive compensation, limitations on excessive incentive compensation and mandatory shareholder votes on executive compensation; and
- additional risk retention requirements for originators of asset-backed securities.

Dodd-Frank and the regulations thereunder are complex and expansive in scope and will likely require us to continue to devote a significant amount of time and resources in assessing and modifying our business practices to comply. Although the new administration has indicated a desire to repeal, revise or replace Dodd-Frank, it is uncertain when and in what manner such legislation may be repealed or otherwise changed. The regulations may also increase our costs of operating in the financial markets and impose restrictions on our business activities or on the activities of our funds. For example, the Dodd-Frank margin requirements applicable to uncleared over-the-counter derivatives are expected to increase the overall costs of trading and maintaining those instruments, including instruments used by us or our funds to hedge or mitigate economic exposure to various risks. Moreover, the new regulations, even if not directly applicable to us, are likely to increase our overall costs of entering into certain transactions and could also adversely affect the performance of certain of our trading or hedging strategies. For example, trading counterparties that incur increased costs as a result of registration and/or operation as a "swap-dealer" or "security-based swap-dealer" under

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Dodd-Frank are expected to attempt to pass through those costs to customers like us or our funds. Likewise, new regulations may lead to reductions in the liquidity of certain investment products, causing higher pricing or reduced availability, or the reduction of arbitrage opportunities for us, which could also adversely affect the performance of certain of our trading strategies.

Dodd-Frank also established a regulatory body called the Financial Stability Oversight Counsel ("FSOC"), responsible for identifying, monitoring and constraining systemic risks and maintaining financial stability. Non-bank financial institutions designated as "systemically important" by the FSOC are subject to enhanced regulatory requirements established by the Federal Reserve. On April 21, 2017, President Trump signed a Presidential Memorandum directing the Secretary of the Treasury to conduct a thorough review of the process by which the FSOC determines and designates institutions as “systemically important” and directing the Secretary of the Treasury to not vote on any non-emergency proposed determinations pending completion of such review. U.S. regulators have at times reviewed the asset management industry generally with respect to these matters and any regulation of us or the markets in which we operate arising as a result could negatively impact our business.

In addition, U.S. regulatory reforms also require us to comply with new registration and reporting requirements. In October 2011, the SEC adopted a rule that requires fund advisors with over $1.5 billion in AUM, such as Fortress, to file substantial quarterly disclosure on fund assets, leverage, investment positions, valuations, trading practices and other topics. In addition, due to regulations adopted in 2012, certain of our affiliates have registered with the CFTC as commodity pool operators ("CPOs"). The Commodity Exchange Act and CFTC regulations impose various requirements on CPOs, including record-keeping, reporting, operational and marketing requirements, disclosure obligations and prohibitions on fraudulent activities. Complying with these requirements has increased our expenses and could negatively impact our financial results.

Furthermore, federal banking and housing agencies finalized rules implementing the 5% "risk retention" requirement under Dodd-Frank for originators of asset-backed securities (the "U.S. Risk Retention Rules"). The U.S. Risk Retention Rules became effective on December 24, 2016 (the "U.S. Effective Date"), in respect of collateralized loan obligations ("CLOs") and generally require at least 5% of the credit risk of the securitized assets to be retained directly, or through a majority-owned affiliate, by a "securitizer" or "sponsor". The U.S. Risk Retention Rules may have a negative impact on any CLO managed by us and/or our affiliates (a "Fortress CLO") that is issued, or refinanced, re-priced or, in certain cases, materially amended after the U.S. Effective Date. There is also currently no assurance that CLOs outstanding prior to the U.S. Effective Date will continue to be grandfathered after such date. The provisions of the U.S. Risk Retention Rules may, therefore, have an adverse effect on us and our or our affiliates' ability or desire to manage CLOs, on the holders of any securities issued by Fortress CLOs, or on the primary or secondary market for CLO securities generally, including the level of liquidity and trading of CLO securities, which may in turn have an adverse effect on our and our affiliates' revenues from managing CLOs.

Finally, regulatory initiatives that do not apply directly to us may have a negative impact on us indirectly because they may still increase our costs of entering into transactions with the parties to whom the requirements are directly applicable, such as banks and other counterparties with whom we do business. For example, in December 2010, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from various countries, including the United States, finalized a comprehensive set of capital, leverage and liquidity standards, commonly referred to as "Basel III," for internationally active banking organizations. These standards require banks to hold more capital, reduce leverage and improve liquidity standards. U.S. federal banking regulators have implemented many aspects of Basel III, as well as changes required by Dodd-Frank. These rules comprehensively revise the regulatory capital framework for the U.S. banking sector. Compliance with the new standards is expected to result in significant costs to banks and may result in reduction of access to, or increase of costs for, certain types of credit for the private sector, including our funds and portfolio companies.

Our reputation, business and operations could be adversely affected by regulatory compliance failures, the potential adverse effect of changes in laws and regulations applicable to our business and the effects of negative publicity surrounding the alternative asset management industry in general.

Potential regulatory compliance failures pose a significant risk to our reputation and thereby to our business. Our business is subject to extensive regulation in the United States and in the other countries in which our investment activities occur. The SEC oversees our activities as a registered investment adviser under the Investment Advisers Act of 1940, as amended (the "Investment Advisers Act"). We are subject to regulation under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Investment Company Act of 1940, as amended (the "Investment Company Act"), and various other statutes. We are subject to regulation by the Department of Labor under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). We and certain of our permanent capital vehicles, as public companies, are subject to applicable stock exchange regulations and to the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"). A number of portfolio companies are also publicly traded and/or are subject to significant regulatory oversight. For example, OneMain Holdings, Inc. ("OneMain") is in the consumer finance industry and Nationstar Mortgage Holdings Inc. ("Nationstar") is in the mortgage servicing industry, both of which have recently been the focus of extensive regulation. In particular, mortgage servicers continue to face meaningful regulatory oversight from an array of state

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and federal authorities (including the Consumer Financial Protection Bureau and various state attorneys general), which has resulted in increased regulatory scrutiny across the industry, including Nationstar. This increased scrutiny may result in Nationstar experiencing increased regulatory costs, and being required to pay fines or change its business practices. Moreover, some of our portfolio companies are subject to regulation from non-financial bodies (such as our senior living and railroad investments). For example, as a manager of senior living facilities we are subject to regulations applicable to operators of independent living and assisted living facilities, as well as laws designed to protect Medicaid. As an affiliate of a registered broker-dealer, we are subject to certain rules promulgated by the Financial Industry Regulatory Authority ("FINRA") and the SEC. A number of our investing activities, such as our lending business, are subject to regulation by various U.S. state regulators. Moreover, regulations enacted by various U.S. state regulators could impact us indirectly. For example, the State of California has enacted a law that will require California pension plans to disclose fee and expense information in relation to investments in alternative investment vehicles. This new legislation may impact our contractual arrangements with such investors and increase the costs and risks to us in maintaining relationships with such investors. In the United Kingdom, we are subject to regulation by the U.K. Financial Conduct Authority. Our other European operations, and our investment activities in Australia, Japan, Hong Kong and other parts of the globe, are subject to a variety of regulatory regimes that vary by country.

Many of the regulatory bodies with jurisdiction over us have regulatory powers dealing with many aspects of financial services, including the authority to grant, and in specific circumstances to cancel, permissions to carry on particular businesses and to conduct investigations and proceedings that may result in fines and other sanctions. A failure to comply with the obligations imposed by the Investment Advisers Act on investment advisers, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or by the Investment Company Act could result in investigations, sanctions and reputational damage and potentially revocation of our registration as an investment advisor and exemptions from investment company requirements. Private equity funds, in particular, have come under greater regulatory scrutiny from the SEC as examinations of private equity advisers have found violations or material weaknesses with respect to the collection of fees and allocation of expenses. The SEC has also stated that their asset management unit's priorities for private equity funds and hedge funds include conflicts of interest, disclosure of conflicts and cybersecurity. Private equity advisers have recently settled with the SEC for disclosure failures and misallocation of expenses. The affiliated manager business, and, to a lesser degree, our credit fund and our private equity businesses, are involved regularly in trading activities which implicate a broad number of U.S. and foreign securities law regimes, including laws governing trading on inside information, market manipulation and a broad number of technical trading requirements that implicate fundamental market regulation policies. In addition, we are subject to U.S. and foreign laws and regulations relating to corrupt and illegal payments to, and hiring practices with regard to, government officials and others, including the Foreign Corrupt Practices Act ("FCPA") and the U.K. Bribery Act. Violation of such laws could result in significant monetary penalties, severe restrictions on our activities and in damage to our reputation. Furthermore, the mere investigation by authorities of alleged or potential wrong-doing, such as insider trading, mishandling of fees, expenses or valuation, or anti-bribery and FCPA violations, has the potential to create a material adverse effect on companies in our industry including us, including due to the effects of negative publicity surrounding the alternative asset management industry in general. We may also be adversely affected if there is misconduct by personnel of portfolio companies in which our funds invest and permanent capital vehicles that have personnel whom we do not employ or supervise. For example, failures by such personnel to comply with anti-bribery, trade sanctions or other legal and regulatory requirements could adversely affect our business and reputation.

Changes in ERISA requirements, or a failure to comply with ERISA requirements, could adversely affect our business. Our funds generally operate pursuant to exemptions from the fiduciary requirements of ERISA with respect to their assets. However, it is possible that the U.S. Department of Labor may amend any applicable regulations or that the characteristics of our funds may change. If these funds fail to qualify for such exemptions or otherwise satisfy any applicable requirements of ERISA, including the requirement of investment prudence and diversification or the

prohibited transaction rules, it could materially interfere with our activities in relation to these funds or expose us to risks or liabilities related to our failure to comply with such requirements. A meaningful portion of the capital managed in our Logan Circle business is subject to ERISA requirements, and our failure to comply with those requirements could have a material adverse effect on our business. The U.S. Department of Labor finalized a regulation that makes it more likely that persons who recommend investments to employee benefit plans and individual retirement accounts will be considered fiduciaries with respect to such plans and accounts for purposes of ERISA and certain provisions of the Internal Revenue Code. The regulation which took effect on June 9, 2017, could materially restrict our ability to market interests in our funds to employee benefit plans and individual retirement accounts or otherwise impact the manner in which we communicate with such investors going forward.

Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or investing activities or other sanctions. The regulations to which our businesses are subject are designed primarily to protect investors in our funds and to ensure the integrity of the financial markets. They are not designed to protect holders of our publicly traded Class A shares. Even if a sanction imposed against us or our personnel by a regulator is for a small monetary amount, the adverse publicity related to such sanction could harm our reputation, result in redemptions by our fund investors and impede our ability to raise additional capital or new funds, all of which would be materially damaging to the value of our Class A shares.

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Our results of operations may also be negatively impacted if certain proposed tax legislation is enacted. President Trump has repeatedly identified significant tax reform as a top legislative priority, and based on statements made by President Trump during his electoral campaign, such reform could include treating carried interest as ordinary income rather than as capital gain for U.S. federal income tax purposes. If such legislation were enacted, it could materially increase the amount of taxes that we and possibly our equity holders are required to pay, thereby reducing the value of our Class A shares and adversely affecting our ability to recruit, retain and motivate our current and future professionals. See "— Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis" and "— Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis."

Our business could be negatively impacted by changes in the United States political environment.

The recent presidential and congressional elections in the United States have resulted in significant uncertainty with respect to, and could result in changes in, legislation, regulation and government policy at the federal level, as well as the state and local levels. These recent events have created a climate of heightened uncertainty and introduced new and difficult-to-quantify macroeconomic and political risks with potentially far-reaching implications. There has been a corresponding meaningful increase in the uncertainty surrounding interest rates, inflation, foreign exchange rates, trade volumes and fiscal and monetary policy. New legislative, regulatory or policy changes could significantly impact our business as well as the markets in which we compete. Proposals discussed during and after the election that could have a material direct or indirect impact on us include, but are not limited to, tax reform, modifications to international trade policy and restrictions on imports and exports (including through the imposition of tariffs and other taxes on imports). To the extent changes in the political environment have a negative impact on us or on the markets in which we operate, our business, results of operation and financial condition could be materially and adversely impacted in the future.

New legislation in Europe and in other international markets in which we operate could increase our costs and make it more difficult to operate and market our funds.

Similar to the United States, our business may be adversely affected by new or revised legislation or regulation imposed by governmental regulators and other authorities in Europe or other jurisdictions in which we operate. European regulators have implemented legislation (the Alternative Investment Fund Manager Directive, or "AIFMD") requiring fund managers to comply with new rules regarding their activities in the EU, including the marketing of fund interests to EU-domiciled investors. AIFMD additionally covers topics such as periodic reporting to fund investors, disclosures to shareholders of EU companies targeted for acquisition or disposition, limitations on dividends by fund-controlled EU companies, monitoring the use of leverage, and imposition of remuneration guidelines. The legislation came into effect in July 2013 although full implementation of the rules will be staggered over the following five years. AIFMD imposes significant additional costs on the operation of our business in the EU, limits our operating flexibility and may generally hamper our ability to grow our business in Europe. In addition, similar to Dodd-Frank, European regulators have adopted the European Market Infrastructure Regulation ("EMIR") relating to the regulation of derivative transactions, including reporting of derivative transactions, conduct standards and risk mitigation. The EU already has in place 5% risk retention rules, similar to the U.S. Risk Retention Rules, requiring certain EU investors, such as credit institutions (including banks), investment firms, authorized investment fund managers and insurance and reorganization undertakings, that invest in a CLO to ensure that CLO satisfies these rules. These rules are undergoing review by EU regulators and it is unclear whether any modifications will become effective or what shape they will take. Further, a new market abuse regime focused on anti-money laundering and insider

trading, among other things, came into effect in July 2016 and a new version of the Markets in Financial Instruments Directive is expected to be implemented in January 2018, both of which may also impose additional costs on the operation of our business in Europe.

In addition, following the results of the Brexit referendum, the British government has begun negotiating the terms of the United Kingdom's withdrawal from the European Union. This process may take several years, during which period perceptions as to the ultimate impact of Brexit may increase short and long term market volatility and currency volatility, depress business activity and economic conditions in the United Kingdom and Europe generally, or act as an impetus for the further disintegration of the European Union. Brexit may also prejudice financial services businesses that are conducting business in Europe and which are based in the United Kingdom, causing disruption to regulatory regimes related to our operations and legal uncertainty regarding achievement of compliance with divergent applicable financial and commercial laws and regulations as between the United Kingdom and the European Union. Such events arising from Brexit may impose additional costs on the operation of our business, negatively impact our ability to market our funds in the United Kingdom or Europe and impair our ability to recruit, retain and motivate employees.

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In addition, similar to Europe, lawmakers and regulators in Asia and other jurisdictions in which we operate are in the process of implementing derivatives reforms similar to those under Dodd-Frank, including as to mandatory clearing of derivatives, margin, reporting, business conduct standards and risk mitigation. Although regulators are working to harmonize these regulations across jurisdictions so as to create common global standards, such a result is unlikely. Monitoring and complying with divergent regulations across multiple jurisdictions may, among other things, increase our operating costs or otherwise force us to modify our business practices in respect of these financial markets, which may adversely affect our business.

Our failure to deal appropriately with conflicts of interest could damage our reputation and adversely affect our business.

As we have expanded the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds' investment activities, the management of our permanent capital vehicles and our other activities, such as our management of senior living facilities. Certain of our funds and permanent capital vehicles, which may have different fee structures, have overlapping investment objectives, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among these vehicles. For example, a decision to receive material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest if it results in our having to restrict the ability of other funds to take any action. In addition, perceived conflicts of interest regarding investment decisions for funds in which our principals, who have and may continue to make significant personal investments in a variety of Fortress Funds, are personally invested may also arise, particularly with respect to funds in which they have made significant investments. Similarly, conflicts of interest may exist or develop regarding decisions about the allocation of specific investment opportunities between Fortress and the Fortress Funds or otherwise in situations where multiple funds are making investments in one portfolio company at the same or different levels of the investee's capital structure, in situations where one portfolio company engages another portfolio company to provide goods or services or in situations where funds and permanent capital vehicles, or multiple permanent capital vehicles, are competing for or making investments in the same assets or are buying or selling assets from one another. In addition, the publicly traded permanent capital vehicles are public companies that generally have no employees and their officers and many of the individuals that perform services for them are Fortress employees. Several officers and directors of the permanent capital vehicles have responsibilities and commitments to Fortress entities other than such permanent capital vehicles. Moreover, because certain of our operating entities are held, in part, by FIG Corp., which is subject to U.S. federal corporate income tax, conflicts of interest may exist regarding decisions about which of Fortress's holdings should be held by these taxable entities and which by entities not subject to U.S. federal corporate income tax. We have, from time to time, made advances or loans to, or acquired preferred equity interests in, several of our investment funds or other investment vehicles. In addition, our principals have sometimes extended capital to our funds, or made equity investments in portfolio companies, in their individual capacities. The existence and the repayment of such obligations by the funds to us and our principals, or the existence of personal investments by our principals in our portfolio companies, creates the potential for claims of conflicts of interest by our fund and portfolio company investors.

Pursuant to the terms of our operating agreement, whenever a potential conflict of interest exists or arises between any of the principals, one or more directors or their respective affiliates, on the one hand, and the Company, any subsidiary of the Company or any member other than a principal, on the other, any resolution or course of action by our board of directors shall be permitted and deemed approved by all shareholders if the resolution or course of action (i) has been specifically approved by a majority of the members of a committee composed entirely of two or more independent directors, or it is deemed approved because it complies with rules or guidelines established by such committee, (ii) has been approved by a majority of the total votes held by disinterested parties that may be cast in the election of directors, (iii) is on terms no less favorable to the Company or shareholders (other than a principal) than those generally being provided to or available from unrelated third parties or (iv) is fair and reasonable to the Company taking into account the totality of the relationships between the parties involved. In addition, conflicts of interest

involving fund investments are reviewed by the advisory boards of the applicable fund and conflicts of interest involving the permanent capital vehicles are reviewed by the independent directors of the applicable vehicle.

Notwithstanding the foregoing, potential or perceived conflicts have given, and in the future could give, rise to investor or shareholder dissatisfaction or litigation or regulatory inquiries or enforcement actions, including from shareholders or regulators of our permanent capital vehicles. For example, investors or regulators could claim that a conflict should have been brought before a board or that disclosure of the conflict was inadequate. Appropriately dealing with conflicts of interest is complex, difficult and involves significant use of judgment by management and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest would have a material adverse effect on our reputation, which could lead to redemptions by investors in our hedge funds, prompt shareholders of one or more of our permanent capital vehicles to sell their shares or become activist shareholders, hamper our ability to raise additional capital and discourage counterparties to do business with us. Any such development could have a material adverse effect on our business.

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Employee misconduct could harm us by impairing our ability to attract and retain investors and by subjecting us to significant legal liability, regulatory scrutiny and reputational harm.

Our reputation is critical to maintaining and developing relationships with the investors in our funds, potential investors and third parties with whom we do business. There have been a number of highly-publicized cases involving fraud, insider trading, conflicts of interest or other misconduct by individuals in the financial services industry in general and the hedge fund industry in particular. There is a risk that our employees or employees at entities we manage could engage in misconduct that adversely affects our business. We could be subject to litigation, regulatory sanctions and suffer serious harm to our reputation, financial position, investor relationships and ability to attract future investors if an employee were to engage or be accused of engaging in illegal or suspicious activities such as improper trading, disclosure of confidential information or breach of fiduciary duties. Moreover, in July 2012, we entered into agreements to manage senior living facilities pursuant to which we became the employer of a significant number of on-site employees (the compensation expense of which is reimbursed to us by the owners of the facilities). As a result, we are now subject to the risk of employee misconduct with respect to the personal care of the residents of such facilities. We are also subject to risk of employee misconduct from employees of portfolio companies in which our funds invest and permanent capital vehicles that have personnel whom we do not employ or supervise. Employee misconduct could also prompt regulators to allege or to determine based upon such misconduct that we have not established adequate supervisory systems and procedures to inform employees of applicable rules or to detect and deter violations of such rules. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent misconduct may not be effective in all cases. Misconduct by employees, or even unsubstantiated allegations, could result in a material adverse effect on our reputation and our business.

Additionally, public state pension plans and retirement systems considering an investment in our funds may require us to make certain representations, warranties and covenants with respect to our and our employees' use of placement agents, political donations and gifts to state employees. A misrepresentation or breach of such covenants could result in damage to our reputation or in such investors seeking recovery of losses, withdrawal of their investment, repayment of management fees or liquidated damages, any of which could cause our revenues and earnings to decline.

The alternative investment management business is intensely competitive.

The alternative investment management business is intensely competitive. We compete in all aspects of our business with a large number of investment management firms, private equity fund sponsors, hedge fund sponsors and other financial institutions. Competition is based on a number of factors, including:

- investment performance;
- identifying suitable investments;
- investor perception of investment managers' drive, focus and alignment of interest;
- terms of investment, including the level of fees and expenses charged for services;
- actual or perceived financial condition, liquidity and stability;
- the quality and mix of services provided to, and the duration of relationships with, investors; and
- business reputation.

A number of factors increase our competitive risks, some of which are outside of our control, and could reduce revenues and profitability and materially and adversely affect our business:

- some of our funds may not perform as well as competitor funds or other available investment products;
- the closing of our Fortress Macro Funds and related managed accounts and potential impact on investor perception;
- changing decision making processes of investors, including concerns that we will allow a business to grow to the detriment of its performance or a preference to invest with an investment manager that is not publicly traded;

- investors may reduce their investments with us or not make additional investments with us based upon dissatisfaction with our investment performance, market conditions, their available capital or their perception of the health of our business;
- investors' liquidity and willingness to invest;
- some of our competitors have greater capital, lower cost of capital, better access to financing, lower targeted returns or greater sector or investment strategy specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;
- some of our competitors may have greater technical, marketing and other resources than we possess;
- some of our competitors may perceive risk differently than we do, which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;
- some of our competitors may agree to more restrictive terms or policies (such as those related to electoral donations or a different standard of care), which would allow them to compete for the capital being invested by entities wishing to impose such terms;

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- some of our competitors are corporate buyers and may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment, particularly if conditions in the debt markets increase our financing costs or make debt financing generally unavailable or cost prohibitive; and
- other industry participants continuously seek to recruit our investment professionals, particularly our top performers, away from us.

Furthermore, competition in the alternative asset management business has been increasing, including the level of competition for capital raising, particularly for big-fund capital in the alternative investment industry. When trying to raise new capital, we are competing for fewer total available assets in an increasingly competitive environment, and there can be no assurance that we will be successful in continuing to raise capital at our historical growth rates. Depending on industry dynamics, we and our competitors may be compelled to offer investors improved terms (such as lower fees, improved liquidity or increased investments in funds) in order to continue to attract significant amounts of new investment capital. If we are forced to compete with other alternative asset managers on the basis of fees, we may not be able to maintain our current management and performance fee structures. Such changes would adversely affect our revenues and profitability.

The due diligence process that we undertake in connection with investments by our funds or the public company may not reveal all relevant facts in connection with an investment.

Before making investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. When conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and outside advisors and, in some circumstances, third-party investigations. In addition, if investment opportunities are scarce or the process for selecting bidders is competitive, our ability to conduct a due diligence investigation may be limited, and we would be required to make investment decisions based upon a less thorough diligence process than would otherwise be the case. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity, including, among other things, the existence of fraud or other illegal or improper behavior. Moreover, such an investigation will not necessarily result in the investment being successful.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of Sarbanes-Oxley. While management has certified that our internal controls over financial reporting were effective as of December 31, 2016, 2015 and 2014, because internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules, we cannot assure you that our internal control over financial reporting will be effective in the future. For example, we consolidate certain funds and may be required to consolidate other entities that we manage and therefore document and test effective controls over financial reporting of any of the entities that we consolidate in accordance with Section 404. Any failure to implement required controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm would not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may

cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable New York Stock Exchange listing rules, and result in a breach of the covenants under our credit agreement. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by leading to a decline in our share price and impairing our ability to raise capital.

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Our continued growth and development places significant demands on our administrative, operational and financial resources.

Our success depends in part on our continued growth and the development of our business, which is uncertain and creates significant demands on our legal, accounting and operational infrastructure, and results in increased expenses. The complexity of these demands, and the expense required to address them, is a function not simply of our growth, but also of significant differences in the investing strategies of our different businesses and of the differences between lines of business. For example, in April 2010, we acquired Logan Circle, which requires operational infrastructure that differs from the infrastructure used in our alternative asset management business, which we were not familiar with prior to the acquisition. In July 2012, our workforce grew significantly when we became the manager of several senior living facilities (the compensation expense of which is reimbursed to us by the owners of the facilities), which has placed significant demands on our human resources and other infrastructure. In 2015, we and Mount Kellett Capital Management LP ("Mount Kellett") entered into an agreement for us to become co-manager of the Mount Kellett investment funds and related accounts. In 2016, we became the investment manager of certain funds previously managed by J.P. Morgan Private Equity Limited, and acquired the related management team.

Our ability to continue to grow will depend, among other things, on our ability to maintain an operating platform and management system sufficient to address our growth. In order to grow, we will have to incur significant additional expenses and to commit additional senior management and operational resources. As a result, we face significant challenges:

- maintaining adequate accounting, financial, compliance, trading and other business controls,
- implementing new or updated information, financial and disclosure systems and procedures, and
- recruiting, training, managing and appropriately sizing our work force and other components of our business on a timely and cost-effective basis.

In addition, we are required to continuously develop our systems and infrastructure in response to the increasing sophistication of the investment management market and legal, accounting and regulatory developments. Moreover, the strains upon our resources caused by our growth are compounded by the additional demands imposed upon us as a public company with shares listed on the New York Stock Exchange and, thus, subject to an extensive body of regulations.

Our organizational documents do not limit our ability to enter into new lines of businesses, and we may enter into new businesses, make future strategic investments or acquisitions or enter into joint ventures, each of which may result in additional risks and uncertainties in our business and reputation.

We intend, to the extent that market conditions warrant, to grow our business by increasing management fee paying assets under management in existing businesses and creating new investment products. In addition, our organizational documents do not limit us to the investment management business and we may pursue growth through strategic investments, acquisitions or joint ventures, which may include entering into new lines of business, such as the banking, insurance or financial advisory industries, and which may involve assuming responsibility for the actual operation of assets or entire companies. For example, in July 2012, we entered into the business of managing senior living facilities on behalf of owners of senior living facilities. In addition, opportunities may arise to acquire other alternative or traditional asset managers. To the extent we make strategic investments or acquisitions, enter into joint ventures, or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (i) the required investment of capital and other resources, (ii) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, and (iii) combining or integrating or separating and providing operational and management systems and controls. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently

exempt, and may lead to increased litigation and regulatory risk and negative publicity. For example, in April 2010 we acquired Logan Circle, which is a traditional investment manager that is required to comply with ERISA regulations from which our other funds are currently generally exempt and which operates under a standard of care that is generally less favorable to us and exposes us to greater liability for simple negligence than do our alternative asset management businesses. In addition, our management of senior living facilities exposes us to licensing and regulatory regimes with which we have limited experience, as well as litigation risk arising from, among other things, the care of seniors. In the case of joint ventures, we are subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control. If a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected.

In addition, generally, there are few limitations on the execution of our funds' investment strategies, which are, in some cases, subject to the sole discretion of the management company or the general partner of such funds. The execution of a particular fund's strategy - for example, a strategy involving the enforcement of intellectual property rights through litigation, or a strategy of purchasing pools of tax liens on residential properties or pools of life settlements - may negatively impact one or more other

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Fortress Funds whether due to reputational or other concerns. We have historically been subjected to intermittent protests by groups affiliated with an animal rights movement related to a particular investment. Although no Fortress Fund continues to hold the investment targeted by such protesters, the protest activity may nevertheless have a negative effect on our reputation.

Our revenue and profitability fluctuate, particularly inasmuch as we cannot predict the timing of realization events in our private equity and credit PE businesses, which may make it difficult for us to achieve steady earnings growth on a quarterly basis and may cause volatility in the price of our Class A shares.

We experience significant variations in revenues and profitability during the year and among years because, among other reasons, we are paid incentive income from certain funds only when investments are realized, rather than periodically on the basis of increases in the funds' NAVs. The timing and receipt of incentive income generated by our private equity funds and credit PE funds is event driven and thus highly variable, which contributes to the volatility of our segment revenue, and our ability to realize incentive income from our private equity funds and credit PE funds may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized. We cannot predict when, or if, any realization of investments will occur. If we were to have a realization event in a particular quarter, it may have a significant impact on our segment revenues and profits for that particular quarter that may not be replicated in subsequent quarters. In addition, our private equity funds and credit PE fund investments are adjusted for accounting purposes to their NAV at the end of each quarter, resulting in income (loss) attributable to our investments in our funds, even though we receive no cash distributions from our private equity funds and credit PE funds, which could increase the volatility of our quarterly earnings. The terms of the operating documents of our private equity funds and credit PE funds generally require that if any investment in a particular fund has been marked down below its initial cost basis, the aggregate amount of any such markdowns (plus the amount of the accrued preferred return on the capital used to make such investments) be factored into the computation of the amount of any incentive income we would otherwise collect on the realization of other investments within the same fund. This provision generally will result in an overall lower level of incentive income being collected by the Company in the near term for any private equity fund or credit PE fund that has investments that are carried both above and below their cost basis. To the extent that our investments in our private equity funds or credit PE funds (or direct investments in private equity transactions) are marked down, such mark-downs will flow through our statements of operations as a GAAP loss, even in circumstances where we have a long investment horizon and have no present intention of selling the investment.

With respect to our credit hedge funds, our incentive income is generally paid annually if the NAV of a fund has increased for the period. The amount (if any) of the incentive income we earn from certain of our credit hedge funds depends on the increase in the NAV of the funds, which is subject to market volatility. Certain of our credit hedge funds also have "high water marks" whereby we do not earn incentive income for a particular period even though the fund had positive returns in such period if the fund had greater losses in prior periods. Therefore, if a credit hedge fund experiences losses in a period, we will likely not be able to earn incentive income from that fund until it surpasses the previous high water mark. Each fund must generate earnings, on an investor by investor basis, equal to any amount lost as a result of negative performance before it will generate additional incentive income for us from existing fund investors. See the "Management Agreements and Fortress Funds" note to the condensed consolidated financial statements included herein for more information.

In addition, with respect to our private equity funds and credit PE funds, we will not earn incentive income on any particular investment in the event that the aggregate carrying value of the other investments contained in the same fund is lower than the invested and unreturned capital in such fund plus, in some cases, any preferred return relating to such fund and with respect to our permanent capital vehicles, we will not earn incentive income if the operating

results of the permanent capital vehicle are lower than specified returns to shareholders. The NAVs of some of these private equity style funds, as of period end, and operating results of some of the permanent capital vehicles for the period were below these amounts as they apply to the respective funds or vehicle and, thus, these funds and vehicles will not be able to earn incentive income unless and until their respective NAVs or operating results exceed these amounts. In addition, incentive income for the publicly traded permanent capital vehicles are calculated on a cumulative basis and therefore we may not earn incentive income for a particular period even though the vehicle had positive operating results for such period if the vehicle had greater losses on a cumulative basis. See the "Management Agreements and Fortress Funds" note to the condensed consolidated financial statements included herein for more information.

Furthermore, we earn investment income from our investments in the Fortress Funds. Certain investments may be more speculative and more likely to result in loss of capital than other investments, which may contribute to volatility of our income. For example, investments in digital currencies differ from traditional currencies, commodities or securities, and its value is entirely market-based, which subjects the investment to increased risks.
These quarterly fluctuations in our revenues and profits in any of our businesses could lead to significant volatility in the price of our Class A shares.

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The terms of our credit agreement may restrict our current and future operations, particularly our ability to respond to certain changes or to take future actions.

We entered into a new credit agreement in January 2016, which we also refer to as the "2016 Credit Agreement", for a new unsecured revolving facility, which contains a number of restrictive covenants. These covenants collectively impose significant operating and financial restrictions on us, including restrictions that may limit our ability to engage in acts that may be in our long-term best interests. The financial covenants require that we:

- not exceed a total leverage ratio;
- maintain a minimum AUM; and
- maintain a minimum consolidated interest coverage ratio.

The financial covenants are tested as of the end of each fiscal quarter. Our ability to comply with these and other covenants is dependent upon a number of factors, some of which are beyond our control but could nonetheless result in noncompliance. For example, our leverage ratio fluctuates depending upon changes in revenues and expenses relative to our outstanding debt; our consolidated interest coverage ratio fluctuates depending upon changes in revenues and expenses relative to our interest payment obligations; and the value of our AUM fluctuates due to a variety of factors, including mark-to-market valuations of certain assets, other market factors, and our net capital raised or returned.

Our credit agreement also contains other covenants that restrict our operations and a number of events that would constitute an event of default under the agreement.

A failure by us to comply with the covenants in our credit agreement could result in an event of default under the agreement, which would give the lenders under the agreement the right to terminate their commitments to provide additional loans under our revolving credit facility and to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. If the debt under our credit agreement were accelerated, we might not have sufficient cash on hand or be able to sell sufficient assets to repay this debt, which could have an immediate material adverse effect on our business, results of operations and financial condition. For more detail regarding our current credit agreement and the status of our compliance with the related covenants, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Debt Obligations," and "— Covenants."

In addition, the 2016 Credit Agreement matures in January 2021. The terms of any new revolving credit facility or other replacement financing may be less favorable to us than the terms of our existing credit agreement.

An increase in our borrowing costs may adversely affect our earnings and liquidity.

Under the 2016 Credit Agreement, which is scheduled to mature in January 2021, we have a $275.0 million revolving credit facility (including a $15.0 million letter of credit subfacility) under which $168.1 million was available to be drawn as of June 30, 2017. The revolving credit facility 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. Therefore the interest expense we incur will vary with changes in the applicable LIBOR reference rate and the credit rating. As a result, an increase in short-term interest rates will increase our interest costs and will reduce the spread between the returns on our investments and the cost of our borrowings. An increase in interest rates would adversely affect the market value of any fixed-rate debt investments and/or subject them to prepayment or extension risk, which may adversely affect our earnings and liquidity. We may, from time to time, hedge these interest rate related risks, but we are not required

to do so and historically we have not hedged interest rate risks arising under the credit facility. There is no guarantee that any such hedges will be economically effective.

When we approach the maturity date of our facility, we may seek to enter into new facilities or issue new debt, which could result in higher borrowing costs, or to issue equity, which would dilute existing shareholders. We could also repay a facility by using cash on hand (if available) or cash from the sale of our assets. No assurance can be given that we will be able to enter into new facilities, issue new debt or issue equity in the future on attractive terms, or at all.

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Our hedging arrangements may fail to reduce our exposure to exchange rate and other economic risks.

We may from time to time enter into hedging arrangements intended to limit our economic exposure to various risks, such as interest rate or foreign currency exchange rate risk. We have currently entered into agreements intended to hedge our potential exposure to the dollar/Yen exchange rate based on our estimates of the likely receipt of certain incentive income payments relating to our fund management operations in Asia. In addition, we may from time to time facilitate currency hedging arrangements in connection with the launch of a new fund or account and/or in connection with currency exposures of certain portfolio investments. There can be no assurance that in entering into such arrangements that we will have correctly estimated the risks associated with the underlying exposures being hedged (including, as applicable, the amount of incentive income that we will receive in the future), or that we will have correctly forecast movements in the applicable exchange rate. Failure to make such estimates correctly may result in our under or over hedging our currency exposure, which could materially impact the economic value of any incentive payments we ultimately receive. We may also choose in some situations not to attempt to hedge our exposure to similar risks, which would leave us exposed to movements in interest rates or exchange rates.

Risks Related to the Proposed Merger and the Proposed Logan Circle Sale

Each of the Merger and the Logan Circle Sale is subject to closing conditions, including governmental regulatory approvals, and there can be no assurances as to whether and when it may be completed. Failure to complete the Merger or the Logan Circle sale could negatively impact our share price, future business and financial results.

Consummation of the Merger is subject to certain customary conditions, including, without limitation, (i) the approval by the holders of a majority of our Class A shares and Class B shares (voting as one class) outstanding on the record date for the Company shareholders' special meeting to approve the Merger; (ii) the receipt of approvals, or the expiration or termination of waiting periods under, certain regulatory laws or from certain regulatory authorities (including the Hart-Scott-Rodino Antitrust Improvements Act of 1976, certain foreign competition authorities, the Committee on Foreign Investment in the United States, the International Traffic in Arms Regulations, the U.K. Financial Conduct Authority, the Financial Industry Regulatory Authority, the Bank of Italy and the European Central Bank); and (iii) the absence of any order, preliminary or permanent injunction or other order preventing the consummation of the Merger. Each party's obligation to consummate the Merger is subject to certain other conditions, including (a) the accuracy of the other party's representations and warranties and (b) the other party's compliance with its covenants and agreements contained in the Merger Agreement (in each case, subject to certain qualifications). In addition, the obligations of Parent and Merger Sub to consummate the Merger are subject to (x) the absence of a Material Adverse Effect (as defined in the Merger Agreement), (y) the receipt of consent of advisory clients representing at least 87.5% of Base Aggregate Management Fees (as defined in the Merger Agreement) and (z) the continuing effectiveness of the Founders Agreement and TRA Waiver (each as defined in the Merger Agreement).

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

While we believe we will receive the requisite approvals for each of the Merger and the Logan Circle Sale, there can be no assurance that these and other conditions to closing will be satisfied at all or satisfied on the proposed terms and schedules as contemplated by the parties. A number of the conditions are not within our or the applicable buyer's control. Satisfaction of the closing conditions may delay the completion of the Merger or the Logan Circle Sale, and if

certain closing conditions are not satisfied prior to the end date specified in the Merger Agreement or the Logan Circle Sale Agreement, the parties will not be obligated to complete the Merger or the Logan Circle Sale, in each case as applicable. If the Merger or the Logan Circle Sale does not receive, or timely receive, the required regulatory approvals and clearances, if any unfavorable terms, conditions or restrictions are imposed in obtaining a waiver to such conditions, or if another event occurs that delays or prevents the Merger or the Logan Circle Sale, such delay or failure to complete the Merger or the Logan Circle Sale may cause uncertainty or other negative consequences that may materially and adversely affect our business, financial condition and results of operations and, to the extent that the current price of our Class A shares reflects an assumption that the Merger or the Logan Circle Sale will be completed, the price per share for our Class A shares, in each case as applicable.

In addition, if the Merger or the Logan Circle Sale is not completed for any reason, we will have incurred substantial expenses. We have incurred substantial legal, accounting and financial advisory fees that are payable by us whether or not the Merger or the Logan Circle Sale is completed, and our management has devoted considerable time and effort in connection with the pending Merger or the Logan Circle Sale. If the Merger Agreement is terminated, we could be required to pay a termination fee to Parent,

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which may require us to use available cash that would have otherwise been available for general corporate purposes and other matters.

While the Merger and the Logan Circle Sale are pending, we are subject to business uncertainties and contractual restrictions that could materially adversely affect our operations and the future of our business or result in a loss of employees.

The Merger Agreement includes restrictions on the conduct of our business prior to the completion of the Merger, generally requiring us to conduct our business in the ordinary course and subjecting us to a variety of specified limitations absent Parent's prior written consent, and the Logan Circle Sale Agreement includes restrictions on the conduct of the Logan Circle business, generally requiring us to conduct the business of Logan Circle in the ordinary course and subjecting the Logan Circle Business to a variety of specified limitations absent Parent Buyer's prior written consent. We may find that these and other contractual restrictions in the Merger Agreement or the Logan Circle Sale may delay or prevent us from or limit our ability to respond effectively to competitive pressures, industry developments and future business opportunities that may arise during such period, even if our management believes they may be advisable. Our principals, executive officers and other senior personnel may be required to devote attention to the Merger or the Logan Circle Sale. Further, our principals, executive officers and other senior personnel have interests in the Merger that are different from, or in addition to, the interests of Class A shareholders generally. These interests may cause the principals, executive officers and senior personnel to view the Merger differently and more favorably than Class A shareholders may view it.

Our employees, investors and counterparties may have uncertainties about the effects of the Merger or the Logan Circle Sale. In connection with the pending Merger and Logan Circle Sale, it is possible that some investors, counterparties and other parties with whom the Company has a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationship with us as a result of the Merger or the Logan Circle Sale. For example, under the terms of the Merger Agreement, we will seek to obtain the consent of advisory clients representing at least 87.5% of Base Aggregate Management Fees (as defined in the Merger Agreement). As part of that process, clients could request an amendment, modification, waiver or accommodation to the terms (financial or otherwise) of existing arrangements, which if accepted would be adverse to the Company. Although the Company has no intent to accommodate such requests (if any), nor any obligation to do so under the Merger Agreement, nonetheless the failure to obtain consents sufficient to meet the relevant conditions in the Merger Agreement may result in the Merger not be completed. Current and prospective employees, including senior investment professionals, may also experience uncertainty about their future roles with the Company following completion of the Merger or the Logan Circle Sale, which may materially adversely affect the Company's ability to attract and retain key employees. If any of these effects were to occur, it could materially and adversely impact the Company's business, financial condition and results of operations, as well as the market price of the Company's Class A shares, regardless of whether the Merger or the Logan Circle Sale is completed.

The Merger Agreement limits the Company's ability to pursue alternative transactions to the proposed Merger.

The Merger Agreement prohibits the Company from soliciting, initiating, inducing or knowingly facilitating, encouraging or assisting or engaging in discussions or negotiations with any third party regarding alternative acquisition proposals. This prohibition limits the Company's ability to affirmatively seek offers from other possible acquirers that may be superior to the pending Merger, although the Company is permitted, subject to compliance with certain procedures specified in the Merger Agreement, to respond to certain unsolicited proposals from third parties. If the Merger Agreement is terminated in certain circumstances in connection with the Company's entry into an agreement with respect to a Superior Offer (as defined in the Merger Agreement), the Company will be required to pay a termination fee of $98.4 million to Parent. This termination fee may make it less likely that a third party will make an alternative acquisition proposal, or might result in a potential competing acquirer proposing to pay a lower

price than it would otherwise have proposed to pay because of the added expense of the transaction expenses that may become payable in certain circumstances.

Risks Related to Our Funds

Our results of operations are dependent on the performance of our funds. Poor fund performance will result in reduced revenues, reduced returns on our investments in our funds and reduced earnings. Poor performance of our funds will also make it difficult for us to retain or attract investors to our funds and to grow our business. The performance of each fund we manage is subject to some or all of the following risks.

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The historical performance of our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on our Class A shares.

The historical and potential future returns of the funds we manage are not directly linked to returns on our Class A shares. Therefore, readers should not conclude that positive performance of the funds we manage will necessarily result in positive returns on our Class A shares.

Moreover, with respect to the historical performance of our funds:

- the historical performance of our funds should not be considered indicative of the future results that should be expected from such funds or from any future funds we may raise;
- our funds' returns have benefited historically from investment opportunities and general market conditions that currently may not exist and may not repeat themselves, and there can be no assurance that our current or future funds will be able to avail themselves of profitable investment opportunities;
- the performance of a number of our funds that is calculated on the basis of NAV of the funds' investments reflects unrealized gains that may never be realized;
- several of our private equity portfolio companies have become public companies and have experienced significant subsequent decreases in their public market value. There can be no assurance that we will be able to realize such investments at profitable sale prices, particularly if market conditions are weak or the market perceives that the companies will perform less well when a Fortress fund reduces its investment in them; and
- Certain of the funds are newly established funds without any operating history or are managed by management companies or general partners who do not have a significant track record as an independent manager.

Poor performance of our funds would cause a decline in our revenue and results of operations, could obligate us to repay incentive income previously paid to us, and could adversely affect our ability to raise capital for future funds.

Poor performance of our funds could have a material adverse impact on our primary sources of revenue, which are: (1) management fees, which are based on AUM; (2) incentive income, which is based on the performance of our funds; and (3) investment income (loss) from our investments in our funds. Losses in our funds result in a decrease in AUM, which results in lower management fee revenues. In addition, our funds may be unable to pay all or part of the management fees that we are owed for an indeterminate period of time, or they may require advances to cover expenses if they perform poorly or suffer from liquidity constraints due to operational or market forces. In situations where we have deferred the receipt of management or other fees in order to provide liquidity to one or more of our managed funds, amounts that we have receivable from those funds may be difficult to collect in the future (or may take longer than anticipated to collect) if such funds have continued liquidity problems or if fund investors raise objections to such collections. As of June 30, 2017, amounts due from our funds included $45.8 million of past due management fees and $11.4 million of private equity general and administrative expenses advanced on behalf of a certain Fortress Fund. Subsequent to June 30, 2017, Fortress received $25.6 million of past due management fees as a result of a realization event at the fund. The amount of deferred management fees and reimbursements may increase in the future.

In addition, as a result of the performance of our funds or other factors, hedge fund investors may redeem their investments in our funds, while investors in our private equity funds and credit PE funds may decline to invest in future funds we raise. Poor performance of our permanent capital vehicles may result in a decrease in the market price of their common stock and impair their ability to raise capital or pay dividends. The annual return of capital request date for our flagship credit hedge fund occurs in October and our credit hedge funds received return of capital requests from fee paying investors for a total of $27.3 million during the six months ended June 30, 2017 and $0.7 billion for the year ended December 31, 2016. For our liquid hedge funds, 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. We closed our Fortress Macro Funds and related managed accounts at the end of 2015, we transferred our rights as general partner and investment manager of the Fortress Convex Asia Funds to a third party during the second quarter of 2016 and we closed the Fortress Centaurus Global Funds during the third quarter of 2016. These events reduced our AUM and therefore our management fees and may impact our reputation and our ability to raise capital for future funds. See "—Assets Under Management —Redemptions."

If, as a result of poor performance of investments in a private equity fund or credit PE fund, the fund does not achieve total investment returns that exceed a specified investment return threshold for the life of the fund, we will be obligated to repay the amount by which incentive income that was previously distributed to us exceeds the amounts to which we are ultimately entitled. We have contractually agreed to guarantee the payment in certain circumstances of such "clawback" obligations for our managed investment funds that are structured as private equity style funds. During the first quarter of 2016, we paid $66.9 million to Fortress Investment Fund III in connection with such clawback obligations ($45.1 million net of employee amounts). As of June 30, 2017, we have no intrinsic clawback obligations for any of our private equity funds or credit PE funds. We may be unable — as a result

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of poor fund performance or other issues — to raise enough new capital and new funds to seize investment opportunities in the future. If our competitors are more successful than we are in raising new fund capital and seizing investment opportunities, we may face challenges in competing for future investor capital and investment opportunities.

Difficult market conditions can adversely affect our funds in many ways, including by reducing the value or performance of the investments made by our funds and reducing the ability of our funds to raise or deploy capital, which could materially reduce our revenue and adversely affect our results of operations.

Our funds are materially affected by conditions in the global financial markets and economic conditions throughout the world. The global market and economic climate may be adversely affected by factors beyond our control, including rising interest rates or accelerating asset deflation or inflation, deterioration or volatility in the credit and finance markets, deterioration in the credit of sovereign nations, terrorism or political uncertainty. Recently, markets were affected at different times by an overall weak global economy, the Federal Reserve's long awaited increase in interest rates, concerns of China's slowing economy, rapidly falling oil price, Brexit and the U.S. general election. Each of our businesses could be affected in different ways during market downturns. Our private equity style funds have faced reduced opportunities to sell and realize value from their existing investments. In addition, adverse market or economic conditions as well as the slowdown of activities in particular sectors in which portfolio companies of these funds or the permanent capital vehicles operate (including, but not limited to, transportation and infrastructure, financial services, real estate and senior living) have had an adverse effect on the earnings and liquidity of such portfolio companies, which in some cases has negatively impacted the valuations of our funds' investments, or the operating results of our permanent capital vehicles and, therefore, our actual and potential earnings from management and incentive fees. Our credit hedge funds and the affiliated manager business may also be adversely affected by difficult market conditions if they fail to predict the adverse effect of such conditions on particular investments, resulting in a significant reduction in the value of those investments. See "Market Considerations."

The 2008 financial crisis adversely affected our operating performance in a number of ways, and if the economy were to re-enter a period of recession, it may cause our revenue, results of operations and financial condition to decline by causing:

- AUM to decrease, lowering management fees;
- increases in costs associated with financial instruments;
- adverse conditions for our portfolio companies or permanent capital vehicles (e.g., decreased revenues, liquidity pressures, increased difficulty in obtaining access to financing and complying with the terms of existing financings as well as increased financing costs);
- lower investment returns, reducing incentive income or eliminating incentive income for a period of time;
- reduced demand to purchase assets held by our funds, which would negatively affect the funds' ability to realize value from such assets;
- material reductions in the value of our private equity fund investments in portfolio companies or the operating results of our permanent capital vehicles, which would reduce our ability to realize incentive income from these investments or vehicles;
- difficulty raising additional capital;
- investor redemptions, resulting in lower fees and potential increased difficulty in raising new capital; and
- decreases in the carrying value of our investments in our funds.

The deterioration of market conditions in the future, particularly another failure of one or more major financial institutions, a default or serious deterioration in the financial condition of one or more sovereign nations, or another severe contraction of available debt or equity capital, would have a negative impact on our funds, which could materially reduce our revenue and adversely affect our results of operations. Furthermore, while difficult market conditions may increase opportunities to make certain distressed asset investments, our ability to take advantage of

these opportunities may depend on our access to debt and equity capital and these trends may also be disadvantageous to us, for example, where such conditions also increase the risk of default with respect to debt investments held by our funds, in particular certain of our permanent capital vehicles.

Our funds may make investments that are concentrated in certain companies, asset types or geographical regions, which means that negative developments in certain sectors could have a material adverse effect on our revenues and results of operations.

The governing agreements of our funds contain limited investment restrictions and limited requirements as to diversification of fund investments, whether by geographic region or asset type. Many of our private equity funds have significant investments in particular companies whose assets are concentrated in certain industries, and from time to time we establish funds that target particular asset classes, such as our Italian NPL Opportunities Funds, MSR Opportunities Funds, Real Estate Opportunities Funds, Japan Opportunity Funds, LDVF Patent Fund and Life Settlements Funds. Our permanent capital vehicles, such as New Senior which is concentrated in senior living, also have assets concentrated in certain industries. Sectors in which our private equity funds

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have significant investments include transportation and infrastructure, financial services (particularly loan servicing and consumer finance), real estate (including Florida commercial real estate) and senior living. In particular, the performance of our investments in Nationstar, OneMain, Florida East Coast Industries and Holiday Retirement has the potential to significantly influence the overall financial results of our private equity segment. 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. If these sectors, or any other sector in which our funds have concentrated investments, were adversely affected by market conditions or other factors, certain of our funds may perform poorly. Moreover, poor performance by our private equity fund, permanent capital vehicle, and/or credit fund businesses could harm our reputation, which could make it difficult for us to raise capital for our other businesses. For a description of the potential consequences to us of poor fund performance, see "Poor performance of our funds would cause a decline in our revenue and results of operations, could obligate us to repay incentive income previously paid to us, and could adversely affect our ability to raise capital for future funds."

Certain of our permanent capital vehicles and funds could be adversely affected by a contraction of the structured finance and mortgage markets.

New Residential has historically relied on the structured finance and mortgage markets in order to obtain leverage and thereby increase the yield on portions of its investments. In addition, Eurocastle may seek to utilize structured finance markets from time to time in connection with certain investments. To the extent that volatility in those credit markets leads to a situation where financing of that type is unavailable or limited (as was the case during the 2008 financial crisis and several years thereafter), New Residential and/or Eurocastle may be unable to make new investments on a basis that is as profitable as during periods when such financing was or is available. Furthermore, it could significantly reduce the yield available for reinvesting capital received from prior investments, thereby reducing profits. As a result of impairments recorded in connection with the 2008-2009 structured finance and mortgage market disruption, we do not expect to earn incentive income from Drive Shack (formerly known as Newcastle Investment Corp.) for an indeterminate period of time. Many of our funds also have relied on the structured finance markets. To the extent that financing of that type is unavailable or limited, such funds may be unable to make certain types of investments as the yield on those investments will be outside of the funds' target range without leverage. This could reduce the overall rate of return such funds obtain from their investments and could lead to a reduction in overall investments by those funds and a slower rate of growth of fee paying assets under management in those funds, with a commensurate decrease in the rate of growth of our management fees.

We and our funds are subject to counterparty default and concentration risks.

Our funds enter into numerous types of financing arrangements with counterparties globally, including loans, hedge contracts, swaps, repurchase agreements and other derivative and non-derivative contracts. The terms of these contracts are often customized and complex and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight. Generally, funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. In particular, some of our funds utilize prime brokerage arrangements with a relatively limited number of counterparties, which has the effect of concentrating the transaction volume (and related counterparty default risk) of these funds with these counterparties. Our funds may also experience counterparty concentration risk with respect to partners in coinvestments.

Our funds are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur rapidly and without notice to us. Moreover, if a counterparty defaults, we may be unable to take action to cover our exposure, either because we lack the contractual ability or because market conditions make it difficult to take effective action. This inability could occur in times of market stress, which are precisely the times when defaults may be most likely to occur. In the event

of a counterparty default, particularly a default by a major investment bank, one or more of our funds could incur material losses, and the resulting market impact of a major counterparty default could harm our business, results of operations and financial condition. In the event that one of our counterparties becomes insolvent or files for bankruptcy, our ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding.

Our funds are also exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is increased for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. The absence of a regulated market to facilitate settlement may increase the potential for losses.

In addition, our funds' risk-management models may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not take sufficient action to reduce our risks effectively. Although each of our funds monitors

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its credit exposures, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

The counterparty risks that we face have increased in complexity and magnitude as a result of the insolvency of certain financial institutions (such as Lehman Brothers and MF Global) who served as counterparties for derivative contracts, insurance policies and other financial instruments. The consolidation and elimination of counterparties has increased our concentration of counterparty risk and decreased the universe of potential counterparties, and our funds are generally not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. For additional detail on counterparty risks, please see "— We are subject to risks in using prime brokers, custodians and other financial intermediaries."

Because the Company is dependent on receiving cash from our funds, any loss suffered by a fund as a result of a counterparty default could also affect the results of the Company. In addition, the board of directors of the Company has only limited ability to influence any fund's choice of, or the amount of a fund's exposure to, any given counterparty. As a result, our funds may have concentrated exposure to one or more counterparties and thus be exposed to a heightened risk of loss if that counterparty defaults. This may mean that the Company has a significant concentration of risk with one or more particular counterparties at any particular time if aggregate counterparty risk were to be measured across all of the various Fortress Funds.

Third party investors in our investment funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund's operations and performance.

Investors in our private equity funds and credit PE funds make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. As of the end of this reporting period, we have not had investors fail to honor capital calls to any extent meaningful to us. Any investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of its existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

Investors in our hedge funds may redeem their investments, and investors in our private equity funds and credit PE funds and certain hedge funds may elect to dissolve the funds, at any time without cause. These events would lead to a decrease in our AUM (and, therefore, our revenues), which could be substantial and could lead to a material adverse effect on our business.

Investors in our credit hedge funds are permitted to request that their capital be returned generally on an annual basis, and such returns of capital may be paid over time as the underlying investments are liquidated, in accordance with the governing documents of the applicable funds. Investors may decide to move their capital away from us to other investments for any number of reasons in addition to poor investment performance. Factors that could result in investors leaving our funds include the need to increase available cash reserves or to fund other capital commitments, changes in interest rates that make other investments more attractive, the publicly traded nature of the indirect parent of their manager, changes in investor perception regarding our focus or alignment of interest, dissatisfaction with

changes in or broadening of a fund's investment strategy, changes in our reputation, and departures or changes in responsibilities of key investment professionals. In a declining financial market, the pace of redemptions and consequent reduction in our fee paying assets under management could accelerate. The decrease in our revenues that would result from significant redemptions in our hedge fund business would have a material adverse effect on our business.

The annual return of capital request date for our flagship credit hedge fund occurs in October and our credit hedge funds received return of capital requests from fee paying investors for a total of $27.3 million during the six months ended June 30, 2017 and $0.7 billion for the year ended December 31, 2016. For our liquid hedge funds, 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. We closed our Fortress Macro Funds and related managed accounts at the end of 2015, we transferred our rights as general partner and investment manager of the Fortress Convex Asia Funds to a third party during the second quarter of 2016 and we closed the Fortress Centaurus Global Funds during the third quarter of 2016.These events reduced our AUM and therefore our management fees and may impact our reputation. See "—Assets Under Management —Redemptions."

In addition, the investors in our private equity funds, credit PE funds and certain hedge funds may, subject to certain conditions, act at any time to accelerate the liquidation date of the fund without cause, resulting in a reduction in management fees we earn from such funds and a significant reduction in the amounts of total incentive income we could earn from those funds. See "—Our

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removal as the investment manager, or the liquidation, of one or more of our funds could have a material adverse effect on our business, results of operations and financial condition." Incentive income could be significantly reduced as a result of our inability to maximize the value of a fund's investments in a liquidation. The occurrence of such an event with respect to any of our funds would, in addition to the significant negative impact on our revenue and earnings, likely result in significant reputational damage as well.

A significant decline in AUM could result in one or more defaults under certain fund agreements, which could negatively impact our business.

Our funds have various agreements that create debt or debt-like obligations (such as repurchase arrangements, ISDAs, credit default swaps and total return swaps, among others) with a material number of counterparties. Such agreements in many instances contain covenants or "triggers" that require our funds to maintain specified amounts of AUM. In particular, many such covenants to which our credit hedge funds are party are designed to protect against sudden and pronounced drops in AUM over specified periods, so if our funds were to receive larger-than-anticipated redemption requests during a period of poor performance, such covenants may be breached. Decreases in such funds' AUM (whether due to performance, redemption, or both) that breach such covenants may result in defaults under such agreements, and such defaults could permit the counterparties to take various actions that would be adverse to the funds, including terminating the financing arrangements, increasing the amount of margin or collateral that the funds are required to post (so-called "supercollateralization" requirements) or decreasing the aggregate amount of leverage that such counterparty is willing to provide to our funds. Defaults under any such covenants would be likely to result in the affected funds being forced to sell financed assets (which sales would presumably occur in suboptimal or distressed market conditions) or otherwise raise cash by reducing other leverage, which would reduce the funds' returns and our opportunities to produce incentive income from the affected funds.

Many of our funds invest in high-risk, illiquid assets that often have significantly leveraged capital structures, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of the principal amount we invest in these activities.

Many of our funds invest in securities, loans or other assets that are not publicly traded. In many cases, our funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. The ability of many of our funds, particularly our private equity style funds, to dispose of investments is heavily dependent on the public equity markets, inasmuch as our ability to realize any value from an investment may depend upon our ability to sell equity of the portfolio company in the public equity markets through an initial public offering or secondary public offering of shares of the portfolio company in which such investment is held. Furthermore, large holdings even of publicly traded equity securities can often be disposed of only over a substantial period of time, exposing the investment returns to risks of downward movement in market prices during the disposition period. Accordingly, our funds may be forced to sell securities at a loss under certain conditions. The illiquid nature of many of our funds' assets may also negatively affect a fund's ability to retain sufficient liquidity to satisfy its obligations as they become due. As a result, a fund with illiquid assets may be unable, for example, to generate sufficient liquidity to pay the management fees or other amounts due to the manager, which would, in turn, reduce the amounts we receive from our funds, thereby reducing the amount of funds available to us to satisfy our obligations, including any obligations under our credit agreement.

In addition, many of our funds invest in businesses with capital structures that have significant leverage. The large amount of borrowing in the leveraged capital structure of such businesses increases the risk of losses due to factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the investment or its industry. In the event of defaults under borrowings, the assets being financed would be at risk of foreclosure, and the fund could lose its entire investment.

Our funds are subject to risks due to potential illiquidity of assets and leverage of capital structure.

Our funds may make investments or hold trading positions in markets that are volatile and which may be illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which we may be a party, and changes in industry and government regulations. When a fund holds a security or position it is vulnerable to price and value fluctuations and may experience losses to the extent the value of the position decreases and it is unable to timely sell, hedge or transfer the position. Therefore, it may be impossible or costly for our funds to liquidate positions rapidly, particularly if the relevant market is moving against a position or in the event of trading halts or daily price movement limits on the market or otherwise. Alternatively, it may not be possible in certain circumstances for a position to be purchased or sold promptly, particularly if there is insufficient trading activity in the relevant market or otherwise.

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In addition, the funds we manage may operate with a substantial degree of leverage. They may borrow, invest in derivative instruments and purchase securities using borrowed money, so that the positions held by the funds may in aggregate value exceed the NAV of the funds. This leverage creates the potential for higher returns, but also increases the volatility of a fund, including the risk of a total loss of the amount invested. In addition, our private equity funds have historically leveraged some of their investments in order to return capital to investors earlier than would have otherwise been possible without a sale of the asset. In many such cases, such debt was secured by publicly-traded stock of portfolio companies. To the extent that the value of such collateral decreases due to decreases in the share price of such portfolio companies, our funds may be subject to margin calls that require them to call additional capital from investors, sell assets or otherwise take actions that decrease the overall return of the impacted funds. Such actions would result in overall decreased revenues for us and a lower likelihood of generating incentive income from the affected investments.

The risks identified above will be increased if a fund is required to rapidly liquidate positions to meet redemption requests, margin requests, margin calls or other funding requirements on that position, fully unwind or otherwise. The inability to rapidly sell positions due to a lack of liquidity has historically been the cause of substantial losses in the hedge fund industry. The ability of counterparties to force liquidations following losses or a failure to meet a margin call can result in the rapid sale of highly leveraged positions in declining markets, which would likely subject our hedge funds to substantial losses. We may fail to adequately predict the liquidity that our funds require to address counterparty requirements due to falling values of fund investments being financed by such counterparties, which could result not only in losses related to such investments, but in losses related to the need to liquidate unrelated investments in order to meet the fund's obligations. Our funds may incur substantial losses in the event significant capital is invested in highly leveraged investments or investment strategies. Such losses would result in a decline in AUM, lead to investor requests to redeem remaining AUM (in the case of our hedge funds), and damage our reputation, each of which would materially and adversely impact our earnings.

Valuation methodologies for certain assets in our funds can be subject to significant subjectivity, and the values of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.

There are no readily-ascertainable market prices for a very large number of illiquid investments in our private equity funds and credit PE funds and, to a lesser extent, credit hedge funds as well as a small number of so called "sidepocket" investments in our liquid hedge funds. The fair value of such investments of our funds is determined periodically by us based on the methodologies described in the funds' valuation policies. These policies are based on a number of factors, including the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment, the length of time the investment has been held, the trading price of securities (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies. The methodologies we use in valuing individual investments are based on a variety of estimates and assumptions specific to the particular investments, and actual results related to the investment therefore often vary materially from such assumptions or estimates. In addition, because many of the illiquid investments held by our funds are in countries or geographic regions, industries or sectors that are unstable, in distress, or in the midst of some uncertainty, such investments are subject to rapid changes in value caused by sudden company-specific or industry-or country-wide developments. Moreover, in many markets, transaction flow is further limited by uncertainty about accurate asset valuations, which may cause hedge fund investors to become concerned about valuations of funds that have illiquid or hard-to-value assets. This concern may lead to increased redemptions by investors irrespective of the performance of the funds. In addition, uncertainty about asset values on redemptions from our investments in our hedge funds may lead to an increased risk of litigation by investors over NAVs.

Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, the fair values of such investments as reflected in a fund's NAV do not necessarily reflect the prices that would actually be

obtained by us on behalf of the fund when such investments are sold. Realizations at values significantly lower than the values at which investments have been reflected in fund NAVs would result in losses for the applicable fund, a decline in management fees and the loss of potential incentive income. Also, a situation where asset values turn out to be materially different than values reflected in fund NAVs could cause investors to lose confidence in us, which would, in turn, result in redemptions from our hedge funds or difficulties in raising additional private equity funds and credit PE funds. The SEC has highlighted valuation practices as one of its areas of focus in investment adviser examinations and has instituted enforcement actions against private equity fund advisers for misleading investors about valuation.

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Certain of our funds utilize special situation, distressed debt, mortgage-backed and short-selling investment strategies that involve significant risks.

Our private equity and credit funds, permanent capital vehicles and hedge funds invest in obligors and issuers with weak financial conditions, poor operating results, substantial financial needs, negative net worth, and/or special competitive problems and/or securities that are illiquid, distressed, tied to real estate or have other high-risk features. These funds also invest in obligors and issuers that are involved in bankruptcy or reorganization proceedings. It may be difficult to obtain complete information as to the exact financial and operating conditions of these obligors and issuers. Additionally, the fair values of such investments are subject to abrupt and erratic market movements and significant price volatility if they are widely traded securities and significant uncertainty in general if they are not widely traded securities or have no recognized market. A fund's or vehicle's exposure to such investments may be substantial in relation to the market for those investments, and the assets are likely to be illiquid and difficult to sell or transfer. As a result, it may take a number of years for the fair value of such investments to ultimately reflect their intrinsic value as perceived by us. For example, several of our funds and permanent capital vehicles from time to time make significant investments in mortgage-backed securities and other investments that are directly or indirectly related to the value of real estate in various locations globally, particularly in the United States. As a result, the results of a number of our funds and permanent capital vehicles have been, and may continue to be affected, in some cases materially, by fluctuations in the value of real estate and real estate related investments. Such fluctuations could have a meaningful impact on the performance of the applicable fund or vehicle and potentially on our operating results.

A central feature of our distressed investment strategy is our ability to successfully predict the occurrence of events such as mortgage default rates, mortgage prepayment rates, the amounts of any prepayments, maturity extensions, interest rates for mortgage-backed securities and similar instruments as well as corporate events such as capital raises, restructurings, reorganizations, mergers and other transactions. Predicting any of these data points is difficult and subject to uncertainty, and if our analyses are inaccurate, the actual results of such investments could be materially lower than expected and the applicable fund's investment results could decline sharply.

In addition, these investments could subject our private equity, credit PE funds, permanent capital vehicles and hedge funds to certain potential additional liabilities that may exceed the value of their original investment. Under certain circumstances, payments or distributions on certain investments may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. In addition, under certain circumstances, a lender that has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated or disallowed, or may be found liable for damages suffered by parties as a result of such actions. In the case where the investment in securities of troubled companies is made in connection with an attempt to influence a restructuring proposal or plan of reorganization in bankruptcy, our funds may become involved in substantial litigation.

Furthermore, our funds may engage in short-selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.

If our risk management systems for our fund business are ineffective, we may be exposed to material unanticipated losses.

In our fund business, we continue to refine our risk management techniques, strategies and assessment methods. However, our risk management techniques and strategies do not fully mitigate the risk exposure of our funds in all economic or market environments, or against all types of risk, including risks that we might fail to identify or anticipate. Some of our strategies for managing risk in our funds are based upon our use of historical market behavior

statistics. We apply statistical and other tools to these observations to measure and analyze the risks to which our funds are exposed. Any failures in our risk management techniques and strategies to accurately quantify such risk exposure could limit our ability to manage risks in the funds or to seek adequate risk-adjusted returns. In addition, any risk management failures could cause fund losses to be significantly greater than the historical measures predict. Further, our mathematical modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses.

We participate in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments.

Our funds participate in large transactions from time to time. The increased size of these investments involves certain complexities and risks that may not be encountered in small- and medium-sized investments. For example, larger transactions may be more difficult to finance and complete, and exiting larger deals may present challenges in many cases. In addition, larger transactions may entail greater scrutiny by regulators, labor unions, political bodies and other third parties and greater risk of litigation. Any

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of these factors could increase the risk that our larger investments could be unsuccessful. The consequences to our funds of an unsuccessful larger investment could be more severe than those of a smaller investment.

Our investment funds often make investments in companies that we do not control and we have investments in funds that we do not control.

Investments by most of our investment funds will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our investment funds through trading activities or through purchases of securities from the issuer. In addition, our private equity funds and credit funds may acquire debt investments or minority equity interests and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the investment funds retaining a minority investment. In addition, in January 2015, the Fortress Asia Macro Funds transitioned into Graticule, an autonomous business, with Fortress keeping a significant minority ownership stake in the general partner and/or manager. Such investments are subject to increased risk that the entity in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the entity may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of investments by our investment funds and the fees we earn from the affiliated manager business could decrease, and our financial condition, results of operations and cash flow could suffer as a result.

Some of our funds invest in foreign countries and securities of issuers located outside of the United States, which involves foreign exchange, political, social, regulatory and economic uncertainties and risks.

Some of our funds invest a portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, which may entail risks that are not typically associated with an investment in a U.S. issuer. In addition to business uncertainties, such investments may be affected by changes in currency exchange values, including currencies in the Asia-Pacific region and the Euro. Periods of instability in the Eurozone, including fears of sovereign debt defaults, and stagnant growth generally, and of certain Eurozone member states in particular, have resulted in concerns regarding the suitability of a shared currency for the region, which could lead to the reintroduction of individual currencies for member states. If this were to occur, Euro-denominated assets and liabilities of certain of our funds would be re-denominated to such individual currencies, which could result in a mismatch in the values of assets and liabilities and expose us and certain of our funds to additional currency risks. Even if the Euro is maintained, continued concerns regarding the stability of the Eurozone, including potential consequences following Brexit, and the potential effects of government intervention intended to address it could materially adversely affect our business. Similarly, we manage several investment funds that are focused on Japan, and the Japanese economy has experienced periods of fiscal and economic volatility recently. We may be unable to properly predict the effect of such volatility, including the actions that may be taken by the Japanese government, in a way that fully mitigates the impact of such volatility on our investments and businesses in Japan.

Foreign investments and operations may also expose us to political, social, regulatory and economic uncertainties affecting a country or region, or to political hostility to investments by foreign or private equity investors. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher in those markets than in more developed markets. The legal and regulatory environment may also be different, particularly with respect to bankruptcy and reorganization, and may afford us less protection as a creditor than we may be entitled to under U.S. law. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

Restrictions imposed or actions taken by foreign governments could include exchange controls, seizure or nationalization of foreign deposits and adoption of other governmental restrictions which adversely affect the prices of securities or the ability to repatriate profits on investments or even the capital invested, which may adversely impact

the value of our fund investments. In addition, income received by our funds from sources in some countries may be reduced by withholding and other taxes. Any such taxes paid by a fund will reduce the net income or return from such investments. While we will take these factors into consideration in making investment decisions, including when hedging positions, no assurance can be given that the funds will be able to fully avoid these risks or generate sufficient risk-adjusted returns.

Investments by our funds will frequently rank junior to investments made by others in the same company.

In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our fund's investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled

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to receive payment in full before distributions could be made in respect of our investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our fund's investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of our investment funds to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

Fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives.

Fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, our funds trading such assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing "daily price fluctuation limits" or "daily limits," the existence of which may reduce liquidity or effectively curtail trading in particular markets. Dodd-Frank also gives rise to a substantial set of new rules focused on the use of derivatives, which will continue to require modification of business practices to comply with new regulations, increase costs of operating in the financial markets and impose restrictions on activities in these markets. For additional information on the potential impacts of Dodd-Frank regulations see "The U.S. government's increased focus on the regulation of the financial services industry may adversely affect our business."

We have been engaged as the investment manager or co-manager of third-party investment funds and managed accounts, and we may be engaged as the investment manager or co-manager of other third-party investment funds or managed accounts in the future, and each such engagement exposes us to a number of potential risks.

Changes within the alternative asset management industry may cause investors of some funds to replace their existing fund or managed account managers or may cause certain such managers to resign. In such instances, we may seek to be engaged as investment manager of these funds or accounts. For example, in 2009, we became the investment manager of certain investment funds and accounts previously managed by D.B. Zwirn & Co., L.P. , and in 2016 we became the investment manager of certain funds previously managed by J.P. Morgan Private Equity Limited. Investment managers may also seek to partner with us to co-manage their funds. In 2015, we became co-manager of the Mount Kellett investment funds and related managed accounts.

While being engaged as investment manager or co-manager of third-party funds or accounts potentially enables us to grow our business, it also entails a number of risks that could harm our reputation, results of operations and financial condition. For example, we may choose not to, or be unable to, conduct significant due diligence of the fund, the way it has been operated and managed prior to our engagement, and its investments, and any diligence we undertake may not reveal all relevant facts that may be necessary or helpful in evaluating such engagement. We may be unable to complete such transactions, which could harm our reputation and subject us to costly litigation. We may willingly or unknowingly assume actual or contingent liabilities for significant expenses, we may become subject to new laws and regulations with which we are not familiar, and we may become subject to increased risk of litigation, regulatory investigation or negative publicity. For example, we have been named as a defendant in various lawsuits relating to the Zwirn portfolio, and as part of our role as manager, we may incur time and expense in defending these and any similar future litigation. In addition to defending against litigation, being engaged as investment manager or co-manager may require us to invest significant capital and other resources for various other reasons, which could

detract from our existing funds or our ability to capitalize on future opportunities. In addition, being engaged as investment manager or co-manager may require us to integrate complex technological, accounting and management systems, which may be difficult, expensive and time-consuming and which we may not be successful in integrating into our current systems. If we include the financial performance of funds for which we have been engaged as the investment manager or co-manager in our public filings, we are subject to the risk that, particularly during the period immediately after the engagement, this information may prove to be inaccurate or incomplete. The occurrence of any of these negative integration events could negatively impact our reputation with both regulators and investors, which could, in turn, subject us to additional regulatory scrutiny and impair our relationships with the investment community. The occurrence of any of these problems could negatively affect our reputation, financial condition and results of operations.

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We are subject to risks in using prime brokers, custodians and other financial intermediaries.

The funds in our hedge fund business depend on the services of prime brokers and custodians to carry out certain securities transactions. In the event of the insolvency of a prime broker and/or custodian, depending on the applicable regulations in the jurisdiction of the prime broker or custodian, the funds might not be able to recover equivalent assets in full as they may rank among the prime broker's and custodian's unsecured creditors in relation to assets which the prime broker or custodian borrows, lends or otherwise uses. In addition, the funds' cash held with a prime broker or custodian will not be segregated from the prime broker's or custodian's own cash, and the funds will therefore rank as unsecured creditors in relation to the cash they have deposited. In addition, credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This "systemic risk" may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, investment banks, securities firms and exchanges) with which the funds interact on a daily basis. The default of any prime broker or custodian may have a material adverse effect on our funds, which may have a negative impact on the amount of fees that we earn from such funds or our results of operations.

Risks Related to Our Organization and Structure

Concentrated ownership by our principals of the combined voting power of our shares and holding their economic interest through Fortress Operating Group may give rise to conflicts of interests.

Our principals currently control 44.6% of the combined voting power of our outstanding Class A and Class B shares. Accordingly, our principals have significant influence over our management and affairs. In addition, they are able to significantly influence the outcome of matters requiring shareholder approval and a change of control of our Company or a change in the composition of our board of directors, and could preclude any unsolicited acquisition of our Company.

In addition, the shareholders agreement among us and the principals provides the principals, who are then employed by the Fortress Operating Group, so long as the principals and their permitted transferees continue to hold more than 40% of the total combined voting power of our outstanding Class A and Class B shares, with the right to cause the board of directors to nominate individuals
designated by such principals such that such principals will have five designees on the board of directors and with approval rights over a variety of significant corporate actions, including:

- 10% indebtedness: any incurrence of indebtedness, in one transaction or a series of related transactions, by us or any of our subsidiaries in an amount in excess of approximately 10% of the then existing long-term indebtedness of us and our subsidiaries;
- 10% share issuance: any issuance by us, in any transaction or series of related transactions, of equity or equity-related securities that would represent, after such issuance, or upon conversion, exchange or exercise, as the case may be, at least 10% of the total combined voting power of our outstanding Class A and Class B shares other than (1) pursuant to transactions solely among us and our wholly owned subsidiaries, or (2) upon conversion of convertible securities or upon exercise of warrants or options, which convertible securities, warrants or options are either outstanding on the date of, or issued in compliance with, the shareholders agreement;
- investment of $250 million or more: any equity or debt commitment or investment or series of related equity or debt commitments or investments in an entity or related group of entities in an amount equal to or greater than $250 million;
- new business requiring investment in excess of $100 million: any entry by us or any of our controlled affiliates into a new line of business that does not involve investment management and that requires an investment in excess of $100 million;

- the adoption of a shareholder rights plan;
- any appointment of a chief executive officer or co-chief executive officer; or
- the termination without cause of the employment of a principal with us or any of our material subsidiaries.

Furthermore, the principals have certain consent rights with respect to structural changes involving our Company.

Because our principals primarily hold their economic interests in our business directly through Fortress Operating Group, rather than through the public company, they may have conflicting interests with holders of Class A shares. For example, our principals may have different tax positions from us, which could influence their decisions regarding whether and when to dispose of assets, and whether and when to incur new or refinance existing indebtedness, especially in light of the tax receivable agreement. In addition, the structuring of future transactions may take into consideration the principals' tax considerations even where no similar benefit would accrue to us. Moreover, any distribution by Fortress Operating Group to us to satisfy our tax obligations or to make payments to our principals under the tax receivable agreement will result in a corresponding pro rata distribution to our principals. Our principals are also entitled to distributions on their Fortress Operating Group units in respect of their tax obligations as holders of Fortress Operating Group units. As a result of the foregoing, amounts may be distributed to the holders of the Fortress Operating

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Group units that are greater in the aggregate, or are distributed earlier in time, than distributions that are made to holders of Class A shares (on a per share basis).

Our ability to pay regular dividends is limited under the Merger Agreement and may be limited by our holding company structure; we are dependent on distributions from the Fortress Operating Group to pay dividends, taxes and other expenses. Our ability to pay dividends is also subject to not defaulting on our credit agreement.

In connection with the proposed Merger, we have contractually agreed that we will not pay any dividends with respect to quarterly periods ending March 31, 2017, after that while the Merger Agreement remains in effect. Fortress Class A shareholders should therefore not anticipate receiving a dividend with respect to the quarterly periods ended subsequent to June 30, 2017, even if the Merger has not yet been consummated at the time of the customary dividend payment dates for such periods.

As a holding company, our ability to pay dividends is subject to the ability of our subsidiaries to provide cash to us. When we declare a dividend on our Class A shares, we generally expect to cause Fortress Operating Group to make distributions to its unitholders, including our wholly-owned subsidiaries, pro rata in an amount sufficient to enable us to pay such dividends to our Class A shareholders. However, no assurance can be given that such distributions will or can be made. Our board can reduce or eliminate our dividend at any time, in its discretion. For example, our board determined not to pay any dividend to our Class A shareholders from the third quarter of 2008 through the third quarter of 2011. Our board elected to resume quarterly dividends beginning with the fourth quarter of 2011. In addition, Fortress Operating Group is required to make minimum tax distributions to its unitholders. See also "— Risks Related to Taxation — There can be no assurance that amounts paid as dividends on Class A shares will be sufficient to cover the tax liability arising from ownership of Class A shares." If Fortress Operating Group has insufficient funds, we may have to borrow additional funds or sell assets, which could materially adversely affect our liquidity and financial condition. In addition, Fortress Operating Group's earnings may be insufficient to enable it to make required minimum tax distributions to unitholders. Furthermore, our Board of Directors may choose to utilize funds that would otherwise be available to pay dividends on our Class A shares for other uses, such as share repurchases. For example, in November 2015, we repurchased a portion of our equity for $255.7 million from a former principal. In connection with this purchase, we 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 was repaid in August 2016 and the remainder matures in November 2017. In another example, in March 2016 we completed a modified "Dutch auction" self-tender offer and purchased a portion of our Class A shares for $22.8 million.

We are also subject to certain contingent repayment obligations that may affect our ability to pay dividends. We earn incentive income - generally 20% of the profits - from each of our private equity funds and credit PE funds based on a percentage of the profits earned by the fund as a whole, provided that the fund achieves specified performance criteria. We generally receive, however, our percentage share of the profits on each investment in the fund as it is realized, before it is known with certainty that the fund as a whole will meet the specified criteria. As a result, the incentive income paid to us as a particular investment made by the funds is realized is subject to contingent repayment (or "clawback") if, upon liquidation of the fund, the aggregate amount paid to us as incentive income exceeds the amount actually due to us based upon the aggregate performance of the fund. If we are required to repay amounts to a fund in order to satisfy a clawback obligation, any such repayment will reduce the amount of cash available to distribute as a dividend to our Class A shareholders. While the principals have personally guaranteed, subject to certain limitations, this "clawback" obligation related to certain funds, we have agreed to indemnify the principals for all amounts that the principals pay pursuant to any of these personal guarantees in favor of such funds. Consequently, any requirement to satisfy a clawback obligation could impair our ability to pay dividends on our Class A shares. In February 2016, we made a payment of $66.9 million for Fortress Investment Fund III in connection with such a clawback obligation.

There may also be circumstances under which we are restricted from paying dividends under applicable law or regulation (for example due to Delaware limited partnership or limited liability company act limitations on making distributions if liabilities of the entity after the distribution would exceed the value of the entity's assets). In addition, under our credit agreement, the ability of the loan parties thereunder and certain of our other subsidiaries to make cash distributions is subject to certain restrictions, including that no default exists at the time of declaration or event of default exists at the time of payment or immediately after giving effect thereto. Such restrictions on certain of our subsidiaries may in turn limit our ability to make cash distributions.

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Tax consequences to the principals may give rise to conflicts of interests.

As a result of unrealized built-in gain attributable to the value of our assets held by the Fortress Operating Group entities at the time of our initial public offering, or as a result of other differences between the tax attributes of our principals and the Fortress Operating Group entities, upon the sale, refinancing or disposition of the assets owned by the Fortress Operating Group entities, our principals will incur different and significantly greater tax liabilities as a result of the disproportionately greater allocations of items of taxable income and gain to the principals upon a realization event. As the principals will not receive a corresponding greater distribution of cash proceeds, they may, subject to applicable fiduciary or contractual duties, have different incentives regarding the appropriate pricing, timing and other material terms of any sale, refinancing, or disposition, or whether to sell such assets at all. Decisions made with respect to an acceleration or deferral of income or deductions or the sale or disposition of assets may also influence the timing and amount of payments that are received by an exchanging or selling principal under the tax receivable agreement. All other factors being equal, earlier disposition of assets following a transaction will tend to accelerate such payments and increase the present value of the tax receivable agreement, and disposition of assets before a transaction will increase a principal's tax liability without giving rise to any rights to receive payments under the tax receivable agreement. Decisions made regarding a change of control also could have a material influence on the timing and amount of payments received by the principals pursuant to the tax receivable agreement.

We are required to pay our principals for most of the tax benefits we realize as a result of the tax basis step-up we receive in connection with taxable exchanges by our principals of units held in the Fortress Operating Group entities or our acquisitions of units from our principals.

At any time and from time to time, each of our principals has the right to exchange his Fortress Operating Group units for our Class A shares in a taxable transaction. These taxable exchanges, as well as our acquisitions of units from our principals, may result in increases in the tax depreciation and amortization deductions, as well as an increase in the tax basis of other assets, of the Fortress Operating Group that otherwise would not have been available. These increases in tax depreciation and amortization deductions, as well as the tax basis of other assets, may reduce the amount of tax that FIG Corp. and any other corporate taxpayers would otherwise be required to pay in the future, although the IRS may challenge all or part of increased deductions and tax basis increase, and a court could sustain such a challenge.

We have entered into a tax receivable agreement with our principals that provides for the payment by the corporate taxpayers to our principals of 85% of the amount of tax savings, if any, that the corporate taxpayers actually realize (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change of control, as discussed below) as a result of increases in tax deductions and tax basis of the Fortress Operating Group caused by such transactions with the principals. The payments that the corporate taxpayers may make to our principals could be material in amount.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, our principals will not reimburse the corporate taxpayers for any payments that have been previously made under the tax receivable agreement. As a result, in certain circumstances, payments could be made to our principals under the tax receivable agreement in excess of the corporate taxpayers' cash tax savings. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under this agreement, will depend upon a number of factors, including the timing and amount of our future income.

In addition, the tax receivable agreement provides that, upon a merger, asset sale or other form of business combination or certain other changes of control, the corporate taxpayers' (or their successors') obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control) would be based on certain assumptions, including that the corporate taxpayers would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax

receivable agreement.

In connection with entering into the Merger Agreement, on February 14, 2017, FIG Corp. entered into the tax receivables agreement waiver with certain other subsidiaries of the Company and the principals, effective as of the closing, pursuant to which, among other things, the principals waived their rights to receive any payments under the tax receivable agreement arising out of the transaction contemplated by the Founders Agreement and other transactions occurring after February 14, 2017. Under the tax receivables agreement waiver, the principals will also agree to amend certain key tax assumptions that affect the timing and amount of future payments to be received by the principals with respect to transactions that occur prior to the closing of the Founders Agreement ("Pre-Transaction Exchanges"). Subject to those amendments, future payments under the tax receivable agreement attributable to Pre-Transaction Exchanges will generally continue to be contingent on FIG Corp. having sufficient future operating income to utilize the applicable tax benefits. In addition, under the tax receivables agreement waiver, the aggregate amount of a principal's future payments under the tax receivable agreement will be capped at such principal's pro rata share of the liability for such payments recorded on our audited consolidated financial statements for the year ending December 31, 2016 (see Notes 5 and 6 to our condensed consolidated financial statements included herein). The waivers and amendment provided for the tax receivables

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agreement waiver will generally have the effect of reducing and/or deferring the payments to which the Principals would otherwise have been entitled under the tax receivable agreement.

If we were deemed an investment company under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business and the price of our Class A shares.

We do not believe that we are an "investment company" under the Investment Company Act because the nature of our assets and the sources of our income exclude us from the definition of an investment company pursuant to Rule 3a-1 under the Investment Company Act. In addition, we believe we are not an investment company under Section 3(b)(1) of the Investment Company Act because we are primarily engaged in a non-investment company business. If one or more of the Fortress Operating Group entities ceased to be a wholly owned subsidiary of ours as such term is defined in the Investment Company Act, our interests in those subsidiaries could be deemed an "investment security" for purposes of the Investment Company Act. Generally, a person is an "investment company" if it owns investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the Investment Company Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and would have a material adverse effect on our business and the price of our Class A shares.

Risks Related to Our Class A Shares

The market price and trading volume of our Class A shares may be volatile, which could result in rapid and substantial losses for our shareholders.

The market price of our Class A shares may be highly volatile. In addition, the trading volume in our Class A shares may fluctuate and cause significant price variations to occur, which may limit or prevent investors from readily selling their Class A shares and may otherwise negatively affect the liquidity of our Class A shares. If the market price of our Class A shares declines significantly, holders may be unable to resell their Class A shares at or above their purchase price, if at all. We cannot provide any assurance that the market price of our Class A shares will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our Class A shares or result in fluctuations in the price or trading volume of our Class A shares include:

- failure of the proposed Merger to close in accordance with the terms of the Merger Agreement;
- variations in our quarterly operating results or dividends, or a reversal of our recent history of paying quarterly dividends;
- failure to meet analysts' earnings estimates;
- sales by the Company, key executives or other shareholders of a significant amount of our equity securities, including sales to cover withholding taxes with respect to equity-based compensation;
- difficulty in complying with the provisions in our credit agreement such as financial covenants;
- publication of research reports or press reports about us, our investments or the investment management industry or the failure of securities analysts to cover our Class A shares;
- additions or departures of our principals, and other key management personnel or lack of certainty about our principals' employment agreements, whose term ends in January 2022;
- closure of funds, including the Fortress Macro Funds and related managed accounts;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- actions by shareholders;
- changes in market valuations and performance or share price of other alternative asset managers;

- speculation in the press or investment community;
- changes or proposed changes in laws or regulations or differing interpretations thereof affecting our business or enforcement of these laws and regulations, or announcements relating to these matters;
- litigation or governmental investigations or regulatory activities;
- poor performance or other complications affecting our funds or current or proposed investments;
- adverse publicity about the asset management industry generally, our specific funds or investments, or individual scandals, specifically;
- a breach of our computer systems, software or networks, or misappropriation of our proprietary information;
- general market and economic conditions; and
- dilution resulting from the issuance of equity-based compensation to employees.

In addition, when the market price of a stock has been volatile in the past, holders of that stock have, at times, instituted securities class action litigation against the issuer of the stock. If any of our shareholders brought a lawsuit against us, we may be required

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to incur substantial costs defending any such suit, even those without merit. Such a lawsuit could also divert the time and attention of our management from our business and lower our Class A share price.

Our Class A share price may decline due to the large number of shares eligible for future sale and for exchange into Class A shares.

The market price of our Class A shares could decline as a result of sales of a large number of our Class A shares or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. As of June 30, 2017, we had 404,523,672 outstanding Class A shares on a fully diluted basis, including 107,930,619 resulting from vested equity compensation granted pursuant to our equity incentive plan, 15,948,425 restricted Class A share units granted to employees and affiliates pursuant to our equity incentive plan (net of forfeitures), 1,382,236 restricted Class A shares granted to directors pursuant to our equity incentive plan. As of June 30, 2017, we had 55,564,908 Class A shares which remain available for future grant under our equity incentive plan. The Class A shares reserved under our equity incentive plan is increased on the first day of each fiscal year during the plan's term by the lesser of (x) the excess of (i) 15% of the number of outstanding Class A and Class B shares of the Company on the last day of the immediately preceding fiscal year over (ii) the number of shares reserved and available for issuance under our equity incentive plan as of such date or (y) 60,000,000 shares. In January 2017, the number of shares reserved for issuance pursuant to this calculation increased by 688,616. We may issue and sell in the future additional Class A shares or any securities issuable upon conversion of or exchange or exercise for, Class A shares (including Fortress Operating Group units) at any time.

As of June 30, 2017, our principals directly owned an aggregate of 169,207,335 Fortress Operating Group units and also owned an aggregate of 4,268,325 Class A shares. Each principal has the right to exchange each of his directly owned Fortress Operating Group units for one of our Class A shares at any time, subject to the exchange agreement. These Class A shares and Fortress Operating Group units are eligible for resale from time to time, subject to certain contractual restrictions (including restrictions in the Voting and Support Agreement and the Founder's Agreement) and Securities Act limitations.

Our principals are parties to shareholders agreements with us. The principals have the ability to cause us to register the Class A shares they acquire upon exchange for their Fortress Operating Group units and we have filed a shelf registration statement for that purpose.

Concentrated ownership of our Class B shares and anti-takeover provisions in our charter documents and Delaware law could delay or prevent a change in control.

Our principals beneficially own all of our Class B shares. Class B shares currently represent 43.5% of the total combined voting power of our outstanding Class A and Class B shares. As a result, if they vote all of their shares in the same manner, they will be able to significantly influence matters requiring the approval of shareholders and a change in control of our Company. In addition, provisions in our operating agreement may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our shareholders. For example, our operating agreement provides for a staggered board, requires advance notice for proposals by shareholders and nominations, places limitations on convening shareholder meetings, and authorizes the issuance of preferred shares that could be issued by our board of directors to thwart a takeover attempt. In addition, certain provisions of Delaware law may delay or prevent a transaction that could cause a change in our control. The market price of our Class A shares could be adversely affected to the extent that our principals' significant influence over us, as well as provisions of our operating agreement, discourage potential takeover attempts that our shareholders may favor.

There are certain provisions in our operating agreement regarding exculpation and indemnification of our officers and directors that differ from the Delaware General Corporation Law in a manner that may be less protective of the interests of our Class A shareholders.

Our operating agreement provides that, to the fullest extent permitted by applicable law, our directors or officers will not be liable to us. However, under the Delaware General Corporate Law ("DGCL"), a director or officer would be liable to us for (i) breach of duty of loyalty to us or our shareholders, (ii) intentional misconduct or knowing violations of the law that are not done in good faith, (iii) improper redemption of shares or declaration of dividend, or (iv) a transaction from which the director or officer derived an improper personal benefit. In addition, our operating agreement provides that we indemnify our directors and officers for acts or omissions to the fullest extent provided by law. However, under the DGCL, a corporation can only indemnify directors and officers for acts or omissions if the director or officer acted in good faith, in a manner he reasonably believed to be in the best interests of the corporation, and, in a criminal action, if the officer or director had no reasonable cause to believe his conduct was unlawful. Accordingly, our operating agreement may be less protective of the interests of our Class A shareholders as compared to the DGCL, insofar as it relates to the exculpation and indemnification of our officers and directors.

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Risks Related to Taxation

Class A shareholders may be subject to U.S. federal income tax on their share of our taxable income, regardless of whether they receive any cash dividends from us.

So long as we are not required to register as an investment company under the Investment Company Act and 90% of our gross income for each taxable year constitutes "qualifying income" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Class A shareholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on their allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within their taxable year, regardless of whether or not they receive cash dividends from us. They may not receive cash dividends equal to their allocable share of our net taxable income or even the tax liability that results from that income.

In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation ("CFC") and a Passive Foreign Investment Company ("PFIC"), may produce taxable income prior to the receipt of cash relating to such income, and holders of our Class A shares will be required to take such income into account in determining their taxable income. Under our operating agreement, in the event of an inadvertent partnership termination in which the Internal Revenue Service ("IRS") has granted us limited relief, each holder of our Class A shares also is obligated to make such adjustments as are required by the IRS to maintain our status as a partnership. Such adjustments may require persons who hold our Class A shares to recognize additional amounts in income during the years in which they hold such shares. We may also be required to make payments to the IRS.

Our subsidiary, FIG Corp., is subject to corporate income taxation in the United States, and we may be subject to additional taxation in the future.

A significant portion of our investments and activities may be made or conducted through FIG Corp. Dividends paid by FIG Corp. from time to time will, as is usual in the case of a U.S. corporation, then be included in our income. Income received as a result of investments made or activities conducted through our subsidiary FIG Asset Co. LLC (but excluding through its taxable corporate affiliates) is not subject to corporate income taxation in our structure, but we cannot provide any assurance that it will not become subject to additional taxation in the future, which would negatively impact our results of operations.

There can be no assurance that amounts paid as dividends on Class A shares will be sufficient to cover the tax liability arising from ownership of Class A shares.

Any dividends paid on Class A shares will not take into account a shareholder's particular tax situation (including the possible application of the alternative minimum tax) and, therefore, because of the foregoing as well as other possible reasons, may not be sufficient to pay their full amount of tax based upon their share of our net taxable income. In addition, the actual amount and timing of dividends will always be subject to the discretion of our board of directors. In particular, the amount and timing of dividends will depend upon a number of factors, including, among others:

- our actual results of operations and financial condition;
- restrictions imposed by our operating agreement or applicable law;
- restrictions imposed by our credit agreements;
- reinvestment of our capital;
- the timing of the investment of our capital;

- the amount of cash that is generated by our investments or to fund liquidity needs;
- levels of operating and other expenses;
- contingent liabilities; or
- factors that our board of directors deems relevant.

Even if we do not distribute cash in an amount that is sufficient to fund a shareholder's tax liabilities, they will still be required to pay income taxes on their share of our taxable income.

Tax gain or loss on disposition of our Class A shares could be more or less than expected.

Upon a sale of Class A shares the shareholder will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those shares. Prior distributions to such shareholder in excess of the total net taxable income allocated to such shareholder, which decreased the tax basis in its Class A shares, will increase the gain recognized upon a sale when the

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Class A shares are sold at a price greater than such shareholder's tax basis in those shares, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be treated as ordinary income to such shareholder.

We have not made an election under Section 754 of the Internal Revenue Code to adjust our asset basis, so a holder of our Class A shares could be allocated more taxable income in respect of those shares prior to disposition than if such an election were made.

We have not made an election under Section 754 of the Internal Revenue Code to adjust our asset basis. Since no Section 754 election was made, there will generally be no adjustment to the basis of our assets in connection with our initial public offering, or upon a subsequent transferee's acquisition of Class A shares from a prior holder of such shares, even if the purchase price for those shares is greater than the portion of the aggregate tax basis of our assets attributable to those shares immediately prior to the acquisition. Consequently, upon our sale of an asset, gain allocable to a holder of Class A shares could include built-in gain in the asset existing at the time such holder acquired such shares, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

If we are treated as a corporation for U.S. federal income tax purposes, the value of the Class A shares would be adversely affected.

We have not requested, and do not plan to request, a ruling from the IRS on our treatment as a partnership for U.S. federal income tax purposes, or on any other matter affecting us. As of the date of the consummation of our initial public offering, under then current law and assuming full compliance with the terms of our operating agreement (and other relevant documents) and based upon factual statements and representations made by us, our outside counsel opined, as of that date, that we would be treated as a partnership, and not as an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes. However, opinions of counsel are not binding upon the IRS or any court, and the IRS may challenge this conclusion and a court may sustain such a challenge. The factual representations made by us upon which our outside counsel relied related to our organization, operation, assets, activities, income, and present and future conduct of our operations. In general, if an entity that would otherwise be classified as a partnership for U.S. federal income tax purposes is a "publicly traded partnership" (as defined in the Code) it will be nonetheless treated as a corporation for U.S. federal income tax purposes, unless the exception described below, and upon which we intend to rely, applies. A publicly traded partnership will, however, be treated as a partnership, and not as a corporation for U.S. federal income tax purposes, so long as 90% or more of its gross income for each taxable year constitutes "qualifying income" within the meaning of the Code and it is not required to register as an investment company under the Investment Company Act. We refer to this exception as the "qualifying income exception."

Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We expect that our income generally will consist of interest, dividends, capital gains and other types of qualifying income, including dividends from FIG Corp. and interest on indebtedness from FIG Corp. No assurance can be given as to the types of income that will be earned in any given year. If we fail to satisfy the qualifying income exception described above, items of income and deduction would not pass through to holders of our Class A shares, and holders of our Class A shares would be treated for U.S. federal (and certain state and local) income tax purposes as shareholders in a corporation. In such a case, we would be required to pay income tax at regular corporate rates on all of our income. In addition, we would likely be liable for state and local income and/or franchise taxes on all of such income. Dividends to holders of our Class A shares would constitute ordinary dividend income taxable to such holders to the extent of our earnings and profits, and the payment of these dividends would not be deductible by us. Taxation of us as a publicly traded partnership taxable as a corporation could result in a material adverse effect on our cash flow and the after-tax returns for holders of our Class A shares and thus could result in a substantial reduction in the value of our Class A shares.

Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. federal income tax treatment of holders of the Class A shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Readers should be aware that the U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the IRS, and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in the Class A shares may be modified by administrative, legislative or judicial interpretation at any time, possibly on a retroactive basis, and any such action may affect investments and commitments previously made. For example, changes to the U.S. federal tax laws and interpretations thereof could make it more difficult or impossible to meet the qualifying income exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation, affect or cause us to change our investments and commitments,

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change the character or treatment of portions of our income (including, for instance, treating carried interest as ordinary fee income rather than capital gain), affect the tax considerations of an investment in us and adversely affect an investment in our Class A shares. See " — Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis."

Our organizational documents and agreements permit the board of directors to modify our operating agreement from time to time, without the consent of the holders of our Class A shares, in order to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all of the holders of our Class A shares. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders in a manner that reflects such holders' beneficial ownership of partnership items, taking into account variation in ownership interests during each taxable year because of trading activity. However, these assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated, or disallowed, in a manner that adversely affects holders of the Class A shares.

We cannot match transferors and transferees of our Class A shares, and we have therefore adopted certain income tax accounting positions that may not conform to all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our Class A shares.

Because we cannot match transferors and transferees of our Class A shares, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our common unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of our Class A shares and could have a negative impact on the value of our Class A shares or result in audits of and adjustments to our shareholders' tax returns.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes. We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination would, among other things, result in the closing of our taxable year for all shareholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

FIG Asset Co. LLC may not be able to invest in certain assets, other than through a taxable corporation.

In certain circumstances, FIG Asset Co. LLC or one of its subsidiaries may have an opportunity to invest in certain assets through an entity that is characterized as a partnership for U.S. federal income tax purposes, where the income of such entity may not be "qualifying income" for purposes of the publicly traded partnership rules. In order to manage our affairs so that we will meet the qualifying income exception, we may either refrain from investing in such entities or, alternatively, we may structure our investment through an entity classified as a corporation for U.S. federal income tax purposes. If the entity were a U.S. corporation, it would be subject to U.S. federal income tax on its operating income, including any gain recognized on its disposal of its interest in the entity in which the opportunistic investment has been made, as the case may be, and such income taxes would reduce the return on that investment.

Complying with certain tax-related requirements may cause us to forego otherwise attractive business or investment opportunities or enter into acquisitions, borrowings, financings or arrangements that we may not have otherwise entered into.

In order for us to be treated as a partnership for U.S. federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation, we must meet the qualifying income exception discussed above on a continuing basis, and we must not be required to register as an investment company under the Investment Company Act. In order to effect such treatment we (or our subsidiaries) may be required to invest through foreign or domestic corporations, forego attractive business or investment opportunities or enter into borrowings or financings we may not have otherwise entered into. This may adversely affect our ability to operate solely to maximize our cash flow. Our structure also may impede our ability to engage in certain corporate acquisitive transactions because we generally intend to hold all of our assets through the Fortress Operating Group. In addition, we may be unable to participate in certain corporate reorganization transactions that would be tax-free to our holders if we were a corporation. To the extent we hold assets other than through the Fortress Operating Group, we will make appropriate adjustments to the Fortress Operating Group agreements so that distributions to principals and us would be the same as if such assets were held at that level.

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The IRS could assert that we are engaged in a U.S. trade or business, with the result that some portion of our income would be properly treated as effectively connected income with respect to non-U.S. holders. Moreover, certain REIT dividends and other stock gains may be treated as effectively connected income with respect to non-U.S. holders.

While we expect that our method of operation will not result in a determination that we are engaged in a U.S. trade or business, there can be no assurance that the IRS will not assert successfully that we are engaged in a U.S. trade or business, with the result that some portion of our income would be properly treated as effectively connected income with respect to non-U.S. holders. Moreover, dividends paid by an investment that we make in a REIT that is attributable to gains from the sale of U.S. real property interests will, and sales of certain investments in the stock of U.S. corporations owning significant U.S. real property may, be treated as effectively connected income with respect to non-U.S. holders. To the extent our income is treated as effectively connected income, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable shares of income effectively connected with such trade or business, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income. Non-U.S. holders may also be subject to a 30% branch profits tax on such income in the hands of non-U.S. holders that are corporations.

An investment in Class A shares will give rise to UBTI to certain tax-exempt holders.

We will not make investments through taxable U.S. corporations solely for the purpose of limiting unrelated business taxable income, or UBTI, from "debt-financed" property and, thus, an investment in Class A shares will give rise to UBTI to certain tax-exempt holders. For example, FIG Asset Co. LLC will invest in or hold interests in entities that are treated as partnerships, or are otherwise subject to tax on a flow-through basis, that will incur indebtedness. FIG Asset Co. LLC may borrow funds from FIG Corp. or third parties from time to time to make investments. These investments will give rise to UBTI from "debt-financed" property. However, we expect to manage our activities to avoid a determination that we are engaged in a trade or business, thereby limiting the amount of UBTI that is realized by tax-exempt holders of our Class A shares.

We may hold or acquire certain investments through an entity classified as a PFIC or CFC for U.S. federal income tax purposes.

Certain of our investments may be in foreign corporations or may be acquired through a foreign subsidiary that would be classified as a corporation for U.S. federal income tax purposes. Such an entity may be a PFIC or a CFC for U.S. federal income tax purposes. U.S. holders of Class A shares indirectly owning an interest in a PFIC or a CFC may experience adverse U.S. tax consequences.

Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by, among other things, changing the characterization of income from "carried interests" and preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis.

President Trump has repeatedly identified significant tax reform as a top legislative priority, and based on statements made by President Trump during his electoral campaign and more recently, such reform could include treating carried interest as ordinary income rather than as capital gain for U.S. federal income tax purposes. There remains a substantial lack of clarity around the likelihood, timing and details of any potential tax reform and the impact of such tax reform on us or an investment in our shares. Any changes to the tax laws as part of such tax reform or otherwise, with or without retroactive application, could materially and adversely affect our investors or us.

In addition, prior legislative proposals have contained changes that, if enacted, could adversely affect us or our investors. These prior proposals have proposed, among other changes treating some or all of the income recognized from "carried interests" as ordinary income, increasing the ordinary income portion of any gain realized from the sale or other disposition of a Class A Share, and limiting the definition of qualifying income under the publicly traded partnership rules in a manner that would preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes, thereby resulting in us being subject to taxation as a U.S. corporation, which would have a material adverse effect on our net income. It is not possible to predict whether this or similar legislation will be enacted in the future.

Other legislative proposals previously considered would subject our offshore funds to significant U.S. federal income taxes and potentially state and local taxes, which would adversely affect our ability to raise capital from foreign investors and certain tax-exempt investors.

In addition, as a result of widespread budget deficits, several states are evaluating proposals to subject partnerships to state entity level taxation through the imposition of state income, franchise or other forms of taxation. If any version of any of these legislative proposals were to be enacted into law in the form in which it was introduced, or if other similar legislation were enacted or any other change in the tax laws, rules, regulations or interpretations were to preclude us from qualifying for treatment as a partnership

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for U.S. federal income tax purposes under the publicly-traded partnership rules or otherwise impose additional taxes, Class A shareholders would be negatively impacted because we would incur a material increase in our tax liability as a public company from the date any such changes became applicable to us, which could result in a reduction in the value of our Class A shares.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

(a) and (c) Financial statements and schedules:
See Part I, Item 1, "Financial Statements"

(b) Exhibits filed with this Quarterly Report on Form 10-Q:

2.1	Agreement and Plan of Merger, dated February 14, 2017, by and among SB Foundation Holdings LP, Foundation Acquisition LLC, and Fortress Investment Group LLC (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K, dated February 15, 2017).
2.2	Amendment No. 1 to the Agreement and Plan of Merger, dated July 7, 2017, by and among SB Foundation Holdings LP, Foundation Acquisition LLC and Fortress Investment Group LLC (incorporated by reference to Exhibit 2.3 to the Registrant's Current Report on Form 8-K, dated July 7, 2017).
2.3	Founders Agreement, dated February 14, 2017, by and among SB Foundation Holdings LP, Fortress Investment Group LLC, FIG Corp., FIG Asset Co. LLC, Randal Nardone, Wesley Edens and Peter Briger (incorporated by reference to Exhibit 2.2 to the Registrant's Form 8-K, dated February 15, 2017).
2.4	Purchase and Sale Agreement, dated July 7, 2017, by and among Fortress Asset Management LLC, Fortress Asset Management GP LLC, Logan Circle Partners, L.P., Logan Circle Partners GP, LLC, FIG LLC (solely for purposes of Section 5.1(j), Section 5.11 and Article IX), and MetLife, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, dated July 7, 2017).
3.1	Certificate of Formation of the Registrant (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 3.1).
3.2	Certificate of Amendment to Certificate of Formation of the Registrant (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 3.2).
3.3	Fourth Amended and Restated Limited Liability Company Agreement of the Registrant (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 filed with the SEC on August 10, 2009 (File No. 001-33294), Exhibit 3.3).
3.4	Amendment No. 1 to Fourth Amended and Restated Limited Liability Company Agreement of Fortress Investment Group LLC (incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K, dated February 15, 2017).
4.1	Specimen Certificate evidencing the Registrant’s Class A shares (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 4.1).
4.2	Form of Shareholders Agreement, by and among the Registrant, Peter Briger, Wesley Edens, Randal Nardone, Robert Kauffman, and Michael Novogratz (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 4.2).
4.3	Amendment No. 1 to Shareholders Agreement (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 filed with the SEC on May 1, 2014 (File No. 001-33294), Exhibit 4.3).
10.1	

	Form of Agreement Among Principals, by and among Peter Briger, Wesley Edens, Randal Nardone, Robert Kauffman, and Michael Novogratz (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.1).
10.2	Amended and Restated Tax Receivable Agreement dated February 1, 2007, by and among FIG Corp., FIG Asset Co. LLC, the entities set forth on the signature pages thereto and each of the parties thereto identified as partners (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.3).
10.3	Certificate of Incorporation of FIG Corp. (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.13).
10.4	By-Laws of FIG Corp. (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.14).
10.5	Certificate of Formation of FIG Asset Co. LLC (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.15).
10.6	Operating Agreement of FIG Asset Co. LLC (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.16).

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10.7	Amended and Restated Limited Partnership Agreement of Fortress Operating Entity I LP (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.17).
10.8	First Amendment to the Amended Restated Agreement of Limited Partnership of Fortress Operating Entity I LP (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 27, 2014 (File No. 001-33294), Exhibit 10.9).
10.9	Second Amendment to the Amended Restated Agreement of Limited Partnership of Fortress Operating Entity I LP (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 27, 2014 (File No. 001-33294), Exhibit 10.10).
10.10	Amended and Restated Agreement of Limited Partnership of Fortress Operating Entity II LP (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 filed with the SEC on August 2, 2012 (File No. 001-33294), Exhibit 10.9).
10.11	First Amendment to Amended and Restated Agreement of Limited Partnership of FOE II (New) LP (formerly known as Fortress Operating Entity II LP) (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 filed with the SEC on August 2, 2012 (File No. 001-33294), Exhibit 10.10).
10.12	Second Amendment to the Amended Restated Agreement of Limited Partnership of FOE II (New) LP (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 27, 2014 (File No. 001-33294), Exhibit 10.13).
10.13	Third Amendment to the Amended Restated Agreement of Limited Partnership of the FOE II (New) LP (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 27, 2014 (File No. 001-33294), Exhibit 10.14).
10.14	Amended and Restated Limited Partnership Agreement of Principal Holdings I LP (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.20).
10.15	First Amendment to the Amended and Restated Agreement of Limited Partnership of Principal Holdings I LP (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 27, 2014 (File No. 001-33294), Exhibit 10.16).
10.16	Second Amendment to the Amended and Restated Agreement of Limited Partnership of Principal Holdings I LP (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 27, 2014 (File No. 001-33294), Exhibit 10.17).
10.17	Third Amendment to the Amended Restated Agreement of Limited Partnership of Principal Holdings I LP (incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 27, 2014 (File No. 001-33294), Exhibit 10.18).
10.18	Employment Agreement by and between Daniel Bass and the Registrant (incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-138514), Exhibit 10.24).
10.19	Employment Agreement by and between David Brooks and the Registrant (incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on March 28, 2008 (File No. 001-33294), Exhibit 10.25).

10.20	Amended and Restated Fortress Investment Group LLC 2007 Omnibus Equity Incentive Plan (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 filed with the SEC on August 10, 2009 (File No. 001-33294), Exhibit 10.4).
10.21	Form of Indemnification Agreement, by and between Fortress Investment Group LLC and the executive officers and directors of the Registrant (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 filed with the SEC on August 10, 2009 (File No. 001-33294), Exhibit 10.6).
10.22	Employment, Non-Competition and Non-Solicitation Agreement of Peter L. Briger, Jr., dated August 4, 2011 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed with the SEC on August 4, 2011 (File No. 001-33294), Exhibit 10.18).
10.23	Employment, Non-Competition and Non-Solicitation Agreement of Wesley R. Edens, dated August 4, 2011 (incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed with the SEC on August 4, 2011 (File No. 001-33294), Exhibit 10.19).
10.24	Employment, Non-Competition and Non-Solicitation Agreement of Randal A. Nardone, dated August 4, 2011 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed with the SEC on August 4, 2011 (File No. 001-33294), Exhibit 10.21).

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10.25	Employment, Non-Competition and Non-Solicitation Agreement of Michael E. Novogratz, dated August 4, 2011 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 filed with the SEC on August 4, 2011 (File No. 001-33294), Exhibit 10.22).
10.26	Separation Agreement and Release Agreement dated November 24, 2015, by and between Michael E. Novogratz and FIG LLC (incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on February 25, 2016 (File No. 001-33294), Exhibit 10.29).
10.27	Purchase Agreement dated November 24, 2015, by and among Fortress Operating Group Entity I LP, FOE II (New) LP, Principal Holdings I LP, Michael E. Novogratz and the trusts party thereto (incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on February 25, 2016 (File No. 001-33294), Exhibit 10.30).
10.28	Credit Agreement, dated as of January 15, 2016, among FIG LLC, as borrower, certain subsidiaries and affiliates of the borrower, as guarantors, Bank of America, N.A., as administrative agent and letter of credit issuer, Citibank, N.A., as syndication agent, Industrial and Commercial Bank of China Ltd, New York Branch, as documentation agent, and the lenders party thereto (incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the SEC on February 25, 2016 (File No. 001-33294), Exhibit 10.34).
10.29	Fortress Investment Group LLC 2016 Omnibus Equity Incentive Plan (incorporated by reference to the Registrant's Registration Statement on Form S-8 (File No. 333-211828), Exhibit 99.1).
10.30	Employment, Non-Competition and Non-Solicitation Agreement of Peter L. Briger, Jr., dated November 3, 2016 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 filed with the SEC on November 3, 2016 (File No. 001-33294), Exhibit 10.30).
10.31	Employment, Non-Competition and Non-Solicitation Agreement of Wesley R. Edens, dated November 3, 2016 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 filed with the SEC on November 3, 2016 (File No. 001-33294), Exhibit 10.31).
10.32	Employment, Non-Competition and Non-Solicitation Agreement of Randal A. Nardone, dated November 3, 2016 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 filed with the SEC on November 3, 2016 (File No. 001-33294), Exhibit 10.32).
10.33	Amended and Restated Fortress Investment Group LLC Principal Compensation Plan, dated as of November 3, 2016 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 filed with the SEC on November 3, 2016 (File No. 001-33294), Exhibit 10.33).
10.34	Second Amended and Restated Exchange Agreement among FIG Corp., FIG Asset Co, LLC, Peter L. Briger, Wesley R. Edens, Randal A. Nardone, Fortress Operating Entity I LP, FOE II (New) LP and Principal Holdings I LP (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 filed with the SEC on November 3, 2016 (File No. 001-33294), Exhibit 10.34).
10.38	Waiver Agreement, dated February 14, 2017, by and between FIG Corp., FIG Asset Co. LLC, Randal Nardone, Wesley Edens, Peter Briger and the other parties thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K, dated February 15, 2017).
10.39	Amended and Restatement Employment, Non-Competition, and Non-Solicitation Agreement, dated February 14, 2017, by and between FIG and Randal Nardone (incorporated by reference to Exhibit 10.2 to the

	Registrant's Form 8-K, dated February 15, 2017).
10.40	Amended and Restatement Employment, Non-Competition, and Non-Solicitation Agreement, dated February 14, 2017, by and between FIG and Wesley Edens (incorporated by reference to Exhibit 10.3 to the Registrant's Form 8-K, dated February 15, 2017).
10.41	Amended and Restatement Employment, Non-Competition, and Non-Solicitation Agreement, dated February 14, 2017, by and between FIG and Peter Briger (incorporated by reference to Exhibit 10.4 to the Registrant's Form 8-K, dated February 15, 2017).
10.42	Second Amended and Restated Fortress Investment Group LLC Principal Compensation Plan (incorporated by reference to Exhibit 10.5 to the Registrant's Form 8-K, dated February 15, 2017).
31.1	Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.

**XBRL (Extensible Business Reporting Language) information is filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

FORTRESS
INVESTMENT GROUP
LLC

August 3, 2017

By: /s/ Randal A. Nardone
Randal A. Nardone
Chief Executive Officer
and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Daniel N. Bass
Daniel N. Bass
Chief Financial Officer

August 3, 2017

By: /s/ John A. Konawalik
John A. Konawalik
Principal Accounting
Officer

August 3, 2017