Fortress Investment Group LLC
Form 10-K
February 28, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

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)

Registrant s telephone number, including area code: **(212) 798-6100**

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class:	**Name of exchange on which registered:**
Class A shares	New York Stock Exchange (NYSE)

Securities registered pursuant to Section 12 (g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No

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. x Yes o No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. o

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

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

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

The aggregate market value of the Class A Shares held by non-affiliates as of June 30, 2011 (computed based on the closing price on such date as reported on the NYSE) was $567 million.

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

Class A shares: 189,905,184 outstanding as of February 27, 2012.

Class B shares: 305,857,751 outstanding as of February 27, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the registrant s 2012 annual meeting, to be filed within 120 days after the close of the registrant s fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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

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

(i) the capital commitments or invested capital (or NAV, if lower) of our private equity funds and credit PE funds,depending on which measure management fees are being calculated upon at a given point in time, which in connection with private equity funds raised after March 2006 includes the mark-to-market value of public securities held within the funds,

(ii) the contributed capital of our publicly traded alternative investment vehicles, which we refer to as our Castles,

(iii) the net asset value, or NAV, of our hedge funds, including the Value Recovery Funds and certain advisory engagements which pay fees based on realizations (and on certain managed assets and, in some cases, a fixed fee); and

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

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

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

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

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

Fortress Operating Group refers to the combined entities, which are in part owned directly by the principals and one senior employee, and in part owned indirectly by Fortress Investment Group LLC, and whose equity interests are comprised of Fortress Operating Group units (FOGUs).

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Part I, Item 1, Business, Part I, Item 1A, Risk Factors, Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk and elsewhere in this Annual Report on Form 10-K 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, es 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 and liquidity. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these statements. Accordingly, you should not place undue reliance on any forward-looking statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, 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 Annual Report on Form 10-K and the Company s other public filings, which are available without charge through the SEC s website at http://www.sec.gov. See Business Where Readers Can Find Additional Information.

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

Item 1. Business.

Fortress Investment Group LLC (NYSE listed under the symbol FIG) is a leading, highly diversified global investment management firm with approximately $43.7 billion in AUM as of December 31, 2011. 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 approximately 1,400 institutional clients and private investors worldwide. Accordingly, because fund investors own the various funds, we do not consolidate them at the Fortress level. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our alternative investment funds, and investment income (loss) from our principal investments.

Fortress was founded in 1998 as an asset-based investment management firm with a fundamental philosophy premised on alignment of interests with the investors in our funds. Our managed funds primarily employ absolute return strategies; we strive to have positive returns regardless of the performance of the markets. Investment performance is our cornerstone as an investment manager, we earn more if our investors earn more. In keeping with our fundamental philosophy, Fortress invests capital in each of its alternative investment businesses. As of December 31, 2011, Fortress s investments in and commitments to our funds were $1.2 billion, consisting of the net asset value of Fortress s principal investments of $1.1 billion, and unfunded commitments to private equity funds and credit PE funds of $0.1 billion.

We currently have approximately 979 employees, including approximately 239 investment professionals, at our headquarters in New York and our affiliate offices around the globe.

We plan to grow our fee paying assets under management and will continue to seek to generate superior risk-adjusted investment returns in our funds over the long term. We are guided by the following key objectives and values:

- introducing new investment products, while remaining focused on, and continuing to grow, our existing lines of business;
- maintaining our disciplined investment process and intensive asset management; and
- adhering to the highest standards of professionalism and integrity.

Recent Developments

- During 2011, we raised $4.2 billion of new third-party capital and launched 8 new funds, including our Asia Macro Fund. As of December 31, 2011, we had $3.9 billion of capital commitments from investors to our funds that will be included in AUM when called.

- Fortress s principals, Wesley Edens, Peter Briger, Robert Kauffman, Randal Nardone and Michael Novogratz, entered into new five-year employment agreements, effective as of January 1, 2012, and accelerated the termination of their previous agreements.

- Our board of directors approved a revised dividend policy under which it reinstated a quarterly dividend to Class A shareholders beginning in the fourth quarter of 2011. The dividend related to the fourth quarter of 2011 was $0.05 per share.

Key Performance Indicators

As mentioned above, we earn management fees, incentive income, and investment income (loss). From these earnings we pay compensation, interest, and other expenses, as well as taxes, to arrive at our net operating performance.

Net Income and Distributable Earnings

Our net income reflects our operating performance pursuant to generally accepted accounting principles (GAAP). We also use pre-tax distributable earnings, which is a non-GAAP measure, as a measure of our operating performance and to report segment results. For more information on these performance measures, please refer to Part II, Item 8 Financial Statements and Supplementary Data. Pre-tax distributable earnings is specifically addressed in Note 11 Segment Reporting within those financial statements.

Assets Under Management

Our management fees are typically earned as a percentage of the amount of capital we manage, which is referred to as assets under management, or AUM. For more information on our AUM, please refer to Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Assets Under Management. For more information on our management fee rates, please refer to Part II, Item 8 Financial Statements and Supplementary Data Note 3 Management Agreements and Fortress Funds.

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Fund Performance

Our incentive income is typically earned as a percentage of the profits of our alternative investment funds. In some cases, we earn incentive income only if a fund s investments meet specified performance thresholds. We therefore monitor our funds proximity to such performance thresholds. For more information on our funds performance, please refer to Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Performance of our Funds. For more information on our funds incentive income terms and their proximity to their various performance thresholds, please refer to Part II, Item 8 Financial Statements and Supplementary Data Note 3 Management Agreements and Fortress Funds.

Investment Performance

The investment income (loss) from our principal investments is recorded currently (i.e., whether or not realized) in net income (loss), generally based on the net asset values of the funds in which we have invested (our principal investments). For segment reporting purposes, investment income (loss) is recorded only when income (loss) from a fund investment becomes realized or realizable, as applicable. Therefore, for segment reporting purposes, investment income (loss) does not reflect unrealized gains or losses embedded in certain of our investments. For more information on the investment income (loss) included in net income (loss), please refer to Part II, Item 8 Financial Statements and Supplementary Data Note 4 Investments and Fair Value. For more information on the unrealized gains (losses) currently embedded in our principal investments for segment reporting purposes, please refer to Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Segment Analysis Principal Investments.

Our investments were historically financed by our credit agreement, although we have not drawn on that agreement to finance investments made in recent years. For more information on our credit agreement, please refer to Part II, Item 8 Financial Statements and Supplementary Data Note 5 Debt Obligations.

Our Current Businesses

Our current offering of alternative investment products includes private equity funds, liquid hedge funds and credit funds. In addition, we offer traditional investment products. Private equity funds generally require fund investors to commit capital over a period of time, do not allow redemptions of capital and make long term, relatively illiquid investments. Hedge funds allow periodic contributions and redemptions of capital by investors and make relatively shorter-term, more liquid investments. Our credit funds share certain of the characteristics of both private equity and hedge funds. We refer to these investment products, collectively, as the Fortress Funds. As of December 31, 2011, we managed alternative assets in three core businesses:

Private Equity a business that manages approximately $12.5 billion of AUM comprised of two business segments: (i) private equity funds that primarily make significant, control-oriented investments in debt and equity securities of public or privately held entities in North America and Western Europe, with a focus on acquiring and building asset-based businesses with significant cash flows; and (ii) publicly traded alternative investment vehicles, which we refer to as Castles, that invest primarily in real estate and real estate related debt investments.

Liquid Hedge Funds a business that manages approximately $5.5 billion of AUM. These funds invest globally in fixed income, currency, equity and commodity markets and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments.

Credit Funds a business that manages approximately $12.2 billion of AUM comprised of two business segments: (i) credit hedge funds which make highly diversified investments in assets, opportunistic lending situations and securities, on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and (ii) credit private equity (PE) funds which are comprised of a family of credit opportunities funds focused on investing in distressed and undervalued assets, a family of long dated value funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of real assets funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based global opportunities fund, and a family of real estate opportunities funds.

In addition, we treat our principal investments in these funds as a distinct business segment and we will not treat our traditional asset management business, which has $13.5 billion of AUM, as a separate segment until such time as its operations become material.

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Principal Sources of Revenue

The following table provides our management fees and incentive income, on a segment reporting basis, from each of our core businesses for the previous three fiscal years (in thousands):

	2011	2010	2009
Private Equity			
Funds			
Management Fees	$ 131,898	$ 138,038	$ 131,470
Incentive Income (A)	(1,748)	41,649	36,506
Castles			
Management Fees	53,357	48,135	50,362
Incentive Income			
Liquid Hedge Funds			
Management Fees	108,873	98,671	97,038
Incentive Income	3,787	67,159	15,156
Credit Funds			
Hedge Funds			
Management Fees	121,835	124,180	105,089
Incentive Income	78,460	102,712	999
PE Funds			
Management Fees	73,273	48,421	39,849
Incentive Income (A)	117,598	157,646	22,792

(A) Net of reserves for future clawback, as applicable.

Certain of our segments are comprised of, and dependent on the performance of, a limited number of Fortress Funds. Each of these funds is material to the results of operations of its segment and the loss of any of these funds would have a material adverse impact on the segment. Moreover, the revenues we earned from certain funds individually exceeded 10% of our total revenues on an unconsolidated basis for each of the periods presented. For additional information regarding our segments, the information presented above, our total assets and our distributable earnings (as defined below), please see Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Segment Analysis and Part II, Item 8, Financial Statements and Supplementary Data.

Private Equity Funds

Fortress Investment Funds

Our private equity business is made up primarily of a series of funds named the Fortress Investment Funds and organized to make control-oriented investments in cash flow generating, asset-based businesses in North America and Western Europe. Investors in our private equity funds contractually commit capital at the outset of a fund, which is then drawn down as investment opportunities become available, generally over a one to three year investment period. Proceeds are returned to investors as investments are realized, generally over eight to ten years. Management fees of 1.0% to 1.5% are generally charged on committed capital during the investment period of a new fund, and then on invested capital (or NAV, if lower), and may decrease in later periods. We also generally earn a 10% to 25% share of the profits on each realized investment in a fund our incentive income subject to the fund s achieving a minimum return as a whole, that is, taking into account all gains and losses on all investments in the fund.

Castles

We manage two publicly traded companies: Newcastle Investment Corp. (NYSE: NCT) and Eurocastle Investment Limited (Euronext Amsterdam: ECT), which we call our Castles. The Castles were raised with broad investment mandates to make investments in a wide variety of real estate related assets, including securities, loans and real estate properties. Pursuant to our management agreements, we earn management fees from each Castle equal to 1.5% of the company s equity (as defined in such agreements). In addition, we earn incentive income equal to 25% of the company s funds from

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operations (or FFO, which is the real estate industry s supplemental measure of operating performance) in excess of specified returns to the company s shareholders. In addition to these fees, we also receive from the Castles, for services provided, options to purchase shares of their common stock in connection with each of their common stock offerings.

Liquid Hedge Funds

Overview

The liquid hedge funds, which invest daily in markets around the globe, seek to exploit opportunities in global currency, interest rate, equity and commodity markets and their related derivatives. Investment opportunities are evaluated and rated on a thematic and an individual basis to determine appropriate risk-reward and capital allocations.

Fortress Macro Funds

The Fortress Macro Funds, and Fortress s legacy macro-strategy funds, the Drawbridge Global Macro Funds, apply an investment process based on macroeconomic fundamental, market momentum and technical analyses to identify strategies offering a favorable risk-return profile. The funds investment strategies are premised on the belief that imbalances in various financial markets are created from time to time by the influence of economic, political and capital flow factors. Directional and relative value strategies are applied to exploit these conditions. The funds have the flexibility to allocate capital dynamically across a wide range of global strategies, markets and instruments as opportunities change, and are designed to take advantage of a wide variety of sources of market, economic and pricing data to generate trading ideas.

The funds invest primarily in major developed markets; they also invest in emerging markets if market conditions present opportunities for attractive returns. Overall, the funds pursue global macro directional and relative value strategies, although capital is allocated within the funds to particular strategies to provide incremental returns and diversity.

Management fees are charged based on the AUM of the Fortress Macro Funds at a rate between 1.5% and 2% annually, depending on the investment and liquidity terms elected by investors. We generally earn incentive income of between 15% and 25% of the fund s profits, generally payable annually, depending on the investment and liquidity terms elected by investors, and subject to achieving cumulative positive returns since the prior incentive income payment. In other words, an incentive income payment establishes a high water mark such that the fund must earn a cumulative positive return from that point forward in order for Fortress to earn incentive income. Investors in the Fortress Macro Funds may invest with the right to redeem without paying any redemption fee either monthly, quarterly, or annually after three years. Some investors with three-year liquidity may redeem annually before three years, subject to an early redemption fee payable to the funds.

Fortress Asia Macro Funds

The Fortress Asia Macro Funds were launched in March 2011. The funds invest in global fixed income, commodities, currency and equity markets, and their related derivatives, thematically related to the Asia-Pacific region through a fundamental macroeconomic strategy that focuses on liquid investments. The funds investment program focuses on global trading and capital flows that affect one or more of the Asian countries and/or are affected by them and the region as a whole. Management fee rates for these funds range from 1.5% to 2.0% and we earn incentive income generally equal to 20% of their profits.

Commodities Funds

The principal investment objective of these funds is to seek a superior total return on assets by executing a directional investment strategy in the global commodity and equity markets. These funds seek to identify optimal risk-adjusted strategies by assessing opportunities along various points of the relevant commodity and equity supply chains. These funds expect to invest across multiple sectors within the commodity asset class ranging from energy to metals to agriculture and within the cyclical, industrial, and commodity equity universe. Management fee rates for these funds range from 1.5% to 2.0% and we earn incentive income generally equal to 20% of their profits, in some cases subject to a threshold return.

Fortress Partners Funds

The Fortress Partners Funds invest with a broad mandate, similar to endowment portfolios of large universities. Investments are made both in Fortress Funds and in funds managed by other managers, and in direct investments that are sourced either by Fortress personnel or by third parties with whom we have relationships. Our endowment strategy funds are designed to blend our direct bottom up investing style with third party managers to create excellent risk adjusted returns with an emphasis on capital preservation. Management fee rates for these funds range from 1.0% to 1.5% and we earn incentive income generally equal to 20% of the profits from direct investments only.

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Credit Funds

Credit Hedge Funds

Our credit hedge funds are designed to exploit pricing anomalies that exist between the public and private finance markets. These investment opportunities are often found outside the traditional broker-dealer mediated channels in which investments that are efficiently priced and intermediated by large financial institutions are typically presented to the private investment fund community. We have developed a proprietary network comprised of internal and external resources to exclusively source transactions for the funds.

The funds are able to invest in a wide array of financial instruments, ranging from assets, opportunistic lending situations and securities throughout the capital structure with a value orientation. All of these investments are based on fundamental bottom up analysis and are typically event driven. The funds diverse and situation-specific investments require significant infrastructure and asset management experience to fully realize value. We have developed a substantial asset management infrastructure with expertise in managing the funds investments in order to be able to maximize the net present value of investments on a monthly basis.

Drawbridge Special Opportunities Funds

The Drawbridge Special Opportunities Funds form the core of our credit hedge fund investing strategy. The funds opportunistically acquire a diversified portfolio of investments primarily throughout the United States, Western Europe and the Pacific region. The funds investment program incorporates three complementary investment strategies, focusing on asset-based transactions, loans and corporate securities. The majority of the funds investments are relatively illiquid, and the funds generally make investments that are expected to liquidate or be realized within a five year period.

Management fees are charged based on the AUM of the Drawbridge Special Opportunities Funds at a rate generally equal to 2% annually. We generally earn incentive income of 20% of the fund s profits, payable annually, and subject to achieving cumulative positive returns since the prior incentive income payment. Investors in the Drawbridge Special Opportunities Funds may redeem annually on December 31. Because of the illiquid nature of the funds investments, rather than paying out redemption requests immediately, the fund may elect to pay out redeeming investors as and when the particular investments held by the fund at the time of redemption are realized.

Worden Funds

The Worden Funds invest in a diversified portfolio of undervalued and distressed investments primarily in North America and Western Europe, but also in Australia, Asia and elsewhere on an opportunistic basis. These funds seek to achieve their investment objectives primarily through investments in loans and asset-based investments, including portfolios of consumer and commercial receivables and asset backed financial instruments of undervalued or financially troubled companies. Management fees are charged based on the AUM of the Worden Funds at a rate generally equal to 2% annually. We earn incentive income of 20% of the funds profits, generally payable annually.

Credit PE Funds

Our credit PE funds are comprised of families of funds as described below. They generally have management fee rates between 1.0% and 1.5% and generate incentive income of between 10% and 20% of a fund s profits subject to the fund achieving a minimum return as a whole.

Credit Opportunities Funds

Fortress established the Fortress Credit Opportunities Funds to make opportunistic credit-related investments. Their investment objective is to generate significant current income and long-term capital appreciation through investments in a range of distressed and undervalued credit investments, including but not limited to residential loans and securities, commercial mortgage loans and securities, opportunistic corporate loans and securities, and other consumer or commercial assets and asset-backed securities.

Long Dated Value Funds

In addition to our Fortress Investment Fund family of funds, we introduced a pioneering private equity fund product the Long Dated Value family of funds which focuses on making investments with long dated cash flows that may be undervalued because of the lack of current cash flows or because the investment is encumbered by a long term lease or financing. We believe that these investments provide the potential for significant capital appreciation over the long term.

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The Long Dated Value Funds are generally similar in structure to the Fortress Investment Funds, including in terms of fees payable to us, except that the funds have an investment life of 25 years, reflecting the funds longer-term investment profiles. In addition, incentive income is distributed to us after all of a fund s invested capital has been returned, rather than as each investment is realized.

Real Assets Funds

Fortress established the Real Assets Funds seeking to generate superior risk adjusted returns by opportunistically investing in tangible and intangible assets with the potential to achieve significant value generally within a three-to-ten year time horizon. The investment program of these funds focuses on direct investments in four principal investment categories real estate, capital assets, natural resources and intellectual property but also may include indirect investments in the form of interests in real estate investment trusts (REITs), master limited partnerships, corporate securities, debt securities and debt obligations including those that provide equity upside as well as options, royalties, residuals and other call rights that provide these funds with the potential for significant capital appreciation. The investments are located primarily in North America and Western Europe, but may also include opportunities in Australia, Asia and elsewhere on an opportunistic basis.

Asia Funds

We launched the Fortress Japan Opportunity Funds in 2009 to take advantage of the significant distressed opportunities that have emerged in Japan similar to those witnessed after the 1997 Asian financial crisis. The Funds will primarily invest in certain Japanese real estate-related performing, sub-performing and non-performing loans, securities and similar instruments. In addition, we launched the Fortress Global Opportunities (Yen) Fund in the second half of 2010 to make opportunistic investments in distressed and undervalued credits for investors that wish to invest in a Yen denominated fund. This fund will invest primarily in Asia, Australia, North America and Western Europe, but may also invest elsewhere on an opportunistic basis.

Real Estate Opportunities Funds

Fortress established the Real Estate Opportunities Funds in 2011 primarily to make opportunistic commercial real estate investments. The investment objective of the funds is to generate superior risk adjusted returns by opportunistically investing in commercial real estate and real estate-related (collectively, CRE) assets, equity investments, loans, securities, and other investments that we believe have the potential to achieve significant total returns generally within a three-to-seven year time horizon. The funds intend to make value-oriented investments throughout the capital structure of CRE assets.

Competition

The investment management industry is intensely competitive, and we expect the competition to intensify in the future. We face competition in the pursuit of outside investors for our investment funds, acquiring investments in attractive portfolio companies, divesting our investments and making other investments. Depending on the investment, we expect to face competition primarily from other investment management firms, private equity funds, hedge funds, other financial institutions, sovereign wealth funds, corporate buyers and other parties. Many of our competitors are substantially larger and may have greater financial and technical resources than we possess. Several of these competitors have recently raised, or are expected to raise, significant amounts of capital and many of them have similar investment objectives to us, which may create additional competition for investment opportunities. Some of these competitors may also have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to investment opportunities. Some of these competitors may have higher risk tolerances, make different risk assessments or have lower return thresholds, which could allow them to consider a wider variety of investments, bid more aggressively than we bid for investments that we want to make or accept legal or regulatory limitations or risks we would be unable or unwilling to accept. Corporate buyers may be able to achieve synergistic cost savings with regard to an investment that may provide them with a competitive advantage relative to us when bidding for an investment. Moreover, an increase in the allocation of capital to alternative investment strategies by institutional and individual investors could lead to a reduction in the size and duration of pricing inefficiencies that many of our investment funds seek to exploit. Alternatively, a decrease in the allocation of capital to alternative investments strategies could intensify competition for that capital and lead to fee reductions and redemptions, as well as difficulty in raising new capital. Lastly, the market for qualified investment professionals is intensely competitive. Our ability to continue to compete effectively will depend upon our ability to attract, retain and motivate our employees.

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Where Readers Can Find Additional Information

Fortress files annual, quarterly and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the Exchange Act), with the Securities and Exchange Commission (SEC). Readers may read and copy any document that Fortress files at the SEC s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our SEC filings are also available to the public from the SEC s internet site at http://www.sec.gov. Copies of these reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, U.S.A.

Our internet site is http://www.fortress.com. We will make available free of charge through our internet site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website in the Public Shareholders Corporate Governance section are charters for the company s Audit Committee, Compensation Committee and Nominating, Corporate Governance and Conflicts Committee as well as our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and employees. Information on, or accessible through, our website is not a part of, and is not incorporated into, this report.

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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. 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

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.

Our current credit agreement contains a number of restrictive covenants and requires significant amortization payments over the next several years, which 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. Our current credit agreement includes financial covenants that we:

- not exceed a total leverage ratio or a fixed charge coverage ratio;
- maintain a minimum AUM; and
- maintain a minimum ratio of investment assets to funded indebtedness.

The leverage ratio, fixed charge coverage ratio and minimum investment assets ratio covenants are tested as of the end of each fiscal quarter, while the AUM covenant is tested as of the end of each calendar month. 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 the amount of cash flow that we generate; our fixed charge coverage ratio fluctuates depending upon various revenues and expenses relative to our outstanding funded indebtedness and cash on hand; and the value of our AUM and investment assets fluctuates due to a variety of factors, including mark-to-market valuations of certain assets, other market factors, and, in the case of AUM, our net capital raised or returned. The investment assets on our balance sheet include a limited number of concentrated positions in portfolio companies or other ventures whose liquidity, operating results and financial condition were adversely affected by the recession. A material default by any portfolio company in which we have a material direct or indirect investment could cause us to lose all, or a significant portion, of the value of our investment attributable to such portfolio company, or any amounts due from the applicable fund, which would, in turn, decrease the amount of our investment assets and could result in our failure to comply with the investment asset covenant in our credit agreement or make compliance more difficult. 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.

In addition, our credit agreement requires that we make significant amortization payments prior to the maturity of the facilities in October 2015, as further described in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt Obligations. Making these payments will require a significant amount of our available cash flow, which could otherwise be applied to other purposes such as making investments or paying dividends. Furthermore, the application of our consolidated fixed charge coverage ratio covenant may limit our ability to pay dividends in the future in certain circumstances, even when we would otherwise be in compliance with the covenant.

A failure by us to comply with the covenants or amortization requirements specified 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. In addition, the lenders would have the right to proceed against the collateral we granted to them, which consists of substantially all our assets. If the debt under our credit agreement were accelerated, we might not have sufficient cash on hand or be able to sell sufficient collateral to repay this debt, which would have an immediate material adverse effect on our business, results of operations and financial condition. For more detail regarding our credit agreement, its terms and the current status of our compliance with the agreement, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, Debt Obligations, and Covenants.

In addition, our revolving credit facility matures in October 2013, which is two years before our term loan facility matures in October 2015. As a result, we may need to refinance our revolving credit facility prior to the maturity of our term loan facility. The terms of any new revolving credit facility or replacement financing may be less favorable to us than the terms of our existing credit agreement.

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We depend on Messrs. Briger, Edens, Kauffman, Nardone and Novogratz, 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, Robert Kauffman, Randal Nardone and Michael Novogratz. One of our principals, Randal Nardone, was recently appointed interim 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 fly 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, 2017. 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 operation could be materially adversely affected.

Several of our funds have key person provisions pursuant to which the failure of one or more of our 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.

Investors in most of our hedge funds may generally redeem their investment without paying redemption fees if the relevant key person ceases to perform his functions with respect to the fund for 90 consecutive days. In addition, the terms of certain of our hedge funds financing arrangements contain key person provisions, which may result, under certain circumstances, in the acceleration of such funds debt or the inability to continue funding certain investments if the relevant employee ceases to perform his functions with respect to the fund and a replacement has not been approved.

The loss of Mr. Novogratz or his inability to perform his services for 90 days could result in substantial withdrawal requests from investors in our Fortress Macro funds. The loss of the co-chief investment officer of the Fortress Macro funds and chief investment officer of the Fortress Asia Macro funds, Adam Levinson, also could result in withdrawal requests. Substantial withdrawals would have a material adverse effect on the Fortress Macro funds, Fortress Asia Macro funds, related managed accounts, and us by reducing our management fees from those funds. Further, such withdrawals could lead possibly to the liquidation of the funds and a corresponding elimination of our management fees and potential to earn incentive income from those funds. The loss of either Mr. Novogratz or Mr. Levinson, could, therefore, ultimately result in a loss of a material portion of our earnings attributable to our liquid hedge fund business segment.

The loss of Mr. Briger or his inability to perform his services for 90 days could result in substantial withdrawal requests from investors in our Drawbridge Special Opportunities 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 Drawbridge Special Opportunities 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 private equity 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 private equity business segments.

If either Mr. Edens or both of Mr. Kauffman and Mr. Nardone cease 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 both of Mr. Kauffman and Mr. Nardone could, therefore, ultimately result in a loss of substantially all of our earnings attributable to our private equity funds.

Certain of our existing funds have key person provisions relating to 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. 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.

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 jeopardize 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 (in particular 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. For example, 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 less 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. Lastly, issuance of certain equity interests in our business to current or future investment professionals would dilute Class A shareholders. In recent years, various legislative and regulatory bodies (particularly in

Europe) have focused on the issue of compensation in the financial services industry. Although new regulations flowing out of these bodies have only just begun to take effect and the specific impact on the Company is not yet clear, there is the potential that new compensation rules will make it more difficult for us to attract and retain talent by capping overall compensation levels, requiring the deferral of certain types of compensation over time, implementing clawback requirements, or other rules deemed onerous by potential employees.

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. For example, several investment professionals

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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 high water mark before earning performance-based compensation. Similarly, many of our investment professionals in our private equity 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 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 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. This retention risk is heightened during periods where market conditions make it more difficult to generate positive investment returns. 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 initial public offerings of portfolio companies.

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. We also face operational risk from transactions not being properly recorded, valued, evaluated or accounted for in our funds. In particular, our liquid hedge and, to a lesser extent, credit fund businesses 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. In addition, new investment products we introduce create (and recently introduced products have created) 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, we could suffer financial loss, a disruption of our businesses, liability to our funds and their investors, regulatory intervention and reputational damage.

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 our or our clients or counterparties confidential or other information. If one or more of such events occur, this potentially could jeopardize our or our clients or counterparties confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients , our counterparties or third parties operations, which could result in significant losses or reputational damage to us. 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.

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.

Furthermore, we depend on our headquarters, which is located in New York City, 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 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, including certain financial operations of our hedge funds. In particular, we rely heavily on the services of third-party administrators in our hedge fund businesses, on the general ledger software provider for a number of our funds, and on third parties to provide critical front- and back-office systems support to Logan Circle Partners. Any interruption or deterioration in the performance of these third parties,

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particularly with respect to the services provided to Logan Circle Partners, 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 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 managed pursuant to 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 termination of certain management agreements or commencement of the dissolution of certain funds would constitute an event of default under our credit agreement.

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 which 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 where we do not serve as the general partner, which represent a significant portion of our hedge fund AUM.

With respect to our private equity funds formed as registered investment companies, each fund s investment management agreement must be approved annually by the independent members of such fund s board of directors and, in certain cases, by its members, as required by law. Termination of these agreements would reduce the fees we earn from the relevant funds.

In addition, investors in any private equity fund or credit PE fund 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, the winding down of a material fund or group of funds within a short period of time could trigger an event of default under certain debt covenants in our credit agreement. Our ability to realize incentive income from such funds, therefore, 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.

In addition, the boards of directors of certain hedge funds and our Castles 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 Castle. 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 Castles, which could have a material adverse effect on our results of operations.

Under the terms of our credit agreement, if, subject to certain exceptions, we cease to serve as the investment manager of any fund that generated management and incentive fees during the previous twelve months or which we expect to generate such fees within the next twelve months in an aggregate amount of at least $25 million, such termination would constitute an event of default. In addition, if any fund that has generated at least 10% of all management fees generated during the previous four fiscal quarters commenced a process to dissolve, liquidate or otherwise wind-up the fund outside the ordinary course of business, such commencement would also constitute an event of default under our credit agreement. If either event of default occurred, it would give our lenders the right to terminate their commitments to lend us funds under our revolving credit facility and to require us to repay all outstanding term loans immediately (in addition to other remedies available under the credit agreement). If our lenders exercised their rights upon the occurrence of an event of default, doing so would likely have an immediate material adverse effect on our business, results of operations and financial condition.

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 our fund investors, creditors of our funds, shareholders of the companies in which our funds have investments, our own shareholders, our employees, and regulators, among others. We have been a defendant in many such lawsuits 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 or other investments based on a variety of allegations, including conflicts of interest, improper related party transactions, breaches of financing or other agreements, 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-related issue.

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

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contracts with fund or account investors is gross negligence or willful misconduct. However, the majority of the capital in our Logan Circle Partners business is managed under a negligence or reasonable person standard of care, which is more favorable to plaintiffs.

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 were 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.

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.

As part of the Dodd-Frank Act, new so-called whistleblower provisions have been enacted that will entitle persons who report alleged wrongdoing to the SEC to cash rewards. We anticipate that these provisions will result in a significant increase in whistleblower claims across our industry, and dealing with such claims could generate significant expenses and take up significant management time, even for frivolous and non-meritorious claims. Moreover, as calls for additional regulation have increased, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative asset management funds, including our funds. Such investigations 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.

We do not know whether the U.S. government s various efforts to attempt to strengthen the economy and the financial markets or its increased focus on the regulation of the financial services industry will adversely affect our business.

In recent years, the U.S. government has taken a number of steps to attempt to strengthen the global financial markets and U.S. economy, including direct government investments in, and guarantees of, troubled financial institutions as well as government-sponsored programs such as the TARP. There can be no assurance that these steps will have a lasting beneficial impact on the financial markets. To the extent that the markets do not respond favorably to such actions or such actions do not function as intended, there may be broad adverse market implications, which could have a material adverse effect on our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, may adversely affect our business. The Act imposes 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. 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;
- exchange-trading of OTC derivatives;
- minimum equity retention requirements for issuers of asset-backed securities;
- the establishment of a new bureau of consumer financial protection;
- new requirements and higher liability standards on credit rating agencies; and
- increased disclosure of executive compensation and mandatory shareholder votes on executive compensation.

Since many key rules will be implemented by various regulatory bodies and other groups over the next several years, we do not know exactly what the final regulations under the Act will require or how significantly the Act will affect us. For

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instance, 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. It is likely that the Act will, among other things, increase our costs of operating as a public company and impose restrictions on our business. For example, the Act could increase our overall costs of entering into derivatives transactions and could also adversely affect the performance of certain of our trading strategies. The Act will impose mandatory clearing, exchange-trading and margin requirements on many derivatives transactions (including formerly unregulated over-the-counter derivatives) in which we engage. The Act also creates new categories of regulated market participants, such as swap-dealers, security-based swap dealers, major swap participants and major security-based swap participants who will be subject to significant new capital, registration, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements which will give rise to new administrative costs. Even if certain new requirements are not directly applicable to us, they may still increase our costs of entering into transactions with the parties to whom the requirements are directly applicable. Moreover, new exchange-trading and trade reporting requirements may lead to reductions in the liquidity of derivative transactions, causing higher pricing or reduced availability of derivatives, or the reduction of arbitrage opportunities for us, which could adversely affect the performance of certain of our trading strategies. In addition, the new regulation of over-the-counter derivatives and a recently-adopted implementing rule may require us to register with, and be regulated by, the U.S. Commodity Futures Trading Commission (CFTC) as a commodity pool operator (CPO). 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 could increase our expenses and negatively impact our financial results.

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 action poses 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 Securities and Exchange Commission, or SEC, oversees our activities as a registered investment adviser under the Investment Advisers Act of 1940. In addition, we are subject to regulation under the Investment Company Act of 1940, the Securities Exchange Act of 1934, and various other statutes. We are subject to regulation by the Department of Labor under the Employee Retirement Income Security Act of 1974 or ERISA. We and our Castles, as public companies, are subject to applicable stock exchange regulations, and both we and Newcastle are subject to the Sarbanes-Oxley Act of 2002. A number of portfolio companies in our private equity funds are also publicly traded and/or are subject to significant regulatory oversight. For example, Springleaf Finance Inc. (formerly American General Finance Inc.), in which one of our funds acquired a majority stake in 2010, is in the consumer finance industry, which has recently been the focus of extensive regulation. Moreover, some of the portfolio companies in our funds are subject to regulation from non-financial bodies (such as our senior living and railroad investments). 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. In the United Kingdom, we are subject to regulation by the U.K. Financial Services Authority. Our other European operations, and our investment activities in Singapore, Australia and other parts of the globe, are subject to a variety of regulatory regimes that vary by country.

Each of the regulatory bodies with jurisdiction over us has 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. A failure to comply with the obligations imposed by the Investment Advisers Act of 1940 on investment advisers, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or by the Investment Company Act of 1940, could result in investigations, sanctions and reputational damage. Our liquid hedge fund business, and, to a lesser degree, our credit fund business, 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. Violation of such laws could result in severe restrictions on our activities and in damage to our reputation. Furthermore, recent aggressive regulatory activities have demonstrated that the mere investigation by authorities of alleged or potential wrong-doing (such as insider trading) has the potential to create a material adverse effect on companies in our industry.

Changes in ERISA requirements, or a failure to comply with ERISA requirements, could adversely affect our business. Some of our private equity funds currently qualify as venture capital operating companies, or VCOC, and, therefore, are not subject to the fiduciary requirements of ERISA with respect to their assets. However, it is possible that the U.S. Department of Labor may amend the relevant regulations or that the characteristics of our funds may change. If these funds fail to qualify as VCOCs or otherwise satisfy the 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 related to our failure to comply with such requirements. Approximately one-third 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.

Our results of operations may also be negatively impacted if certain proposed tax legislation is enacted. If 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 possibly our equityholders 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. President Obama has publicly stated that he supports similar changes to the tax code. 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 failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or investing activities or other sanctions, including revocation of our registration as an investment adviser. 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.

New European Union legislation for fund managers could increase our costs and make it more difficult to operate and market our funds.

European regulators have approved legislation (the Alternative Investment Fund Managers 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. The Directive 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, and monitoring the use of leverage. The final details of AIFMD were agreed in May 2011. However, implementing legislation at an EU and national level has not yet been issued and is unlikely to be made available for review before the middle of 2012. It is anticipated that the applicable new laws will come into force by July 2013, but until the details of the implementing legislation are finalized we will not know what the impact will be on our business. However, such laws could impose significant additional costs on the operation of our business in the EU, limit our operating flexibility, restrict the size of EU-based funds and generally hamper our ability to grow our business in Europe.

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. Certain of our funds have overlapping investment objectives, including funds that have different fee structures, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among those funds. For example, a decision to acquire material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest when it results in our having to restrict the ability of other funds to take any action. In addition, holders of Class A shares may perceive 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. Similarly, conflicts of interest may exist or develop regarding decisions about the allocation of specific investment opportunities between Fortress and the Fortress Funds, in situations where multiple funds are making investments in one portfolio company at the same or different levels of the investee s capital structure or in situations where one portfolio company engages another portfolio company to provide goods or services. 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, various of our investment funds or other investment vehicles. In addition, our principals have sometimes extended similar 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.

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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. On a regular basis, we bring actual and potential conflicts of interest to the advisory boards of funds that we manage. Notwithstanding the foregoing, it is possible that potential or perceived conflicts could give rise to investor dissatisfaction or litigation or regulatory enforcement actions. For example, fund investors 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 and difficult 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, hamper our ability to raise additional funds and discourage counterparties to do business with us. Any such development could have a material adverse effect on our business.

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. In recent years, there have been a number of highly-publicized cases involving fraud, 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 could engage in misconduct that adversely affects our business. For example, 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), we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial position, investor relationships and ability to attract future investors. Employee misconduct could 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 our 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 have recently begun requiring us to make certain representations, warranties and covenants with respect to the use of placement agents, political donations and gifts to state employees. A misrepresentation or breach of such covenants could result in damage to Fortress s 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 Fortress s revenues and earnings to decline.

The alternative investment management business is intensely competitive.

The recession of the past few years increased the level of competition for capital raising, particularly for big-fund capital in the alternative investment industry. When trying to raise new capital, we will therefore be 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 principal investments in funds) in order to continue to attract significant amounts of new investment capital. Such changes would adversely affect our revenues and profitability. As has historically been the case, competition in our industry is based on a number of factors, including:

- investment performance;
- investors liquidity and willingness to invest;
- investor perception of investment managers drive, focus and alignment of interest;
- changing, often attenuated decision making processes used by investors;
- our actual or perceived financial condition, liquidity and stability;
- the quality and mix of services provided to, and the duration of relationships with, investors;
- our business reputation; and
- the level of fees and expenses charged for services.

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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. A number of factors serve to increase our competitive risks:

- investors may develop concerns that we will allow a business to grow to the detriment of its performance;
- 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;
- some of our competitors have greater capital, a 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) than we feel comfortable agreeing to, which would allow them to compete for the capital being invested by entities wishing to impose such terms;
- some of our funds may not perform as well as competitor funds or other available investment products;
- our competitors that are corporate buyers 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;
- some investors may prefer to invest with an investment manager that is not publicly traded; and
- other industry participants continuously seek to recruit our investment professionals, particularly our top performers, away from us.

These and other factors could reduce our earnings and revenues and materially adversely affect our business. In addition, if we are forced to compete with other alternative asset managers on the basis of price, we may not be able to maintain our current management and performance fee structures.

The due diligence process that we undertake in connection with investments by our investment 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. Nevertheless, 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, 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 the Sarbanes-Oxley Act of 2002. While management has certified that our internal controls over financial reporting were effective as of December 31, 2011, 2010 and 2009, 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, the FASB has proposed changes to the rules for consolidating entities in financial statements, which, if enacted with respect to our funds, may require us to consolidate entities that we do not currently consolidate, and, therefore, to document and test effective internal controls over the financial reporting of these entities in accordance with Section 404, which we may be unable to do. 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

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adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable 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, for example, leading to a decline in our share price and impairing our ability to raise capital.

Our continued growth places significant demands on our administrative, operational and financial resources.

Our continued growth 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 the amount by which our fee paying assets under management have grown, but of significant differences in the investing strategies of our different businesses. For example, in April 2010, we acquired Logan Circle Partners, 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 addition, we recently opened an office in Singapore, which subjects us to Asian regulatory and market risks, and we are generally focused on expanding our presence in Asia. 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 continued growth will depend, among other things, on our ability to maintain an operating platform and management system sufficient to address our growth and will require us 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.

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.

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. Our organizational documents, however, do not limit us to the investment management business. Accordingly, 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. In addition, we expect opportunities will 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 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 Partners, which is a traditional asset 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. 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 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.

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 net asset values. 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

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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 fund and credit PE fund investments are adjusted for accounting purposes to their net asset value at the end of each quarter, resulting in income (loss) attributable to our principal investments, 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 principal 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 hedge funds, our incentive income is paid annually if the net asset value of a fund has increased for the period. The amount (if any) of the incentive income we earn from our hedge funds depends on the increase in the net asset value of the funds, which is subject to market volatility. Our liquid hedge funds have historically experienced significant fluctuations in net asset value from month to month. Certain of our 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 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 consolidated financial statements included herein for more information.

The investment performance of our flagship liquid hedge fund is down approximately 9.3% as of December 31, 2011 from the date on which such fund last earned incentive income.

In addition, no private equity fund or credit PE fund will 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. The net asset values of some of these private equity style funds, as of period end, were below these amounts as they apply to the respective funds and, thus, these funds will not be able to earn incentive income until their respective net asset values exceed these amounts. See the Management Agreements and Fortress Funds note to the consolidated financial statements included herein for more information.

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.

An increase in our borrowing costs may adversely affect our earnings and liquidity.

Under our credit agreement, we have a $60 million revolving credit facility (including a $25 million letter of credit subfacility) and a $261.3 million term loan facility. As of December 31, 2011, we had a $261.3 million term loan outstanding and nothing outstanding under our revolving credit facility ($3.3 million of letters of credit were outstanding under the letter of credit subfacility). Borrowings under our revolving credit facility mature on October 7, 2013, and borrowings under our term loan facility mature on October 7, 2015. As our facilities mature, we will be required to either refinance them by entering into new facilities or issuing new debt, which could result in higher borrowing costs, or issuing equity, which would dilute existing shareholders. We could also repay them 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.

Our credit facility loans are typically LIBOR-based floating-rate obligations, and the interest expense we incur will vary with changes in the applicable LIBOR reference rate. 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. There is no guarantee that any such hedges will be economically effective.

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We have previously participated in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments.

Our private equity funds have previously participated in several large transactions. 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 of these factors could increase the risk that our larger investments could be unsuccessful. The consequences to our investment 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.

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 PE funds may acquire debt investments or minority equity interests (particularly in consortium transactions, as described in We have previously participated in large-sized investments, which involve certain complexities and risks that are not encountered in small- and medium-sized investments) 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. Those investments will be subject to the risk that the company 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 company 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 could decrease, and our financial condition, results of operations and cash flow could suffer as a result.

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 principal investments in the 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.

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. However, poor performance of the funds we manage will cause a decline in our revenue from such funds and will therefore have a negative effect on our performance and the 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;

- the performance of a number of our funds that is calculated on the basis of net asset value of the funds investments reflects unrealized gains that may never be realized;

- 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; and

- 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.

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 the size of our funds; (2) incentive income, which is based on the performance of our funds; and (3) investment income (loss) from our investments in the funds, which we refer to as our principal investments. Losses in our funds result in a decrease in the size of our funds, which results in lower management fee

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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 constrains 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 December 31, 2011, the aggregate amount of management fees that various of our managed funds currently owe but have not yet paid was approximately $107.3 million, of which $12.1 million has been fully reserved by us, and the aggregate amount of advances made by the public company on behalf of various of our managed funds to cover expenses was approximately $40.0 million. We anticipate that deferred receivables from our PE funds may continue to increase in the near future.

In addition, as a result of poor performance of our funds or other factors, hedge fund investors may redeem their investments in our funds, while investors in private equity funds and credit PE funds may decline to invest in future funds we raise. Our liquid hedge funds received redemption requests from fee-paying investors for a total of $2.4 billion during the year ended December 31, 2011 and $1.2 billion and $2.0 billion during the years ended December 31, 2010 and 2009, respectively, and our credit hedge funds received return of capital requests from fee-paying investors for a total of $0.8 billion during the year ended December 31, 2011 and $0.7 billion and $1.4 billion during the years ended December 31, 2010 and 2009, respectively.

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 funds and credit PE funds. If all of our existing private equity funds and credit PE funds were liquidated at their NAV as of December 31, 2011, the cumulative clawback obligation to investors in these funds would be approximately $67.6 million (net of amounts that would be due from employees pursuant to profit sharing arrangements, and without regard to potential tax adjustments).

We may be unable as a result 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 in the credit and finance markets, deterioration in the credit of sovereign nations, terrorism or political uncertainty. In the event of a continued market downturn, each of our businesses could be affected in different ways. Our private equity 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 operate (including, but not limited to, travel, leisure, real estate, media and gaming) 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 and, therefore, our actual and potential earnings from management and incentive fees.

The recent financial downturn 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 (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;

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- material reductions in the value of our private equity fund investments in portfolio companies, which would reduce our ability to realize incentive income from these investments;

- 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 principal investments.

Furthermore, while difficult market conditions may increase opportunities to make certain distressed asset investments, such conditions also increase the risk of default with respect to investments held by our funds with debt investments, in particular the mortgage opportunities funds and the Castles. Our liquid hedge funds 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.

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 the following industries, among others: transportation, financial services (particularly loan servicing), leisure and gaming, real estate (including Florida commercial real estate and German residential real estate) and senior living facilities. If 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. For example, if the commercial real estate operating environment in Florida remains challenging or deteriorates further, our fund investments in Flagler Development Group could decline in value and potentially have a material adverse effect on overall fund performance. Moreover, poor performance by our private equity business could harm our reputation, which could make it difficult for us to raise capital for our other businesses. For a description of the 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.

Our Castles and funds could be adversely affected by a contraction of the structured finance and mortgage markets.

Our Castles have historically relied on the structured finance and mortgage markets in order to obtain leverage and thereby increase the yield on substantially all of their investments. To the extent that volatility in those credit markets leads to a situation where financing of that type is unavailable or limited (as has been the case for Newcastle since mid-2007 and is currently the case for both Castles), our Castles may be unable to make new investments on a basis that is as profitable as during periods when such financing was 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 this market disruption, we do not expect to earn incentive income from the Castles 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 a wide array of counterparties around the world, 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. 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 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

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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 addition, our 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 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.

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 operation 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.

The counterparty risks that we face have increased in complexity and magnitude as a result of the recent insolvency of a number of major financial institutions (such as Lehman Brothers and MF Global) who served as counterparties for derivative contracts, insurance policies and other financial instruments. For example, 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. In addition, counterparties have generally tightened their underwriting standards and increased their margin requirements for financing, which has the result of decreasing the overall amount of leverage available to our funds and increasing the costs of borrowing. For additional detail on counterparty risks, please see We are subject to risks in using prime brokers and custodians.

Because the public company is dependent on receiving cash from our funds, any loss suffered by a fund as a result of a counterparty default would also affect the results of the public company. In addition, the board of directors of the public 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 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 December 31, 2011, 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 may elect to dissolve the funds, at any time without cause. These events would lead to a decrease in our assets under management (and, therefore, our revenues), which could be substantial and could lead to a material adverse effect on our business.

Investors in our hedge funds may generally redeem their investments on an annual or quarterly basis, subject to the applicable fund s specific redemption provisions, and our flagship liquid markets hedge fund has a monthly redemption class. 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 decline in the financial markets during 2008, together with reduced liquidity in the credit markets and negative performance of many hedge funds, led to an increase in redemption requests from investors throughout the hedge fund industry, and a number of our funds were affected by this trend during 2008 and, to a lesser extent, 2009. Our liquid hedge funds received redemption requests from fee-paying investors for a total of \$2.4 billion during the year ended December 31, 2011 and \$1.2 billion and \$2.0 billion during the years ended December 31, 2010 and 2009, respectively. 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. Return of capital requests from fee-paying investors for the credit hedge funds were \$0.8 billion for the year ended December 31, 2011 and \$0.7 billion and \$1.4 billion for the years ended December 31, 2010 and 2009, respectively.

In addition, the investors in our private equity, credit PE 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 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 decline in AUM could result in one or more defaults under our 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 assets under management. 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. In particular, many such covenants to which our 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. 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 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. Accordingly, our funds may be forced to sell securities at a loss under certain conditions. The ability of many of our funds, particularly our private equity 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. The illiquid nature of many of our funds assets may 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 our obligations under our credit agreement.

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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.

Our funds may make investments or hold trading positions in markets that are volatile and which may become 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.

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 net asset value 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 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 and credit private equity 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 as a result of the inaccuracy of such assumptions or estimates. In addition, because many of the illiquid investments held by our funds are in 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-wide developments. In addition, in many markets, transaction flow is limited due to 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 net asset values.

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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 net asset value do not necessarily reflect the prices that would actually be obtained by us on behalf of the fund when such investments are sold. The SEC has recently announced that it is undertaking a significant review of valuation practices within the private equity industry, so there will be increased regulatory scrutiny on the issue in the future. Realizations at values significantly lower than the values at which investments have been reflected in fund net asset values would result in losses for the applicable fund, a decline in asset 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 net asset values 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.

Certain of our funds utilize special situation, distressed debt and mortgage-backed investment strategies that involve significant risks.

Our private equity and credit funds invest in obligors and issuers with weak financial conditions, poor operating results, substantial financial needs, negative net worth, and/or special competitive problems. These funds also invest in obligors and issuers that are involved in bankruptcy or reorganization proceedings. With such investments, 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 they are subject to significant uncertainty in general if they are not widely traded securities or have no recognized market. A fund 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 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 around the world, particularly in the United States. As a result, the results of a number of our funds 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 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 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 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.

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.

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Some of our funds invest in foreign countries and securities of issuers located outside of the United States, which involves foreign exchange, political, social 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 exchange values. Recently, the instability of the euro zone, including fears of sovereign debt defaults, and stagnant growth of certain euro zone member states 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 redenominated 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 euro zone and the potential effects of government intervention intended to address it could materially adversely affect our business.

Foreign investments may also expose us to political, social 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 may adversely impact the value of our fund investments. For example, one of our fund s portfolio companies, in which we have a direct investment, a German residential housing company called GAGFAH, is facing an arbitration claim from the city of Dresden for a material amount of damages based on the city s interpretation of the acquisition agreement under which GAGFAH purchased certain properties from the city, and a materially adverse decision in that case could have a material adverse effect on the several Fortress funds that have an investment in GAGFAH. Restrictions imposed or actions taken by foreign governments could also 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. 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 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.

Our fund investments are subject to numerous additional risks.

Our fund investments, including investments by our funds of hedge funds in other hedge funds, are subject to numerous additional risks, including the following:

- 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.

- 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 buildings or

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pools of life settlements may negatively impact one or more other 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 protestors, the protest activity may nevertheless have a negative effect on our reputation.

- 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.

- Our funds are 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. Generally, funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. Moreover, the funds internal consideration of the creditworthiness of their counterparties may prove insufficient. The absence of a regulated market to facilitate settlement may increase the potential for losses.

- 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 efficacy of investment and trading strategies depends largely on the ability to establish and maintain an overall market position in a combination of financial instruments. A fund s trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, 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.

- 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, hedge funds 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. The Dodd-Frank Act will also give rise to a substantial set of new rules focused on the use of derivatives, which when fully formulated and enacted may lead to requirements to post additional capital or which may otherwise make our use of derivatives less efficient.

- 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.

We have been engaged as the investment manager of third-party investment funds and managed accounts, and we may be engaged as the investment 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.

While being engaged as investment 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 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 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 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 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.

We are subject to risks in using prime brokers and custodians.

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, the funds might not be able to recover equivalent assets in full as they will 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.

Risks Related to Our Organization and Structure

Control 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 control a majority of the combined voting power of our Class A and Class B shares. Accordingly, our principals have the ability to elect all of the members of our board of directors, subject to Nomura s right to nominate one designee, and thereby to control our management and affairs. In addition, they are able to determine the outcome of all matters requiring shareholder approval and are able to cause or prevent 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. The control of voting power by our principals could deprive Class A shareholders of an opportunity to receive a premium for their Class A shares as part of a sale of our company, and might ultimately affect the market price of the Class A shares.

In addition, the shareholders agreement among us and the principals provides the principals, who are then employed by the Fortress Operating Group and who hold shares representing greater than 50% of the total combined voting power of all shares held by such principals, 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 approval rights over a variety of significant corporate actions, including:

- ten percent 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;

- ten percent 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 a principal investment in excess of $100 million;

- the adoption of a shareholder rights plan;

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- 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 existence 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 FOG units. As a result of the foregoing, amounts may be distributed to the holders of the FOG 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 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 significantly restricted by, and is also subject to not defaulting on, our credit agreement.

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, and 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 has 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.

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, our shareholders agreement with them contains our agreement to indemnify the principals for all amounts that the principals pay pursuant to any of these personal guarantees in favor of our private equity funds and credit

PE funds. Consequently, any requirement to satisfy a clawback obligation could impair our ability to pay dividends on our Class A shares.

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, our ability to pay dividends is restricted by the amortization requirements and the requirement that, under certain circumstances, we use 50% of our free cash flow (as defined in the agreement) to make amortization payments. Under our credit agreement, we are permitted to make cash distributions subject to the following additional restrictions: (a) no event of default exists immediately prior to or subsequent to the distribution and (b) after giving effect to the distribution, we have cash on hand of not less than accrued but unpaid taxes (based on estimated entity level taxes due and payable by the Fortress Operating Group entities, primarily New York City unincorporated business tax) and amortization obligations (including scheduled principal payments) under the credit agreement that are due in the next 90 days. The events of default under the credit agreement are typical of such agreements and include payment defaults, failure to comply with credit agreement covenants (including a leverage covenant that is negatively affected by realized losses), cross-defaults to material indebtedness, bankruptcy and insolvency, change of control, and adverse events with respect to our

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material funds. Our lenders may also attempt to exercise their security interests over substantially all of the assets of the Fortress Operating Group upon the occurrence of an event of default.

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 and one senior employee (who is not a principal) 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 these increases in tax deductions and tax basis of the Fortress Operating Group. 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.

If we were deemed an investment company under the Investment Company Act of 1940, 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 of 1940 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 of 1940. 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

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more of the Fortress Operating Group entities ceased to be a wholly owned subsidiary of ours, our interests in those subsidiaries could be deemed an investment security for purposes of the Investment Company Act of 1940. 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 of 1940, 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:

- variations in our quarterly operating results or dividends, or a reversal of our decision to resume 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;
- difficulty in complying with the provisions in our credit agreement such as financial covenants and amortization requirements;
- 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 2017;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- actions by shareholders;
- changes in market valuations of similar companies;
- 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;
- fluctuations in the performance or share price of other alternative asset managers;
- 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;
- 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 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 December 31, 2011, we had 495,111,511 outstanding Class A shares on a fully diluted basis, including 42,372,493 resulting from vested equity compensation granted pursuant to our equity incentive plan, 35,457,510 restricted Class A share units granted to employees

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and affiliates pursuant to our equity incentive plan (net of forfeitures), 570,293 restricted Class A shares granted to directors pursuant to our equity incentive plan, and 74,352,271 Class A shares that remain available for future grant under our equity incentive plan. Approximately 8.7 million, 10.0 million and 11.4 million restricted Class A share units granted to Fortress employees and affiliates vested on January 1, 2012, 2011 and 2010, respectively, and became eligible for resale by the holders, and a similar amount will vest on January 1, 2013. 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 2012, 2011, 2010 and 2009, the number of shares reserved for issuance pursuant to this calculation increased by 9,389,280, 12,212,225, 10,262,121, and 26,555,608 shares, respectively. 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.

In addition, in April 2008, Fortress granted 31,000,000 Fortress Operating Group restricted partnership units (RPUs), pursuant to our equity incentive plan, to a senior employee. The RPUs vest into full capital interests in Fortress Operating Group units, subject to the recipient s continued employment with Fortress. On each of January 1, 2012 and 2011, 10,333,333 of these RPUs vested, and the remaining unvested RPUs are scheduled to vest in January 2013. If and when vested, these Fortress Operating Group units will be exchangeable into Class A shares on a one-for-one basis. In addition, such units have the same resale terms and restrictions as those applicable to the principals Fortress Operating Group units.

Our principals directly own an aggregate of 300,273,852 Fortress Operating Group units and also own an aggregate of 5,486,895 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 and Securities Act limitations.

Our principals and Nomura 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. Nomura has the ability to cause us to register any of the 55,071,450 Class A shares it purchased prior to our initial public offering. Nomura also purchased 5,400,000 Class A shares in our May 2009 offering.

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 and one senior employee (who is not a principal) beneficially own all of our Class B shares. Class B shares represent a majority 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 exercise control over all matters requiring the approval of shareholders and will be able to prevent 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 control 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 (DGCL) 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 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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We have elected to become a controlled company within the meaning of the New York Stock Exchange rules and, as a result, will qualify for, and may rely on, exemptions from certain corporate governance requirements.

A company of which more than 50% of the voting power is held by an individual, a group or another company is a controlled company within the meaning of the New York Stock Exchange rules and may elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including requirements that:

- a majority of our board of directors consist of independent directors;
- we have a nominating/corporate governance committee that is composed entirely of independent directors; and
- we have a compensation committee that is composed entirely of independent directors.

We have elected to become a controlled company within the meaning of the New York Stock Exchange rules, and we intend to rely on one or more of the exemptions listed above. For example, our board is not currently, and likely in the future will not be, comprised of a majority of independent directors. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange.

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 of 1940 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;

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- 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 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 currently do not intend to make 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 currently do not intend to make an election under Section 754 of the Internal Revenue Code to adjust our asset basis. If no Section 754 election is 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 of 1940. 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

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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, 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.

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 with 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 of 1940. 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.

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 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.

In May 2010, the U.S. House of Representatives passed H.R. 4213, the American Jobs and Closing Tax Loopholes Act of 2010. That proposed legislation contains a provision that, if enacted, would have the effect of treating some or all of the income recognized from carried interests as ordinary income. While the proposed legislation, if enacted in its current form, would explicitly treat such income as nonqualifying income under the publicly traded partnership rules, thereby precluding us from qualifying for treatment as a partnership for U.S. federal income tax purposes, the proposed legislation

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provides for a 10-year transition period before such income would become nonqualifying income. In addition, the proposed legislation could, upon its enactment, prevent us from completing certain types of internal reorganization transactions, or converting to a corporation, on a tax free basis and acquiring other asset management companies on a tax free basis. The proposed legislation may also increase the ordinary income portion of any gain realized from the sale or other disposition of a Class A Share.

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 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 1B. Unresolved Staff Comments

We have no unresolved staff comments.

Item 2. Properties.

We and our affiliates have the following leases in place with respect to our headquarters in New York City and global offices of our affiliates:

[redacted]				
New York	189,717	Dec-2016	$	11,956
[redacted]				
Other				
[redacted]				
Berlin	1,753	Dec-2013		31
[redacted]				
Cologne	2,271	Jan-2014		34
[redacted]				
Frankfurt	12,756	Sep-2014		548
[redacted]				
Luxembourg	3,218	Aug-2013		34
[redacted]				

Los Angeles	5,632	May-2012		463
[redacted]				
New Canaan	3,356	Jan-2018		168
[redacted]				
San Francisco	22,033	Dec-2016		1,508
[redacted]				
Shanghai	377	May-2012		103
[redacted]				
Summit	4,450	Jan-2019		178
[redacted]				
Tokyo	12,855	Sep-2015		1,753
[redacted]				
Disaster Recovery	n/a	Feb-2015		1,210
[redacted]				
Total Other	140,012			10,658
[redacted]				
Total	329,729		$	22,614

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We believe our current facilities are adequate for our current needs and that suitable additional space will be available as and when needed.

Item 3. Legal Proceedings.

We may from time to time be involved in litigation and claims incidental to the conduct of our business. Our industry is generally subject to scrutiny by government regulators, which could result in litigation related to regulatory compliance matters. 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. We believe that the cost of defending any pending or future litigation or challenging any pending or future regulatory compliance matter will not have a material adverse effect on our business. However, increased regulatory scrutiny of hedge fund trading activities combined with extensive trading in our liquid hedge funds may cause us to re-examine our beliefs regarding the likelihood that potential investigation and defense-related costs could have a material adverse effect on our business.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our Class A shares have been listed and are traded on the New York Stock Exchange (NYSE) under the symbol FIG since our initial public offering in February 2007. The following table sets forth, for the periods indicated, the high, low and last sale prices in dollars on the NYSE for our Class A shares and the dividends per share we declared with respect to the periods indicated.

	High	Low	Last Sale	Dividends Declared	
2011					
First Quarter	$ 6.97	$ 5.19	$ 5.68	$	
Second Quarter	$ 6.37	$ 4.42	$ 4.82	$	
Third Quarter	$ 5.06	$ 2.93	$ 3.01	$	
Fourth Quarter	$ 4.09	$ 2.67	$ 3.38	$ 0.05	(see below)
2010					
First Quarter	$ 5.43	$ 3.93	$ 3.99	$	
Second Quarter	$ 5.46	$ 2.79	$ 2.87	$	
Third Quarter	$ 4.28	$ 2.70	$ 3.59	$	
Fourth Quarter	$ 5.98	$ 3.51	$ 5.70	$	

Our board of directors has approved a revised dividend policy under which it has reinstated a quarterly dividend to Class A shareholders beginning in the fourth quarter of 2011. The dividend related to the fourth quarter of 2011 was $0.05 per share, payable on March 15, 2012 to shareholders of record on March 12, 2012.

Under the revised dividend policy, we intend to make quarterly dividends to Class A shareholders based upon our annual distributable earnings. Any dividend declared by us will be subject to the need to: maintain prudent working capital reserves to provide for the conduct of our business, make investments in our businesses and funds, and comply with applicable law and our debt agreement covenants and other obligations.

Since annual distributable earnings are not finalized until the end of a given year, we intend to base the first three quarterly dividends for any given year upon management fee revenues net of related expenses, subject to the reserves discussed above. We intend to base the final quarterly dividend for each year upon this amount plus an adjustment based on full-year incentive income.

Dividend declarations will, in the future, be announced concurrently with earnings releases. The declaration and payment of any dividends will be made in the sole discretion of our board of directors, which may decide to change our dividend policy at any time. No assurance can be given that any dividends, whether quarterly or otherwise, will or can be paid. Actual dividends paid to Class A shareholders will depend upon the board s assessment of a number of factors, including general economic and business conditions, our strategic plans and prospects, business and investment opportunities, our financial condition, liquidity and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, including fulfilling our current and future capital commitments, legal, tax and regulatory restrictions and

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other factors that our board of directors may deem relevant. The amount of dividends we are able to pay is limited by the debt covenants and amortization payments required under our credit agreement, as described under Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Covenants.

On February 23, 2012, the closing price for our Class A shares, as reported on the NYSE, was $4.07. As of February 23, 2012, there were approximately 29 record holders of our Class A shares. This figure does not reflect the beneficial ownership of shares held in nominee name, nor does it include holders of our Class B shares, restricted Class A shares, restricted Class A share units or restricted partnership units.

Item 6. Selected Financial Data.

The selected historical financial information set forth below as of, and for the years ended, December 31, 2011, 2010, 2009, 2008 and 2007 has been derived from our audited historical consolidated and combined financial statements.

The information below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in this Annual Report on Form 10-K.

Structure

Fortress did not exist in its current form prior to January 17, 2007. Prior to that date, Fortress s predecessor consisted of a number of partnerships controlled by the Principals, referred to as Fortress Operating Group, which are presented on a combined basis below. The reorganization to Fortress s current form has been accounted for as a reorganization of entities under common control.

Accordingly, the Registrant has carried forward unchanged the value of assets and liabilities recognized in Fortress Operating Group s combined financial data into its consolidated financial data. When the Registrant purchased Fortress Operating Group units, from the Principals and directly from the Fortress Operating Group partnerships, it recorded the proportion of Fortress Operating Group net assets acquired at their historical carrying value and proportionately reduced the Principals and others interests in equity of consolidated subsidiaries. The estimated fair value of such units exceeded their historical carrying value due to Fortress s management contracts and related agreements which were internally generated and, therefore, ascribed no value in the consolidated financial data. The excess of the amounts paid for the purchase of the Fortress Operating Group units (based on estimated fair value) over the historical carrying value of the proportion of net assets acquired was charged to paid-in capital.

Deconsolidation

Certain of the Fortress Funds were consolidated into Fortress prior to March 31, 2007, notwithstanding the fact that Fortress has only a minority economic interest in these funds. Consequently, Fortress s financial data reflected the assets, liabilities, revenues, expenses and cash flows of the consolidated Fortress Funds on a gross basis through the date of their deconsolidation. The majority ownership interests in these funds, which are not owned by Fortress, were reflected as Principals and others interests in equity of consolidated subsidiaries in the accompanying financial data during periods in which such funds were consolidated. The management fees and incentive income earned by Fortress from the consolidated Fortress Funds were eliminated in consolidation; however, Fortress s allocated share of the net income from these funds was increased by the amount of these eliminated fees. Accordingly, the consolidation of these Fortress Funds had no net effect on Fortress s earnings from the Fortress Funds.

Following Fortress s initial public offering, each Fortress subsidiary that acted as a general partner of a consolidated Fortress Fund granted rights, effective March 31, 2007, to the investors in the fund to provide that a simple majority of the fund s unrelated investors are able to liquidate the fund, without cause, in accordance with certain procedures, or to otherwise have the ability to exert control over the fund. The granting of these rights led to the deconsolidation of the Fortress Funds from Fortress s financial data as of March 31, 2007. The deconsolidation of the Fortress Funds had significant effects on many of the items within this financial data but had no net effect on net income, or equity, attributable to Fortress s Class A shareholders. Since the deconsolidation did not occur until March 31, 2007, the statement of operations data and the statement of cash flows data for the year ended December 31, 2007 are presented with these funds on a consolidated basis for the period prior to the deconsolidation.

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Operating Data	2011	2010	2009	2008	2007
			Year Ended December 31, (in thousands, except share data)		
Revenues					
Management fees, incentive income, expense reimbursements and other revenues	$ 858,628	$ 950,245	$ 584,095	$ 731,800	$ 926,985
Interest and dividend income - investment company holdings					309,030
	858,628	950,245	584,095	731,800	1,236,015
Expenses	1,954,908	1,817,994	1,583,836	1,530,353	1,787,043
Other Income (Loss)					
Gains (losses) - investment company holdings					(647,477)
Gains (losses)	(30,054)	2,997	25,373	(58,305)	(109,160)
Tax receivable agreement liability adjustment	3,098	22,036	(55)	55,115	
Earnings (losses) from equity method investees	41,935	115,954	60,281	(304,180)	(61,674)
	14,979	140,987	85,599	(307,370)	(818,311)
Income (loss) before deferred incentive income and income taxes	(1,081,301)	(726,762)	(914,142)	(1,105,923)	(1,369,339)
Deferred incentive income					307,034
Income (loss) before income taxes	(1,081,301)	(726,762)	(914,142)	(1,105,923)	(1,062,305)
Income tax benefit (expense)	(36,035)	(54,931)	5,000	(115,163)	5,632
Net Income (Loss)	$ (1,117,336)	$ (781,693)	$ (909,142)	$ (1,221,086)	$ (1,056,673)
Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries	$ (685,821)	$ (497,082)	$ (654,527)	$ (898,798)	$ (996,870)
Net Income (Loss) Attributable to Class A Shareholders	$ (431,515)	$ (284,611)	$ (254,615)	$ (322,288)	$ (59,803)
Dividends declared per Class A share	$	$	$	$ 0.4500	$ 0.8424

[redacted]

Earnings Per Unit - Fortress Operating Group					
Net income per Fortress Operating Group unit					$ 0.36
Weighted average number of Fortress Operating Group units outstanding					367,143,000

[redacted]

Earnings Per Class A Share - Fortress Investment Group					
Net income (loss) per Class A share, basic	$ (2.34)	$ (1.79)	$ (2.08)	$ (3.50)	$ (2.14)
Net income (loss) per Class A share, diluted	$ (2.36)	$ (1.83)	$ (2.08)	$ (3.50)	$ (2.14)
Weighted average number of Class A shares outstanding, basic	186,662,670	164,446,404	125,740,897	94,934,487	92,214,827
	493,392,235	467,569,571	125,740,897	94,934,487	92,214,827

Weighted average number of Class A shares outstanding, diluted	

[redacted]					
Investments	$1,079,777	$1,012,883	$867,215	$774,421	$1,107,919
Cash and cash equivalents	333,166	210,632	197,099	263,337	100,409
Total assets	2,220,686	2,076,695	1,660,267	1,577,735	1,989,781
Debt obligations payable	261,250	277,500	397,825	729,041	535,000
Deferred incentive income	238,658	198,363	160,097	163,635	173,561
Total liabilities	1,158,294	1,147,280	1,060,953	1,423,715	1,491,633
Shareholders /members equity, including accumulated other comprehensive income (loss)	487,431	411,464	261,217	82,558	190,125
Principals and others interests in equity of consolidated subsidiaries	574,961	517,951	338,097	71,462	308,023
Total Equity	1,062,392	929,415	599,314	154,020	498,148

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

The following discussion should be read in conjunction with Fortress Investment Group s consolidated financial statements and the related notes (referred to as consolidated financial statements or historical consolidated financial statements) included within this Annual Report on Form 10-K. 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 I, Item 1A, Risk Factors and elsewhere in this Annual Report on Form 10-K.

Overview

Our Business

Fortress is a leading, highly diversified global investment management firm with approximately $43.7 billion in AUM as of December 31, 2011. 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 approximately 1,400 institutional clients and private investors worldwide. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our alternative investment funds, and investment income (loss) from our principal investments. We invest capital in each of our alternative investment businesses.

The performance of our funds was mixed in 2011, which led to a decline in our operating results. However, we have continued significant capital raising within our funds and have continued to improve our strong liquidity position. For more information about these topics, please refer to Performance of our Funds, Assets Under Management, and Liquidity and Capital Resources below.

As of December 31, 2011, we managed alternative assets in three core businesses:

Private Equity a business that manages approximately $12.5 billion of AUM comprised of two business segments: (i) private equity funds that primarily make significant, control-oriented investments in debt and equity securities of public or privately held entities in North America and Western Europe, with a focus on acquiring and building asset-based businesses with significant cash flows; and (ii) publicly traded alternative investment vehicles, which we refer to as Castles, that invest primarily in real estate and real estate related debt investments.

Liquid Hedge Funds a business that manages approximately $5.5 billion of AUM. These funds invest globally in fixed income, currency, equity and commodity markets and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments.

Credit Funds a business that manages approximately $12.2 billion of AUM comprised of two business segments: (i) credit hedge funds which make highly diversified investments in assets, opportunistic lending situations and securities on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and (ii) credit private equity (PE) funds which are comprised of a family of credit opportunities funds focused on investing in distressed and undervalued assets, a family of long dated value funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of real assets funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based global opportunities fund, and a family of real estate opportunities funds.

In addition, we treat our principal investments in these funds as a distinct business segment and we will not treat our traditional asset management business, which has $13.5 billion of AUM, as a separate segment until such time as its operations become significant.

Understanding the Asset Management Business

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

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

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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.

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

In addition, Fortress acquired a traditional asset management business during 2010. Although not yet significant to our operations, the traditional asset management business works similarly to the hedge fund business, except that generally there is no provision for incentive income and management fee rates are lower.

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

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

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

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

Each of these objectives is discussed below.

Assets Under Management

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

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

- *Realization of private equity investments*: In closed-end funds, AUM decreases when we return capital to fund investors as investments are realized. Investments are realized when they are sold or otherwise converted to cash by the manager.

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

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

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

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

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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 and private equity funds, as described below.

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

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

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

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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 3 to our 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 3 to our consolidated financial statements contained herein.

Liquidity, Debt and Expense Management

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

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

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

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

- Equity-based compensation simply means that employees are paid in equity of Fortress rather than in cash. This form of compensation has the advantage of never requiring a cash expenditure, while aligning employees interests with those of Fortress.

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Our liquidity is discussed below, under Liquidity and Capital Resources. Our compensation expenses, including profit sharing and equity-based, are discussed in Note 8 to our consolidated financial statements contained herein. Our segment operating margin, which we define as the ratio of our fund management distributable earnings to our segment revenues, and which is a measure of our profitability, is discussed in Note 11 to our consolidated financial statements contained herein.

Understanding our Financial Statements

Balance Sheet

Our assets consist primarily of the following:

i. 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.

ii. Cash.

iii. Amounts due from our funds for fees and expense reimbursements.

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

Our liabilities consist primarily of the following:

1) Debt owed under our credit facility.

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

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

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

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

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

2) Cash on hand.

3) Collectibility of receivables.

4) Current amounts due under our credit facility.

5) Other current liabilities, primarily accrued compensation.

6) Debt covenants.

7) Likelihood of clawback of incentive income.

Income Statement

Our revenues and other income consist primarily of the following:

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

2) Returns on our investments in the funds.

Our expenses consist primarily of the following:

1) Employee compensation paid in cash.

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

3) Principals agreement compensation (prior to December 31, 2011), which had no economic effect on us and was not considered by management in assessing our performance.

4) Other general and administrative expenses and interest.

5) Taxes.

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

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Essentially, the key components of our income are the fees we are earning from our funds in comparison to the compensation and other corporate expenses we are paying in cash, and the resulting operating margin. Other significant components include (i) the unrealized changes in value of our funds, reported as unrealized gains (losses) and earnings (losses) from equity method investees, as this is indicative of changes in potential future cash flows, (ii) taxes, and (iii) equity-based compensation (not including principals agreement compensation prior to December 31, 2011), because it will eventually have a dilutive effect when the related shares are issued to employees.

Managing Business Performance

We conduct our management and investment business through the following primary segments: (i) private equity funds, (ii) Castles, (iii) liquid hedge funds, (iv) credit hedge funds, (v) credit private equity (PE) funds, and (vi) principal investments in those funds, as well as cash that is available to be invested. These segments are differentiated based on the varying strategies of the funds we manage in each segment.

The amounts not allocated to a segment consist primarily of certain general and administrative expenses. Where applicable, portions of the general and administrative expenses have been allocated between the segments. Our traditional asset management business, Logan Circle Partners, L.P. (Logan Circle or Logan Circle Partners) is initially being reported in the unallocated section of our segments until such time as it becomes material to our operations.

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

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

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

Market Considerations

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

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

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

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

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

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

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

Our hedge funds hold actively traded long and short positions, with frequently changing levels of exposure, in the debt of several European sovereignties. Based on the positions held by our funds at December 31, 2011, there was not a material risk to the performance of the company upon a default in such debt. However, the investments held by certain of our funds could be material to the individual performance of those funds and, therefore, our reputation. In addition, the potential for defaults on European sovereign debt may have negative impacts on the markets, which could have a material adverse impact on Fortress.

We have no direct, or material indirect, exposure to obligations of MF Global, which recently filed for bankruptcy. We had zero counterparty exposure to MF Global, at both the Fortress and fund level, at the time of their bankruptcy filing. However, the potential for failures of financial institutions may have negative impacts on the markets, which could have a material adverse impact on Fortress.

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

- While conditions in the U.S. capital markets have improved meaningfully over the last two years, there currently is less debt and equity capital available in the market relative to the levels available from the early 2000s to 2008, which, coupled with additional margin collateral requirements imposed by lenders on some types of investments, debt and derivatives, has increased the importance of maintaining sufficient liquidity without relying upon additional infusions of capital from the debt and equity markets. Based on cash balances, committed financing and short-term operating cash flows, in the judgment of management we have sufficient liquidity in the current market environment. The maintenance of increased liquidity may limit our ability to make investments, distributions, or engage in other strategic transactions. The dislocation of values and associated decreased liquidity in the global equity and debt markets have caused a material depreciation in equity and fixed income asset values in comparison to years prior to 2008, greater price volatility and weaker economic conditions around the globe. This has resulted in a significant reduction in the value of certain of our investments in comparison to years prior to 2008, which, in turn, has impacted our management fees, incentive income and investment income. Recently, such values have rebounded (significantly in many cases), but have not increased to their historical levels for all investments.

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

- As a result of the above factors:

- We have not paid a dividend on our Class A shares since the second quarter of 2008. However, based on the above described improvements in the markets over the last two years, and the corresponding improvement in our financial condition, our board of directors has approved a revised dividend policy under which it reinstated a $0.05

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per share quarterly dividend beginning in the fourth quarter of 2011 (payable in the first quarter of 2012). The decision to pay a dividend, as well as the amount of any dividends paid, is subject to change at the discretion of our board of directors based upon a number of factors, including actual and projected distributable earnings.

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

- Changes in the value of our funds investments have also impacted the relationship between the NAVs of our investors in our main credit and liquid hedge funds and their incentive income thresholds (high water marks). Returns earned on capital from new investors continue to be incentive income eligible. Unrealized losses, or returns below threshold returns, in a significant portion of our private equity funds have resulted in higher future returns being required before we earn incentive income from such funds, and, in some cases, the possibility that we will be liable for so-called clawback payments relating to incentive payments previously collected. The returns required are subject to a number of variables, such as: the amount of loss incurred, the amount of outstanding capital in the fund, the amount and timing of future capital draws and distributions, and the rate of preferential return earned by investors. See Note 3 to the consolidated financial statements included herein for more information.

- Despite the volatile economic conditions, our funds continue to make investments on an opportunistic basis, and we continue to raise new funds as illustrated in the AUM table below.

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

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

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

A second and related factor is the amount of capital invested with such managers. Over the several years prior to 2009, institutions, high net worth individuals and other investors (including sovereign wealth funds) increased their allocations of capital to the alternative investment sector. That said, since the onset of the recession, university endowments, pension funds and other traditionally significant investors in the alternative investment sector have, in some cases, reduced the amount of capital they are investing in this sector. This decrease appears to be due to a variety of factors, including, but not limited to, the generally negative investment performance in the sector during 2008 as well as their own liquidity constraints resulting from the negative performance of their investment portfolios and near-term capital requirements. The improved performance in 2009 through 2011 relative to 2008 appears to have modestly improved the trend of capital invested in the alternative asset investment sector. The amount of capital being invested into the alternative investment sector appears to have stabilized or even slightly increased and redemption requests appear to have decreased relative to the conditions experienced during 2008, but they are still weaker than the conditions experienced prior to the onset of the global credit and liquidity crisis that began in 2007. Rather than focusing on reducing the amount invested in the alternative investment sector, investors in alternative investment vehicles that primarily invest in liquid investments appear to have become increasingly focused on the liquidity and redemption terms of alternative investment funds and have expressed a desire to have the ability to redeem or otherwise liquidate their investments in a more rapid timeframe than what is permitted under the terms of many funds created prior to the onset of the crisis. Furthermore, investors in long-term, locked-up (i.e. private equity style) funds have responded to the recession by engaging in longer, more intensive and detailed due diligence procedures prior to making commitments to invest in such funds, which has led to the general perception across the alternatives industry that capital raising for long-term capital will require longer time periods, a greater commitment of capital raising resources and will generally be more difficult overall than it was prior to the recession.

The third factor, which most directly impacts our results, is our investment performance relative to our competitors, including products offered by other alternative asset managers. As a historical leader in the alternative asset management sector based on the size, diversity and historical performance of our funds, we have been able to attract a significant amount of new capital both at the public company and within our funds, even during the recent challenging market conditions. For example, in April 2009, the public company successfully raised approximately $220 million in net proceeds from an offering of its Class A shares. Moreover, during 2009 through 2011, we have been able to raise meaningful additional capital in various funds, including newly formed funds. However, our ongoing ability to raise capital for new and existing funds will be a function of investors perception about our investment performance relative to that of our competition in the post-recession environment, as well as other factors.

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

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

Market Considerations Summary

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

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

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Assets Under Management

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

	Private Equity Funds (J)	Private Equity Castles	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds (J)	Logan Circle Partners L.P.	Total
2009							
AUM January 1, 2009	$ 10,307	$ 3,182	$ 8,474	$ 4,964	$ 2,302	$	$ 29,229
Capital raised (A)			704		614		1,318
Increase in invested capital	79		1	2	1,266		1,348
Capital acquisitions				3,310			3,310
Redemptions (B)			(3,776)				(3,776)
SPV distributions (C)			(705)				(705)
RCA distributions (D)				(726)			(726)
Return of capital distributions (E)	(170)		(10)	(26)	(1,476)		(1,682)
Adjustment for reset date (F)							
Crystallized incentive income (G)			(7)				(7)
Income (loss) and foreign exchange (I)	1,128	50	1,200	148	641		3,167
AUM December 31, 2009	$ 11,344	$ 3,232	$ 5,881	$ 7,672	$ 3,347	$	$ 31,476
2010							
Capital raised (A)		2	1,708	437	452		2,599
Increase in invested capital	56		12		2,625		2,693
Capital acquisitions						11,448	11,448
Redemptions (B)			(932)	(3)			(935)
SPV distributions (C)			(814)				(814)
RCA distributions (D)				(1,551)			(1,551)
Return of capital distributions (E)	(199)			(375)	(1,720)		(2,294)
Adjustment for reset date (F)							
Crystallized incentive income (G)			(10)				(10)
Equity buyback (H)		(62)					(62)
Net client flows (traditional)						(345)	(345)
Income (loss) and foreign exchange (I)	722	(135)	510	593	113	605	2,408
AUM December 31, 2010	$ 11,923	$ 3,037	$ 6,355	$ 6,773	$ 4,817	$ 11,708	$ 44,613
2011							
Capital raised (A)		220	1,318	309	190		2,037
Increase in invested capital	237		25	107	3,123		3,492
Capital acquisitions							
Redemptions (B)			(1,708)	(145)			(1,853)
SPV distributions (C)							
RCA distributions (D)				(1,222)			(1,222)
Return of capital distributions (E)	(317)	(19)		(140)	(1,854)		(2,330)
Adjustment for reset date (F)	(1,997)						(1,997)

Crystallized incentive income (G)			(69)	(91)			(160)
Equity buyback (H)							
Net client flows (traditional)						841	841
Income (loss) and foreign exchange (I)	(561)	(57)	(406)	385	(44)	975	292
AUM December 31, 2011 (K)	$ 9,285	$ 3,181	$ 5,515	$ 5,976	$ 6,232	$ 13,524	$ 43,713

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

(B) Excludes redemptions which reduced AUM subsequent to December 31, as of each respective year end. Redemptions are further detailed below.

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

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

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

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

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percentage of the fund s capital commitments and certain funds generate management fees as a percentage of the fund s aggregate capital contributions. Thereafter, such funds generally generate management fees as a percentage of the aggregate capital contributed adjusted for the fair value of each investment that is below the associated investment s contributed capital.

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

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

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

(J) As of December 31, 2011, the private equity funds and credit PE funds had approximately $0.2 billion and $3.7 billion of uncalled capital, respectively, that will become assets under management when deployed/called.

(K) AUM is presented mainly in reference to Fortress s ability to generate management fees. Note 3 to our consolidated financial statements, contained herein, provides further information regarding incentive income, and Note 4 provides further information regarding Fortress s investments in the funds, including gains and losses thereon. The percentage of capital invested by Fortress across different funds varies.

Redemptions

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

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

The Fortress Partners Funds provide for annual redemption terms. Redemption notices must be received at least 180 days prior to a calendar year end, and related payments are made subsequent to year end. For instance, the 2011 redemption notice date was July 5, 2011 for redemptions to be paid in the first quarter of 2012.

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

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

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

Redemption Notices / Return of Capital Requests Received and Outstanding through December 31, 2011 (in thousands):

Notice Receipt Period	Liquid Hedge Fund Redemption Notices Received	Payments Made with Respect to those Notices - Inception to Date (C)	Liquid Hedge Fund Remaining Outstanding Notices	Credit Hedge Fund Return of Capital Requests Received	Payments Made with Respect to those Requests - Inception to Date (C)	Credit Hedge Fund Remaining Outstanding Notices
2011	$ 2,382,209	$ 1,334,962	$ 1,047,248	$ 785,831	$ 30,640	$ 755,191
2010	1,231,169	1,218,557		722,323	353,841	412,369
2009	1,968,260	1,985,307		1,436,187	1,123,814	538,551
Prior			(A)			250,880(A)
			$ 1,047,248(B)			$ 1,956,991(B)

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

(B) For liquid hedge funds, reflects $1,047.2 million to be paid primarily within one quarter. For credit hedge funds, reflects $1,957.0 million in RCAs to be paid as the underlying investments are realized. Excludes any notices received from investors whose status has changed from fee-paying to non-fee-paying subsequent to notice receipt.

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

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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.

Performance of Our Funds

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

			AUM				Returns (B)		
	Inception		December 31,				Inception to December 31,		
Name of Fund	**Date**	**Maturity Date (A)**	**2011**	**2010**	**2009**		**2011**	**2010**	**2009**
Private Equity									
Private Equity Funds that Report IRR s									
Fund I	Nov-99	(A)	$	$	$		25.7%	25.7%	25.9%
Fund II	Jul-02	Feb-13		196	328		35.4%	36.1%	37.0%
Fund III	Sep-04	Jan-15	1,286	1,306	1,264		0.8%	1.9%	1.0%
Fund III Coinvestment	Nov-04	Jan-15	85	97	124		(0.7)%	0.5%	0.3%
Fund IV	Mar-06	Jan-17	2,437	2,503	2,262		(3.0)%	(5.0)%	(11.5)%
Fund IV Coinvestment	Apr-06	Jan-17	567	584	501		(4.7)%	(6.9)%	(14.0)%
Fund V	May-07	Feb-18	2,441	3,969	3,963		(5.1)%	(C)	(C)
Fund V Coinvestment	Jul-07	Feb-18	541	935	935		(15.6)%	(C)	(C)
GAGACQ Coinvestment Fund	Sep-04	Permanent					14.4%	20.6%	22.2%
FRID	Mar-05	Apr-15	304	482	476		(14.1)%	(8.4)%	(11.2)%
FRIC	Mar-06	May-16	105	129	110		(11.9)%	(10.1)%	(16.1)%
FICO	Aug-06	Jan-17		32	39		(100.0)%	(100.0)%	(100.0)%
FHIF	Dec-06	Jan-17	1,067	1,041	699		7.1%	0.0%	(11.6)%
FECI	Jun-07	Feb-18	443	533	532		(4.0)%	(5.9)%	(11.1)%
WWTAI	Jul-11	Jun-24	9				(C)	N/A	N/A
							Returns (B)		
						Inception to Date (D)	**2011**	**2010**	**2009**
Private Equity Funds that Report Annual Returns									
Mortgage Opportunities Fund III	Jun-08	Jun-11		116	111	(6.1)%	0.3%	11.7%	19.4%
Private Equity - Castles									
Newcastle Investment Corp.	Jun-98	Permanent	1,294	1,102	1,165	N/A	N/A	N/A	N/A
Eurocastle Investment Limited	Oct-03	Permanent	1,887	1,935	2,067	N/A	(4.6)%	(8.7)%	(12.1)%
Liquid Hedge Funds									
	Jun-02	Redeemable	392	419	1,429	7.7%	(10.5)%	9.8%	24.2%

Drawbridge Global Macro Funds										
Fortress Macro Funds	May-09	Redeemable	1,962	2,399	1,858	3.7%	(9.3)%	10.7%	9.8%	
Fortress Macro MA1	Nov-11	Redeemable	50			(C)	(C)	N/A	N/A	
Fortress Commodities Funds	Jan-08	Redeemable	724	868	782	1.8%	(8.0)%	1.8%	7.3%	
Fortress Commodities Fund MA1 Ltd	Nov-09	Redeemable	95	103	100	(2.5)%	(7.8)%	2.7%	(0.1)%	
Fortress Partners Fund LP	Jul-06	Redeemable	780	873	844	1.4%	0.5%	12.3%	16.7%	
Fortress Partners Offshore Fund LP	Nov-06	Redeemable	676	798	740	1.5%	(2.1)%	12.8%	18.9%	
Fortress Asia Macro Funds	Mar-11	Redeemable	208			(C)	(C)	N/A	N/A	
Credit Hedge Funds										
Drawbridge Special Opp s Fund LP (E)	Aug-02	PE style redemption	4,040	4,498	4,592	10.4%	10.9%	25.5%	25.0%	
Drawbridge Special Opp s Fund LTD (E)	Aug-02	PE style redemption	877	663	549	10.7%	11.5%	29.0%	30.0%	
Worden Fund	Jan-10	PE style redemption	191	245		10.1%	5.8%	(C)	N/A	
Worden Fund II	Aug-10	PE style redemption	21			9.1%	7.3%	(C)	N/A	
Value Recovery Funds and related assets	(F)	Non-redeemable	811	1,299	2,463	(F)	(F)	(F)	(F)	

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Name of Fund	Inception Date	Maturity Date (A)	AUM December 31, 2011	2010	2009	Returns (B) Inception to December 31, 2011	2010	2009
Credit PE Funds								
Credit Opportunities Fund	Jan-08	Oct-20	1,307	1,180	1,557	27.7%	32.4%	29.6%
Credit Opportunities Fund II	Jul-09	Jul-22	1,148	835	133	15.7%	(C)	(C)
Credit Opportunities Fund III	Sep-11	Mar-24	322			(C)	N/A	N/A
FTS SIP LP	Sep-08	Oct-18	551	382	384	24.9%	34.3%	(C)
FCO MA LSS	May-10	Jun-24	140	62		(C)	(C)	N/A
FCO MA II	Jun-10	Jun-22	259	158		(C)	(C)	N/A
FCO MA Maple Leaf	Oct-10	Oct-20	258	60		(C)	(C)	N/A
Long Dated Value Fund I	Apr-05	Apr-30	193	201	201	4.0%	3.2%	1.4%
Long Dated Value Fund II	Nov-05	Nov-30	157	194	207	3.8%	3.6%	2.8%
Long Dated Value Fund III	Feb-07	Feb-32	197	209	201	6.2%	10.1%	(C)
LDVF Patent Fund	Nov-07	Nov-27	16	14	14	14.7%	15.9%	(C)
Real Assets Fund	Jun-07	Jun-17	112	159	91	8.7%	9.2%	(C)
Assets Overflow Fund	Jul-08	May-18		34	73	(C)	(C)	(C)
Japan Opportunity Fund	Jun-09	Jun-19	958	908	486	17.4%	(C)	(C)
Net Lease Fund I	Jan-10	Feb-20	62	30		(C)	(C)	N/A
Global Opportunities Fund	Sep-10	Sep-20	350	147		(C)	(C)	N/A
Life Settlements Fund	Dec-10	Dec-22	172	216		(C)	(C)	N/A
Life Settlements Fund MA	Dec-10	Dec-22	15	19		(C)	(C)	N/A
Real Estate Opportunities REOC Fund	Oct-11	Oct-24	8			(C)	N/A	N/A
Subtotal - all funds			29,518	31,933	31,280			
Managed accounts			671	972	196			
Total - Alternative Investments			30,189	32,905	31,476			
Logan Circle Partners, L.P.			13,524	11,708				
Total (G)			$ 43,713	$ 44,613	$ 31,476			

(A) For funds with a contractual maturity date, maturity date represents the final contractual maturity date including the assumed exercise of extension options, which in some cases require the approval of the applicable fund advisory board. Fund I has passed its contractual maturity date and is in the process of an orderly wind down. The Castles are considered to have permanent equity as they have an indefinite life and no redemption terms. Investor capital in the liquid hedge funds and the Fortress Partners Funds is generally redeemable at the option of the fund investors; however, a substantial portion of the Drawbridge Global Macro Funds and Fortress Partner Funds investor capital is not redeemable by its investors and such capital will only be distributed as underlying assets are realized, in accordance with their governing documents. The Drawbridge Special Opportunities Funds and Worden Funds may pay redemptions over time, as the underlying investments are realized, in accordance with their governing documents (PE style redemption). The Value Recovery Funds generally do not allow for redemptions, but are in the process of realizing their remaining investments in an orderly liquidation. Management notes that funds which had a term of three years or longer at inception, funds which have permanent equity, funds which have a PE style redemption and funds which do not allow for redemptions aggregated approximately 82% of our alternative investment AUM as of December 31, 2011.

(B) Represents the following:

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

For Castles, returns represent the return on invested equity (ROE). ROE is not reported on an inception to date basis. Newcastle s 2011, 2010 and 2009 ROE is not meaningful because Newcastle had negative average book equity.

For liquid and credit hedge funds, returns represent net returns after taking into account any fees borne by the funds for a new issue eligible, single investor class as of the close of business on the last date of the relevant period. Specific performance may vary based on, among other things, whether fund investors are invested in one or more special investments.

For the Mortgage Opportunities Fund, returns represent the ratio of periodic performance to original contributed capital.

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

(D) For liquid hedge funds and credit hedge funds, reflects a composite of monthly returns presented on an annualized net return basis. For the Mortgage Opportunities Fund, reflects the ratio of inception-to-date performance to original contributed capital on an annualized basis.

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

(F) Fortress began managing the third party originated Value Recovery Funds in June 2009. Their returns are not comparable since we are only managing the realization of existing investments within these funds which were acquired prior to Fortress becoming their manager.

(G) In addition to the funds listed, Fortress manages NIH, FPRF and Mortgage Opportunities Funds I and II. Such funds are excluded from the table because they did not include any fee paying assets under management at the end of the periods presented. Private Equity Fund I and GAGACQ Coinvestment Fund had zero AUM as of December 31, 2011, 2010 and 2009, 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 and revenues from each of our segments, see Segment Analysis below.

	Year Ended December 31,			Variance	
	2011	2010	2009	2011/2010	2010/2009
Revenues					
Management fees: affiliates	$ 464,305	$ 441,145	$ 433,501	$ 23,160	$ 7,644
Management fees: non-affiliates	58,096	27,794	4,724	30,302	23,070
Incentive income: affiliates	155,303	302,261	50,900	(146,958)	251,361
Incentive income: non-affiliates	1,917	22,927	999	(21,010)	21,928
Expense reimbursements from affiliates	172,465	146,127	85,186	26,338	60,941
Other revenues	6,542	9,991	8,785	(3,449)	1,206
	858,628	950,245	584,095	(91,617)	366,150
Expenses					
Interest expense	18,526	19,773	24,271	(1,247)	(4,498)
Compensation and benefits	706,060	720,712	504,645	(14,652)	216,067
Principals agreement compensation	1,051,197	952,077	952,077	99,120	
General, administrative and other expense (including depreciation, amortization and impairment)	179,125	125,432	102,843	53,693	22,589
	1,954,908	1,817,994	1,583,836	136,914	234,158
Other Income (Loss)					
Gains (losses)	(30,054)	2,997	25,373	(33,051)	(22,376)
Tax receivable agreement liability adjustment	3,098	22,036	(55)	(18,938)	22,091
Earnings (losses) from equity method investees	41,935	115,954	60,281	(74,019)	55,673
	14,979	140,987	85,599	(126,008)	55,388
Income (Loss) Before Income Taxes	(1,081,301)	(726,762)	(914,142)	(354,539)	187,380
Income tax benefit (expense)	(36,035)	(54,931)	5,000	18,896	(59,931)
Net Income (Loss)	$ (1,117,336)	$ (781,693)	$ (909,142)	$ (335,643)	$ 127,449
Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries	$ (685,821)	$ (497,082)	$ (654,527)	$ (188,739)	$ 157,445
[redacted]					

Factors Affecting Our Business

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

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

Each of these factors is disclosed below.

Assets Under Management (AUM)

Average Fee Paying AUM

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

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

	Private Equity			Credit			
	Funds	Castles	Liquid Hedge Funds	Hedge Funds	PE Funds	Logan Circle Partners L.P.	Total
2011	$ 10,135	$ 3,192	$ 6,132	$ 6,376	$ 5,228	$ 12,712	$ 43,775
2010	$ 11,591	$ 3,054	$ 5,935	$ 7,238	$ 3,477	$ 7,094	$ 38,389
2009	$ 10,694	$ 3,193	$ 6,493	$ 6,767	$ 2,759	$	$ 29,906

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

Management Fees

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

Incentive Income

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

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

Fund Management and Investment Platform

In order to accommodate the demands of our funds investment portfolios, we have created investment platforms, which are comprised primarily of our people, financial and operating systems and supporting infrastructure. Expansion of our investment platform historically required increases in headcount, consisting of newly hired investment professionals and support staff, as well as leases and associated improvements to corporate offices to house the increasing number of employees, and related augmentation of systems and infrastructure. Our headcount increased from 811 employees as of December 31, 2009 to 900 employees as of December 31, 2010 and then increased to 979 employees as of December 31, 2011.

Revenues

Year Ended December 31, 2011 compared to the Year Ended December 31, 2010

Total revenues were $858.6 million for the year ended December 31, 2011, a net decrease of $91.6 million, compared to $950.2 million for the year ended December 31, 2010. The decrease in revenues was primarily attributable to decreases of $147.0 million and $21.0 million in incentive income from affiliates and non-affiliates, respectively, and a decrease of $3.4 million in other revenues. These decreases were partially offset by increases of $23.2 million and $30.3 million in management fees from affiliates and non-affiliates, respectively, and an increase of $26.3 million in expense reimbursements from affiliates.

The increases in management fees from affiliates and non-affiliates were primarily attributable to a $5.4 billion increase in average fee paying AUM, based on a simple quarterly average, from $38.4 billion as of December 31, 2010 to $43.8 billion as of December 31, 2011, including an increase of $5.6 billion in average fee paying AUM acquired through Logan Circle, plus an increase of $12.6 million due to Newcastle options granted to Fortress.

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The decrease in incentive income from affiliates of $147.0 million was primarily due to decreases in incentive income recognized from certain of our private equity funds and our credit PE funds, which are recognized as repayment contingencies are resolved, and decreases in incentive income recognized from certain of our liquid hedge funds and our credit hedge funds primarily due to lower performance as compared to the prior comparative period. The decrease in incentive income from non-affiliates of $21.0 million was primarily attributable to a reduction in incentive income generated by managed accounts related to our liquid hedge funds as a result of lower performance as compared to the prior comparative period and from a third party account in our credit hedge funds whose investments were fully realized in 2010.

The increase in expense reimbursements from affiliates was primarily attributable to the full year effect of our consolidation of FCF, the operating subsidiary of one of our private equity funds, which occurred in March 2010. The $3.4 million decrease in other revenues was primarily related to a decrease in dividend income.

Year Ended December 31, 2010 compared to the Year Ended December 31, 2009

For the year ended December 31, 2010 compared with the year ended December 31, 2009, total revenues increased as a result of the following:

Management fees from affiliates increased by $7.6 million primarily due to (i) the recognition of $6.0 million in accrued management fees previously deemed uncollectible, (ii) a net increase of $3.5 million as a result of changes in the average management fee percentage earned by certain of our funds and (iii) an increase of $3.4 million in management fees primarily due to an increase of $342.3 million in realized proceeds recognized by the Value Recovery Funds which Fortress began managing in June 2009. These increases in management fees from affiliates were partially offset by a $4.4 million net decrease in management fees generated by changes in the average AUM of our funds and a $0.9 million net decrease in management fees as a result of changes in foreign currency exchange rates. The $4.4 million net decrease in management fees generated by the changes in the average AUM was primarily due to the net effect of increases (decreases) in the average AUM of ($0.1) billion, ($0.1) billion, ($0.4) billion, $0.1 billion and $0.1 billion in our private equity funds, our Castles, our liquid hedge funds, our credit hedge funds (excluding the Value Recovery Funds), and our credit PE funds, respectively.

Management fees from non-affiliates increased by $23.1 million primarily due to (i) an increase of $13.4 million in management fees from Logan Circle which we acquired in April 2010, (ii) a net increase of $9.1 million in management fees from non-affiliates primarily attributed to a net increase of $0.5 billion in average AUM from our managed accounts, excluding Logan Circle and the managed accounts associated with the Value Recovery Funds, for the year ended December 31, 2010 as compared to the prior comparative period and (iii) a net increase of $0.3 million in management fees primarily due to an increase of $33.6 million in realized proceeds recognized by the managed accounts associated with the Value Recovery Funds which Fortress began managing in June 2009.

Incentive income from affiliates increased by $251.4 million primarily as a result of (i) a $91.6 million net increase in incentive income recognized from our credit hedge funds due to an increase in the average capital eligible for incentive income as certain credit hedge funds met or exceeded their high water marks during the year ended December 31, 2010, and subsequent positive performance, (ii) $90.9 million in incentive income recognized from our credit PE funds generated from distributions not subject to clawback for the year ended December 31, 2010 as compared to $22.8 million of incentive income recognized for the prior comparative period, (iii) $70.1 million of incentive income recognized from our private equity funds for the year ended December 31, 2010 as compared to $13.0 million incentive income recognized for the prior comparative period and (iv) a $34.5 million net increase in incentive income recognized from our liquid hedge funds due to an increase in the average capital eligible for incentive income during the year ended December 31, 2010. The $70.1 million in incentive income recognized from our private equity funds for the year ended December 31, 2010 was primarily related to the recognition of $7.1 million and $63.0 million in incentive income from Fund I and Fund II, respectively, as contingencies for repayment had been resolved allowing for income recognition, as well as realization events that have occurred during the year ended December 31, 2010 in connection with the orderly wind down of Fund I.

Incentive income from non-affiliates increased by $24.8 million primarily as a result of $25.8 million of incentive income recognized for the year ended December 31, 2010 as compared to $1.0 million of incentive income recognized in the prior comparative period. The increase in incentive income recognized from non-affiliates for the year ended December 31, 2010 was primarily due to an increase in the average capital eligible for incentive income related to new managed accounts.

Expense reimbursements from affiliates, which are recorded gross on our statement of operations, increased by $60.9 million primarily as a result of (i) an increase of $43.3 million of expense reimbursements recognized due to the consolidation of FCF, the operating subsidiary of one of our private equity funds, effective March 2010 and (ii) an increase of $17.7 million in operating expenses eligible for reimbursement from our funds for the year ended December 31, 2010 as compared to the prior comparative period. The $17.7 million increase in operating expenses eligible for reimbursement from our funds was primarily attributable to Value Recovery Funds, which Fortress began managing in June 2009, and an increase in reimbursable compensation expense for the year ended December 31, 2010.

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Other revenues decreased by $1.7 million primarily due to a decrease of $1.7 million in dividend income earned from our direct investments.

Expenses

Year Ended December 31, 2011 compared to the Year Ended December 31, 2010

Expenses were $1,954.9 million for the year ended December 31, 2011, a net increase of $136.9 million, compared to $1,818.0 million for the year ended December 31, 2010. The increase was primarily attributable to an increase of $99.1 million in principals agreement compensation and an increase of $53.7 million in general, administrative and other expenses. These increases were partially offset by a decrease of $14.7 million in compensation and benefits and a decrease of $1.2 million in interest expense.

Principals agreement compensation increased as a result of the acceleration of the agreement s maturity date from February 2012 to December 2011. The increase in general, administrative and other expenses was primarily due to (i) an impairment of goodwill and other intangible assets related to Logan Circle, (ii) the full year effect of our consolidation of FCF and Logan Circle, (iii) an increase in allowances for potentially uncollectible expense reimbursements in connection with a certain fund experiencing liquidity shortfalls, (iv) a net reversal of an allowance for potentially uncollectible management fees, primarily in connection with the resolution of liquidity and valuation shortfalls within a certain fund, which was recognized during the year ended December 31, 2010, and (v) a net increase in other general and administrative expenses.

Total compensation and benefits decreased primarily due to a $51.4 million net decrease in profit sharing expenses primarily related to our private equity funds, liquid hedge funds, credit hedge funds and credit PE funds. The net decrease in profit sharing expenses was partially offset by a $17.8 million increase in equity-based compensation, a $9.9 million increase in other payroll, taxes and benefits and an increase of $9.0 million in discretionary bonuses. The $17.8 million increase in equity-based compensation was primarily due to a $14.8 million increase related to new RSUs granted after December 31, 2010, an increase of $1.5 million in expense associated with the LTIP and STIP agreements between one of the Principals and a senior employee, and a $1.5 million increase primarily related to the net impact of actual forfeiture activity and 2010 changes in the forfeiture assumptions associated with the RSUs. The increases in payroll, taxes and benefits and discretionary bonuses were primarily due to the full year effect of our consolidation of FCF and Logan Circle, which occurred in March 2010 and April 2010, respectively, aggregating $17.3 million, and an increase in our employee headcount for the year ended December 31, 2011 as compared to the prior comparative period.

Year Ended December 31, 2010 compared to the Year Ended December 31, 2009

For the year ended December 31, 2010 compared with the year ended December 31, 2009, total expenses increased as a result of the following:

Interest expense decreased by $4.5 million primarily due to (i) a decrease of $2.3 million primarily due to a decrease in average borrowings as compared to the year ended December 31, 2009, (ii) a decrease of $2.6 million in the amortization of deferred financing costs, partially offset by (iii) an increase of $0.5 million due to an increase in write-offs of deferred financing costs as a result of a repayment of our prior credit agreement in October 2010.

Compensation and benefits increased by $216.1 million primarily due to (i) a $130.3 million net increase in profit sharing compensation primarily as a result of an increase in incentive income distributions from our funds, (ii) an increase of $49.6 million in compensation and benefits due to the consolidation of FCF effective March 2010, the acquisition of Logan Circle in April 2010, and the Value Recovery Funds which Fortress began managing in June 2009, (iii) an increase of $32.3 million due to an increase in discretionary bonuses, excluding the impact of FCF, Logan Circle, and the Value Recovery Funds, for the year ended December 31, 2010, (iv) an $11.8 million increase in severance compensation, partially offset by (v) a net decrease of $9.8 million in equity-based compensation primarily due to the net impact of a change in the forfeiture assumptions associated with RSU awards.

Principals agreement compensation is being amortized on a straight-line basis over the term of the agreement.

General, administrative and other expenses increased by $22.6 million primarily as a result of (i) additional expenses of $17.9 million related to the consolidation of FCF in March 2010 and the acquisition of Logan Circle in April 2010, (ii) a net increase of $16.8 million in market data research, recruiting, computer maintenance and other general expenses, and (iii) an increase in depreciation and amortization expense of $1.9 million, offset by (iv) a net decrease in the recorded allowance for potentially uncollectible receivables in the amount of $13.2 million and (v) a net decrease in professional fees and consulting fees of $0.8 million.

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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 non-vested equity-based awards outstanding as of December 31, 2011 of $239 million with a weighted average recognition period of 1.62 years.

Profit-sharing compensation is awarded, generally upon fund formation and, in certain cases, subject to vesting, based on certain employees roles within the fund businesses, and serves to motivate these employees and align their interests with both our and our funds investors. Private equity and credit PE profit-sharing expense is generally based on a percentage of realized fund incentive income. Liquid and credit hedge fund profit sharing expense may be based on a percentage of fund incentive income, a percentage of fund net management fees (management fees less related expenses), or a percentage of the incentive income generated by an individual trader (regardless of overall fund performance). The actual expense is based on actual performance within the funds and is detailed by segment in Note 8 to our consolidated financial statements contained herein. We note the following with respect to profit- sharing expense:

- In 2008, we recorded a clawback reserve in our private equity segment for segment reporting purposes, and reversed a portion of the related GAAP profit-sharing expense which was no longer probable of being incurred (as described in Notes 8 and 11 to our consolidated financial statements). In 2009, we reversed a portion of this reserve for segment reporting purposes, but this reversal did not impact our analysis of GAAP profit-sharing expense. Therefore, GAAP private equity profit-sharing expense was a lower percentage of private equity segment incentive income in this year.

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

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

Principals Agreement Compensation

As a result of the Principals Agreement, which expired in December 2011, $4,763.0 million was charged to compensation expense on a straight-line basis over the approximately five-year vesting period. Fortress was not a party to this agreement. It was an agreement between our principals to further incentivize them to remain with Fortress. This GAAP expense had no economic effect on Fortress or its shareholders. As a result, management did not include this expense in any of its analyses of performance. When Fortress recorded this non-cash expense, it recorded a corresponding increase in capital. In August 2011, our principals agreed to extend their employment for a new five-year term effective January 1, 2012, on substantially similar terms and conditions as their prior employment agreements. In order to align the termination of the Principals Agreement with the effective date of their new employment agreements, our principals agreed to amend the expiration date of the Principals Agreement to December 31, 2011; as a result, all of the remaining expense related to this agreement, including $99.1 million that would otherwise have been recognized in 2012, has been recorded as principals agreement compensation during the year ended December 31, 2011.

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GAAP Net Income (Loss) Excluding Principals Agreement Compensation is calculated as follows:

	Year Ended December 31, 2011	2010	2009
GAAP Net Income (Loss)	$ (1,117,336)	$ (781,693)	$ (909,142)
Principals Agreement Compensation	1,051,197	952,077	952,077
GAAP Net Income (Loss) Excluding Principals Agreement Compensation	$ (66,139)	$ 170,384	$ 42,935

Other Income (Loss)

Year Ended December 31, 2011 compared to the Year Ended December 31, 2010

Other Income (Loss) was $15.0 million for the year ended December 31, 2011, a net decrease of $126.0 million, compared to $141.0 million for the year ended December 31, 2010. The change was primarily due to lower performance resulting in a decrease in earnings from equity method investees with respect to our investments in our private equity funds, liquid hedge funds and credit hedge funds for the year ended December 31, 2011 relative to the prior comparative period, and an increase in net unrealized losses primarily related to our direct investment in GAGFAH and our investment in Newcastle.

In connection with changes in the deferred tax asset for the years ended December 31, 2011 and 2010, we recorded other income of $3.1 million and $22.0 million, respectively, arising from a reduction in the tax receivable agreement liability.

Year Ended December 31, 2010 compared to the Year Ended December 31, 2009

For the year ended December 31, 2010 compared with the year ended December 31, 2009, total other income (loss) increased as a result of the following:

Gains (losses) decreased by $22.4 million primarily due to (i) the recognition of a net unrealized gain of $3.8 million on our investments in GAGFAH and our Castles for the year ended December 31, 2010, as compared to the recognition of a net unrealized gain of $23.5 million on our investments in GAGFAH and our Castles for the year ended December 31, 2009, (ii) a $3.2 million decrease due to a reversal of a guarantee of potential incentive income clawback payments related to one of our private equity funds that was initially recognized in November 2008 and was subsequently reversed during the year ended December 31, 2009, (iii) the recognition of a net unrealized loss of $2.7 million on our foreign currency hedges for the year ended December 31, 2010, (iv) a net decrease of $1.0 million primarily due to the recognition of a realized loss on our foreign currency hedges for the year ended December 31, 2010, partially offset by (v) an increase of $2.3 million in other realized gains primarily as a result of changes in foreign currency exchange rates, (vi) a net increase of $1.1 million in unrealized gains on our options and convertible debt in our Castles and (vii) an unrealized gain of $0.9 million due to a reduction in the fair value of the liability recorded in association with the contingent consideration paid for Logan Circle. In connection with changes in the deferred tax asset for the period ended December 31, 2010, we recorded other income of $22.0 million arising from a reduction in the tax receivable agreement liability.

Earnings (losses) from equity method investees increased by $55.7 million primarily due to the recognition of $116.0 million in net income from equity method investees in 2010, compared to the recognition of $60.3 million in net income from equity method investees for the year ended December 31, 2009. The overall increase was primarily a result of improved returns within the funds in which we have investments for the year ended December 31, 2010 as compared to the prior comparative period.

Income Tax Benefit (Expense)

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

For the years ended December 31, 2011, 2010, and 2009, Fortress recognized income tax expense (benefit) of $36.0 million, $54.9 million, and ($5.0 million), respectively. The primary reasons for changes in income tax expense (benefit) are (i) changes in annual taxable income and related foreign and state income taxes (and forecasts thereof which are used to calculate the tax provision during interim periods), (ii) changes in the mix of businesses producing income, which may be subject to tax at different rates, and related changes in our structure, and (iii) the tax impact of RSUs and RPUs that vested and were delivered at a value substantially less than their original value. In addition, during the fourth quarter of 2010, Fortress formed a broker-dealer subsidiary. This resulted in a decrease to our deferred tax asset. This decrease in the deferred tax asset caused an increase in Fortress s tax expense in the fourth quarter of 2010. The deferred tax asset is further discussed under Critical Accounting Policies below.

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

	Comparative Years	
	2011 vs. 2010	2010 vs. 2009
Change in pre-tax income applicable to Class A Shareholders (A)	$ (36,110)	$ 29,745
Change in foreign and state income taxes	7,715	13,749
Change in mix of business (B)	9,525	(12,315)
Change in deferred tax asset-impact of equity compensation vesting (C)	8,054	15,591
Formation of broker-dealer subsidiary	(26,335)	26,210
Change in deferred tax asset valuation allowance	1,318	(5,484)
Write off of deferred tax asset related to options in affiliates (D)	11,464	
Other	5,473	(7,566)
Total change	$ (18,896)	$ 59,930

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

(B) From 2009 to 2010, a lower proportion of our total income was subject to corporate tax. In 2010, we generated more unrealized gains in certain of our private equity funds as well as more incentive income from certain of our liquid hedge funds, which income is passed directly to shareholders, increasing the proportion of our total income which was not subject to corporate tax and thereby reducing the proportion which was subject to corporate income tax. From 2010 to 2011 the opposite occurred.

(C) This factor changes based on the amount of equity-based compensation delivered in a given year. Significant vesting of our awards began in January 2010.

(D) This portion of the deferred tax asset was fully reserved in the valuation allowance.

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

Year Ended December 31, 2011 compared to the Year Ended December 31, 2010

Principals and Others Interests in Loss of Consolidated Subsidiaries increased from $497.1 million to $685.8 million, an increase of $188.7 million, primarily attributable to (i) an increase of $217.7 million resulting from a $333.6 million increase in Fortress Operating Group consolidated net loss during the fiscal year ended December 31, 2011 as compared to the fiscal year ended December 31, 2010, (ii) a decrease of $34.1 million resulting from the dilution of noncontrolling interests in Fortress Operating Group caused by the delivery of restricted stock and restricted partnership awards during the fiscal year ended December 31, 2011, and (iii) an increase of $5.1 million resulting from Others interests in the net income of consolidated subsidiaries of Fortress Operating Group.

Year Ended December 31, 2010 compared to the Year Ended December 31, 2009

Principals and Others Interests in Loss of Consolidated Subsidiaries decreased from $654.5 million to $497.1 million, a decrease of $157.4 million, primarily attributable to (i) a decrease of $103.2 million resulting from a $147.8 million decrease in Fortress Operating Group consolidated net loss during the fiscal year ended December 31, 2010 as compared to the fiscal year ended December 31, 2009, (ii) a decrease of $49.9 million resulting from the dilution of noncontrolling interests in Fortress Operating Group caused by the delivery of restricted stock awards and the conversion of Fortress Operating Group units by the Principals during the fiscal year ended December 31, 2010, and (iii) a decrease of $4.3 million resulting from Others interests in the net income of consolidated subsidiaries of Fortress Operating Group.

Segment Analysis

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

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

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

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Distributable earnings is defined in Note 11 to Part II, Item 8, Financial Statements and Supplementary Data Segment Reporting. Furthermore, a complete discussion of distributable earnings basis impairment and reserves, including the methodology used in estimating the amounts as well as the amounts incurred in the relevant periods, is disclosed therein.

Private Equity Funds

	Year Ended December 31,			Variance	
	2011	2010	2009	2011 / 2010	2010 / 2009
Segment revenues					
Management Fees	$ 131,898	$ 138,038	$ 131,470	$ (6,140)	$ 6,568
Incentive Income	(1,748)	41,649	36,506	(43,397)	5,143
Segment revenues - total	$ 130,150	$ 179,687	$ 167,976	$ (49,537)	$ 11,711
Pre-tax distributable earnings	$ 92,813	$ 126,869	$ 115,896	$ (34,056)	$ 10,973

Year Ended December 31, 2011 compared to Year Ended December 31, 2010

Pre-tax distributable earnings decreased by $34.1 million primarily due to:

Revenues

Management fees were $131.9 million for the year ended December 31, 2011, a net decrease of $6.1 million, compared to $138.0 million for the year ended December 31, 2010. Management fees decreased $6.1 million as a result of (i) a decrease of $12.3 million due to the reset of Fund V, Fund V Coinvestment and FECI upon expiration of their respective capital commitment periods, (ii) a net decrease of $1.7 million in management fees primarily as a result of a net decrease in market values of certain portfolio companies below their invested capital in prior periods, which impacted the computation of management fees for the year ended December 31, 2011, and (iii) a decrease of $1.4 million in management fees primarily from Fund I and Fund II, which are no longer subject to management fees. These decreases were partially offset by an increase of $9.3 million in Fund IV, Fund IV Coinvestment and FHIF management fees primarily due to a net increase in market values of certain portfolio companies which were below their invested capital in prior periods, which impacted the computation of management fees for the year ended December 31, 2011.

Incentive income was ($1.7) million for the year ended December 31, 2011, a net decrease of $43.4 million, compared to $41.6 million of incentive income recognized for the year ended December 31, 2010. Incentive income decreased by $43.4 million as a result of (i) a $4.5 million reserve for the potential clawback of incentive income for Fund II which was recognized in 2011 as compared to $36.2 million of incentive income for Fund II recognized for the year ended December 31, 2010, and (ii) a $2.6 million decrease in incentive income due to lower realization events for Fund I.

Expenses

Expenses were $37.3 million for the year ended December 31, 2011, a net decrease of $15.5 million, compared to $52.8 million for the year ended December 31, 2010. The net decrease of $15.5 million in operating expenses was primarily attributable to (i) a decrease of $18.3 million in profit sharing compensation expense primarily related to a decrease in incentive income for Fund I and Fund II as compared to the prior comparative period, and to the incentive income reserve for potential clawback for Fund II recognized in 2011, (ii) a net decrease of $3.6 million in other compensation and benefits expense, and (iii) a decrease of $2.6 million in corporate allocable expenses. These decreases were partially offset by a net increase of $9.0 million in general and administrative expenses primarily related to an allowance for uncollectible amounts due from one of our private equity funds.

Year Ended December 31, 2010 compared to Year Ended December 31, 2009

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

• a $6.6 million net increase in management fees. Management fees increased by $6.6 million primarily as a result of (i) a reserve of $11.0 million recorded in the prior year for certain accrued management fees deemed potentially uncollectible and (ii) an increase of $5.0 in Fund III management fees primarily due to an increase in market values and write-ups on portfolio companies. These increases were partially offset by a net decrease of $9.4 million in management fees primarily as a result of the net asset value of certain portfolio companies in our private equity funds and special investments declining below their invested capital in 2009 (in particular, within FICO, Fund IV, Fund IV Coinvestment, FRID, and FHIF), which impacted the computation of 2010 management fees;

• a $0.7 million net increase in incentive income. Incentive income increased by $5.1 million which was partially offset by a corresponding increase in the employees share of incentive income of $4.5 million which is reflected as profit sharing compensation expense. The increase of $5.1 million of incentive income was attributable to an

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increase of $32.2 million in incentive income as a result of an increase in realization events which was partially offset by a $27.1 million reversal of clawback reserve against Fund II incentive income recorded during the year ended December 31, 2009 as compared to no change in the clawback reserve recorded during the year ended December 31, 2010; and

- a $3.7 million decrease in operating expenses primarily related to (i) a decrease of $1.8 million in professional fees and other general expenses, which was primarily attributed to write-offs that were recognized in the prior comparative period for capitalized professional fees and other general expenses for a fund which did not launch, (ii) a $1.1 million decrease in corporate allocable expenses and (iii) a $0.6 million decrease in compensation and benefits expense.

Publicly Traded Alternative Investment Vehicles (Castles)

	Year Ended December 31,			Variance	
	2011	**2010**	**2009**	**2011 / 2010**	**2010 / 2009**
Segment Revenues					
Management Fees	$ 53,357	$ 48,135	$ 50,362	$ 5,222	$ (2,227)
Incentive Income					
Segment revenues - total	$ 53,357	$ 48,135	$ 50,362	$ 5,222	$ (2,227)
Pre-tax distributable earnings	$ 24,798	$ 18,012	$ 20,899	$ 6,786	$ (2,887)

Year Ended December 31, 2011 compared to Year Ended December 31, 2010

Pre-tax distributable earnings increased by $6.8 million primarily due to:

Revenues

Management fees were $53.4 million for the year ended December 31, 2011, an increase of $5.2 million, compared to $48.1 million for the year ended December 31, 2010. Management fees increased $5.2 million as a result of (i) a $1.8 million increase in Eurocastle management fees primarily due to changes in foreign currency exchange rates, (ii) a $2.4 million increase in management fees from certain investments within the Castles and (iii) a $1.0 million increase due to an increase in Newcastle AUM resulting from their equity raises in 2011.

Expenses

Expenses were $28.6 million for the year ended December 31, 2011, a net decrease of $1.5 million, compared to $30.1 million for the year ended December 31, 2010. The net decrease of $1.5 million in expenses was primarily attributable to a $3.4 million decrease in allocable corporate expenses primarily as a result of a decrease in overall corporate expenses and a decrease in average headcount within the Castles. This decrease was partially offset by a $1.9 million net increase in compensation and benefits and general and administrative expenses, partially due to changes in foreign currency exchange rates.

Year Ended December 31, 2010 compared to Year Ended December 31, 2009

Pre-tax distributable earnings decreased by $2.9 million primarily due to:

- a $2.2 million decrease in management fees primarily due to a $1.7 million decrease as a result of changes in foreign currency exchange rates and a $0.6 million net decrease as a result of a decrease in AUM; and
- a $0.7 million net increase in operating expenses primarily as a result of a net increase in general and administrative expenses.

Liquid Hedge Funds

	Year Ended December 31,			Variance	
	2011	**2010**	**2009**	**2011 / 2010**	**2010 / 2009**
Segment revenues					
Management Fees	$ 108,873	$ 98,671	$ 97,038	$ 10,202	$ 1,633
Incentive Income	3,787	67,159	15,156	(63,372)	52,003
Segment revenues - total	$ 112,660	$ 165,830	$ 112,194	$ (53,170)	$ 53,636
Pre-tax distributable earnings	$ 13,750	$ 63,647	$ 28,185	$ (49,897)	$ 35,462

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Year Ended December 31, 2011 compared to Year Ended December 31, 2010

Pre-tax distributable earnings decreased by $49.9 million primarily due to:

Revenues

Management fees were $108.9 million for the year ended December 31, 2011, a net increase of $10.2 million, compared to $98.7 million for the year ended December 31, 2010. Management fees increased $10.2 million primarily due to net increases of $11.0 million and $0.6 million in management fees from the Fortress Macro Funds (including related managed accounts) and Fortress Commodities Funds (including related managed accounts), respectively, primarily as a result of net capital raises, and an increase of $2.1 million in management fees from the Fortress Asia Macro Fund, which launched in March 2011. These increases in management fees were partially offset by net decreases of $2.5 million and $1.1 million in management fees from the Drawbridge Global Macro Funds and Fortress Partners Funds, respectively, primarily as a result of a decrease in management fees from the Drawbridge Global Macro Fund SPV, which is no longer subject to management fees as of July 31, 2010, and net capital outflows.

Incentive income, which is determined on a fund by-fund basis, was $3.8 million for the year ended December 31, 2011, a net decrease of $63.4 million, compared to $67.2 million for the year ended December 31, 2010. Incentive income decreased $63.4 million primarily due to net decreases of $56.8 million, $4.7 million and $1.9 million in the incentive income generated by the macro strategy funds (including related managed accounts), Fortress Commodities Funds (including related managed accounts) and Fortress Partners Funds, respectively. These decreases were primarily due to negative performance in 2011 bringing nearly all capital eligible for incentive income below its respective high water mark.

Expenses

Expenses were $98.9 million for the year ended December 31, 2011, a net decrease of $3.3 million, compared to $102.2 million for the year ended December 31, 2010. The decrease of $3.3 million in expenses was primarily attributable to a decrease in compensation and benefits, primarily related to profit sharing compensation expense.

Year Ended December 31, 2010 compared to Year Ended December 31, 2009

Pre-tax distributable earnings increased by $35.5 million primarily due to:

• a $5.1 million net increase in management fees. Management fees increased by $1.6 million primarily due to (i) a $21.5 million increase due to management fees generated from the Fortress Macro Funds, which were launched in May 2009, (ii) a $2.0 million net increase in management fees from the Fortress Partners Funds resulting primarily from an increase in average AUM, primarily due to the net appreciation of investments and offset by investor redemptions subsequent to December 31, 2009, and (iii) an $11.1 million increase due to management fees generated from certain managed accounts that launched after September 2009. These increases were partially offset by declines in average AUM caused by investor redemptions, which resulted in decreases of $32.3 million and $0.7 million from the Drawbridge Global Macro Funds and the Fortress Commodities Fund, respectively. The $1.6 million management fee increase was accompanied by a decrease in the employees share of management fees of $3.4 million primarily related to liquid hedge funds that did not experience an increase in management fees;

- a $44.8 million net increase in incentive income primarily due to an increase of $54.3 million in the incentive income generated by the Fortress Macro Funds (including related managed accounts) that met or exceeded their high water marks, as a result of subsequent positive performance, during the year ended December 31, 2010 and was partially offset by a corresponding increase in the employees share of incentive income, reflected as profit sharing compensation expense, of $5.1 million. This increase to incentive income was partially offset by a net decrease of $3.5 million in incentive income generated by the Fortress Commodities Fund (including related managed accounts) for the year ended December 31, 2010; and

- a $14.4 million net increase in operating expenses primarily due to (i) an $12.1 million net increase in compensation expense primarily due to an increase in the accrual of discretionary bonuses and (ii) a $2.3 million net increase in general and administrative expenses and allocable corporate expenses for the year ended December 31, 2010 as compared to the prior comparative period.

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Credit Hedge Funds

	Year Ended December 31,			Variance	
	2011	2010	2009	2011 / 2010	2010 / 2009
Segment revenues					
Management Fees	$ 121,835	$ 124,180	$ 105,089	$ (2,345)	$ 19,091
Incentive Income	78,460	102,712	999	(24,252)	101,713
Segment revenues - total	$ 200,295	$ 226,892	$ 106,088	$ (26,597)	$ 120,804
Pre-tax distributable earnings	$ 37,217	$ 72,255	$ 14,618	$ (35,038)	$ 57,637

Year Ended December 31, 2011 compared to Year Ended December 31, 2010

Pre-tax distributable earnings decreased by $35.0 million primarily due to:

Revenues

Management fees were $121.8 million for the year ended December 31, 2011, a net decrease of $2.3 million, compared to $124.2 million for the year ended December 31, 2010. Management fees decreased $2.3 million primarily due to (i) an $18.4 million decrease in management fees from the Value Recovery Funds and related assets, of which $9.8 million relates to the recognition in the second quarter of 2010 of management fees that were previously deemed potentially uncollectible, and the balance primarily relates to investment distributions, and (ii) a $0.3 million net decrease in management fees for the Drawbridge Special Opportunities Funds primarily as a result of net investor distributions. These decreases in management fees were partially offset by (i) an increase of $14.7 million in management fees from an advisory agreement that commenced in the first quarter of 2011 and was concluded in the third quarter of 2011 and (ii) an increase of $1.7 million in management fees from the Worden Funds, which launched in 2010.

Incentive income, which is determined on a fund by-fund basis, was $78.5 million for the year ended December 31, 2011, a net decrease of $24.3 million, compared to $102.7 million for the year ended December 31, 2010. Incentive income decreased $24.3 million primarily due to (i) decreases of $13.7 million and $4.6 million in incentive income from the Drawbridge Special Opportunities Fund and the Worden Funds, respectively, due to lower performance as compared to the prior comparative period, (ii) a $5.4 million decrease in incentive income from a third party account whose investments were fully realized in 2010 and (iii) a $0.6 million decrease in incentive income from other investments.

Expenses

Expenses were $163.1 million for the year ended December 31, 2011, a net increase of $8.5 million, compared to $154.6 million for the year ended December 31, 2010. The increase of $8.5 million in expenses was primarily attributable to (i) an increase of $2.7 million in compensation and benefits, which is net of a decrease of $7.4 million in profit sharing compensation expense, and (ii) a net increase of $5.8 million in general and administrative and allocable expenses, primarily related to the advisory agreement which commenced in the first quarter of 2011 and was concluded in the third quarter of 2011.

Year Ended December 31, 2010 compared to Year Ended December 31, 2009

Pre-tax distributable earnings increased by $57.6 million primarily due to:

- a $19.1 million net increase in management fees primarily as a result of (i) a $17.2 million increase in management fees from the Value Recovery Funds and related assets, which Fortress began managing in June 2009, of which $9.8 million relates to the recognition in the second quarter of 2010 of management fees which were previously deemed potentially uncollectible and (ii) a $2.5 million increase in management fees from the Worden Funds, which launched in 2010, partially offset by a $0.6 million net decrease in management fees from Drawbridge Special Opportunities Funds resulting primarily from investor redemptions subsequent to December 31, 2009;

- a $61.1 million net increase in incentive income. Incentive income increased by $101.7 million and was partially offset by a corresponding increase in the employees share of incentive income, reflected as profit sharing compensation expense, of $40.6 million. Incentive income increased by $101.7 million primarily due to (i) an increase of $86.9 million due to an increase in the average capital eligible for incentive income as certain credit hedge funds met or exceeded their high water marks during the year ended December 31, 2010, and subsequent positive performance, (ii) a $4.4 million increase in incentive income from a third party account we manage, (iii) $5.7 million of incentive income from other investments, and (iv) $4.7 million of incentive income from the Worden Funds, which launched in 2010; and

- a $22.6 million net increase in operating expenses primarily related to (i) a net increase of $17.0 million in compensation expenses primarily related to an increase in the accrual of discretionary bonuses and (ii) a $5.6 million

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net increase in general and administrative expenses and allocable corporate expenses for the year ended December 31, 2010 as compared to the prior comparative period.

Credit PE Funds

	Year Ended December 31,			Variance	
	2011	2010	2009	2011 / 2010	2010 / 2009
Segment revenues					
Management Fees	$ 73,273	$ 48,421	$ 39,849	$ 24,852	$ 8,572
Incentive Income	117,598	157,646	22,792	(40,048)	134,854
Segment revenues - total	$ 190,871	$ 206,067	$ 62,641	$ (15,196)	$ 143,426
Pre-tax distributable earnings	$ 101,169	$ 95,813	$ 29,419	$ 5,356	$ 66,394

Year Ended December 31, 2011 compared to Year Ended December 31, 2010

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

Revenues

Management fees were $73.3 million for the year ended December 31, 2011, a net increase of $24.9 million, compared to $48.4 million for the year ended December 31, 2010. Management fees increased by $24.9 million primarily due to (i) a $27.7 million increase in management fees attributable to net capital calls or commitments made after 2009, most notably by Credit Opportunities Fund, Credit Opportunities Fund II, Life Settlements Fund, Global Opportunities Fund and a third party account we manage. These increases in management fees were partially offset by a net decrease of $1.7 million in management fees primarily due to the Japan Opportunities Fund, which had a management fee catch-up in 2010 for new investors who were admitted in subsequent closings of the fund, and (ii) a $1.1 million decrease in management fees attributable to net capital distributions by the Long Dated Value Funds and Assets Overflow Fund.

Incentive income was $117.6 million for the year ended December 31, 2011, a net decrease of $40.0 million, compared to $157.6 million for the year ended December 31, 2010. Incentive income decreased $40.0 million primarily due to a $64.5 million decrease in incentive income primarily as a result of a decrease in distributions generated by realization events within Credit Opportunities Fund and a third party account we manage during the year ended December 31, 2011 as compared to the prior comparative period. This decrease in incentive income was partially offset by an increase of $24.5 million in incentive generated primarily from the Japan Opportunities Fund, Credit Opportunities Fund II, FCO MA II and Assets Overflow Fund for the year ended December 31, 2011 as compared to the prior comparative period.

Expenses

Expenses were $89.7 million for the year ended December 31, 2011, a net decrease of $20.6 million, compared to $110.3 million for the year ended December 31, 2010. The decrease of $20.6 million in operating expenses was primarily attributable to a decrease of $26.9 million in compensation and benefits expense, primarily related to profit sharing compensation expense. This decrease was partially offset by a net increase of $6.3 million in general and administrative and allocable expenses.

Year ended December 31, 2010 compared to Year Ended December 31, 2009

Pre-tax distributable earnings increased by $66.4 million primarily due to:

- an $8.6 million increase in management fees primarily due to (i) a $10.0 million increase attributable to the Japan Opportunities Fund which was created in June 2009 and (ii) an $8.0 million increase attributable to capital calls made after December 31, 2009, most notably by Credit Opportunities Fund II, Long Dated Value Fund III, Global Opportunities Fund, and certain managed accounts. These increases in management fees were partially offset by a net decrease of $9.3 million primarily due to the return of capital to investors in Credit Opportunities Fund, Assets Overflow Fund, and a third party account we manage;

- a $63.4 million net increase in incentive income. Incentive income increased by $134.9 million, partially offset by an increase in the employees share of incentive income of $71.4 million which is reflected as profit sharing compensation expense. The $134.9 million increase in incentive income is primarily due to distributions generated by certain realization events during the year ended December 31, 2010 primarily from Credit Opportunities Fund and a third party account we manage; and

- a $5.6 million net increase in operating expenses primarily due to (i) a $4.2 million increase in compensation expense primarily related to an increase in average headcount and the accrual of discretionary bonuses, (ii) a $2.5 million increase in allocable corporate expenses, and (iii) $2.1 million of commissions related to the Global

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Opportunities Fund. These increases were partially offset by a $3.2 million decrease in general and administrative expenses primarily as a result of a reduction in commissions relating to the Japan Opportunity Fund as compared to the year ended December 31, 2009 and the write-off in the second quarter of 2009 of professional fees attributable to a fund which did not launch.

Principal Investments

	Year Ended December 31,			Variance	
	2011	2010	2009	2011 / 2010	2010 / 2009
Pre-tax distributable earnings (loss)	$ (10,681)	$ 14,194	$ (82,397)	$ (24,875)	$ 96,591

Year Ended December 31, 2011 compared to Year Ended December 31, 2010

Pre-tax distributable earnings decreased by $24.9 million primarily due to:

- a $1.5 million increase in net investment income primarily as a result of a decrease in recorded impairments of $3.5 million and $0.1 million with respect to our investments in our private equity funds and special investments in our hedge funds, respectively, for the year ended December 31, 2011 as compared to the prior comparative period. These decreases in recorded impairments were partially offset by the recording of $2.0 million of impairments with respect to our investments in Eurocastle for the year ended December 31, 2011;

- a $20.4 million decrease in net investment income from realizations and the performance of our investments in our funds. The $20.4 million net decrease in investment income was due to a net decrease of $3.8 million due to realization events in our credit PE funds, private equity funds, and special investments in our hedge funds and a net decrease of $16.6 million attributable to our investments in our hedge funds for the year ended December 31, 2011 as compared to the prior comparative period;

- a $1.3 million increase in net investment income due to a net decrease in interest expense primarily due to (i) a decrease of $1.4 million in the amortization of financing costs and (ii) a decrease of $4.0 million due to the write-off of deferred financing costs as a result of a repayment of our prior credit agreement in October 2010. These net decreases in interest expense were partially offset by an increase of $4.1 million primarily due to an increase in the average interest rate paid during the year ended December 31, 2011 as compared to the prior comparable period;

- a $3.6 million decrease in net investment income due to a decrease in dividend income earned primarily from our direct investment in GAGFAH common stock, partially offset by an increase in dividend income earned from our direct investment in Newcastle common stock; and

- a $3.5 million decrease in net investment income due to realized losses on our foreign currency hedges and foreign currency translation adjustments.

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The following table reflects all of our investments that are not marked to market through distributable earnings for segment reporting purposes as of December 31, 2011:

Fund	Fortress Share of NAV (A)	Fortress DE Cost Basis (B)	Excess (C)	(Deficit) (C)
Main Funds				
Fund I	$ 60	$	$ 60	$ N/A
Fund II	1,002		1,002	N/A
Fund III and Fund III Coinvestment	9,925	5,038	4,887	N/A
Fund IV and Fund IV Coinvestment	112,842	79,575	33,267	N/A
Fund V and Fund V Coinvestment	137,811	74,053	63,758	N/A
Long Dated Value Funds	20,110	14,769	5,341	N/A
Real Assets Funds	24,120	14,835	9,285	N/A
Credit Opportunities Funds	53,268	36,947	16,357	(36)
Mortgage Opportunities Funds	3,866	145	3,721	N/A
Asia Funds (Japan Opportunity Funds, Global Opportunities Fund)	9,245	7,869	1,459	(83)
WWTAI	1,263	1,327	N/A	(64)
Real Estate Opportunities Funds	412	404	9	(1)
Other Funds (combined)				
GAGFAH (XETRA: GFJ)	5,271	2,880	2,391	N/A
Brookdale (NYSE: BKD)	23,238	8,136	15,102	N/A
Private investment #1	236,000	207,357	28,643	N/A
Private investment #2	95,237	44,278	50,959	N/A
Castles				
Eurocastle (EURONEXT: ECT)	78	78	N/A	N/A
Newcastle (NYSE: NCT)	4,770	667	4,103	N/A
Other				
Hedge fund side pocket investments	102,945	84,736	18,719	(510)
Direct investments	100,657	68,295	32,392	(30)
Total	$ 942,120	$ 651,389	$ 291,455	$ (724)

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

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

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

Year Ended December 31, 2010 compared to Year Ended December 31, 2009

Pre-tax distributable earnings (loss) increased by $96.6 million primarily due to:

- a $95.8 million increase in net investment income primarily as a result of a decrease in recorded impairments of $87.6 million, $0.2 million, $0.6 million, and $7.5 million in our investments in our private equity funds, Castles, credit PE funds, and special investments in our hedge funds for the year ended December 31, 2010 as compared to the year ended December 31, 2009;

- a $1.2 million net decrease in investment income from our investments in our funds. Investment income increased $3.0 million and the employee share of investment income increased by $4.2 million. The $3.0 million net increase in investment income was due to an increase of $13.5 million due to realization events in our credit PE and private equity funds partially offset by a decrease of $10.5 million attributable to our investments in our hedge funds due to lower returns and a decrease in our average investment balances for the year ended December 31, 2010 as compared to the prior comparative period. The employee share of investment income increased due to differences in the percentage of each fund owned by employees and the mix of funds earning investment income;

- a $4.3 million increase in net investment income primarily due to a decrease in interest expense primarily due to (i) a decrease of $2.3 million primarily due to a decrease in average borrowings as compared to the year ended December 31, 2009, (ii) a decrease of $2.6 million in the amortization of deferred financing costs, and partially offset by (iii) an increase of $0.5 million due to an increase in write-offs of deferred financing costs as a result of a repayment of our prior credit agreement in October 2010;

- a $0.5 million increase in net investment income due to an increase in the average cash balance and interest rate earned during the year ended December 31, 2010 as compared to the prior comparative period;

- a $1.7 million decrease in net investment income due to a decrease in dividend income earned primarily from our direct investments in GAGFAH common stock; and

- a $0.9 million decrease in net investment income due to a realized loss on our foreign currency hedges and other foreign currency adjustments.

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Unallocated

	Year Ended December 31,			Variance	
	2011	2010	2009	2011 / 2010	2010 / 2009
Pre-tax distributable earnings (loss)	$ (16,848)	$ (18,595)	$ (971)	$ 1,747	$ (17,624)

Year Ended December 31, 2011 compared to Year Ended December 31, 2010

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

- a $6.7 million increase in management fees due to the full year effect of the Logan Circle acquisition in April 2010; offset by

- a $5.0 million increase in operating and acquisition expenses primarily due to the full year effect of the Logan Circle acquisition in April 2010.

Year Ended December 31, 2010 compared to Year Ended December 31, 2009

Pre-tax distributable loss increased by $17.6 million primarily due to:

- a $13.4 million net increase in management fees due to the Logan Circle acquisition in April 2010; offset by

- a $30.9 million increase in operating and acquisition expenses, of which $28.2 million was due to the Logan Circle acquisition in April 2010, including $5.1 million of allocated corporate overhead.

Sensitivity

For an analysis of the sensitivity of segment revenues to changes in the estimated fair value of the Fortress Fund investments, see Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk.

Liquidity and Capital Resources

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

The receipt of management fees generally occurs on a fixed and fairly predictable schedule, subject to changes in the NAV of the Fortress Funds (due to performance or capital transactions). From time to time, we may elect, in our discretion, to defer the receipt of management or other fees or reimbursements, to which we are legally entitled, in order to optimize the operations of the underlying funds. As of December 31, 2011, the receipt of approximately $107.3 million of management fees had been deferred, of which $12.1 million has been reserved by us, and the ultimate timing of their payment is currently uncertain. In addition, $40.0 million of private equity general and administrative expenses had been advanced on behalf of certain funds. The amount of deferred management fees and reimbursements may increase in the future. Also, while we still believe that we will receive these amounts, we now expect to receive payment at a later date than we had previously anticipated. If these delinquencies continue or worsen, they could meaningfully constrain our liquidity in the future.

The timing of receipt of cash flows from other operating activities is in large part dependent on the timing of distributions from our private equity funds and credit PE funds, which are subject to restrictions and to management s judgment regarding the optimal timing of the monetization of underlying investments, as well as dates specified in our hedge funds operating documents, which outline the determination and payment of our incentive income, if any. The timing of capital requirements to cover fund commitments is subject to management s 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

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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 $333.2 million at December 31, 2011, our available draws under our credit facility of $56.7 million, and capital receipts from our balance sheet investments) to meet our operating expenses (including compensation and lease obligations), required debt amortization payments, tax distribution requirements, and fund capital commitments, in each case to be funded during the next twelve months (see obligation tables below). These uses of cash would not (barring changes in other relevant variables, such as EBITDA and Adjusted EBITDA, as defined in our credit agreement) cause us to violate any of our debt covenants. We believe that the compensation we will be able to pay from these available sources will be sufficient to retain key employees and maintain an effective workforce. We may elect, if we deem it appropriate, to defer certain payments due to our principals and affiliates or raise capital to enable us to satisfy the amortization payments required under our credit agreement or for other working capital needs.

We expect to meet our long-term liquidity requirements, including the repayment of our debt obligations and any new commitments or increases in our existing commitments relating to principal investments, through the generation of operating income (including management fees, a portion of which may be deferred), capital receipts from balance sheet investments and, potentially, additional borrowings and equity offerings. Our ability to execute our business strategy, particularly our ability to form new funds and increase our AUM, depends on our ability to raise additional investor capital within our funds and on our ability to monetize our balance sheet investments. Furthermore, strategic initiatives and the ability to make principal investments in funds may be dependent on our ability to raise capital at the Fortress level. Decisions by counterparties to enter into transactions with us will depend upon a number of factors, such as our historical and projected financial performance and condition, compliance with the terms of our current credit arrangements, industry and market trends and performance, the availability of capital and our counterparties policies and rates applicable thereto, the rates at which we are willing to borrow, and the relative attractiveness of alternative investment or lending opportunities. Furthermore, given the current, depressed level of the market price of our Class A shares as well as the relative illiquidity in the credit market (as described above under Market Considerations), raising equity capital could be dilutive to our current shareholders and issuing debt obligations could, while potentially extending maturities, result in significant increases to operating costs. The level of our share price also limits our ability to use our equity as currency in the potential acquisition of businesses, other companies or assets.

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

As of December 31, 2011, our material cash commitments and contractual cash requirements were related to our capital commitments to our funds, lease obligations and debt obligations. Our potential liability for the contingent repayment of incentive income is discussed under Contractual Obligations below.

Capital Commitments

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

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

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Our capital commitments to our funds with outstanding commitments as of December 31, 2011 consisted of the following (in thousands).

		Outstanding Commitment
Private Equity Funds		
Fund II	$	566
Fund III Coinvestment		2
Fund IV		4,053
Fund IV Coinvestment		3
Fund V		6,143
Fund V Coinvestment		2
FRID		812
FHIF		8,581
FECI		1,551
WWTAI		6,173
Credit PE Funds		
Credit Opportunities Fund		9,034
Credit Opportunities Fund II		2,087
Credit Opportunities Fund III		14,182
FTS SIP L.P.		878
FCO MA LSS		536
FCO MA II		5,726
FCO MA Maple Leaf		2,007
Long Dated Value Fund I		460
Long Dated Value Fund II		1,685
Long Dated Value Fund III		161
LDVF Patent Fund		27
Real Assets Fund		21,150
Assets Overflow Fund		200
Japan Opportunity Fund		3,071
Japan Opportunity Fund II		5,508
Net Lease Fund I		243
Global Opportunities Fund		3,092
Life Settlements Fund		85
Life Settlements Fund MA		56
Real Estate Opportunities Fund		383
Real Estate Opportunities REOC Fund		213
Karols Development Co		2,041
Other		616
Total	$	101,327

Lease Obligations

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

2012	$	21,834
2013		21,798
2014		20,909
2015		19,335

2016		17,488
Thereafter		2,215
Total	$	103,579

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Debt Obligations

As of December 31, 2011, our debt obligations consisted of the amounts outstanding under our credit agreement, as described below.

In May 2007, we entered into a new $1 billion credit agreement (as amended, the 2007 Credit Agreement). Borrowings and letters of credit issued under the 2007 Credit Agreement bore interest at a rate equal to LIBOR plus 1.20%. The 2007 Credit Agreement was modified several times during 2008.

In March 2009, we entered into additional amendments to the 2007 Credit Agreement. The amendments, among other things: (i) modified certain covenants, (ii) increased the rate to LIBOR + 2.50%, and (iii) changed the principal amortization terms. In June 2009, we entered into an additional amendment to the 2007 Credit Agreement. This amendment, among other things, modified certain covenants and changed the principal amortization terms.

In October 2010, we entered into a new credit agreement (the 2010 Credit Agreement) and repaid our prior credit agreement in full. The terms of the 2010 Credit Agreement include: a $280 million term loan facility maturing in October 2015, a $60 million revolving credit facility (including a $25 million letter of credit subfacility) maturing in October 2013, an interest rate generally equal to LIBOR plus 4.0% per annum (with a minimum LIBOR rate of 1.75%), and a commitment fee on undrawn amounts of 0.625% per annum, as well as various other customary fees. Additionally, $4.0 million of deferred financing costs related to the prior credit agreement were written off to Interest Expense in October 2010 in connection with its repayment.

The term loan is subject to future mandatory repayments of $8.75 million on each calendar quarter end from March 31, 2012 through September 30, 2015; in addition, mandatory repayments of 50% of free cash flow of each calendar year, up to a limit, as defined in the 2010 Credit Agreement, for each of the years 2011 through 2014 are also required to be made in April of each subsequent year (2012 through 2015). The term loan may be prepaid without penalty after October 2014, may be prepaid subject to a 1% fee on the amount repaid from October 2012 through October 2014, and may be prepaid prior to October 2012 subject to a Make Whole Payment, as defined in the 2010 Credit Agreement. Furthermore, Fortress is required to prepay the 2010 Credit Agreement upon the occurrence of certain events, including certain asset sales and other dispositions.

The foregoing description of the terms of the credit agreements and amendments is not complete and is qualified in its entirety by the full text of the credit agreements and amendments, each of which has been filed with the SEC.

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

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

	Face Amount and Carrying Value			December 31, 2011	
Debt Obligation	**December 31, 2011**	**December 31, 2010**	**Final Stated Maturity**	**Weighted Average Funding Cost (1)**	**Weighted Average Maturity (Years)**
Credit Agreement (2)					
Revolving debt (3)	$	$	Oct 2013		
Term loan	261,250	277,500	Oct 2015	6.20%	2.88
Total	$ 261,250	$ 277,500		6.20%	2.88

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

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

(3) Approximately $56.7 million was undrawn on the revolving debt facility as of December 31, 2011. The revolving debt facility includes a $25 million letter of credit subfacility of which $3.3 million was utilized.

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Assuming no Free Cash Flow based required prepayments, of which approximately $54.5 million will be made in 2012, our outstanding debt matures as follows as of December 31, 2011 (in thousands).

2012	$	35,000(A)
2013		35,000
2014		35,000
2015		156,250
Total	$	261,250

(A) In addition, a mandatory Free Cash Flow-based payment of approximately $54.5 million is due in April 2012. This will reduce the payment due at maturity in 2015.

During the year ended December 31, 2011, the average face amount of our outstanding debt was approximately $273.7 million, and the highest face amount outstanding at one time during this period was $277.5 million. During this period, we did not incur any new short-term borrowings.

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 $371.1 million to FIG Corp,. pursuant to a demand note. As of December 31, 2011, the outstanding balance was approximately $328.8 million, including unpaid interest. This intercompany debt is eliminated in consolidation.

Covenants

Fortress Operating Group is required to prepay the 2010 Credit Agreement upon the occurrence of certain events, including certain asset sales and other dispositions.

The events of default under the 2010 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, change of control, and adverse events (as defined in the 2010 Credit Agreement) with respect to our material funds. A default under this agreement would likely have a material, adverse impact on our liquidity.

The 2010 Credit Agreement contains customary representations and warranties and affirmative and negative covenants that, among other things, restrict the ability of Fortress 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 and certain other contractual restrictions. These covenants are subject to a number of limitations and exceptions set forth in the 2010 Credit Agreement. We were in compliance with all of these covenants as of December 31, 2011. In addition, Fortress Operating Group must not:

- Permit AUM (as defined in the 2010 Credit Agreement) to be less than $25.0 billion as of the end of any calendar month;

- Permit the Consolidated Leverage Ratio (a measure of net outstanding debt compared to EBITDA, as defined in the 2010 Credit Agreement) to be greater than 2.75 to 1.0 as of the end of any fiscal quarter for the four quarter period ending on such date;

- Permit the Minimum Investment Assets Ratio (a measure of investments compared to outstanding debt, as defined in the 2010 Credit Agreement), as of the end of any fiscal quarter, to be less than 2.00 to 1.0 through December 31, 2012 or less than 2.25 to 1.0 thereafter; or

- Permit the Consolidated Fixed Charge Coverage Ratio (a measure of EBITDA after permitted tax distributions compared to required debt payments, or fixed charges, as defined in the 2010 Credit Agreement) to be: (i) if Net Funded Indebtedness (a measure of outstanding debt, as defined in the 2010 Credit Agreement) is greater than $300 million, less than or equal to 2.25 to 1.0, (ii) if Net Funded Indebtedness is greater than $250 million but less than or equal to $300 million, less than or equal to 2.00 to 1.0 or (iii) if Net Funded Indebtedness is less than $250 million, less than or equal to 1.75 to 1.00, as of the end of any fiscal quarter for the four quarter period ending on such date.

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The following table sets forth the financial covenant requirements as of December 31, 2011.

	(dollars in millions)		
	Requirement	Actual	Notes
AUM, as defined	≥ $25,000	$ 34,795	(A)
Consolidated Leverage Ratio	≤ 2.75	0.87	(B)
Minimum Investment Assets Ratio	≥ 2.00	4.58	(C)
Consolidated Fixed Charge Coverage Ratio	≥ 1.75	3.18	(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 contained in the credit agreement.

(B) The consolidated leverage ratio is equal to net debt, as defined, divided by the trailing four quarters EBITDA, as defined. The consolidated fixed charge coverage ratio is equal to the quotient of (A) the trailing four quarters EBITDA, as defined, less permitted tax distributions, as defined, divided by (B) the trailing four quarters required interest and principal payments, or fixed charges, made with respect to the 2010 Credit Agreement. Net debt and EBITDA are computed as shown below (in millions). EBITDA, as defined, is impacted by the same factors as distributable earnings, except EBITDA is not impacted by changes in clawback reserves or gains and losses, including impairment, on investments.

	December 31, 2011
Outstanding debt (D)	$ 262.3
Plus: Outstanding letters of credit	3.3
Less: Cash (up to $50 million)	(50.0)
Net debt	$ 215.6

	Year Ended December 31, 2011
Fortress Operating Group GAAP net income (loss) after non-controlling interests	$ (1,105.6)
Depreciation and amortization, interest expense and income taxes	67.3
Extraordinary or non-recurring gains and losses	
Incentive Income Adjustment	41.9
Other Income Adjustment	(40.7)
Compensation expenses recorded in connection with the assignment of Castle Options and Stock Based Compensation	1,284.9
Accrued employee profit sharing related to NIH incentive compensation minus cash payments made with respect to such employee profit sharing	
Income (loss) allocable to, or resulting from distributions to, the Principals (and one senior employee) or their assignees	
EBITDA	$ 247.8
Permitted tax distributions	$ 72.1
Fixed charges	$ 55.2

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

(D) Includes $1.0 million of insurance financing.

The foregoing summary is not complete and is qualified in its entirety by reference to the 2010 Credit Agreement, which is filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2010 and is incorporated by reference herein.

Dividends / Distributions

2011

During the year ended December 31, 2011, Fortress Operating Group declared distributions of $48.0 million to the principals and one senior employee in connection with tax obligations.

Our board of directors has approved a revised dividend policy under which it reinstated a quarterly dividend to Class A shareholders beginning in the fourth quarter of 2011. The dividend related to the fourth quarter of 2011 was $0.05 per share. The dividend will be paid on March 15, 2012 to holders of record of our Class A shares on March 12, 2012. In connection with this dividend, dividend equivalent payments of $0.05 per share were declared to holders of restricted Class A share units that are entitled to dividends.

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2010

During the year ended December 31, 2010, Fortress Operating Group paid or accrued distributions of $88.7 million to the principals and RPU holder in connection with tax obligations.

2009

During the year ended December 31, 2009, Fortress Operating Group paid or accrued distributions of $60.4 million to the principals and RPU holder in connection with tax obligations.

Cash Flows

Our primary cash flow activities are: (i) generating cash flow from operations, (ii) making investments in Fortress Funds, (iii) meeting financing needs through, and making required amortization payments under, our credit agreement, 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 Annual Report on Form 10-K. 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 $168.2 million, $310.2 million and $117.1 million during the years ended December 31, 2011, 2010 and 2009, respectively.

Operating Activities Comparative 2011 vs. 2010

Cash received for affiliate and non-affiliate management fees increased by $71.5 million from $396.0 million in 2010 to $467.5 million in 2011. Management fees are based on average fee paying AUM, which, based on a simple quarterly average, increased within our alternative and traditional investment businesses from 2010 to 2011 (private equity funds decreased by ($1.5) billion, Castles increased by $0.1 billion, liquid hedge funds increased by $0.2 billion, credit hedge funds decreased by ($0.9) billion, credit PE funds increased by $1.8 billion, and Logan Circle Partners increased by $5.6 billion) as a result of capital raising, including new fund formation, capital acquisitions and returns offset by redemptions, capital distributions, and losses. However, approximately $107.3 million of management fees were past due at December 31, 2011, as opposed to $64.9 million at December 31, 2010, as discussed in Liquidity and Capital Resources above.

Incentive income is calculated as a percentage of profits earned by the Fortress Funds and non-affiliates or is based on profitable realization events within private equity funds and credit PE funds and based on cash realizations in VRF funds. A $68.8 million decrease in cash incentive income received was mainly due to reduced realizations within the private equity and credit PE funds in 2011.

Cash paid for compensation increased by $107.3 million from the year ended December 31, 2010 compared to December 31, 2011. Bonuses are generally paid in January of the year following the year in which they are earned, so this change is primarily related to an increase in bonuses earned in 2010 compared to 2009.

Cash paid for interest increased approximately $4.7 million primarily due to an increase in the weighted average interest rate to 5.8% in 2011 as compared to 3.4% in 2010. This was partially offset by a lower average debt balance of 273.7 million in 2011 compared to $349.3 million in 2010.

Operating Activities Comparative 2010 vs. 2009

Cash received for affiliate and non-affiliate management fees decreased by $23.7 million from $419.7 million in 2009 to $396.0 million in 2010. Management fees are based on average AUM, which decreased from 2009 to 2010 (private equity funds decreased by ($0.1) billion, Castles decreased by ($0.1) billion, liquid hedge funds decreased by ($0.6) billion, credit

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hedge funds increased by $0.3 billion, and credit PE funds increased by $0.1 billion as a result of redemptions, capital distributions and losses offset by capital raising, including new fund formation, capital acquisitions and returns. In addition, approximately $64.9 million of management fees were past due at December 31, 2010 as discussed in Liquidity and Capital Resources above.

Incentive income is calculated as a percentage of profits earned by the Fortress Funds and non-affiliates or is based on profitable realization events within private equity funds and credit PE funds and based on cash realizations in VRF funds. Severe market conditions resulted in lower fund performance and reduced realizations in 2009 and thus an increase of $175.1 million in cash received for incentive income from 2009 to 2010 occurred as conditions improved and realizations increased.

Cash paid for compensation decreased by $15.8 million from the year ended December 31, 2009 compared to December 31, 2010. Bonuses are generally paid in January of the year following the year in which they are earned.

Cash paid for interest decreased approximately $1.3 million primarily due to a lower average debt balance of $349.3 million in 2010 compared to $513.4 million in 2009. The weighted average interest rate increased to 3.4% in 2010 as compared to 2.8% in 2009.

Investing Activities

Our net cash flow provided by (used in) investing activities was $80.5 million, ($44.0) million and $8.1 million during the years ended December 31, 2011, 2010 and 2009, respectively. Our investing activities primarily included: (i) contributions to equity method investees of ($82.6) million, ($74.6) million and ($46.4) million during the years ended December 31, 2011, 2010 and 2009, respectively, (ii) distributions of capital from equity method investees of $180.9 million, $50.8 million and $42.6 million during the years ended December 31, 2011, 2010 and 2009, respectively, and (iii) purchases of fixed assets, net of proceeds from the disposal of fixed assets, of ($17.7) million, ($6.8) million and ($4.3) million during the years ended December 31, 2011, 2010 and 2009, respectively. In addition, Fortress used a net $13.5 million of cash during the year ended December 31, 2010 on acquisitions, primarily Logan Circle Partners, L.P.

Financing Activities

Our net cash flow provided by (used in) financing activities was ($126.2) million, ($252.6) million and ($175.2) million during the years ended December 31, 2011, 2010 and 2009, respectively. Our financing activities primarily included (i) distributions made to principals, including those classified within principals and others interests in consolidated subsidiaries, of ($61.5) million, ($56.2) million and ($50.0) million during these periods, respectively, (ii) distributions to employees related to their interests in consolidated subsidiaries of ($62.0) million, ($72.3) million and ($9.4) million during these periods, respectively, and (iii) our net borrowing and repayment activity. In addition, Fortress completed a $219.5 million offering of Class A shares during the year ended December 31, 2009.

Critical Accounting Policies

Consolidation

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 were required to consolidate a fund, portfolio company, or related 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.

Revenue Recognition on Incentive Income

Incentive income is calculated as a percentage of the 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 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 a private equity fund, or credit PE fund, or when distributions

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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, which is payable upon a realization event within the respective funds. Accordingly, incentive income resulting from a realization event within a fund gives rise to the incurrence of a profit sharing obligation. 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, where incentive income is received on a quarterly or annual basis, the related compensation expense is accrued during the period for which the related payment is made.

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 has been earned 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, private equity and credit PE incentive income realization events, 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.

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, the most significant of which is the level of realized gains generated by the underlying funds that may ultimately give rise to incentive income payments. Accordingly, profit sharing expense is generally recorded upon realization events within the underlying funds. 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 3 to Part II, Item 8, Financial Statements and Supplementary Data 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 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 principal investment) 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 a current transaction between willing parties, other than in a forced or liquidation sale. We are the manager of these funds and in certain cases participate in the valuation of underlying investments, many of which are illiquid and/or without a public market. The fair value of these investments is generally estimated based on either values provided by independent valuation agents, who use their own proprietary valuation models, or 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 consolidated financial statements.

Private Equity Funds

Under the valuation policies and guidelines of our private equity funds, investments are categorized into two types of securities: those for which there is a market quotation and those for which there is no market quotation. Securities for

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which there is a market quotation are valued at their quoted market price. A discount may be applied to those securities with sale restrictions. Securities for which there is no market quotation are referred to as private securities and are valued at fair value. Our guidelines state that the fair values of private securities are generally based on the following methods:

1. Public market transactions of similar securities

2. Private market transactions of similar or identical securities

3. Analytical methods

Our private equity funds have not to date based a valuation of a private security solely upon public or private market transactions in a similar security. There have been no circumstances to date in which a security in a public market transaction, or a private market transaction of which we were aware, has been considered to be sufficiently similar to a private security owned by one of our private equity funds to be used as the measure of valuation for such private security investment.

Our private equity funds have used the price of private market transactions in identical securities as a valuation method for investments. In cases in which there has been a significant private transaction in a private security held by our private equity funds, the value of private equity fund investments in the private security are based upon the price of such recent private transaction in that security and no sensitivity analysis is used.

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

Liquid Hedge Funds

A substantial portion of the investments in our liquid hedge funds are valued based on quoted market prices. Investments valued based on other observable market parameters in our liquid hedge funds include interest rate swaps and swaptions, equity swaps and foreign exchange swaps which are verified by the independent fund administrator using models with significant observable market parameters. The fair value of interest rate swaps and swaptions is calculated using the current market yield of the relevant interest rate durations and an appropriate discount rate to determine a present value. The fair value of equity swaps and foreign exchange swaps is calculated using the market price of the underlying stock or foreign exchange pair, plus the financing cost of carrying the transaction. The fair value of these investments is also confirmed independently with the counterparty to the transaction. Investments valued using methods, including internal models, with significant unobservable market parameters consist primarily of investments in other funds and certain illiquid securities. Counterparty risk is also considered.

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

Credit Hedge Funds

In our credit hedge funds, investments are valued using quoted market prices, to the extent available. Independent valuation agents are used by our credit hedge funds to provide estimates of the fair value of investments, other than investments in other funds, for which quoted market prices are not available. For these investments, we understand that the independent valuation agents use some or all of the following methods and techniques to estimate the fair value of the relevant type of investments:

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 estimating how much the borrower will be able to repay based on obtaining refinancing from a new lender. Under this method, the borrower s business must be examined in detail, and then compared to known loans in the market to estimate how much the borrower will likely be able to borrow, and therefore repay under the existing loan. If the amount likely to be able to be refinanced is less than the total payments due under the loan, the fair value of the loan will be reduced.

Another method used to value loans that may not be repaid in full is to value 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.

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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. 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.

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 these 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.

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 II, Item 7A, 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 December 31, 2011. As of December 31, 2011, revenues from our traditional asset management business are not material to our operations and are therefore not included in the analysis below.

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	Liquid Hedge Funds (B) Long	Liquid Hedge Funds (B) Short	Credit Hedge Funds	Credit PE Funds	Total Investment Company Holdings
1. Quoted market prices	6%	35%	96%	0%	3%	3%
2. Other observable market parameters	4%	18%	4%	0%	0%	4%
3. Significant unobservable market parameters (A)	90%	47%	0%	100%	97%	93%
Total	100%	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, 98.9% and 96.0% of our credit hedge funds and credit PE funds, respectively, level 3 valuations were based on such sources.

(B) The level 3 investments within the liquid hedge funds segment are primarily related to the Fortress Partners Funds, which were transferred to this segment in 2011, as well as the illiquid SPV and sidepocket investments within the Drawbridge Global Macro Funds.

As of December 31, 2011, $11.4 billion of investments in our private equity funds, $1.6 billion of investments in our liquid hedge funds, $7.7 billion of investments in our credit hedge funds and $6.7 billion of investments in our credit PE 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 year ended December 31, 2011, consistent with the table above:

	Private Equity Funds	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds
Management fees, per annum on a prospective basis	$4.7 million or ($4.7 million) (A)	$1.6 million	$14.3 million	$1.1 million or ($3.0 million) (A)
Incentive income	N/A (B)	$0.0 million or ($0.0 million)	$66.2 million or ($63.2 million)	N/A (B)
Earnings from equity method investees	$55.9 million	$12.8 million	$2.1 million	$10.4 million

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Note: 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 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 or credit PE funds is reduced below its invested capital, there would be a reduction in management fees. As of December 31, 2011, $4.3 billion of such portfolio companies valued at level 3 were carried at or below their invested capital and are in funds which are no longer in their commitment period. 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 December 31, 2011 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.

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 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 (2011 is estimated) 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):

2007	$	74.9
2008	$	48.0

2009	$	24.8
2010	$	77.6
2011: Estimated	$	45.3
2012 - 2015: Average Required	$	59.6
2016 - 2021: Average Required	$	80.0

Based on the effects of the continuing challenging market conditions, 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 6 to our financial statements in Part II, Item 8, Financial Statements and Supplementary Data 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 I, Item 1A, Risk Factors Risks Related to Taxation Several items of tax legislation

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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 8 to Part II, Item 8, Financial Statements and Supplementary Data Equity-Based and Other Compensation. The aggregate fair value of each of the RSU grants that are subject to service conditions is reduced by an estimated forfeiture factor (that is, the estimated amount of awards which will be forfeited prior to vesting). The estimated forfeiture factor is based upon historic turnover rates within our company adjusted for the expected effects of the grants on turnover, if any, and other factors in the judgment of management. The estimated forfeiture factor is updated at each reporting date.

The volatility assumption used in valuing certain awards, as described below, was based on five-year historical stock price volatilities observed for a group of comparable companies, since we did not have sufficient historical share performance to use our own historical volatility, adjusted for management s judgment regarding our expected volatility. Since our initial public offering in February 2007, our actual volatility has exceeded the volatility assumption used. To the extent that this trend continues, and management s judgment concerning volatility is changed, we would adjust the volatility assumption used. 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 estimated forfeiture factor;
- 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;
- the discount related to RSUs with no service conditions which are subject to the delayed delivery of Class A shares, which occurs in periods subsequent to the grant date. This discount was based on the estimated value of a put option on such shares over the delayed delivery period since essentially this would be the value of owning, and being able to trade, those shares during the delayed delivery period rather than having to wait for delivery. This estimated value was in turn derived from a binomial option pricing model based on the following assumptions: volatility, term, dividend rate and risk-free discount rate.

Each of these elements, particularly the forfeiture factor and the volatility assumptions 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 forfeiture factor would decrease compensation expense. Increases in the volatility assumption would decrease compensation expense related to RSUs with no service conditions since the discount for delayed delivery would have increased. Increases in the assumed risk-free 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 their non-receipt, and (ii) decrease compensation expense related to RSUs with no service conditions since the discount for delayed delivery would have increased. Except for the forfeiture factor, 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, known as liability awards).

Recent Accounting Pronouncements

In June 2009, the FASB issued new guidance on consolidation which became effective for Fortress on January 1, 2010. This guidance changes the definition of a variable interest entity (VIE) and changes the methodology to determine who is the primary beneficiary of, or in other words who consolidates, a VIE. Generally, the changes are expected to cause more entities to be defined as VIE s and to shift consolidation to those entities that exercise day-to-day control over the VIE s, such as investment managers. In February 2010, the FASB updated this guidance to defer its application to certain managed entities, particularly investment companies and similar entities. As a result, this guidance had no material impact on our financial position, results of operations or liquidity.

In May 2011, the FASB issued new guidance regarding the measurement and disclosure of fair value, which will become effective for Fortress on January 1, 2012. Fortress does not expect this guidance to have a material direct impact on its

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financial position, results of operations or liquidity. Fortress has not yet completed its assessment of the potential impact of this guidance on the fair values reported by its funds.

Fortress has early-adopted a rule, which would have otherwise been effective on January 1, 2012, that requires the Statements of Comprehensive Income to be presented separately from the Statements of Changes in Equity.

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

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 principal investments in such funds. For a discussion of the impact of market risk factors on our financial instruments refer to Part II, Item 7A 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 10 to Part II, Item 8 Financial Statements and Supplementary Data for a discussion of our commitments and contingencies.

Contractual Obligations

As of December 31, 2011, our material contractual obligations are our capital commitments to our funds, our lease obligations and our debt obligations as described above. Furthermore, we have potential clawback obligations with respect to our private equity deferred incentive income received to date. Fixed and determinable payments due in connection with these obligations are as follows:

			Payments due by period		
Contractual Obligations	**Total**	**2012**	**2013 and 2014**	**2015 and 2016**	**Thereafter**

Operating lease obligations (1)	$	103,579	$	21,834	$	42,707	$	36,823	$	2,215
Debt obligations payable (2)		294,483		102,030		86,594		105,859		
Deferred incentive income (3)		102,783				19,433		83,350		
Service contracts		30,607		14,267		9,558		6,526		256
Tax receivable agreement obligations (4)		279,039		34,073		30,506		45,128		169,332
Capital commitments to Fortress Funds (5)		101,327		101,327						
Total	$	911,818	$	273,531	$	188,798	$	277,686	$	171,803

(1) Excludes escalation charges which per our lease agreements are not fixed and determinable payments.

(2) Includes interest to be paid over the maturity of the related debt obligation which has been calculated assuming no prepayments are made and debt is held until its contractual due date. The future interest payments are calculated using effective rates as the reporting date, including both variable and fixed rates pursuant to the debt agreements.

(3) Incentive income received from private equity funds and credit PE funds may be subject to contingent repayment or clawback upon termination of each fund, depending on the overall performance of each fund. The amounts presented herein represent the amount of clawback that would be due based on a liquidation of the fund at its net recorded asset value as of the reporting date, which we refer to as intrinsic clawback. The period of payment is based on the contractual maturities of the funds including all available extensions. Based on the accounting method we have adopted, which requires us to record incentive income revenue only when all related contingencies are resolved, the amounts accrued as a deferred incentive income liability on our balance sheet exceed the intrinsic clawback.

(4) FIG Corp., a wholly owned subsidiary, entered into a tax receivable agreement with each of the principals that provides for the payment to an exchanging or selling principal of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income tax 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 defined) as a result of an increase in the tax basis of the assets owned by Fortress Operating Group at the time of an exchange of a Fortress Operating Group limited partnership unit for one of the Class A shares. Such payments are expected to occur over approximately 12 years.

(5) These obligations represent commitments by us to provide capital funding to the Fortress Funds. These amounts are due on demand and are therefore presented in the less than one year category. However, the capital commitments are expected to be called substantially over the next three years.

In addition, we have entered into five-year employment agreements with our principals which are effective as of January 1, 2012. These agreements do not contain fixed and determinable payments as all payments are performance based. Payments under these agreements may be material.

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Item 7A. 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 December 31, 2011, 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 runs its own investment and risk management process.

- 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 Castles 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.

Each segment has an institutional risk management process and related infrastructure to address these risks. The following table summarizes our financial assets and liabilities that may be impacted by various market risks such as equity prices, interest rates and exchange rates as of December 31, 2011 (in thousands):

Assets		
Investments	$	1,079,777

Liabilities		
Debt obligations payable	$	261,250

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 either: (i) capital commitments to a Fortress Fund, (ii) capital invested in a Fortress Fund, or (iii) the NAV of a Fortress Fund, as described in our historical 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 December 31, 2011, approximately 40% of the management fees earned from our alternative investment businesses were based on the NAV of the applicable funds.

- For 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 period, with the exception of private equity funds formed after March 2006. For private equity funds formed after March 2006 that 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.

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- For Castles, management fees are not calculated based on NAV but instead a fee is charged based on the funds contributed capital.

- For hedge funds, other than the Value Recovery Funds and certain advisory engagements, 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 and advisory engagements, management fees are based on realizations, which are not dependent on current estimated fair value, and, in some cases, a fixed fee. For certain managed assets within the Value Recovery Funds, management fees are dependent on a defined gross asset value which is not directly 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 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 widely 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. Assuming that the deferred incentive income earned to date would be equal to what would be recognized when all contingencies are resolved, 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 December 31, 2011 would increase or decrease future incentive income by $172.0 million or ($106.9 million), respectively; however, this would have no effect on our current reported financial condition or results of operations.

- Incentive income from the Castles 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 (i.e. FFO in excess of specified returns to the company s shareholders) upon which the incentive income is calculated. The definition of FFO excludes unrealized changes in the values of the Castles investments (primarily real estate, loans and securities), 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 quarterly or annual performance criteria. For certain hedge funds, a 10% decrease in the

NAV of the fund on December 31, 2011 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 realizations exceed an agreed threshold and, therefore, this potential incentive income (none of which has been recorded to date) 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 the Castles, 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 December 31, 2011 (in millions).

	10% Positive Change					
	GAAP Revenues			Segment Revenues (A)		
	Management Fees (B)	Incentive Income	Earnings from Equity Method Investees (C)	Management Fees (B)	Incentive Income	Investment Income
Private Equity						
Funds	$ 5.8	$ N/A(E)	$ 62.8	$ 5.8	$ N/A(E)	$ N/A
Castles (D)	N/A	N/A	N/A	N/A	N/A	N/A
Liquid Hedge Funds	8.2	10.6	20.2	8.2	10.6	9.9
Credit						
Hedge Funds	10.1	67.0	2.1	10.1	67.0	2.0
PE Funds	1.1	N/A(E)	10.9	1.1	N/A(E)	N/A
Total	$ 25.2	$ 77.6	$ 96.0	$ 25.2	$ 77.6	$ 11.9

	10% Negative Change					
	GAAP Revenues			Segment Revenues (A)		
	Management Fees (B)	Incentive Income	Earnings from Equity Method Investees (C)	Management Fees (B)	Incentive Income	Investment Income
Private Equity						
Funds	$ (5.9)	$ N/A(E)	$ (62.8)	$ (5.9)	$ N/A(E) (F)	$ N/A(F)
Castles (D)	N/A	N/A	N/A	N/A	N/A	N/A(F)
Liquid Hedge Funds	(8.2)	(0.5)	(20.2)	(8.2)	(0.5)	(9.9)
Credit						
Hedge Funds	(10.1)	(63.2)	(2.1)	(10.1)	(63.2)	(2.0)
PE Funds	(3.2)	N/A(E)	(10.9)	(3.2)	N/A(E) (F)	N/A(F)
Total	$ (27.4)	$ (63.7)	$ (96.0)	$ (27.4)	$ (63.7)	$ (11.9)

(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 or credit PE funds is reduced below its invested capital, there would be a reduction in management fees. As of the reporting date, $4.6 billion of such private equity fund or credit PE fund portfolio companies were carried at or below their invested capital and are in funds which are no longer in their commitment period.

(C) The changes presented do not include any effect related to our direct investment in GAGFAH common stock. A 10% increase (decrease) in the equity price of GAGFAH s common shares would affect our unrealized gains and losses by $2.9 million.

(D) Our investments in the Castles are held at fair value, based on the market value of the shares we own. Gains (losses) on our shares in the Castles and options granted to us by the Castles are affected by movements in the equity price of the shares. A 10% increase (decrease) in the equity price of the shares would affect unrealized gains by approximately $2.2 million. Furthermore, the Castles management fees and incentive income are 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).

(E) For GAAP Revenues, 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. For Segment Revenues, private equity fund and credit PE fund incentive income is based on realizations.

(F) A reduction in the fair value of investments could impact our conclusion regarding the potential impairment of our investments or a potential segment basis incentive income reserve for funds which are subject to clawback.

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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 December 31, 2011, we estimate that interest expense relating to variable rate debt obligations payable would be unchanged on an annual basis in the event interest rates were to increase by one percentage point, due to the benchmark rate on the debt being below the minimum rate.

Exchange Rate Risk

Our investments in Eurocastle, GAGFAH, Karols Development Co., and certain Japanese entities are directly exposed to foreign exchange risk. As of December 31, 2011 we had a $0.1 million investment in Eurocastle and a $30.6 million investment in GAGFAH, including foreign exchange option contracts, which are accounted for at fair value. We also had a $25.2 million investment in Karols Development Co. and $6.9 million of investments in certain Japanese entities. In the event of a 10% change in the applicable foreign exchange rate against the U.S. dollar on December 31, 2011, we estimate the gains and losses for the year ended December 31, 2011 in relation to the value of the investments would increase by approximately $4.9 million or decrease by approximately $1.8 million. In addition, we held $48.1 million of foreign-denominated cash at December 31, 2011.

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Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements:

All supplemental schedules have been omitted because either the required information is included in our consolidated financial statements and notes thereto or it is not applicable.

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Report of Independent Registered Public Accounting Firm on Financial Statements

The Board of Directors and Shareholders of Fortress Investment Group LLC

We have audited the accompanying consolidated balance sheets of Fortress Investment Group LLC (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fortress Investment Group LLC at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Fortress Investment Group LLC s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 28, 2012

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Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareholders of Fortress Investment Group LLC

We have audited Fortress Investment Group LLC s (the Company) internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Fortress Investment Group LLC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Fortress Investment Group LLC as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2011, and our report dated February 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 28, 2012

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	December 31, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$ 333,166	$ 210,632
Due from affiliates	298,689	303,043
Investments	1,079,777	1,012,883
Deferred tax asset	400,196	415,990
Other assets	108,858	134,147
	$ 2,220,686	$ 2,076,695
Liabilities and Equity		
Liabilities		
Accrued compensation and benefits	$ 247,024	$ 260,790
Due to affiliates	354,158	342,397
Deferred incentive income	238,658	198,363
Debt obligations payable	261,250	277,500
Other liabilities	57,204	68,230
	1,158,294	1,147,280
Commitments and Contingencies		
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 189,824,053 and 169,536,968 shares issued and outstanding at December 31, 2011 and 2010, respectively		
Class B shares, no par value, 750,000,000 shares authorized, 305,857,751 and 300,273,852 shares issued and outstanding at December 31, 2011 and 2010, respectively		
Paid-in capital	1,972,711	1,465,358
Retained earnings (accumulated deficit)	(1,484,120)	(1,052,605)
Accumulated other comprehensive income (loss)	(1,160)	(1,289)
Total Fortress shareholders equity	487,431	411,464
Principals and others interests in equity of consolidated subsidiaries	574,961	517,951
Total Equity	1,062,392	929,415
	$ 2,220,686	$ 2,076,695

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in thousands)

	Year Ended December 31, 2011		2010		2009	
Revenues						
Management fees: affiliates	$	464,305	$	441,145	$	433,501
Management fees: non-affiliates		58,096		27,794		4,724
Incentive income: affiliates		155,303		302,261		50,900
Incentive income: non-affiliates		1,917		22,927		999
Expense reimbursements from affiliates		172,465		146,127		85,186
Other revenues (affiliate portion disclosed in Note 7)		6,542		9,991		8,785
		858,628		950,245		584,095
Expenses						
Interest expense		18,526		19,773		24,271
Compensation and benefits		706,060		720,712		504,645
Principals agreement compensation		1,051,197		952,077		952,077
General, administrative and other		145,726		112,739		92,059
Depreciation and amortization (including impairment - Note 3)		33,399		12,693		10,784
		1,954,908		1,817,994		1,583,836
Other Income (Loss)						
Gains (losses) (affiliate portion disclosed in Note 4)		(30,054)		2,997		25,373
Tax receivable agreement liability adjustment		3,098		22,036		(55)
Earnings (losses) from equity method investees		41,935		115,954		60,281
		14,979		140,987		85,599
Income (Loss) Before Income Taxes		(1,081,301)		(726,762)		(914,142)
Income tax benefit (expense)		(36,035)		(54,931)		5,000
Net Income (Loss)	$	(1,117,336)	$	(781,693)	$	(909,142)
Principals and Others Interests in Income (Loss) of Consolidated Subsidiaries	$	(685,821)	$	(497,082)	$	(654,527)
Net Income (Loss) Attributable to Class A Shareholders	$	(431,515)	$	(284,611)	$	(254,615)
Dividends Declared Per Class A Share	$		$		$	
Earnings (Loss) Per Class A Share						
Net income (loss) per Class A share, basic	$	(2.34)	$	(1.79)	$	(2.08)
Net income (loss) per Class A share, diluted	$	(2.36)	$	(1.83)	$	(2.08)
Weighted average number of Class A shares outstanding, basic		186,662,670		165,446,404		125,740,897
Weighted average number of Class A shares outstanding, diluted		493,392,235		467,569,571		125,740,897

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

	Year Ended December 31,		
	2011	**2010**	**2009**
Comprehensive income (loss) (net of tax)			
Net income (loss)	$ (1,117,336)	$ (781,693)	$ (909,142)
Foreign currency translation	417	514	948
Comprehensive income (loss) from equity method investees	(203)	(2,160)	965
Total comprehensive income (loss)	$ (1,117,122)	$ (783,339)	$ (907,229)
Comprehensive income (loss) attributable to principals and others interests	$ (685,858)	$ (498,643)	$ (653,155)
Comprehensive income (loss) attributable to Class A shareholders	$ (431,264)	$ (284,696)	$ (254,074)

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(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, 2008	94,609,525	312,071,550	$ 596,803	$ (513,379)	$ (866)	$ 82,558	$ 71,462	$ 154,020
Contributions from principals and others interests in equity							12,390	12,390
Distributions to principals and others interests in equity			(1,645)			(1,645)	(75,232)	(76,877)
Public offering of Class A shares, net of offering costs	46,000,000		219,500			219,500		219,500
Dilution impact of public offering			(144,572)			(144,572)	144,572	
Conversion of Class B shares to Class A shares	4,297,698	(4,297,698)	4,232			4,232	(4,232)	
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units			19,761			19,761		19,761
Director restricted share grant	116,672		224			224	340	564
Capital increase related to equity-based compensation, net	677,727		335,233			335,233	841,952	1,177,185
Comprehensive income (loss) (net of tax)								
Net income (loss)				(254,615)		(254,615)	(654,527)	(909,142)
Foreign currency translation					213	213	735	948
Comprehensive income (loss) from					328	328	637	965

equity method investees								
Total comprehensive income (loss)						(254,074)	(653,155)	(907,229)
Equity - December 31, 2009	145,701,622	307,773,852	$ 1,029,536	$ (767,994)	$ (325)	$ 261,217	$ 338,097	$ 599,314
Contributions from principals and others interests in equity							84,498	84,498
Distributions to principals and others interests in equity			(1,679)			(1,679)	(152,022)	(153,701)
Conversion of Class B shares to Class A shares	7,500,000	(7,500,000)	7,351		(163)	7,188	(7,188)	
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units			12,293			12,293		12,293
Director restricted share grant	210,302		253			253	472	725
Capital increase related to equity-based compensation, net	16,125,044		406,002			406,002	763,623	1,169,625
Dilution impact of Class A share issuance			11,602		(716)	10,886	(10,886)	
Comprehensive income (loss) (net of tax)								
Net income (loss)				(284,611)		(284,611)	(497,082)	(781,693)
Foreign currency translation					330	330	184	514
Comprehensive income (loss) from equity method investees					(415)	(415)	(1,745)	(2,160)
Total comprehensive income (loss)						(284,696)	(498,643)	(783,339)
Equity - December 31, 2010	169,536,968	300,273,852	$ 1,465,358	$ (1,052,605)	$ (1,289)	$ 411,464	$ 517,951	$ 929,415

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders Equity	Principals and Others Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity - December 31, 2010	169,536,968	300,273,852	$ 1,465,358	$ (1,052,605)	$ (1,289)	$ 411,464	$ 517,951	$ 929,415
Contributions from principals and others interests in equity							81,572	81,572
Distributions to principals and others interests in equity			(840)			(840)	(124,723)	(125,563)
Conversion of Class B shares to Class A shares	4,749,434	(4,749,434)	3,878		(33)	3,845	(3,845)	
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units			9,243			9,243		9,243
Director restricted share grant	143,624		412			412	704	1,116
Capital increase related to equity-based compensation, net	15,394,027	10,333,333	481,327			481,327	802,404	1,283,731
Dilution impact of Class A share issuance			13,333		(89)	13,244	(13,244)	
Comprehensive income (loss) (net of tax)								
Net income (loss)				(431,515)		(431,515)	(685,821)	(1,117,336)
Foreign currency translation					340	340	77	417
					(89)	(89)	(114)	(203)

Comprehensive income (loss) from equity method investees								
Total comprehensive income (loss)						(431,264)	(685,858)	(1,117,122)
Equity - December 31, 2011	189,824,053	305,857,751	$ 1,972,711	$ (1,484,120)	$ (1,160)	$ 487,431	$ 574,961	$ 1,062,392

See notes to consolidated financial statements.

See notes to consolidated and combined financial statements.

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FORTRESS INVESTMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Year Ended December 31,		
	2011	**2010**	**2009**
Cash Flows From Operating Activities			
Net income (loss)	$ (1,117,336)	$ (781,693)	$ (909,142)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	33,399	12,693	10,784
Other amortization and accretion	1,477	6,874	8,936
(Earnings) losses from equity method investees	(41,935)	(115,954)	(60,281)
Distributions of earnings from equity method investees	23,719	11,034	4,544
(Gains) losses	30,054	(2,997)	(25,373)
Deferred incentive income	(80,093)	(161,028)	(35,743)
Deferred tax (benefit) expense	24,622	43,115	(8,569)
Options received from affiliates	(12,615)		
Tax receivable agreement liability adjustment	(3,098)	(22,036)	55
Equity-based compensation, including Principals Agreement	1,284,086	1,167,130	1,180,728
Allowance for doubtful accounts	5,263	651	(13,767)
Other		2,713	(1,170)
Cash flows due to changes in			
Due from affiliates	(133,322)	(242,841)	(18,718)
Other assets	7,322	(20,700)	(6,244)
Accrued compensation and benefits	51,166	200,347	(18,487)
Due to affiliates	(9,353)	(13,602)	(21,983)
Deferred incentive income	112,068	199,294	32,205
Other liabilities	(7,181)	27,153	(703)
Net cash provided by (used in) operating activities	168,243	310,153	117,072
Cash Flows From Investing Activities			
Contributions to equity method investees	(82,610)	(74,581)	(46,437)
Distributions of capital from equity method investees	180,855	50,808	42,580
Purchase of fixed assets	(17,713)	(6,794)	(4,287)
Acquisitions, net of cash received		(13,474)	
Net cash provided by (used in) investing activities	80,532	(44,041)	(8,144)
Cash Flows From Financing Activities			
Borrowings under debt obligations		330,000	
Repayments of debt obligations	(16,250)	(450,325)	(331,216)
Payment of deferred financing costs		(5,060)	(4,162)
Proceeds from public offering			230,000
Costs related to public offering			(10,500)
Dividends and dividend equivalents paid			
Principals and others interests in equity of consolidated subsidiaries - contributions	13,484	1,271	98
Principals and others interests in equity of consolidated subsidiaries - distributions	(123,475)	(128,465)	(59,386)
Net cash provided by (used in) financing activities	(126,241)	(252,579)	(175,166)
Net Increase (Decrease) in Cash and Cash Equivalents	122,534	13,533	(66,238)
Cash and Cash Equivalents, Beginning of Period	210,632	197,099	263,337
Cash and Cash Equivalents, End of Period	$ 333,166	$ 210,632	$ 197,099

Supplemental Disclosure of Cash Flow Information						
Cash paid during the period for interest	$	16,122	$	11,432	$	12,707
Cash paid during the period for income taxes	$	8,574	$	8,911	$	9,602
Supplemental Schedule of Non-cash Investing and Financing Activities						
Employee compensation invested directly in subsidiaries	$	68,087	$	83,351	$	10,666
Investments of receivable amounts into Fortress Funds	$	143,862	$	10,300	$	
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	$	29,423	$	42,900	$	10,393
Contingent consideration in purchase of Logan Circle Partners L.P.	$		$	4,000	$	

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

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

2007 Reorganization of Fortress Operating Group

Fortress Investment Group LLC was formed in 2006 for the purpose of becoming the general partner of Fortress Operating Group and effecting an initial public offering of shares in February 2007 and related transactions in order to carry on the business of its predecessor, Fortress Operating Group, as a publicly traded entity. Fortress Operating Group was owned by its five general partners (the Principals) prior to this reorganization. The Registrant is a limited liability company and its members are not responsible for any of its liabilities beyond the equity they have invested. Fortress s formation documents allow for an indefinite life.

FIG Corp., a subsidiary of the Registrant, is a corporation for tax purposes. As a result, the Registrant is subject to income taxes on that portion of its income which flows through FIG Corp.

The Principals own the majority of the economic interests in Fortress Operating Group through their ownership of Fortress Operating Group units and Class A shares and control Fortress through their ownership of Class A and Class B shares of the Registrant (Note 9). The Principals Fortress Operating Group unit interests in the equity and income (loss) of Fortress Operating Group are recorded on the face of the consolidated financial statements as further described in Note 7.

In May 2009, Fortress sold 46 million Class A shares in a public offering (the 2009 Offering), for net proceeds of approximately $219.5 million. The Principals purchased an aggregate of 3.6 million of these shares, a senior employee purchased 0.4 million of these shares, and Nomura Investment Managers U.S.A Inc. (Nomura) purchased 5.4 million of these shares, at the public offering price.

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Financial Statement Guide

Selected Financial Statement Captions	**Note Reference**	**Explanation**
Balance Sheet		
Due from Affiliates	7	Generally, management fees, expense reimbursements and incentive income due from Fortress Funds.
Investments	4	Primarily the carrying value of Fortress s principal investments in the Fortress Funds.
Deferred Tax Asset	6	Relates to potential future tax benefits.
Due to Affiliates	7	Generally, amounts due to the Principals related to their interests in Fortress Operating Group and the tax receivable agreement.
Deferred Incentive Income	3	Incentive income already received from certain Fortress Funds based on past performance, which is subject to contingent repayment based on future performance.
Debt Obligations Payable	5	The balance outstanding on the credit agreement.
Principals and Others Interests in Equity of Consolidated Subsidiaries	7	The GAAP basis of the Principals and one senior employee s ownership interests in Fortress Operating Group as well as employees ownership interests in certain subsidiaries.
Statement of Operations		
Management Fees: Affiliates	3	Fees earned for managing Fortress Funds, generally determined based on the size of such funds.
Management Fees: Non-Affiliates	3	Fees earned from managed accounts and our traditional fixed income asset management business, generally determined based on the amount managed.
Incentive Income: Affiliates	3	Income earned from Fortress Funds, based on the performance of such funds.
Incentive Income: Non- Affiliates	3	Income earned from managed accounts, based on the performance of such accounts.

Compensation and Benefits	8	Includes equity-based, profit-sharing and other compensation to employees.

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Principals Agreement Compensation	8	As a result of the principals agreement, the January 2007 value of a significant portion of the Principals equity in Fortress was recorded as an expense over an approximate five year period ending in December 2011. Fortress was not a party to this agreement. It was an agreement between the Principals to further incentivize them to remain with Fortress. This GAAP expense had no economic effect on Fortress or its shareholders.
Gains (Losses)	4	The result of asset dispositions or changes in the fair value of investments or other financial instruments which are marked to market (including the Castles and GAGFAH).
Tax Receivable Agreement Liability Adjustment	6	Represents a change in the amount due to the Principals under the tax receivable agreement.
Earnings (Losses) from Equity Method Investees	4	Fortress s share of the net earnings (losses) of the Fortress Funds resulting from its principal investments.
Income Tax Benefit (Expense)	6	The net tax result related to the current period. Certain of Fortress s revenues are not subject to taxes because they do not flow through taxable entities. Furthermore, Fortress has significant permanent differences between its GAAP and tax basis earnings.
Principals and Others Interests in (Income) Loss of Consolidated Subsidiaries	7	Primarily the Principals and employees share of Fortress s earnings based on their ownership interests in subsidiaries, including Fortress Operating Group.
Earnings Per Share	9	GAAP earnings per Class A share based on Fortress s capital structure, which is comprised of outstanding and unvested equity interests, including interests which participate in Fortress s earnings, at both the Fortress and subsidiary levels.
Other		
Distributions	9	A summary of dividends and distributions, and the related outstanding shares and units, is provided.
Distributable Earnings	11	A presentation of our financial performance by segment (fund type) is provided, on the basis of the operating performance measure used by Fortress s management committee.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Basis of Accounting and Consolidation The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The accompanying financial statements include the accounts of Fortress and its consolidated subsidiaries, which are comprised of (i) entities in which it has an investment of 50% or more and has control over significant operating, financial and investing decisions of the entity, (ii) variable interest entities (VIEs) in which it is the primary beneficiary as described below and (iii) non-VIE general partnerships where the limited partners do not have rights that would overcome the presumption of control by the general partner.

For those entities in which it has a variable interest, Fortress first determines whether the entity is a VIE. This determination is made by considering whether the entity s equity investment at risk is sufficient and whether the entity s at-risk equity holders have the characteristics of a controlling financial interest. A VIE must be consolidated by its primary beneficiary.

Pursuant to the revised consolidation guidance described in Recent Accounting Pronouncements below, the primary beneficiary of a VIE is defined as the party who, considering the involvement of related parties and de facto agents, has (i) the power to direct the activities of the VIE that most significantly affect its economic performance, and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. This evaluation is updated continuously.

For entities meeting the criteria to defer the application of the revised consolidation guidance, the primary beneficiary of a VIE is the party who, considering the involvement of related parties and de facto agents, absorbs a majority of the VIE s expected losses or receives a majority of the expected residual returns, as a result of holding a variable interest. This evaluation is also updated continuously.

As the general partner or managing member of entities that are limited partnerships or limited liability companies and not VIEs, Fortress is presumed to control the partnership or limited liability company. This presumption is overcome when the unrelated limited partners or members have the substantive ability to liquidate the entity or otherwise remove Fortress as the general partner or managing member without cause based on a simple unaffiliated majority vote, or have other substantive participating rights.

Principals and others interests in consolidated subsidiaries represent the ownership interests in certain consolidated subsidiaries held by entities or persons other than Fortress. This is primarily related to the Principals interests in Fortress Operating Group (Note 1). Non-Fortress interests also include employee interests in majority owned and controlled fund advisor and general partner entities.

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 the Fortress Funds. All of the Fortress Funds are, for GAAP purposes, investment companies. As required, Fortress has retained the specialized accounting of these funds. The Fortress Funds record realized and unrealized gains (losses) resulting from changes in the fair value of their investments as a component of current income. Additionally, these funds generally do not consolidate their majority-owned and controlled investments (the Portfolio Companies).

Distributions by Fortress and its subsidiaries are recognized when declared.

Risks and Uncertainties In the normal course of business, Fortress encounters primarily two significant types of economic risk: credit and market. Credit risk is the risk of default on Fortress s or the Fortress Funds investments in debt securities, loans, leases and derivatives that results from a borrower s, lessee s or derivative counterparty s inability or unwillingness to make required or expected payments. Market risk reflects changes in the value of investments due to changes in interest rates, credit spreads or other market factors. Credit risk is enhanced in situations where Fortress or a Fortress Fund is investing in distressed assets, as well as unsecured or subordinate loans or securities, which is a material part of its business.

Fortress makes investments outside of the United States. Fortress s non-U.S. investments are subject to the same risks associated with its U.S. investments as well as additional risks, such as fluctuations in foreign currency exchange rates, unexpected changes in regulatory requirements, heightened risk of political and economic instability, difficulties in managing non-U.S. investments, potentially adverse tax consequences and the burden of complying with a wide variety of foreign laws.

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Fortress is exposed to economic risk concentrations insofar as it is dependent on the ability of the Fortress Funds to compensate it for the services which Fortress provides to these funds. Further, the incentive income component of this compensation is based on the ability of the Fortress Funds to generate adequate returns on their investments. In addition, substantially all of Fortress s net assets, after deducting the portion attributable to Principals and Others interests, are comprised of principal investments in, or receivables from, these funds.

Use of Estimates The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Revenue Recognition

Management Fees and Expense Reimbursements Management fees are recognized in the periods during which the related services are performed and the amounts have been contractually earned. Fortress is entitled to certain expense reimbursements pursuant to its management agreements. Fortress selects the vendors, incurs the expenses, and is the primary obligor under the related arrangements. Fortress is considered the principal under these arrangements and is required to record the expense and related reimbursement revenue on a gross basis. Expense reimbursements are recognized in the periods during which the related expenses are incurred and the reimbursements are contractually earned.

Stock Options Received Fully vested stock options are issued to Fortress by certain of the Castles as compensation for services performed in raising capital for these entities. These options are recognized by Fortress as management fees at their estimated fair value at the time of issuance. Fair value was estimated using an option valuation model. Since the Castles option plans have characteristics significantly different from those of traded options, and since the assumptions used in such models, particularly the volatility assumption, are subject to significant judgment and variability, the actual value of the options could vary materially from this estimate. Fortress has elected to account for these options at fair value with changes in fair value recognized in current income as Gains (Losses).

Incentive Income Incentive income is calculated as a percentage of the profits earned by the Fortress Funds subject, in certain cases, to the achievement of performance criteria. Incentive income from certain funds is subject to contingent repayment based on the applicable Fortress Fund achieving earnings in excess of a specified minimum return. Incentive income that is not subject to contingent repayment is recognized as contractually earned. Incentive income subject to contingent repayment may be paid to Fortress as particular investments made by the funds are realized. However, if upon liquidation of each fund the aggregate amount paid to Fortress as incentive income exceeds the amount actually due to Fortress based upon the aggregate performance of each fund, the excess is required to be repaid by Fortress (i.e. clawed back) to that fund.

Fortress has elected to adopt the preferred method of recording incentive income subject to contingencies, whereby it does not recognize incentive income subject to contingent repayment until the termination of the related fund, or when and to the extent distributions from the fund exceed the point at which a clawback of a portion or all of the historic incentive income distributions could no longer occur due to the related contingencies being resolved. Recognition of incentive income allocated or paid to Fortress prior to that date is deferred and recorded as deferred incentive income liability.

Other Revenues and Other Income Fortress recognizes security transactions on the trade date. Gains and losses are recorded based on the specific identification method and generally include gains (losses) on investments in securities, derivatives, foreign exchange transactions, and contingent consideration accrued in business combinations. Dividend income is recognized on the ex-dividend date, or in the absence of a formal declaration, on the date it is received. Interest income is recognized as earned on an accrual basis.

Balance Sheet Measurement

Cash and Cash Equivalents Fortress considers all highly liquid short term investments with maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts on deposit with major financial institutions exceed insured limits.

Due from/to Affiliates For purposes of classifying amounts, Fortress considers its principals, employees, all of the Fortress Funds, and the Portfolio Companies to be affiliates. Amounts due from and due to affiliates are recorded at their contractual amount, subject to an allowance for uncollectible amounts if collection is not deemed probable.

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Other Assets and Other Liabilities:

Other assets and liabilities are comprised of the following. Other assets are presented net of allowances for uncollectable amounts of $3.4 million and $3.1 million as of December 31, 2011 and 2010, respectively, which were recorded as General and Administrative expense.

	Other Assets December 31,			
		2011		2010
Fixed assets	$	101,189	$	83,270
Accumulated depreciation		(58,917)		(47,906)
Deferred charges		5,099		5,099
Accumulated amortization		(1,932)		(449)
Receivables		23,154		39,750
Prepaid compensation, net		16,626		16,626
Prepaid expense		10,002		8,099
Goodwill and intangibles		9,010		23,502
Accumulated amortization		(8,172)		(1,241)
Miscellaneous assets, net		12,799		7,397
	$	108,858	$	134,147

	Other Liabilities December 31,			
		2011		2010
Current taxes payable (Note 6)	$	3,452	$	5,610
Deferred taxes payable (Note 6)		199		495
Interest payable		2,074		2,236
Accounts payable		2,952		5,023
Accrued expenses		24,518		20,567
Deferred rent		10,256		7,370
Placement agent fee payable (Note 7)		4,179		2,438
Contingent consideration				3,122
Foreign exchange forward contract liability				2,732
Miscellaneous liabilities		9,574		18,637
	$	57,204	$	68,230

Fixed Assets, Depreciation and Amortization Fixed assets consist primarily of leasehold improvements, furniture, fixtures and equipment, and computer hardware and software, and are recorded at cost less accumulated depreciation. Depreciation and amortization are calculated using the straight-line method over the assets estimated useful lives, which are the life of the related lease for leasehold improvements, and three to seven years for other fixed assets.

Deferred Charges Deferred charges consist primarily of costs incurred in obtaining financing, which are amortized over the term of the financing generally using the effective interest method.

Prepaid Compensation Prepaid compensation consists of profit sharing compensation payments previously made to employees which are not considered probable of being incurred as expenses and would become receivable back from employees at the termination of the related funds.

Goodwill and Intangibles Goodwill and intangibles represent amounts recorded in connection with business combinations. Goodwill is not amortized but is tested for impairment at least annually. Other intangible assets are amortized over their estimated useful lives. See Note 3.

Deferred Rent Rent expense is recognized on a straight-line basis based on the total minimum rent required throughout the lease period. Deferred rent represents the difference between the rent expense recognized and cash paid to date.

Contingent Consideration Contingent consideration represents amounts that may become due in connection with business combinations based on the performance of the acquired company. It is marked to fair value through earnings in Gains (Losses). See Note 3.

Derivatives and Hedging Activities All derivatives are recognized as either assets or liabilities in the balance sheet and measured at fair value.

Any unrealized gains or losses on derivatives not designated as hedges are recorded currently in Gains (Losses). Net payments under these derivatives are similarly recorded, but as realized.

In order to reduce interest rate risk, Fortress has and may enter into interest rate hedge agreements. To qualify for cash flow hedge accounting, interest rate swaps must meet certain criteria, including (1) the items to be hedged expose Fortress to interest rate risk, (2) the interest rate swaps or caps are highly effective in reducing Fortress s exposure to interest rate risk, and (3) with respect to an anticipated transaction, the transaction is probable. In addition, the hedging relationship must be properly documented. Effectiveness is periodically assessed based upon a comparison of the relative changes in the fair values or cash flows of the interest rate swaps and the items being hedged.

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In order to reduce foreign currency exchange rates risk, Fortress has and may enter into foreign currency related derivatives. To qualify for hedge accounting with respect to a net investment in a foreign operation, the hedging instrument must be highly effective in reducing Fortress s exposure to the risk of changes in foreign currency exchange rates with respect to the investment. In addition, the hedging relationship must be properly documented. Effectiveness is periodically assessed based upon a comparison of the relative changes in the fair values of the hedge and the item being hedged (with respect to changes in foreign currency exchange rates).

The effective portion of any gain or loss, and of net payments received or made, is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction effects earnings. The ineffective portion of any gain or loss, and of net payments received or made, is recognized in current earnings. No ineffectiveness was recorded during any period presented.

Comprehensive Income (Loss) Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, excluding those resulting from investments by and distributions to owners. For Fortress s purposes, comprehensive income represents net income, as presented in the accompanying statements of operations, adjusted for unrealized gains or losses on securities available for sale and on derivatives designated as cash flow hedges, as well as net foreign currency translation adjustments, including Fortress s relative share of these items from its equity method investees.

The following table summarizes Fortress s accumulated other comprehensive income (loss):

	December 31, 2011	December 31, 2010
Direct		
Net foreign currency translation adjustments	$ (206)	$ (498)
Through equity method investees		
Net unrealized gains (losses) on securities available for sale	1,104	1,105
Net unrealized gains (losses) on derivatives designated as cash flow hedges	(1,122)	(1,122)
Net foreign currency translation adjustments	(936)	(774)
Accumulated other comprehensive income (loss)	$ (1,160)	$ (1,289)

Foreign Currency Assets and liabilities relating to foreign investments are translated using the exchange rates prevailing at the end of each reporting period. Results of foreign operations are translated at the weighted average exchange rate for each reporting period. Translation adjustments are included in current income to the extent that unrealized gains and losses on the related investment are included in income, otherwise they are included as a component of accumulated other comprehensive income until realized. Foreign currency gains or losses resulting from transactions outside of the functional currency of a consolidated entity are recorded in income as incurred and were not material during the years ended December 31, 2011, 2010 and 2009.

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 or other amounts realized from certain Fortress Funds, which is payable upon a realization event within the respective funds. Accordingly, incentive income resulting from a realization event within a fund gives rise to the incurrence of a profit sharing obligation. 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, where incentive income is received on an annual basis, the related compensation expense is accrued during the period for which the related payment is made.

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 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 has been earned 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.

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Fortress s 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, the most significant of which is the level of realized gains generated by the underlying funds which may ultimately give rise to incentive income payments. Accordingly, profit sharing expense is generally recorded upon realization events within the underlying funds. 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. In some cases, this accrual is subject to reversal based on a determination that the expense is no longer probable of being incurred (in other words, that a clawback is probable).

Fortress may withhold a portion of the profit sharing payments relating to private equity fund or credit PE fund incentive income as a reserve against contingent repayment (clawback) obligations to the funds. Employees may opt to have these withheld amounts invested in either a money market account or in one of a limited group of Fortress Funds.

Equity-Based Compensation Fortress currently has several categories of equity-based compensation, which are accounted for as described in Note 8. Generally, the grant date fair value of equity-based compensation granted to employees or directors is expensed ratably over the required service period (or immediately if there is no required service period). Equity-based compensation granted to non-employees, primarily to employees of certain Fortress Funds or Portfolio Companies, is expensed ratably over the required service period based on its fair value at each reporting date. Equity-based compensation also includes compensation recorded in connection with the Principals Agreement as described in Note 8. Fortress is not a party to the Principals Agreement and this agreement has no direct economic impact on Fortress.

Income Taxes As described in Note 1, a substantial portion of Fortress s income earned by its corporate subsidiary is 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. Certain subsidiaries of Fortress are subject to the New York City unincorporated business tax (UBT) on their U.S. earnings based on a statutory rate of 4%. Certain subsidiaries of Fortress are subject to income tax of the foreign countries in which they conduct business. Interest and penalties, if any, are treated as additional taxes.

Fortress accounts for these taxes using the liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These temporary differences are expected to result in taxable or deductible amounts in future years and the deferred tax effects are measured using enacted tax rates and laws that will be in effect when such differences are expected to reverse. A valuation allowance is established when management believes it is more likely than not that a deferred tax asset will not be realized. This is further discussed in Note 6.

Fortress is party to a tax receivable agreement whereby the Principals will receive payments from Fortress related to tax savings realized by Fortress in connection with certain transactions entered into by the Principals. The accounting for this agreement is discussed in Note 6.

Recent Accounting Pronouncements In June 2009, the FASB issued new guidance on consolidation which became effective on January 1, 2010. This guidance changes the definition of a variable interest entity (VIE) and changes the methodology to determine who is the primary beneficiary of, or in other words who consolidates, a VIE. Generally, the changes are expected to cause more entities to be defined as VIE s and to shift consolidation to those entities that exercise day-to-day control over the VIE s, such as investment managers. In February 2010, the FASB updated this guidance to defer its application to certain managed entities, particularly investment companies and similar entities. As a result, this guidance did not have a material impact on Fortress s financial position, results of operations, or liquidity.

In May 2011, the FASB issued new guidance regarding the measurement and disclosure of fair value, which will become effective for Fortress on January 1, 2012. Fortress does not expect this guidance to have a material direct impact on its financial position, results of operations or liquidity. Fortress has not yet completed its assessment of the potential impact of this guidance on the fair values reported by its funds.

Fortress has early-adopted a rule, that would have otherwise been effective on January 1, 2012, that requires the Statements of Comprehensive Income to be presented separately from the Statements of Changes in Equity.

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

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3. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

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

The Principals and certain executive officers of Fortress may also serve as directors and/or officers of each of the Castles and of certain Portfolio Companies and may have investments in these entities as well as in other Fortress Funds.

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

Management Fees, Incentive Income and Related Profit Sharing Expense

Fortress recognized management fees and incentive income as follows:

	Year Ended December 31,		
	2011	**2010**	**2009**
Private Equity			
Private Equity Funds			
Management fees: affil.	$ 131,898	$ 138,464	$ 142,588
Incentive income: affil.	7,877	70,094	12,952
Castles			
Management fees: affil.	48,709	45,883	48,204
Management fees, options: affil.	12,615		
Management fees: non-affil.	5,148	2,748	2,658

Incentive income: affil.						
Liquid Hedge Funds						
Management fees: affil.		91,796		88,433		96,616
Management fees: non-affil.		17,078		10,187		422
Incentive income: affil.		2,803		49,625		15,156
Incentive income: non-affil.		984		17,535		
Credit Funds						
Credit Hedge Funds						
Management fees: affil.		106,138		119,973		106,782
Management fees: non-affil.		15,696		1,463		1,107
Incentive income: affil.		73,340		91,609		
Incentive income: non-affil.				5,392		999
Credit PE Funds						
Management fees: affil.		73,149		48,392		39,311
Management fees: non-affil.		124		27		537
Incentive income: affil.		71,283		90,933		22,792
Incentive income: non-affil.		933				
Other (A)						
Management fees: non-affil.	$	20,050	$	13,369	$	
Total						
Management fees: affil.	$	464,305	$	441,145	$	433,501
Management fees: non-affil.	$	58,096	$	27,794	$	4,724
Incentive income: affil. (B)	$	155,303	$	302,261	$	50,900
Incentive income: non-affil.	$	1,917	$	22,927	$	999

(A) Related to Logan Circle.

(B) See Deferred Incentive Income below.

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Deferred Incentive Income

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

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year) and is generally received subsequent to year end. Incentive income recognized as revenue during the fourth quarter from these funds was $70.3 million, $153.9 million and $4.8 million during the years ended December 31, 2011, 2010 and 2009, respectively.

During the years ended December 31, 2011, 2010 and 2009, Fortress recognized $71.3 million, $90.9 million and $22.8 million, respectively, of incentive income distributions from its credit PE funds which represented tax distributions. These tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

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

	Distributed-Gross	Distributed-Recognized (A)	Distributed-Unrecognized (B)	Undistributed net of intrinsic clawback (C) (D)
Deferred incentive income as of December 31, 2009	$ 503,415	$ (343,318)	$ 160,097	$ 168,686
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	230,674
Distribution of incentive income	199,294	N/A	199,294	(199,294)
Recognition of previously deferred incentive income	N/A	(161,028)	(161,028)	N/A

Deferred incentive income as of December 31, 2010	$	702,709	$	(504,346)	$	198,363	$	200,066
Share of income (loss) of Fortress Funds		N/A		N/A		N/A		123,127
Distribution of incentive income		120,388		N/A		120,388		(120,388)
Recognition of previously deferred incentive income		N/A		(80,093)		(80,093)		N/A
Deferred incentive income as of December 31, 2011	$	823,097	$	(584,439)	$	238,658	$	202,805

(A) All related contingencies have been resolved.

(B) Reflected on the balance sheet.

(C) At December 31, 2011, the undistributed incentive income is comprised of $305.6 million of gross undistributed incentive income, net of $102.8 million of intrinsic clawback (see next page). The net undistributed incentive income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on December 31, 2011 at their net asset values.

(D) From inception to December 31, 2011, Fortress has paid $340.2 million of compensation expense under its employee profit sharing arrangements (Note 8) in connection with distributed incentive income, of which $27.9 million has not been expensed because management has determined that it is not probable of being incurred as an expense and will be recovered from the related individuals. If the $305.6 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional $131.9 million of compensation expense.

Certain investments held by employees and affiliates of Fortress, as well as by Fortress itself, in the Fortress Funds are not subject to management fees or incentive income. During the years ended December 31, 2011, 2010 and 2009, management fees of $3.7 million, $3.3 million and $3.3 million, respectively, and incentive income, exclusive of tax distributions, of $2.4 million, $3.2 million and $0.1 million, respectively, were waived on such employees investments.

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

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions (C)	Net Asset Value (NAV)	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)	Gross Intrinsic Clawback (J)	Net Intrinsic Clawback (J)
Private Equity Funds												
NIH (1998)	Indefinite	$ 415,574	$ (805,649)	$ 12,585	$ N/A	$ N/A	$ N/A	$	$ 94,513	$	$	$
Fund I (1999) (K)	Apr-10	1,027,871	(2,775,545)	89,236	1,836,910		N/A	16,827	329,042			
Fund II (2002)	Feb-13	1,974,296	(3,260,088)	74,164	1,359,956		N/A		287,024	43,214	19,433	12,442
Fund III (2004)	Jan-15	2,762,993	(1,330,360)	1,492,584	59,951	1,209,082	1,149,131		66,903	66,903	66,903	45,108
Fund III Coinvestment (2004)	Jan-15	273,648	(115,936)	150,160	(7,552)	153,979	161,531					
Fund IV (2006)	Jan-17	3,639,561	(135,884)	3,059,482	(444,195)	1,532,789	1,976,984					
Fund IV Coinvestment (2006)	Jan-17	762,696	(12,651)	598,943	(151,102)	330,506	481,608					
Fund V (2007)	Feb-18	4,103,714	(13,955)	3,489,923	(599,836)	1,170,841	1,770,677					
Fund V Coinvestment (2007)	Feb-18	990,477	(131)	543,494	(446,852)	320,090	766,942					
GAGACQ Fund (2004)	Nov-09	545,663	(595,401)	N/A	N/A	N/A	N/A	N/A	51,476	N/A	N/A	N/A
FRID (2005)	Apr-15	1,220,228	(505,612)	263,267	(451,349)	581,144	1,032,493		16,447	16,447	16,447	10,041
FRIC (2006)	May-16	328,754	(17,460)	153,220	(158,074)	166,346	324,420					
FICO (2006)	Jan-17	724,525	(5)	(54,714)	(779,234)	331,088	1,110,322					
FHIF (2006)	Jan-17	1,523,484	(63,169)	2,013,852	553,537	634,661	81,124					
FECI (2007)	Feb-18	982,779	(146)	821,589	(161,044)	394,142	555,186					
								$ 16,827	$ 845,405	$ 126,564	$ 102,783	$ 67,591
Private Equity Funds in Investment Period												
WWTAI (2011)	Jun-24	12,600	(213)	11,725	(662)	463	1,125	$	$	$	$	$
Credit PE Funds												
Long Dated Value Fund I (2005)	Apr-30	$ 267,325	$ (55,722)	$ 270,346	$ 58,743	$ 90,575	$ 31,832	$	$	$	$	$

Long Dated Value Fund II (2005)	Nov-30	273,147	(107,073)	211,956	45,882	72,915	27,033		412			
Long Dated Value Fund III (2007)	Feb-32	342,643	(136,620)	261,980	55,957		N/A	2,486	2,998			
LDVF Patent Fund (2007)	Nov-27	43,574	(9,135)	60,054	25,615		N/A	1,841	461			
Real Assets Fund (2007)	Jun-17	358,460	(216,100)	217,829	75,469		N/A	9,381	2,360			
Credit Opportunities Fund (2008)	Oct-20	5,163,603	(5,081,789)	1,756,871	1,675,057		N/A	110,469	220,650	85,951		
								$ 124,177	$ 226,881	$ 85,951	$	$
<u>Credit PE Funds in Investment Period</u>												
Credit Opportunities Fund II (2009)	Jul-22	$ 1,643,633	$ (523,465)	$ 1,410,982	$ 290,814	$	N/A	$ 50,917	$ 6,089	$ 278	$	$
Credit Opportunities Fund III (2011)	Mar-24	327,480		326,903	(577)	2,084	2,661					
FTS SIP L.P. (2008)	Oct-18	1,358,089	(1,044,788)	649,910	336,609		N/A	19,968	47,213	24,567		
SIP Managed Account (2010)	Sep-20	11,000	(15,664)	6,153	10,817		N/A	1,538	933			
FCO MA LSS (2010)	Jun-24	193,231	(40,285)	163,613	10,667		N/A	1,686				
FCO MA II (2010)	Jun-22	345,628	(80,804)	328,462	63,638		N/A	10,701	1,376			
FCO MA Maple Leaf (2010)	Oct-20	282,124	(12,099)	268,075	(1,950)	11,644	13,594					
Assets Overflow Fund (2008)	May-18	90,500	(112,344)	1	21,845		N/A		2,180	1,298		
Japan Opportunity Fund (2009)	Jun-19	1,088,659	(507,640)	824,358	243,339		N/A	33,799	13,776			
Japan Opportunity Fund II (Yen) (2011)	Dec-21	104,800		103,528	(1,272)	138	1,410					
Japan Opportunity Fund II (Dollar) (2011)	Dec-21	50,677		50,042	(635)	63	698					
Net Lease Fund I (2010)	Feb-20	98,399	(9,056)	104,347	15,004		N/A	1,957				
Global Opportunities Fund (2010)	Sep-20	162,912	(7,826)	145,384	(9,702)	5,089	14,791					
Life Settlements Fund (2010)	Dec-22	307,656	(94,254)	177,485	(35,917)	19,276	55,193					
Life Settlements Fund MA (2010)	Dec-22	25,230	(7,696)	14,511	(3,023)	1,580	4,603					
Real Estate Opportunities Fund (2011)	Sep-24	56,607	(1,103)	58,415	2,911	379	N/A					
Real Estate Opportunities REOC Fund (2011)	Oct-24	7,808	(2)	7,532	(274)	7	281					
								$ 120,566	$ 71,567	$ 26,143	$	$

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	Incentive Income Eligible NAV (L)	Gain to Cross Incentive Income Threshold (M)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (N)	Undistributed Incentive Income (O)	Year to date Incentive Income Crystallized (P)
Liquid Hedge Funds					
Macro Funds (Q) (T)					
Main fund investments	$ 1,804,754	$ 174,476	0.7%	$ 39	$ 725
Sidepocket investments (R)	46,878	27,611	N/A	678	
Sidepocket investments - redeemers (S)	267,731	150,310	N/A	4,148	
Managed accounts	550,470	38,176	0.0%		8
Asia Macro Funds (T)					
Main fund investments	175,444	136	89.1%		499
Fortress Commodities Funds					
Main fund investments (U)	641,367	60,040	0.0%		2,153
Fortress Partners Funds (T)					
Main fund investments	72,676	53,264	0.0%		
Sidepocket investments (R)	144,144	45,164	N/A	256	
Credit Hedge Funds					
Special Opportunities Funds (T)					
Main fund investments	3,148,025		100.0%		69,691
Sidepocket investments (R)	129,366		N/A	4,419	
Sidepocket investments - redeemers (S)	210,231	46,197	N/A	1,362	
Main fund investments (liquidating) (V)	1,242,027	136,928	89.9%	41,905	3,191
Managed accounts	20,392	29,459	0.0%		
Worden Funds					
Main fund investments	212,053	1,060	89.9%		157
Value Recovery Funds (W)					
Managed accounts	70,053	9,732	28.1%	134	

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

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

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

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

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

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

(G) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV.

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

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

(J) Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. Gross and Net refer to amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. Fortress remains liable to the funds for these amounts even if it is unable to collect the amounts from employees/affiliates. Fortress withheld a portion of the amounts due to employees under these profit sharing arrangements as a reserve against future clawback; as of December 31, 2011, Fortress held $45.1 million of such amounts on behalf of employees related to all of the private equity funds.

(K) Fund I undistributed and distributed incentive income amounts are presented for the total fund, of which Fortress is entitled to approximately 50%. Distributed incentive income subject to clawback for Fund I is presented with respect to Fortress s portion only.

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

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

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

(O) Represents the amount of additional incentive income Fortress would earn from the fund if it were liquidated at the end of the period at its NAV. This amount is currently subject to performance contingencies generally until the end of the year or, in the case of sidepocket investments, until such investments are realized. For the Value Recovery Fund managed accounts, Fortress can earn incentive income if aggregate realizations exceed an agreed threshold. Main Fund Investments (Liquidating) pay incentive income only after all capital is returned.

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

(Q) Represents the Drawbridge Global Macro Funds and Fortress Macro Funds. The Drawbridge Global Macro SPV (the SPV), which was established in February 2009 to liquidate illiquid investments and distribute the proceeds to then existing investors, is not subject to incentive income and is therefore not presented in the table. However, realized gains or losses within the SPV can decrease or increase, respectively, the gain needed to cross the incentive income threshold for investors with a corresponding investment in the main fund. The impact of the unrealized gains and losses within the SPV at December 31, 2011, as if they became realized, was immaterial to the amounts presented in the table for the Macro main fund.

(R) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. The performance of these investments may impact Fortress s ability to earn incentive income from main fund investments. For the credit hedge funds and Fortress Partners Funds, realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments. For the Macro Funds, only realized losses from individual sidepockets reduce the incentive income earned from main fund investments. Based on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at December 31, 2011, the undistributed incentive income from the Macro main fund would not be impacted.

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

(T) Includes onshore and offshore funds.

(U) Crystallized incentive income includes related managed account.

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

(W) Excludes the Value Recovery Funds which had a NAV of $515.8 million at December 31, 2011. Fortress began managing the third party originated Value Recovery Funds in June 2009 and does not expect to earn any incentive income from the fund investments.

Private Equity Funds

The following table presents certain information with respect to Fortress s management agreements with the private equity funds as of December 31, 2011.

Total Original Capital Commitments (A)	Fortress and Affiliates Original Capital Commitments (B)	Carrying Value of Fortress s Investments	Percent of Capital Commitments Drawn	Longest Capital Commitment Period Ends	Longest Fund Termination Date (C)	Annual Management Fee (D)	Incentive Income (E)	Incentive Income Threshold Return (E)
$ 20,001,135	$ 2,123,224	$ 627,766	97.9%	Jun-2015	Jun-2024	1.0% - 1.5%	10% - 25%	0% - 10%

(A) Represents the total amount of capital originally committed by investors to these funds. This capital can be called, or drawn, for new investments during the capital commitment period, generally up to three years for private equity funds. Subsequent to the capital commitment period, it may only be drawn to maintain ongoing business as permitted by the applicable fund agreement.

(B) Affiliate commitments are comprised of the following. Fortress s remaining commitments as of December 31, 2011 are discussed in Note 10.

Employees, Former Employees and BOD Members	Principals	Other Fortress Funds	Total Affiliates	Fortress	Total
$ 130,119	$ 612,721	$ 637,462	$ 1,380,302	$ 742,922	$ 2,123,224

(C) Including the assumed exercise of all available extensions, which in some cases require the approval of the applicable fund advisory board.

(D) Expressed as a percent. This percent is generally applied to the capital commitment amount during the capital commitment periods and to invested capital (as defined, or NAV on an investment by investment basis, if lower) thereafter. In some funds, management fee rates vary depending on the size of commitments. Affiliate commitments are not charged management fees. For funds formed after March 2006 which are no longer in the capital commitment period, management fees are based on the value of publicly traded investments. The weighted (by AUM) average management fee rate as of December 31, 2011 was approximately 1.2%.

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(E) Expressed as a percent of the total returns of the funds. The incentive income is subject to: (i) the achievement of a cumulative incentive income threshold return payable to the third party investors in the funds, which is the minimum return these investors must receive in order for incentive income to be paid, and (ii) a contingent repayment or clawback provision which requires amounts previously distributed as incentive income to be returned to each fund if, upon liquidation of such fund, such amounts exceeded the actual amount of incentive income due. Affiliate commitments are not subject to incentive income. The weighted (by AUM) average incentive income rate as of December 31, 2011 was approximately 20%, and the weighted average threshold rate was approximately 8.4%.

Pursuant to profit sharing arrangements, certain of Fortress s employees are entitled to a portion of the incentive income received from the private equity funds. As of December 31, 2011, for funds where Fortress is entitled to incentive income and profit sharing has been assigned, this portion was equal to approximately 30.6%, based on a weighted average by total capital commitments.

Fortress manages one of the private equity funds with approximately $0.9 billion of capital commitments (Fund I) pursuant to certain agreements which provide that Fortress is entitled to 50% of the Fund I incentive income and NIH, a Fortress Fund which is a private equity fund and an equity method investee of Fortress, is entitled to the other 50%.

In February 2009, one of the private equity Fortress Funds issued notes in the amount of $80 million. These notes bear interest at 20% per annum, payable at maturity, and mature in January 2014. The notes were offered to existing investors in proportion to their ownership of the fund s equity and Fortress consequently subscribed to and received $0.5 million of these notes, which are recorded as part of Fortress s investment in such fund. In addition, the Principals concurrently acquired $4.7 million of these notes. In December 2010, the Fund made a partial redemption of $75 million on the notes representing cumulative accrued interest through the redemption date of $32.2 million and a partial repayment of the original principal amount of $42.8 million, resulting in a remaining outstanding balance of $37.2 million. In connection with this redemption, FIG s principal balance was reduced to $0.2 million.

In March 2009, one of the private equity Fortress Funds which was formed as a coinvestment fund to invest solely in GAGFAH (XETRA: GFJ), distributed all of its shares in GAGFAH to its investors, including Fortress. As a result, Fortress received 5.7 million shares of GAGFAH. Fortress elected to account for these shares at fair value (Note 4).

In June 2009, one of the private equity Fortress Fund portfolio companies, Eurocastle, issued convertible securities in the amount of 75 million ($105 million). These securities bear interest at 20% per annum, payable annually (but deferrable), have no stated maturity, and are convertible into common shares of Eurocastle at an initial conversion price of 0.30 per share (subject to adjustment based on the occurrence of certain capital events within Eurocastle, including the payment of dividends). The Fortress Funds which had an equity investment in Eurocastle acquired 15.4 million ($21.6 million) of these securities. Fortress acquired 1.2 million ($1.7 million) of these securities, which were recorded as part of Fortress s investment in such portfolio company. Fortress elected to account for these securities at fair value (Note 4). In addition, the Principals and certain employees of Fortress acquired 8.8 million ($12.3 million) and 0.2 million ($0.2 million) of these securities, respectively.

In February 2011, the capital commitment periods of Fund V, Fund V Coinvestment and FECI expired. At such time, the AUM for these funds were reduced in aggregate by approximately $2.0 billion and, beginning in July 2011, these funds generated lower management fees.

Castles

The Castles are comprised of Newcastle (NYSE: NCT) and Eurocastle (Euronext Amsterdam: ECT). The following table presents certain information with respect to the Castles as of December 31, 2011.

Annual Management Fee (A)	Incentive Income (B)	Incentive Income Threshold Return (B)	Carrying Value of Fortress s Investments
1.5%	25%	8% - 10%	$ 4,848

(A) Expressed as a percent of gross equity, as defined.

(B) The incentive income is earned on a cumulative basis equal to the product of (1) the incentive income percent (shown above) multiplied by (2) the difference by which (i) a specified measure of earnings (as defined) exceeds (ii) the company s gross equity (as defined) multiplied by the incentive income threshold return (shown above). As a result of not meeting the incentive income threshold, the incentive income from the Castles has been discontinued for an indeterminate period of time.

The management agreements between Fortress and the Castles provide for initial terms of up to ten years, subject to certain termination rights, and automatic extensions of one to three years, subject to the approval of the independent members of the Castles boards of directors.

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Liquid Hedge Funds

The following table presents certain information with respect to the liquid hedge funds, including related managed accounts, as of December 31, 2011.

Assets Under Management (AUM)	Carrying Value of Fortress s Investments	Annual Management Fee (A)	Incentive Income (B)
$ 5,514,805	$ 204,892	1% - 3%	15% - 25%

(A) Expressed as a percent of AUM (as defined). New investors are currently charged a management fee rate of between 1% and 2%. The weighted (by AUM) average management fee rate as of December 31, 2011 was approximately 1.7%.

(B) Expressed as a percent of the total returns of the funds. The incentive income is generally earned on a calendar year (annual) basis. The weighted (by AUM) average incentive income rate as of December 31, 2011 was approximately 20.3%.

Credit Hedge Funds

The following table presents certain information with respect to the credit hedge funds, including related managed accounts, as of December 31, 2011.

	Assets Under Management (AUM)	Carrying Value of Fortress s Investments	Annual Management Fee (A)	Incentive Income (B)
Fortress Originated	$ 5,165,075	$ 53,831	1% - 2%	10% - 20%
Non-Fortress Originated	$ 811,502	$	1%	5%

(A) For Fortress originated AUM, expressed as a percent of AUM (as defined). The weighted (by AUM) average management fee rate as of December 31, 2011 was approximately 2%. For non-Fortress originated AUM, management fees are equal to 1% of realized proceeds and up to 1% per annum on certain managed assets.

(B) For Fortress originated AUM, expressed as a percent of the total returns of fund and the incentive income is earned on a calendar year (annual) basis. For non-Fortress originated AUM, Fortress may receive limited incentive income if aggregate realizations exceed an agreed threshold.

On May 5, 2009, consolidated affiliates of Fortress executed several agreements, effective June 1, 2009, to become the investment manager of certain investment funds then managed by D.B. Zwirn & Co., L.P. (the Value Recovery Funds) and to effect other related transactions. Fortress will receive management fees from these funds equal to 1% of realized proceeds and up to 1% per annum on certain managed assets, and may receive limited incentive income if aggregate realizations exceed an agreed threshold. These funds are now included in the credit hedge funds segment.

Credit PE Funds

The following table presents certain information with respect to Fortress s management agreements with the credit PE funds as of December 31, 2011.

Total Original Capital Commitments (A)	Fortress and Affiliates Original Capital Commitments (B)	Carrying Value of Fortress s Investments	Percent of Capital Commitments Drawn	Longest Capital Commitment Period Ends (C)	Longest Fund Termination Date (D)	Annual Management Fee (E)	Incentive Income (F)	Incentive Income Threshold Return (F)
$ 10,930,518	$ 632,990	$ 141,186	60.5%	Nov-2027	Feb-2032	0.75% - 2.25%	10% - 20%	0% - 8%

(A) Represents the total amount of capital originally committed by investors (including credit PE funds) to these funds. This capital can be called, or drawn, for new investments during the capital commitment period, generally up to three years. Subsequent to the capital commitment period, it may only be drawn to maintain ongoing business as permitted by the applicable fund agreement.

(B) Affiliate commitments are comprised of the following. Fortress s remaining commitments as of December 31, 2011 are discussed in Note 10.

Employees, Former Employees and BOD Members	Principals	Other Fortress Funds	Total Affiliates	Fortress	Total
$ 69,625	$ 157,451	$ 234,020	$ 461,096	$ 171,894	$ 632,990

(C) Only $0.3 billion of the total capital commitments extend beyond March 2015.

(D) Including the assumed exercise of all available extensions, which in some cases require the approval of the applicable fund advisory board. $4.7 billion of the total commitments extend beyond December 2021.

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(E) Expressed as a percent. This percent is generally applied to the capital commitment amount during the capital commitment periods and to invested capital (as defined, or NAV on an investment by investment basis, if lower) thereafter. In some funds, management fee rates vary depending on the size of commitments. Affiliate commitments are not charged management fees. The weighted (by AUM) average management fee rate as of December 31, 2011 was approximately 1.4%.

(F) Expressed as a percent of the total returns of the funds. The incentive income is subject to: (i) the achievement of a cumulative incentive income threshold return payable to the third party investors in the funds, which is the minimum return these investors must receive in order for incentive income to be paid, and (ii) a contingent repayment or clawback provision which requires amounts previously distributed as incentive income to be returned to each fund if, upon liquidation of such fund, such amounts exceeded the actual amount of incentive income due. Affiliate commitments are not subject to incentive income. The weighted (by AUM) incentive income rate as of December 31, 2011 was approximately 19.7% and the weighted average threshold was approximately 7%.

Pursuant to profit sharing arrangements, certain of Fortress s employees are entitled to a portion of the incentive income received from the credit PE funds. As of December 31, 2011, for funds where profit sharing has been assigned, this portion was equal to approximately 45.1%, based on a weighted average by total capital commitments.

Traditional Asset Management Business

Logan Circle Partners, L.P. (Logan Circle) is a fixed income asset manager with approximately $13.5 billion in assets under management as of December 31, 2011, which Fortress acquired in April 2010. Logan Circle is initially being reported in the unallocated section of Fortress s segments until such time as it becomes material to Fortress s operations. The Logan Circle AUM pays an average annual management fee of approximately 0.15%.

Part of the acquisition price was paid with contingent consideration, which was contingent on the growth and performance of Logan Circle s business (but not contingent on the continued employment of any employees). The contingent consideration was payable in cash or Class A shares, at Fortress s option, and had an estimated fair value of approximately $4 million at closing. The contingent consideration was measured at fair value with changes in fair value being recorded as a gain (loss). Ultimately, no contingent consideration payment was made.

The assets acquired primarily included goodwill and other intangible assets, which were recorded in Other Assets, and had a basis of $0.3 million as of December 31, 2011. In the third quarter of 2011, Fortress determined that Logan Circle had not met certain growth targets in its business plan and therefore performed an intangible asset impairment test. As a result of this test, $20.1 million of goodwill and other intangible assets was written off through Depreciation and Amortization.

During the years ended December 31, 2011 and 2010, Logan Circle generated approximately $20.1 million and $13.4 million of revenues (primarily management fees from non-affiliates) and $(17.3) million and $(13.4) million of net (loss), respectively. This net (loss) does not include the change in fair value of the contingent consideration or the write-off of goodwill and other intangible assets, but does include approximately $5.6 million and $5.1 million of allocated corporate overhead in these years, respectively. In connection with the acquisition of Logan Circle, Fortress established a compensation plan for former Logan Circle employees who became employees of Fortress (the Logan Circle Comp Plan see Note 8).

4. INVESTMENTS AND FAIR VALUE

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

Investments can be summarized as follows:

	December 31,	
	2011	2010
Equity method investees	$ 1,034,721	$ 949,411
Equity method investees, held at fair value (A)	34,530	60,323
Total equity method investments	1,069,251	1,009,734
Options in equity method investees	10,526	3,149
Total investments	$ 1,079,777	$ 1,012,883

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

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Gains (losses) can be summarized as follows:

	Year Ended December 31, 2011		2010		2009	
Net realized gains (losses)	$	(4,122)	$	(207)	$	(2,522)
Net realized gains (losses) from affiliate investments		(722)		(890)		98
Net unrealized gains (losses)		3,068		(2,732)		
Net unrealized gains (losses) from affiliate investments		(28,278)		6,826		27,797
Total gains (losses)	$	(30,054)	$	2,997	$	25,373

These gains (losses) were generated as follows:

	Year Ended December 31, 2011		2010		2009	
Mark to fair value on publicly traded investments	$	(31,398)	$	5,939	$	24,587
Mark to fair value on derivatives		2		(3,263)		
Mark to fair value on Logan Circle contingent consideration		3,122		878		
Other		(1,780)		(557)		786
	$	(30,054)	$	2,997	$	25,373

The underlying investments of the Fortress Funds are diversified by issuer, industry and geographic location. They are comprised of both equity and debt investments, as well as derivatives, including investments in affiliated entities. A majority of the investments are in the United States, with investments also in Western Europe and Asia. There are some concentrations, mainly in the private equity funds, in the financial services, transportation, leisure and gaming, real estate (including Florida commercial real estate and German residential real estate) and senior living sectors, including certain individual investments within the funds which are significant to the funds as a whole. Furthermore, the Fortress Funds have concentrations of counterparty risk with respect to derivatives and borrowings.

Since Fortress s investments in the various Fortress Funds are not equal, Fortress s concentrations from a management fee and incentive income perspective (which mirror the funds investments) and its concentrations from an investment perspective are different. From an investment perspective, Fortress s most significant investment as of December 31, 2011, which comprised approximately 22% of its equity method investments, is in a fund with a single investment which focuses on the U.S. rail transportation and real estate sectors.

Fortress elected to record its investments in and options from Newcastle and Eurocastle, and its investment in GAGFAH, at fair value. Fortress made this election to simplify its accounting for these publicly traded equity securities (and related interests). Fortress accounts for dividends received from these investments as dividend income, a component of Other Revenues.

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Investments in Equity Method Investees

Fortress holds investments in certain Fortress Funds which are recorded based on the equity method of accounting. Fortress s maximum exposure to loss with respect to these entities is generally equal to its investment plus its basis in any options received from such entities, plus any receivables from such entities as described in Note 7. In addition, unconsolidated affiliates also hold ownership interests in certain of these entities. Summary financial information related to these investments is as follows:

	Fortress s Investment December 31,		Fortress s Equity in Net Income (Loss) Year Ended December 31,		
	2011	**2010**	**2011**	**2010**	**2009**
Private equity funds, excluding NIH	$ 626,515	$ 560,527	$ 21,399	$ 75,366	$ 4,458
NIH	1,251	1,664	(88)	9	557
Publicly traded portfolio companies (A) (B)	29,682	51,267	N/A	N/A	N/A
Newcastle (B)	4,770	6,872	N/A	N/A	N/A
Eurocastle (B)	78	2,184	N/A	N/A	N/A
Total private equity	662,296	622,514	21,311	75,375	5,015
Liquid hedge funds	204,892	197,792	5,209	23,656	30,557
Credit hedge funds	53,831	57,661	7,528	12,778	8,550
Credit PE funds	141,186	125,265	7,985	1,817	15,845
Other	7,046	6,502	(98)	2,328	314
	$ 1,069,251	$ 1,009,734	$ 41,935	$ 115,954	$ 60,281

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

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

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

Year Ended December 31, 2011						
	Private Equity		Credit			
NIH	**Other Funds**		**Hedge Funds**	**PE Funds**	**Other**	**Total**

			Private Equity Portfolio Companies and Castles (A)	Liquid Hedge Funds				
Investment, beginning	$ 1,664	$ 560,527	$ 60,323	$ 197,792	$ 57,661	$ 125,265	$ 6,502	$ 1,009,734
Earnings from equity method investees	(88)	21,399	N/A	5,209	7,528	7,985	(98)	41,935
Other comprehensive income from equity method investees	(4)		N/A			464		460
Contributions to equity method investees (E)		8,007	225	82,670	93,792	55,435	671	240,800
Distributions of earnings from equity method investees			N/A	(902)	(12,563)	(10,229)	(25)	(23,719)
Distributions of capital from equity method investees (E)	(321)	(1,068)	N/A	(67,197)	(92,587)	(25,232)	(4)	(186,409)
Total distributions from equity method investees	(321)	(1,068)	N/A	(68,099)	(105,150)	(35,461)	(29)	(210,128)
Mark to fair value - during period (B)	N/A		(26,842)	N/A	N/A	N/A	N/A	(26,842)
Translation adjustment			824					824
Dispositions						(1,837)		(1,837)
Deconsolidation (C)				(12,680)		(10,665)		(23,345)
Reclassification to Due to Affiliates (D)		37,650						37,650
Investment, ending	$ 1,251	$ 626,515	$ 34,530	$ 204,892	$ 53,831	$ 141,186	$ 7,046	$ 1,069,251
Ending balance of undistributed earnings	$	$ 25,529	N/A	$ 776	$ 4,840	$ 4,379	$ 1,823	$ 37,347

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

(B) Recorded to Gains (Losses).

(C) Represents the deconsolidation of two funds discussed under Investments in Variable Interest Entities below.

(D) Represents the general partner liability discussed in Note 10.

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

	Year Ended December 31, 2011	
	Contributions	**Distributions of Capital**
Per Consolidated Statements of Cash Flows	$ 82,610	$ 180,855
Investments of receivable amounts into Fortress Funds	143,862	
Net funded*	14,072	14,072
Deconsolidation of credit PE fund		(10,665)
Other	256	2,147
Per Above	$ 240,800	$ 186,409

* 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.

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

	Private Equity Funds excluding NIH December 31, (or Year then Ended)		
	2011	**2010**	**2009**
Assets	$ 13,296,783	$ 12,490,411	
Debt	(45,291)	(145,043)	
Other liabilities	(263,858)	(197,587)	
Equity	$ 12,987,634	$ 12,147,781	
Fortress s Investment	$ 626,515	$ 560,527	
Ownership (A)	4.8%	4.6%	
Revenues and gains (losses) on investments	$ 1,144,271	$ 1,853,285	$ 1,945,321
Expenses	(251,806)	(233,797)	(248,573)
Net Income (Loss)	$ 892,465	$ 1,619,488	$ 1,696,748
Fortress s equity in net income (loss)	$ 21,399	$ 75,366	$ 4,458

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

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	Liquid Hedge Funds			Credit Hedge Funds		
	December 31, (or Year then Ended)					
	2011	2010	2009	2011	2010	2009
Assets	$ 8,211,051	$ 7,418,362		$ 8,654,158	$ 9,579,405	
Debt		(11,898)		(2,910,711)	(3,475,675)	
Other liabilities	(3,134,491)	(1,299,246)		(291,850)	(590,845)	
Non-controlling interest				(9,794)	(15,647)	
Equity	$ 5,076,560	$ 6,107,218		$ 5,441,803	$ 5,497,238	
Fortress s Investment	$ 204,892	$ 197,792		$ 53,831	$ 57,661	
Ownership (A)	4.0%	3.2%		1.0%	1.0%	
Revenues and gains (losses) on investments	$ (178,564)	$ 801,493	$ 1,546,549	$ 835,054	$ 1,408,290	$ 1,286,218
Expenses	(207,229)	(167,380)	(191,156)	(267,202)	(273,688)	(259,068)
Net Income (Loss)	$ (385,793)	$ 634,113	$ 1,355,393	$ 567,852	$ 1,134,602	$ 1,027,150
Fortress s equity in net income (loss)	$ 5,209	$ 23,656	$ 30,557	$ 7,528	$ 12,778	$ 8,550

	Credit PE Funds (B) (C)		
	December 31, (or Year then Ended)		
	2011	2010	2009
Assets	$ 7,949,091	$ 6,593,935	
Debt	(57,602)	(358,095)	
Other liabilities	(410,125)	(235,399)	
Non-controlling interest	(9,182)	(4,945)	
Equity	$ 7,472,182	$ 5,995,496	
Fortress s Investment	$ 141,186	$ 125,265	
Ownership (A)	1.9%	2.1%	
Revenues and gains (losses) on investments	$ 739,681	$ 1,310,038	$ 1,917,862
Expenses	(245,947)	(290,818)	(152,487)
Net Income (Loss)	$ 493,734	$ 1,019,220	$ 1,765,375
Fortress s equity in net income (loss)	$ 7,985	$ 1,817	$ 15,845

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

(B) Includes one entity which is recorded on a one quarter lag (i.e. the balances reflected for this entity are for the periods ended September 30, 2011, 2010 and 2009, respectively) and several entities which are recorded on a one month lag. They are recorded on a lag because they are foreign entities and do not provide financial reports under U.S. GAAP within the reporting timeframe necessary for U.S. public entities.

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

Investments in Variable Interest Entities

Fortress is not considered the primary beneficiary of, and therefore does not consolidate, any of the variable interest entities in which it holds an interest, except as described below. No reconsideration events occurred during the years ended December 31, 2011, 2010 or 2009 which caused a change in Fortress s accounting, except as described below.

All of the VIEs are Fortress Funds, or related entities, which are privately held investment vehicles whose purpose and activities are further described in Note 1, based on the business segment in which they operate. Fortress sponsored the formation of and manages primarily all of these VIEs and, in most cases, has a principal investment therein as described in Note 1.

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

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	Fortress is not Primary Beneficiary						
	December 31, 2011			December 31, 2010			
Business Segment	**Gross Assets**	**Financial Obligations (A)**	**Fortress Investment (B)**	**Gross Assets**	**Financial Obligations (A)**	**Fortress Investment (B)**	**Notes**
Private Equity Funds	$ 12,871	$	$ 1,251	$ 329,999	$ 189,738	$ 1,974	(C) (D)
Castles	7,374,735	6,568,462	22,384	10,183,554	9,944,424	19,122	(C) (D)
Liquid Hedge Funds	4,208,343	547,044	10,771	4,217,992	722,194	43,948	(C) (D)
Credit Hedge Funds	1,594,736	364,791	35,476	1,404,971	378,768	38,461	(C) (D)
Credit PE Funds	732,419	89,334	5,108	930,513	450,530	1,962	(C) (D)

(A) Represents financial obligations at the fund level, which are not recourse to Fortress. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these funds have additional debt within unconsolidated subsidiaries. Of the financial obligations represented herein as of December 31, 2011, $6,027.2 million, $302.4 million, and $89.3 million represent financial borrowings which have weighted average maturities of 2.8, 4.6, and 3.7 years for the Castles, credit hedge funds, and credit PE funds, respectively. Of the financial obligations represented herein as of December 31, 2010, $189.7 million, $9,344.6 million, $350.2 million, and $450.5 million represent financial borrowings which have weighted average maturities of 0.4, 3.5, 5.4, and 38.5 years for the private equity funds, Castles, credit hedge funds, and credit PE funds, respectively.

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

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

(D) As of December 31, 2011, Fortress s investment includes $4.0 million, $0.2 million, $14.1 million, and $0.1 million of management fees receivable from the Castles, liquid hedge funds, credit hedge funds, and credit PE funds, respectively, as well as $19.2 million in incentive income receivable from the credit hedge funds. As of December 31, 2011, Fortress s investment also includes $3.0 million, $3.0 million, $0.9 million and $0.1 million of expense reimbursements and other receivables from the Castles, liquid hedge funds, credit hedge funds and credit PE funds, respectively. As of December 31, 2010, Fortress s investment includes $3.8 million, $12.6 million, and $0.2 million of management fees receivable from the Castles, credit hedge funds, and credit PE funds, respectively, as well as $41.6 million and $24.3 million in incentive income receivable from the liquid hedge funds and credit hedge funds, respectively. As of December 31, 2010, Fortress s investment also includes $0.3 million, $3.1 million, $1.6 million, $0.5 million and $0.1 million of expense reimbursements and other receivables from the private equity funds, Castles, liquid hedge funds, credit hedge funds and credit PE funds, respectively. In addition, Fortress has remaining capital commitments to certain credit PE funds which are VIEs which aggregated $0.6 million at December 31, 2011.

In March 2010, Fortress determined that a reconsideration event had occurred with respect to an operating subsidiary (FCF) of one of its private equity funds. FCF provides operating services to all of Fortress s private equity funds and is reimbursed for related costs by the private equity funds based on a contractual formula. Therefore, FCF by design does not produce net income or have equity. As a result of this reconsideration event, FCF was deemed to be a VIE and Fortress, as a result of directing the operations of FCF through its management contracts with the private equity funds, and providing financial support to FCF beginning in March 2010, was deemed to be its primary beneficiary. Therefore, Fortress consolidated FCF beginning in March 2010, which resulted in a gross up of reimbursement revenues, compensation and miscellaneous expenses, receivables, and payables, but had no impact on Fortress s net income or equity. As of December 31, 2011, FCF s gross assets were approximately $64.4 million, primarily comprised of affiliate receivables. Fortress s exposure to loss from FCF is limited to its outstanding advances, which were approximately $33.5 million at December 31, 2011, plus any future advances. Subsequent to Fortress s consolidation of FCF, these advances are eliminated in consolidation. FCF s creditors do not have recourse to Fortress s other assets and FCF s assets are not available to other creditors of Fortress.

In March 2011, Fortress launched a liquid hedge fund and a related onshore feeder fund, which is a VIE. The onshore feeder fund invests substantially all of its equity directly into the liquid hedge fund. Based on a quantitative and qualitative analysis, management determined that Fortress was originally the entity that was most closely associated with the onshore feeder fund. Therefore, Fortress was the onshore feeder fund s primary beneficiary and consolidated it. On July 1, 2011, additional investors made cash contributions to the onshore feeder fund causing Fortress to reconsider whether Fortress remained the entity that was most closely associated with the onshore feeder fund. Based on a qualitative and quantitative analysis, management has determined that Fortress ceased to be the entity most closely associated with the onshore feeder fund. Therefore, Fortress derecognized the onshore feeder fund s gross assets and non-controlling interests therein and recognized a corresponding equity investment representing Fortress s proportionate share of the onshore feeder fund. Fortress did not recognize any gain or loss as the result of its deconsolidation of the onshore feeder fund, but Fortress has

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begun to recognize management fees and incentive income, if any, earned from the onshore feeder fund in its consolidated statement of operations.

In June 2011, Fortress launched a credit PE fund, which is a VIE. Based on a quantitative and qualitative analysis, management has determined that Fortress was originally the entity that was most closely associated with the fund. Therefore, Fortress was the fund s primary beneficiary and consolidated it. In September 2011, additional investors made cash contributions to this fund causing Fortress to reconsider whether Fortress remained the entity that is most closely associated with this fund. Based on a qualitative and quantitative analysis, management determined that Fortress ceased to be the entity most closely associated with this fund. Therefore, Fortress derecognized this fund s gross assets and non-controlling interests therein and recognized a corresponding equity investment representing Fortress s proportionate share of this fund. Fortress didn t recognize any gain or loss as the result of its deconsolidation of this fund, but Fortress has begun to recognize management fees and incentive income, if any, earned from this fund.

Fair Value of Financial Instruments

The following table presents information regarding Fortress s financial instruments which 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 December 31,				
		2011		2010	Valuation Method
Assets (within Investments)					
Newcastle and Eurocastle common shares	$	4,848	$	7,222	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies, primarily GAGFAH	$	29,682	$	51,267	Level 1 - Quoted prices in active markets for identical assets
Eurocastle convertible debt (A)	$		$	1,834	Level 3 - Binomial lattice-based option valuation models, adjusted for non-option characteristics
Total equity method investments carried at fair value	$	34,530	$	60,323	
Newcastle and Eurocastle options (B)	$	10,526	$	3,149	Level 2 - Option valuation models using significant observable inputs
Assets (within Other Assets)					

Derivatives	$	1,236	$	(2,732)	Level 2 - See below
Liabilities (within Other Liabilities)					
Logan Circle Contingent Consideration	$		$	(3,122)	Level 3 - Internal model using significant unobservable inputs

(A) The debt bears interest at 20% per annum and is perpetual, but Eurocastle may redeem the securities at a premium of 20%. As of December 31, 2011, it has a face amount of 1.2 million ($1.6 million) and was convertible into Eurocastle common shares at 0.30 per share. The fair value was determined using the market value approach.

(B) With the exception of the 2.6 million Newcastle options granted in September 2011 with a strike price of $4.55 per share, all of the other options are out of the money (that is, their strike price is above the December 31, 2011 market price per share of $4.65 per share for Newcastle and 0.06 per share for Eurocastle).

Fortress s investments in instruments measured at fair value using Level 3 inputs changed as follows (any transfers are assumed to occur at the beginning of a quarter):

		Asset		**Liabilities**
Balance at December 31, 2009	$	2,098	$	
Issuance of Logan Circle contingent consideration (Note 3)				(4,000)
Total gains (losses) included in net income (including foreign currency translation)		(264)		878
Balance at December 31, 2010	$	1,834	$	(3,122)
Total gains (losses) included in net income (including foreign currency translation)		(1,834)		3,122
Balance at December 31, 2011	$		$	

See Note 5 regarding the fair value of Fortress s outstanding debt.

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In March 2011, Newcastle issued 17.3 million shares of its common stock in a public offering at a price to the public of $6.00 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 1,725,000 shares of Newcastle s common stock at the public offering price, which were valued at approximately $7.0 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

In September 2011, Newcastle issued 25.9 million shares of its common stock in a public offering at a price to the public of $4.55 per share. For the purposes of compensating Fortress for its successful efforts in raising capital for Newcastle, in connection with this offering, Newcastle granted options to Fortress to purchase 2,587,500 shares of Newcastle s common stock at the public offering price, which were valued at approximately $5.6 million. The options were fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

Derivatives

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

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

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

	Balance Sheet Location (A)	Fair Value December 31, 2011	Notional Amount December 31, 2011	Gains/(Losses) Year Ended December 31, 2011 (B)	Maturity Date
Foreign exchange option contract	Other Assets	$ 1,239	30,000	$ (237)	Feb-12
Foreign exchange option contract	Other Assets	$ (3)	30,000	$ 1,042	Feb-12

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

(B) Reflects gains (losses) related to contracts existing at period end. Total net foreign exchange derivative gains (losses) were $0.0 million and $(3.3) million in 2011 and 2010, respectively.

The counterparty on these derivatives is Citibank N.A.

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5. DEBT OBLIGATIONS

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

Debt Obligation	Face Amount and Carrying Value December 31, 2011	2010	Contractual Interest Rate	Final Stated Maturity	December 31, 2011 Weighted Average Funding Cost (A)	Weighted Average Maturity (Years)
Credit agreement (B)						
Revolving debt (C)	$	$	LIBOR + 4.00% (D)	Oct 2013		
Term loan	261,250	277,500	LIBOR + 4.00% (D)	Oct 2015	6.20%	2.88
Total	$ 261,250	$ 277,500			6.20%	2.88

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

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

(C) Approximately $56.7 million was undrawn on the revolving debt facility as of December 31, 2011. The revolving debt facility includes a $25 million letter of credit subfacility of which $3.3 million was utilized.

(D) With a minimum LIBOR rate of 1.75% and, in the case of the revolving debt, subject to unused commitment fees of 0.625% per annum.

The term loan is subject to future mandatory repayments of $8.75 million on each calendar quarter end from March 31, 2012 through September 30, 2015. In addition, mandatory repayments of 50% of Free Cash Flow of each calendar year, up to a limit, as defined in the credit agreement, for each of the years 2011 through 2014 are also required to be made in April of each subsequent year (2012 through 2015). The term loan may be prepaid without penalty after October 2014, may be prepaid subject to a 1% fee on the amount repaid from October 2012 through October 2014, and may be prepaid prior to October 2012 subject to a Make Whole Payment, as defined in the credit agreement. Furthermore, Fortress is required to prepay the credit agreement upon the occurrence of certain events, including certain asset sales and other dispositions.

Assuming no Free Cash Flow-based required repayments, of which approximately $54.5 million will be made in 2012, Fortress s outstanding debt matures as follows (in thousands).

2012	$	35,000(A)
2013		35,000
2014		35,000
2015		156,250
Total	$	261,250

(A) In addition, a mandatory Free Cash Flow based payment of approximately $54.5 million is due in April 2012. This will reduce the payment due at maturity in 2015.

Management believes the fair value of this debt was approximately equal to its face amount at December 31, 2011 and 2010 (based on counterparty inquiries, a level 3 valuation, see Note 4).

During the three year period ended December 31, 2011, Fortress has modified or refinanced its credit agreement several times. Rates on credit agreements were as follows:

Period	Interest Rate	Unused Commitment Fees		Upfront Fees and Expenses Paid
Nov 2008-Mar 2009	LIBOR+2.00%	0.250%	$	3.7 million
Mar 2009-Sep 2010	LIBOR+2.50%	0.500%	$	4.2 million
Oct 2010-Dec 2011	LIBOR+4.00%	0.625%	$	5.1 million

In connection with the repayments of credit facilities, deferred loan costs of $0.3 million, $1.6 million and $4.0 million were written off to interest expense in January 2009, May 2009 and October 2010, respectively. In March 2009, the credit facility was amended to include a reduction of the revolving debt facility by $50 million and a prepayment of the term loan by $75 million. In connection with this reduction, an additional $1.6 million of deferred loan costs were written off to interest expense.

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FORTRESS INVESTMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

(dollars in tables in thousands, except share data)

Covenants

The events of default under the 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, change of control, and adverse events (as defined in the credit agreement) with respect to Fortress s material funds.

The credit agreement includes customary covenants. Fortress was in compliance with all of these covenants as of December 31, 2011. Among other things, Fortress is prohibited from incurring additional unsubordinated indebtedness or further encumbering its assets, subject to certain exceptions. In addition, Fortress Operating Group must not:

- Permit AUM (as defined in the credit agreement) to be less than $25.0 billion as of the end of any calendar month;

- Permit the Consolidated Leverage Ratio (a measure of outstanding debt compared to EBITDA, as defined in the credit agreement) to be greater than 2.75 to 1.0 as of the end of any fiscal quarter for the four quarter period ending on such date;

- Permit the Minimum Investment Assets Ratio (a measure of investments compared to outstanding debt, as defined in the credit agreement), as of the end of any fiscal quarter, to be less than 2.00 to 1.0 through December 31, 2012 or less than 2.25 to 1.0 thereafter; or

- Permit the Consolidated Fixed Charge Coverage Ratio (a measure of EBITDA after permitted tax distributions compared to required debt payments, or fixed changes, as defined in the credit agreement) to be: (i) if Net Funded Indebtedness (a measure of outstanding debt, as defined in the credit agreement) is greater than $300 million, less than or equal to 2.25 to 1.0, (ii) if Net Funded Indebtedness is greater than $250 million but less than or equal to $300 million, less than or equal to 2.00 to 1.0 or (iii) if Net Funded Indebtedness is less than $250 million, less than or equal to 1.75 to 1.00, 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 as of December 31, 2011.