Fortress Investment Group LLC
Form 10-Q
May 05, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-33294
Fortress Investment Group LLC
(Exact name of registrant as specified in its charter)

Delaware	20-5837959
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1345 Avenue of the Americas, New York, NY	10105
(Address of principal executive offices)	(Zip Code)

(212) 798-6100
(Registrant’s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x	Accelerated filer o
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). Yes o No ý
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the last practicable date.
Class A Shares: 216,384,655 outstanding as of April 29, 2016.
Class B Shares: 169,514,478 outstanding as of April 29, 2016.

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PART II. OTHER INFORMATION

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

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

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

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

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

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

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

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

Economic interests in each FOG entity are represented by Class A common units and Class B common units. Class A common units are (indirectly) owned by the public company, and Class B common units are owned by the principals (defined below) and, from time to time, a former senior employee who owned securities convertible into Class B common units.

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

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

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

SPECIAL NOTE REGARDING EXHIBITS

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

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	$225,553	$339,842
Due from affiliates	216,646	273,811
Investments	977,996	1,055,789
Investments in options	27,932	30,427
Deferred tax asset, net	418,773	427,102
Other assets	141,389	148,310
Total Assets	$2,008,289	$2,275,281
Liabilities and Equity		
Accrued compensation and benefits	$116,015	$318,750
Due to affiliates	370,061	365,218
Deferred incentive income	290,744	332,329
Debt obligations payable	260,677	230,677
Other liabilities	116,885	86,503
Total Liabilities	1,154,382	1,333,477
Commitments and Contingencies		
Redeemable Non-controlling Interests	—	—
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 216,384,655 and 216,790,409 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	—	—
Class B shares, no par value, 750,000,000 shares authorized, 169,514,478 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	—	—
Paid-in capital	1,971,125	1,988,707
Retained earnings (accumulated deficit)	(1,436,796)	(1,415,113)
Accumulated other comprehensive income (loss)	(2,995)	(2,909)
Total Fortress shareholders' equity	531,334	570,685
Principals' and others' interests in equity of consolidated subsidiaries	322,573	371,119
Total Equity	853,907	941,804
Total Liabilities, Redeemable Non-controlling Interests and Equity	$2,008,289	$2,275,281

See notes to consolidated financial statements.

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

	Three Months Ended March 31, 2016	2015
Revenues		
Management fees: affiliates	$127,390	$127,707
Management fees: non-affiliates	13,419	15,291
Incentive income: affiliates	31,778	24,223
Incentive income: non-affiliates	451	—
Expense reimbursements: affiliates	55,291	54,565
Expense reimbursements: non-affiliates	1,157	3,248
Other revenues (affiliate portion disclosed in Note 6)	2,131	1,655
Total Revenues	231,617	226,689
Expenses		
Compensation and benefits	164,205	178,888
General, administrative and other	33,126	42,981
Depreciation and amortization	6,266	5,331
Interest expense	3,037	839
Transfer of interest in Graticule (see Note 1)	—	101,000
Total Expenses	206,634	329,039
Other Income (Loss)		
Gains (losses) (affiliate portion disclosed in Note 3)	(16,673)	31,561
Tax receivable agreement liability adjustment	(2,699)	—
Earnings (losses) from equity method investees	(20,780)	41,708
Gain on transfer of Graticule (see Note 1)	—	134,400
Total Other Income (Loss)	(40,152)	207,669
Income (Loss) Before Income Taxes	(15,169)	105,319
Income tax benefit (expense)	(783)	(18,399)
Net Income (Loss)	$(15,952)	$86,920
Allocation of Net Income (Loss):		
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	$(7,426)	$52,223
Redeemable Non-controlling Interests in Income (Loss) of Consolidated Subsidiaries	—	(16)
Net Income (Loss) Attributable to Class A Shareholders	(8,526)	34,713
	$(15,952)	$86,920
Dividends declared per Class A share	$0.08	$0.38
Earnings Per Class A share		
Net income (loss) per Class A share, basic	$(0.04)	$0.15
Net income (loss) per Class A share, diluted	$(0.04)	$0.15
Weighted average number of Class A shares outstanding, basic	220,847,407	215,785,776
Weighted average number of Class A shares outstanding, diluted	220,847,407	221,535,189

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
Comprehensive income (loss) (net of tax)		
Net income (loss)	$(15,952)	$86,920
Foreign currency translation loss	(103)	(898)
Comprehensive income (loss) from equity method investees	(130)	—
Total comprehensive income (loss)	$(16,185)	$86,022
Allocation of Comprehensive Income (Loss):		
Comprehensive income (loss) attributable to principals' and others' interests	$(7,570)	$51,619
Comprehensive income (loss) attributable to redeemable non-controlling interests	—	(16)
Comprehensive income (loss) attributable to Class A shareholders	(8,615)	34,419
	$(16,185)	$86,022

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE THREE MONTHS ENDED MARCH 31, 2016
(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders' Equity	Principals' and Others' Interests in Equity of Consolidated Subsidiaries	Total Equity
Equity - December 31, 2015	216,790,409	169,514,478	$1,988,707	$(1,415,113)	$(2,909)	$570,685	$371,119	$941,804
Contributions from principals' and others' interests in equity	—	—	—	—	—	—	17,464	17,464
Distributions to principals' and others' interests in equity (net of tax)	—	—	—	—	—	—	(49,020)	(49,020)
Dividends declared	—	—	(17,311)	—	—	(17,311)	—	(17,311)
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(231)	—	—	(231)	(294)	(525)
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	(1,022)	—	—	(1,022)	(32)	(1,054)
Director restricted share grant	41,447	—	118	—	—	118	93	211
Capital increase related to equity-based compensation (net of tax)	4,351,662	—	1,108	—	—	1,108	879	1,987

Repurchase of Class A shares (Note 8)	(4,798,863)	—	—	(13,157)	—	(13,157)	(10,307)	(23,464)
Dilution impact of equity transactions (Note 6)	—	—	(244)	—	3	(241)	241	—
Comprehensive income (loss) (net of tax)								
Net income (loss)	—	—	—	(8,526)	—	(8,526)	(7,426)	(15,952)
Foreign currency translation loss	—	—	—	—	(33)	(33)	(70)	(103)
Comprehensive income (loss) from equity method investees	—	—	—	—	(56)	(56)	(74)	(130)
Total comprehensive income (loss)						(8,615)	(7,570)	(16,185)
Equity - March 31, 2016	216,384,655	169,514,478	$1,971,125	$(1,436,796)	$(2,995)	$531,334	$322,573	$853,907

See notes to consolidated financial statements.

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Cash Flows From Operating Activities		
Net income (loss)	$(15,952)	$86,920
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	6,266	5,331
Other amortization (included in interest expense)	273	195
(Earnings) losses from equity method investees	20,780	(41,708)
Distributions of earnings from equity method and other investees	3,993	10,813
(Gains) losses	16,673	(31,561)
Deferred incentive income	(29,310)	(20,964)
Deferred tax (benefit) expense	11,656	18,514
Options received from affiliates	—	(4,144)
Tax receivable agreement liability adjustment	2,699	—
Equity-based compensation	8,023	14,345
Options in affiliates granted to employees	653	6,083
Other	530	209
Transfer of interest in Graticule (see Note 1)	—	101,000
Gain on transfer of Graticule (see Note 1)	—	(134,400)
Cash flows due to changes in		
Due from affiliates	44,155	56,627
Other assets	(26,473)	(8,420)
Accrued compensation and benefits	(185,983)	(235,252)
Due to affiliates	9,557	(32,104)
Deferred incentive income	(53,182)	23,907
Other liabilities	44,318	39,041
Purchase of investments by consolidated funds	(24,369)	(39,983)
Proceeds from sale of investments by consolidated funds	28,503	32,000
Receivables from brokers and counterparties	(889)	—
Due to brokers and counterparties	2,139	—
Net cash provided by (used in) operating activities	(135,940)	(153,551)
Cash Flows From Investing Activities		
Contributions to equity method investees	(6,527)	(7,720)
Distributions of capital from equity method investees	106,762	107,370
Purchase of securities	—	(883)
Proceeds from sale of securities	—	18,053
Purchase of fixed assets	(4,884)	(4,434)
Net cash provided by (used in) investing activities	95,351	112,386

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

	Three Months Ended March 31,	
	2016	2015
Cash Flows From Financing Activities		
Repayments of debt obligations	(145,000)	—
Borrowings under debt obligations	175,000	—
Payment of deferred financing costs	(3,289)	—
Repurchase of Class A shares (Note 8)	(34,047)	(9,676)
Payments to settle RSU statutory withholding tax (Note 8)	(6,486)	—
Dividends and dividend equivalents paid	(18,024)	(86,367)
Principals' and others' interests in equity of consolidated subsidiaries - contributions	71	26
Principals' and others' interests in equity of consolidated subsidiaries - distributions	(41,925)	(107,082)
Redeemable non-controlling interests - distributions	—	(1,592)
Net cash provided by (used in) financing activities	(73,700)	(204,691)
Net Increase (Decrease) in Cash and Cash Equivalents	(114,289)	(245,856)
Cash and Cash Equivalents, Beginning of Period	339,842	391,089
Cash and Cash Equivalents, End of Period	$225,553	$145,233
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$3,104	$500
Cash paid during the period for income taxes	$8,262	$6,097
Supplemental Schedule of Non-cash Investing and Financing Activities		
Employee compensation invested directly in subsidiaries	$17,361	$6,370
Investments of incentive receivable amounts into Fortress Funds	$55,248	$107,855
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	$1,162	$11,142
Retained equity interest related to Graticule transfer (Note 1)	$—	$33,400

See notes to consolidated financial statements.

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FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
MARCH 31, 2016
(dollars in tables in thousands, except share and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

1) Private equity:

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

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

2) Credit funds:

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

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

3) Liquid hedge funds include the affiliated manager platform ("Affiliated Managers"); an endowment style fund which invests in Fortress Funds, funds managed by external managers, and direct investments; a fund that primarily focuses on an international "event driven" investment strategy, particularly in Europe, Asia-Pacific and Latin America; and a fund that seeks to generate returns by executing a positively convex investment strategy.

On January 5, 2015, Fortress Asia Macro Funds and related managed accounts became the first group of funds to join Fortress's Affiliated Managers as they transitioned to an autonomous asset management business named Graticule Asset Management Asia, ("Graticule"). Fortress retained a perpetual minority interest in Graticule amounting to 30% of earnings during 2015 and 2016 and declining to approximately 27% of earnings thereafter. Fortress recorded the results of this transaction at fair value. During the three months ended March 31, 2015, Fortress recorded a non-cash gain of $134.4 million, non-cash expense of $101.0 million related to the fair value of the controlling interest in Graticule transferred to a former senior employee for no consideration, and $33.4 million from its resulting retained interest as an equity method investment. Fortress utilized an income approach to value Graticule, its retained interest in Graticule and the controlling interest in Graticule which was transferred. This approach relies on a number of factors, including actual operating results, discount rates and economic projections. Fortress also receives additional fees for providing infrastructure services (technology, back office, and related services) to Graticule. During the second quarter of 2015, Graticule notified Fortress of its intention to terminate the infrastructure services agreement effective at the end of May 2016. Fortress will continue to earn fees for providing services to Graticule through the effective date of termination.

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

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

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

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

Recent Accounting Pronouncements

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

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

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

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”) which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a reduction from the carrying amount of that debt liability. ASU 2015-03 is effective for Fortress beginning January 1, 2016, and is to be applied retrospectively. This standard was subsequently updated by ASU No. 2015-15, Interest -

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Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (“ASU 2015-15”). ASU 2015-15 codifies an SEC staff announcement that it will not object to the presentation of debt issuance costs as an asset for revolving line of credit arrangements. This standard was effective upon announcement on June 18, 2015. Fortress elected to present debt issuance costs related to its revolving credit facility as an asset, consistent with historical presentation. As such, the adoption of ASU 2015-03 and ASU 2015-15 did not have a material impact on Fortress's consolidated financial statements.

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

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

2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

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

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Management Fees and Incentive Income

Fortress recognized management fees and incentive income as follows:

	Three Months Ended March 31,	
	2016	2015
Private Equity		
Private Equity Funds		
Management fees: affil.	$25,758	$29,140
Permanent Capital Vehicles		
Management fees: affil.	27,180	19,002
Management fees, options: affil.	—	4,144
Management fees: non-affil.	372	450
Incentive income: affil.	1,119	2,588
Credit Funds		
Credit Hedge Funds		
Management fees: affil.	36,425	29,654
Management fees: non-affil.	8	10
Incentive income: affil.	924	653
Credit PE Funds		
Management fees: affil.	30,817	26,319
Management fees: non-affil.	25	29
Incentive income: affil.	28,859	20,964
Incentive income: non-affil.	451	—
Liquid Hedge Funds		
Management fees: affil.	6,636	18,495
Management fees: non-affil.	—	2,494
Incentive income: affil.	876	12
Logan Circle		
Management fees: affil.	574	953
Management fees: non-affil.	13,014	12,308
Incentive income: affil.	—	6
Total		
Management fees: affil. (including options)	$127,390	$127,707
Management fees: non-affil.	$13,419	$15,291
Incentive income: affil. (A)	$31,778	$24,223
Incentive income: non-affil.	$451	$—

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

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Deferred Incentive Income

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

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year), is generally received subsequent to year end, and has not been recognized for these funds during the three months ended March 31, 2016 and 2015. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, $7.9 million and $23.2 million of additional incentive income would have been recognized during the three months ended March 31, 2016 and 2015, respectively. Incentive income based on achieving annual performance criteria that has not yet been recognized, if any, is not recorded on the balance sheet and is included as “undistributed” deferred incentive income in the table below.

During the three months ended March 31, 2016 and 2015, Fortress recognized $29.3 million and $21.0 million, respectively, of incentive income distributions from its credit PE funds which were non-clawbackable or represented “tax distributions.” Tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

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

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

	Distributed-Gross	Distributed-Recognized (A)	Distributed-Unrecognized (B)	Undistributed, net of intrinsic clawback (if any) (C) (D)
Deferred incentive income as of December 31, 2015	$ 1,490,276	$ (1,157,947)	$ 332,329	$ 898,358
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	89,643
Distribution of private equity funds and credit PE funds incentive income	52,164	N/A	52,164	(52,164)
Repayment of prior incentive income distributions (E)	(66,903)	N/A	(66,903)	66,903

Recognition of previously deferred incentive income	N/A		(29,310	)	(29,310	)	N/A	
Changes in foreign exchange rates	2,464		—		2,464		N/A	
Deferred incentive income as of March 31, 2016	$ 1,478,001	(F)	$ (1,187,257	)	$ 290,744		$ 1,002,740	(F)
Deferred incentive income including Fortress Funds which are not subject to clawback	$ 1,626,170		$ (1,335,426	)				

(A) All related contingencies have been resolved.

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

(C) At March 31, 2016, no intrinsic clawback exists for any of the Fortress Funds. The net undistributed incentive income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on March 31, 2016 at their net asset values.

(D) From inception to March 31, 2016, Fortress has paid $703.7 million of compensation expense under its employee profit sharing arrangements (Note 7) in connection with distributed incentive income. If the $1.0 billion of gross undistributed incentive income were realized, Fortress would recognize and pay an additional $492.6 million of compensation.

(E) During the three months ended March 31, 2016, Fortress paid $66.9 million to Fund III representing prior incentive income distributions received ($45.1 million net of employee amounts). Following such payment, no intrinsic clawback obligation exists for any of the Fortress Funds.

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

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

	March 31, 2016	
Distributed incentive income - Private Equity Funds	$780,459	
Distributed incentive income - Private Equity Funds in Investment Period or Commitment Period	—	
Distributed incentive income - Credit PE Funds	1,009,300	
Distributed incentive income - Credit PE Funds in Investment Period or Commitment Period	10,384	
Distributed incentive income - Permanent Capital Vehicle (see footnote (P) of incentive income threshold tables)	7,043	
Less:		
Fortress Funds which are not subject to a clawback provision:		
—NIH	(94,513	)
—GAGACQ Fund	(51,476	)
Portion of Fund I distributed incentive income	(183,196	)

that Fortress is not entitled to (see footnote K of incentive income threshold tables)	
Distributed-Gross	$1,478,001

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

	March 31, 2016
Undistributed incentive income - Private Equity Funds	$18,379
Undistributed incentive income - Private Equity Funds in Investment Period or Commitment Period	3,185
Undistributed incentive income - Credit PE Funds	867,434
Undistributed incentive income - Credit PE Funds in Investment Period or Commitment Period	41,599
Undistributed incentive income - Permanent Capital Vehicles	1,080
Undistributed incentive income - Hedge Funds (total)	71,063
Undistributed incentive income - Logan Circle	—
Less:	—

Gross intrinsic clawback per incentive income threshold tables - Private Equity Funds	
Undistributed, net of intrinsic clawback	$1,002,740

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The following tables summarize information with respect to the Fortress Funds and their related incentive income thresholds as of March 31, 2016:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)	Gross Intrinsic Clawback (J)	Net Intrinsic Clawback (J)
Private Equity Funds												
NIH (1998)	Closed Jun-15	$415,574	$(823,588)	$—	$ N/A	$ N/A	$ N/A	$—	$94,513	$—	$—	$—
Fund I (1999) (K)	Closed May-13	1,015,943	(2,847,929)	—	N/A	N/A	N/A	—	344,939	—	—	—
Fund II (2002)	Closed Dec-15	1,974,298	(3,446,405)	—	N/A	N/A	N/A	—	289,531	—	—	—
Fund III (2004)	In Liquidation	2,762,992	(2,172,525)	609,5981215 (overprinted)		2,365,322	2,346,207	—	—	—	—	—
Fund III Coinvestment (2004)	In Liquidation	273,649	(231,692)	56,714,3756 (overprinted)		275,108	260,352	—	—	—	—	—
Fund IV (2006)	Jan-17	3,639,561	(1,458,107)	1,68(1,507,083) (overprinted)		3,234,168	3,734,251	—	—	—	—	—
Fund IV Coinvestment (2006)	Jan-17	762,696	(302,609)	317(141,356) (overprinted)		691,003	833,359	—	—	—	—	—
Fund V (2007)	Feb-18	4,103,713	(1,588,281)	4,271,8763,2320 (overprinted)		2,982,481	1,219,161	—	—	—	—	—
Fund V Coinvestment (2007)	Feb-18	990,480	(173,789)	496(815,816) (overprinted)		799,386	1,119,202	—	—	—	—	—
GAGACQ Fund (2004) (GAGFAH)	Closed Nov-09	545,663	(595,401)	—	N/A	N/A	N/A	—	51,476	—	—	—
FRID (2005) (GAGFAH)	Closed Nov-14	1,220,229	(1,202,153)	—	N/A	N/A	N/A	—	—	—	—	—
FRIC (2006) (Brookdale)	Closed Dec-14	328,754	(291,330)	—	N/A	N/A	N/A	—	—	—	—	—
FICO (2006) (Intrawest)	Jan-17	724,525	—	(6)5,(8729)0,348) (overprinted)		739,797	1,530,145	—	—	—	—	—
FHIF (2006) (Holiday)	Jan-17	1,543,463	(954,223)	1,024,38,4766 (overprinted)		1,365,413	930,777	—	—	—	—	—
FECI (2007) (Florida East Coast/Flagler)	Feb-18	982,779	(610)	947(3,447,722) (overprinted)		926,618	961,340	—	—	—	—	—

MSR Opportunities Fund I A (2012)	Aug-22	341,135	(187,257	)	282,628,742	—	N/A	12,395	—	—	—	—	—
MSR Opportunities Fund I B (2012)	Aug-22	82,760	(45,296	)	68,370,912	—	N/A	3,090	—	—	—	—	—
MSR Opportunities Fund II A (2013)	Jul-23	160,653	(40,868	)	138,810,227	—	N/A	2,305	—	—	—	—	—
MSR Opportunities Fund II B (2013)	Jul-23	2,291	(566	)	1,97251	—	N/A	20	—	—	—	—	—
MSR Opportunities MA I (2013)	Jul-23	36,868	(9,413	)	31,8486,31	—	N/A	569	—	—	—	—	—
								$18,379	$780,459	$—	$—	$—	
Private Equity Funds in Investment or Commitment Period													
Italian NPL Opportunities Fund (2013)	Sep-24	326,189	(17,995	)	329,213,739	—	N/A	3,185	—	—	—	—	—
								$3,185	$—	$—	$—	$—	

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Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distr Incen Incom Subje to Claw (I)
Credit PE Funds										
Long Dated Value Fund I (2005)	Apr-30	$267,325	$(130,211)	$290,492	$153,378	$168,725	$15,631	$11	$—	$—
Long Dated Value Fund II (2005)	Nov-30	274,280	(175,731)	170,429	71,880	134,408	62,528	—	412	—
Long Dated Value Fund III (2007)	Feb-32	343,156	(284,690)	175,800	117,334	—	N/A	11,482	7,571	—
LDVF Patent Fund (2007)	Nov-27	42,691	(35,665)	29,612	22,586	—	N/A	784	1,471	—
Real Assets Fund (2007)	Jun-17	359,024	(403,485)	49,860	94,321	—	N/A	7,403	7,231	—
Credit Opportunities Fund (2008)	Oct-20	5,672,867	(7,405,440)	1,006,381	2,738,954	—	N/A	100,831	436,852	138,0
Credit Opportunities Fund II (2009)	Jul-22	2,360,538	(2,719,546)	910,766	1,269,774	—	N/A	101,802	147,203	61,71
Credit Opportunities Fund III (2011)	Mar-24	3,371,703	(1,900,089)	2,251,524	779,910	—	N/A	112,845	39,908	562
FCO Managed Accounts (2008 - 2012)	Apr-22 to Dec-24	4,567,571	(3,820,574)	2,384,851	1,637,854	—	N/A	172,758	131,732	40,11
SIP Managed Account (2010)	Sep-20	11,000	(41,486)	17,370	47,856	—	N/A	4,342	6,097	—
Japan Opportunity Fund (Yen only)(2009)	Jun-19	972,237	(1,736,275)	787,750	1,551,788	—	N/A	163,245	160,556	40,98
Net Lease Fund I (2010)	Closed Dec-15	152,851	(227,108)	—	N/A	N/A	N/A	—	9,743	—
Real Estate Opportunities Fund (2011)	Sep-24	551,275	(461,205)	303,904	213,834	—	N/A	14,967	3,730	3,056
Global Opportunities Fund (2010)	Sep-20	354,678	(207,539)	230,166	83,027	—	N/A	13,802	2,371	2,371
	Dec-21	756,973	(443,790)	901,340	588,157	—	N/A	92,312	23,467	—

Japan Opportunity Fund II (Yen) (2011)										
Japan Opportunity Fund II (Dollar) (2011)	Dec-21	677,107	(412,346)	761,044	496,283	—	N/A	67,645	28,236	—
Real Estate Opportunities REOC Fund (2011)	Oct-23	57,772	(51,029)	36,521	29,778	—	N/A	3,205	2,720	1,226
								$867,434	$1,009,300	$288
Credit PE Funds in Investment Period or Commitment Period										
FCO Managed Accounts (2010-2015)	Jun-24 to Feb-28	$1,044,121	$(393,062)	$826,329	$175,270	$17,448	$6,130	$20,417	$10,384	$2,65
Life Settlements Fund (2010)	Dec-22	415,561	(299,330)	80,052	(36,179)	92,473	128,652	—	—	—
Life Settlements Fund MA (2010)	Dec-22	34,094	(24,482)	6,361	(3,251)	7,603	10,854	—	—	—
Real Estate Opportunities Fund II (2014)	May-27	525,080	(61,317)	521,646	57,883	—	N/A	10,784	—	—
Japan Opportunity Fund III (Yen) (2014)	Dec-24	154,664	—	182,435	27,771	—	N/A	5,542	—	—
Japan Opportunity Fund III (Dollar) (2014)	Dec-24	108,247	—	133,488	25,241	—	N/A	4,847	—	—
Credit Opportunities Fund IV (2015)	Feb-27	621,250	(32,427)	616,343	27,520	24,793	638	9	—	—
Global Opportunities Fund II (2015)	Jul-26	12,839	(35)	11,616	(1,188)	384	1,572	—	—	—
CFT Co-invest Fund (CAD) (2015)	Oct-27	14,110	—	14,340	230	269	39	—	—	—
CFT Co-invest Fund (USD) (2015)	Oct-27	93,686	—	95,062	1,376	1,792	416	—	—	—
								$41,599	$10,384	$2,65

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	Equity Eligible for Incentive (L)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (O)	Life-to-Date Incentive Income Crystallized (P)
Publicly Traded Permanent Capital Vehicles				
Newcastle	$751,544	$ (F)	$ N/A	$ 41,283
Eurocastle	351,597	—	1,080	42,026
New Residential	2,714,611	—	N/A	87,198
New Media	645,157	—	N/A	30,418
New Senior	1,023,678	—	N/A	—
FTAI	1,150,904	6,862	—	—

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	Incentive Income Eligible NAV (L)	Gain to Cross Incentive Income Threshold (M)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (N)	Undistributed Incentive Income (O)	Year to Date Incentive Income Crystallized (P)
Credit Hedge Funds					
Special Opportunities Funds (S)					
Main fund investments	$4,547,627	$ 14,228	76.8 %	$ 6,040	$ —
Sidepocket investments (Q)	34,626	8	N/A	2,223	—
Sidepocket investments - redeemers (R)	136,622	48,608	N/A	4,450	—
Main fund investments (liquidating) (T)	832,687	1,399	92.5 %	54,579	699
Worden Fund					
Main fund investments	174,076	205	0.0 %	—	—
Main fund investments (liquidating) (T)	87,128	1,240	0.0 %	—	—
Fortress Japan Income Fund (Yen only)					
Main fund investments	116,010	N/A	100.0 %	232	—
Third Party Originated Funds (U)					
Main fund investments	67,020	2,794	0.0 %	—	—
Managed accounts	5,563	7,270	29.6 %	35	—
Liquid Hedge Funds					
Drawbridge Global Macro Funds (S)					
Sidepocket investments - redeemers (R)	$116,138	$ 62,074	N/A	$ 855	$ —
Fortress Convex Asia Funds (S)					
Main fund investments	174,482	10,428	0.0 %	—	—
Fortress Partners Funds (S)					
Sidepocket investments (Q)	52,846	596	N/A	2,054	—
Fortress Centaurus Global Funds (S)					
Main fund investments	186,184	273	76.6 %	595	1

Logan Circle					
Main fund investments	$71,515	$ 231	0.0 %	$ —	$ —
Managed accounts	160,978	3,133	0.0 %	—	—

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

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

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

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

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

(F) For fund investors whose NAV is below the incentive income threshold, represents the immediate increase in NAV needed for these investors for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see (J) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (I) below). For the publicly traded permanent capital vehicles, represents the immediate increase of the entity's applicable supplemental measure of operating performance needed for Fortress to begin earning incentive income. As of March 31, 2016, as a result of Newcastle not meeting the incentive income threshold, Fortress does not expect to earn incentive income from Newcastle for an indeterminate period of time.

(G) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV. The undistributed incentive income amounts presented in this table are based on the estimated results of the investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles. As of March 31, 2016, a certain FCO Managed Account in its investment period and a portion of Long Dated Value Fund I and Credit Opportunities Fund IV's capital are above their incentive income threshold.

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

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

(J) Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. “Gross” and “Net” refer to amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. As of March 31, 2016, Fortress has no intrinsic clawback obligation for any of its private equity funds and credit PE funds.

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

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

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

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

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

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

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

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

(S) Includes onshore and offshore funds.

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

(U) The Third Party Originated Funds include the Value Recovery Funds and JP Funds (as defined below). Main fund investments exclude certain funds which had total NAV of $571.7 million as of March 31, 2016. Fortress began managing the third party originated Value Recovery Funds and JP Funds in June 2009 and March 2016, respectively, and generally does not expect to earn any significant incentive income from these funds.

Permanent Capital Vehicles

Subsequent to March 31, 2016, Fortress's senior living management subsidiary (Blue Harbor) entered into an agreement to manage a senior living property which is owned by a third party. Under this agreement, Fortress generally will receive management fees equal to 5.0% of revenues (as defined in the agreement) and reimbursement of certain expenses, including the compensation expense of all on-site employees. Fortress may also earn an incentive fee upon sale of the property to a third party.

Credit Hedge Funds

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

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3. INVESTMENTS AND FAIR VALUE

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

Investments can be summarized as follows:

	March 31, 2016	December 31, 2015
Equity method and other investees	$958,038	$1,034,189
Equity method investees, held at fair value (A)	19,958	21,600
Total investments	$977,996	$1,055,789
Options in equity method investees	$27,932	$30,427

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

Gains (losses) are summarized as follows:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net realized gains (losses)	$891	$1,259
Net realized gains (losses) from affiliate investments (A)	(16,935)	(1,166)
Net unrealized gains (losses)	(22,048)	(2,362)
Net unrealized gains (losses) from affiliate investments (A)	21,419	33,830
Total gains (losses)	$(16,673)	$31,561

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

These gains (losses) were generated as follows:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Mark to fair value on affiliate investments and options	$(3,350)	$32,785
Mark to fair value on derivatives	(13,233)	1,114
Mark to fair value on equity securities	—	(509)
Gains (losses) on digital currency (Bitcoin)	—	(1,543)
Other	(90)	(286)
Total gains (losses)	$(16,673)	$31,561

Investments

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

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

	Three Months Ended March 31, 2016							
	Private Equity							
	Funds	Publicly Traded Portfolio Companies (A)	Permanent Capital Vehicles (A)	Credit Hedge Funds	Credit PE Funds	Liquid Hedge Funds (B)	Other	Total
Investments as of December 31, 2015	$608,728	$ 1,082	$20,518	$44,804	$187,664	$170,169	$22,824	$1,055,789
Earnings (losses) from equity method and other investees	(25,440)	N/A	N/A	382	6,621	(2,401)	58	(20,780)
Other comprehensive income from equity method investees	(1)	—	—	—	—	(166)	—	(167)
Contributions to equity method and other investees (C)	131	47	—	54,612	8,109	717	42	63,658
Distributions of earnings from equity method and other investees	(239)	N/A	N/A	(1,506)	(2,175)	(73)	—	(3,993)
Distributions of capital from equity method and other investees (C)	(11,636)	N/A	N/A	(57,747)	(3,924)	(38,477)	(15)	(111,799)
Total distributions from equity method and other investees	(11,875)	N/A	N/A	(59,253)	(6,099)	(38,550)	(15)	(115,792)
Mark to fair value - during period (D)	(15)	103	(1,868)	N/A	N/A	N/A	29	(1,751)
Net purchases (sales) of investments by consolidated funds	—	—	—	—	—	—	(5,384)	(5,384)
Translation adjustment	679	—	76	—	1,117	—	—	1,872
Reclassification to Due to Affiliates (E)	551	—	—	—	—	—	—	551
Investments as of March 31, 2016	$572,758	$ 1,232	$18,726	$40,545	$197,412	$129,769	$17,554	$977,996
Undistributed earnings - March 31, 2016	$12,478	N/A	N/A	$2,336	$15,580	$3,510	$1	$33,905

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

(B) Includes Fortress's investment in Affiliated Managers.

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

	Three Months Ended March 31, 2016	
	Contributions	Distributions of Capital
Per Consolidated Statements of Cash Flows	$6,527	$ (106,762)
Incentive income invested into the Fortress Funds	55,248	—
Distributions receivable from the Fortress Funds	—	(2,624)
Net funded*	1,630	(1,630)
Other	253	(783)
Per Above	$63,658	$ (111,799)

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

(D) Recorded to Gains (Losses).

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

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

	Private Equity Funds (A)		Credit Hedge Funds	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2016	2015	2016	2015
Revenues and gains (losses) on investments	$(944,945)	$638,253	$103,972	$254,234
Expenses	(38,102)	(52,613)	(104,305)	(101,871)
Net Income (Loss)	$(983,047)	$585,640	$(333)	$152,363
Fortress's earnings (losses) from equity method investees	$(25,440)	$25,856	$382	$1,968

	Credit PE Funds (A)(C)		Liquid Hedge Funds (B)	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2016	2015	2016	2015
Revenues and gains (losses) on investments	$501,038	$328,119	$36,105	$7,091
Expenses	(70,333)	(70,139)	(39,445)	(65,737)
Net Income (Loss)	$430,705	$257,980	$(3,340)	$(58,646)
Fortress's earnings (losses) from equity method investees	$6,621	$5,065	$(2,401)	$9,368

(A) For private equity funds, includes four entities which are recorded on a one quarter lag (i.e. current year balances reflected for these entities are for the three months ended December 31, 2015). For credit PE funds, includes one entity which is recorded on a one quarter lag and several entities which are recorded on a one month lag. They are recorded on a lag, as permitted, because they are foreign entities, or they have substantial operations in foreign countries, and do not provide financial reports under GAAP within the reporting time frame necessary for U.S. public entities.

(B) Includes the operating results of Affiliated Managers.

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

Investments in Variable Interest Entities and Other Unconsolidated Entities

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

The following tables set forth certain information regarding variable interest entities ("VIEs") in which Fortress held a variable interest as of March 31, 2016 and December 31, 2015.

	Fortress is not Primary Beneficiary								
	March 31, 2016				December 31, 2015				
Business	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Notes
Private Equity Funds	1	$ 138,531	$ —	$ 5,366	1	$ 136,129	$ —	$ 1,959	(D)
Permanent Capital Vehicles	6	26,166,866	17,056,859	71,031	6	23,618,598	15,581,168	114,228	(C)
Credit Hedge Funds	7	1,777,942	441,648	3,063	8	1,912,019	426,988	5,405	(D) (E)
Credit PE Funds	34	988,443	258,315	11,359	35	990,008	232,082	9,659	(D) (E)
Liquid Hedge Funds	4	269,423	1,200	30,986	4	364,535	1,270	39,192	(D) (E)

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	Fortress is Primary Beneficiary								
	March 31, 2016				December 31, 2015				
Business	Number of VIEs	Gross Assets (E)	Financial Obligations (A)	Fortress Investment (B)	Number of VIEs	Gross Assets (E)	Financial Obligations (A)	Fortress Investment (B)	Notes
Private Equity Funds	3	$36,518	$ —	$ 19,076	9	$71,277	$ —	$ 18,666	(F) (G)
Credit PE Funds	2	397	—	20	2	400	—	20	(F)
Liquid Hedge Funds	1	6,133	—	2,848	1	6,126	—	2,821	(F)
Logan Circle	—	—	—	—	1	4,468	—	4,317	(F)

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

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

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

(D) Includes entities, primarily investing vehicles set up on behalf of the Fortress Funds to make investments, that are a VIE because the entity’s at-risk equity holders as a group lack the characteristics of a controlling financial interest because either (i) the group of at-risk equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance and/or (ii) the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity’s activities either involve or are conducted on behalf of that investor and its related parties. Fortress is not the primary beneficiary of these entities. Fortress and its related parties under common control as a group, where applicable, do not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to these entities. During the three months ended March 31, 2016, a credit hedge fund entity and a credit PE fund entity were liquidated.

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

(F) Includes entities that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because either (i) the group of at-risk equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance and/or (ii) the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity's activities either involve or are conducted on behalf of that investor and its related parties. Fortress is the investment manager of these entities. Fortress is determined to be the primary beneficiary of these entities since it has both power over the activities that most significantly affect the success of the entity or impact the entity's economic performance and has the right to receive benefits or the obligation to absorb losses from the VIE that potentially could be significant to the entity. During the three months ended March 31, 2016, a reconsideration event occurred at six private equity fund entities and a Logan Circle entity whereby these entities no longer qualified as a VIE. The entities are deemed to be a VOE and Fortress continues to consolidate them since the entities no longer have third party capital.

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

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Fair Value of Financial Instruments

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

	Fair Value		
	March 31, 2016	December 31, 2015	Valuation Method
Assets (within Investments)			
Common shares of publicly traded permanent capital vehicles	$18,726	$20,518	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies	1,232	1,082	Level 1 - Quoted prices in active markets for identical assets
Total equity method investments carried at fair value	$19,958	$21,600	
Options in equity method investees	$27,932	$30,427	Level 2 - Option valuation models using significant observable inputs
Assets (within Other assets and Due from affiliates)			
Derivatives	$21,795	$22,146	Level 2 - See below
Liabilities (within Accrued compensation and benefits)			
Options in affiliates granted to employees	$(3,663)	$(3,010)	Level 2 - Option valuation models using significant observable inputs
Liabilities (within Other liabilities)			
Derivatives	$(14,481)	$(2,201)	Level 2 - See below

See Note 4 regarding the fair value of outstanding debt.

Derivatives

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

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

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

	Balance Sheet	March 31, 2016 (or three months ended)			Maturity
	Classification	Fair Value	Notional Amount	Gains/(Losses) (B)	Date
Foreign exchange option contracts (JPY) (A)	Other assets	$11,883	$266,581	$ (6,598)	Jun-16 - Sep-17
Foreign exchange option contracts (JPY) (A)	Other liabilities	$(3,676)	$203,564	$ (3,749)	Jun-16 - Feb-19
Foreign exchange forward contracts (JPY) (A)	Other assets	$208	$43,650	$ 29	Jun-16 - Mar-17
Foreign exchange forward contracts (JPY) (A)	Other liabilities	$(3,759)	$65,268	$ (3,260)	Jun-16 - Dec-17
Foreign exchange forward contracts (JPY)	Due from affiliates	$2,658	$63,556	$ 2,129	Jun-16
Foreign exchange forward contracts (CAD) (A)	Other liabilities	$(7,046)	$98,283	$ (6,428)	Jun-16
Foreign exchange forward contracts (CAD)	Due from affiliates	$7,046	$98,283	$ 6,428	Jun-16

(A) Fortress has a master netting agreement with its counterparty.
(B) Reflects unrealized gains (losses) for the three months ended March 31, 2016 related to contracts outstanding at period end.

Fortress's average notional amount outstanding for the three months ended March 31, 2016 was $829.6 million.

The following tables summarize the fair value of Fortress's derivative contracts on a gross basis and any amount of offset as permitted by netting agreements as of March 31, 2016.

	Gross Amounts of Recognized Assets as of	Gross Amounts Offset in the Consolidated Balance Sheet as of	Net Amounts of Assets Presented in the Consolidated Balance Sheet as of	Cash Collateral Received as of	Net Amount as of
Offsetting of Derivative Assets	March 31, 2016	March 31, 2016	March 31, 2016	March 31, 2016	March 31, 2016
Foreign exchange option contracts	$ 13,100	$ (1,217)	$ 11,883	$ —	$11,883
Foreign exchange forward contracts	9,978	(66)	9,912	(1,510)	8,402
	$ 23,078	$ (1,283)	$ 21,795	$ (1,510)	$20,285

	Gross Amounts of Recognized	Gross Amounts Offset in the	Net Amounts of Liabilities Presented in	Cash Collateral Pledged	Net Amount as of

Offsetting of Derivative Liabilities	Liabilities as of March 31, 2016	Consolidated Balance Sheet as of March 31, 2016	the Consolidated Balance Sheet as of March 31, 2016	as of March 31, 2016	March 31, 2016
Foreign exchange option contracts	$ (6,995)	$ 3,319	$ (3,676)	$ —	$ (3,676)
Foreign exchange forward contracts	(10,805)	—	(10,805)	1,554	(9,251)
	$ (17,800)	$ 3,319	$ (14,481)	$ 1,554	$ (12,927)

The counterparty on the outstanding derivatives is Citibank N.A and certain credit PE funds.

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4. DEBT OBLIGATIONS

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

	Face Amount and Carrying Value		Contractual	Final	March 31, 2016
	March 31,	December 31,	Interest	Stated	Amount
Debt Obligation	2016	2015	Rate	Maturity	Available for Draws
Revolving credit agreement (A)(B)	$105,000	$75,000	LIBOR + 1.75% (C)	Jan 2021	$167,332
Promissory note (D)	155,677	155,677	5.00%	Nov 2017	N/A
Total	$260,677	$230,677			

(A) The 2016 Credit Agreement is not collateralized by any assets of Fortress.
(B) The $275.0 million revolving debt facility includes a $15.0 million letter of credit subfacility of which $2.7 million was utilized as of March 31, 2016.
(C) Subject to unused commitment fees of 0.25% per annum.
(D) Issued to a former Principal in exchange for his Fortress Operating Group units and Class B shares in Fortress.

Management believes the fair value of its outstanding debt was $261.8 million as of March 31, 2016 (classified as a level 3 valuation, which is based on internal models using discounted future contractual cash flows and market interest rates).

Fortress was in compliance with all of its debt covenants as of March 31, 2016. The following table sets forth the financial covenant requirements as of March 31, 2016.

	March 31, 2016 (dollars in millions)		
	Requirement	Actual	Notes
AUM, as defined	≥ $30,000	$45,502	(A)
Consolidated Leverage Ratio	≤ 2.50	0.71	(B)
Consolidated Interest Coverage Ratio	≥ 4.00	31.52	(B)

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

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

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5. INCOME TAXES AND TAX RELATED PAYMENTS

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

The provision for income taxes consists of the following:

	Three Months Ended March 31,	
	2016	2015
Current		
Federal income tax expense (benefit)	$(12,367)	$(3,121)
Foreign income tax expense (benefit)	2,825	1,127
State and local income tax expense (benefit)	(1,331)	1,879
	(10,873)	(115)
Deferred		
Federal income tax expense (benefit)	8,680	12,987
Foreign income tax expense (benefit)	1,884	3,542
State and local income tax expense (benefit)	1,092	1,985
	11,656	18,514
Total expense (benefit)	$783	$18,399

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

	March 31, 2016	December 31, 2015
Gross deferred tax assets	$462,776	$469,759
Less:		
Valuation allowance	(41,667)	(39,616)
Deferred tax liabilities (A)	(2,336)	(3,041)
Deferred tax assets, net	$418,773	$427,102

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

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

Valuation allowance at December 31, 2015	$39,616
Changes due to FIG Corp. ownership change	284
Net increases (A)	1,767
Valuation allowance at March 31, 2016	$41,667

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

For the three months ended March 31, 2016, a net deferred income tax provision of $0.1 million was recorded as a credit to other comprehensive income, primarily related to foreign currency translation. For the three months ended March 31, 2016, a current income tax benefit of $0.1 million was recorded as a credit to paid-in capital, related to dividend equivalent payments on RSUs (Note 8), as applicable, which are currently deductible for income tax purposes.

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For the three months ended March 31, 2016, changes in FIG Corp.'s ownership and other items resulted in an increase to deferred tax assets of $1.6 million with an offsetting increase to the valuation allowance of $0.3 million. The net increase in deferred tax assets was recorded as a credit to paid-in capital.

Based on the value of RSUs which vested and were delivered during the three months ended March 31, 2016, Fortress has a tax shortfall of $2.3 million which was debited to paid-in capital.

Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the three months ended March 31, 2016, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be $7.6 million. In addition, during the three months ended March 31, 2016, the realization of certain tax benefits gave rise to a $2.7 million increase in the expected tax receivable agreement liability.

6. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

	Private Equity		Credit		Liquid			
	Funds	Permanent Capital Vehicles	Hedge Funds	PE Funds	Hedge Funds	Logan Circle	Other (B)	Total
March 31, 2016								
Management fees and incentive income (A)	$42,944	$ 12,497	$5,962	$55,489	$6,952	$ 650	$—	$124,494
Expense reimbursements (A)	24,335	8,893	14,767	23,616	1,421	114	—	73,146
Dividends and distributions	—	566	—	—	—	—	—	566
Other	—	2,417	—	—	—	—	16,023	18,440
Total	$67,279	$ 24,373	$20,729	$79,105	$8,373	$ 764	$16,023	$216,646

	Private Equity		Credit		Liquid			
	Funds	Permanent Capital Vehicles	Hedge Funds	PE Funds	Hedge Funds	Logan Circle	Other (B)	Total
December 31, 2015								
Management fees and incentive income (A)	$41,706	$ 49,578	$55,864	$20,540	$5,880	$ 452	$—	$174,020
Expense reimbursements (A)	35,982	11,052	13,250	16,006	1,867	129	—	78,286
Dividends and distributions	—	270	—	—	—	—	—	270
Other	—	2,383	—	—	—	—	18,852	21,235

Total	$77,688	$ 63,283	$69,114	$36,546	$7,747	$ 581	$18,852	$273,811

(A) Net of allowances for uncollectible management fees and expense reimbursements of $12.2 million and $6.9 million as of March 31, 2016, respectively, and of $12.2 million and $6.8 million as of December 31, 2015, respectively. Allowances are recorded as General and Administrative expenses.

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

As of March 31, 2016, amounts due from Fortress Funds recorded in Due from Affiliates included $41.1 million of past due management fees and $11.0 million of private equity general and administrative expenses advanced on behalf of a certain Fortress Fund. Although such fund is currently experiencing a liquidity issue, the past due amounts represent less than 6% of such fund's NAV and Fortress believes these fees and reimbursable expenses will ultimately be collected.

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As of March 31, 2016, past due amounts recorded in Due from Affiliates also includes $12.2 million in management fees and $6.9 million in private equity general and administrative expenses due from another Fortress Fund, which Fortress has fully reserved.

Due to affiliates was comprised of the following:

	March 31, 2016	December 31, 2015
Principals - tax receivable agreement - Note 5	$267,348	$264,625
Principals - Principal Performance Payments - Note 7	44,968	42,234
Distributions payable on Fortress Operating Group units - Note 8	1,140	7,739
Other	9,794	4,360
General partner liability - Note 9	46,811	46,260
Total	$370,061	$365,218

Other Related Party Transactions

For the three months ended March 31, 2016 and 2015, Other Revenues included $1.5 million and $0.5 million, respectively, of revenues from affiliates, primarily interest and dividends.

During 2016, Fortress advanced $2.0 million to a senior employee who is not an officer. This advance bears interest at LIBOR+4%. All principal and interest is due and payable no later than February 2020. In addition, during the three months ended March 31, 2016, three senior employees repaid advances aggregating $0.5 million.

In February 2016, Fortress entered into a sale agreement with Graticule for the sale of certain software and technology-related assets for $1.7 million in cash with $1.1 million received by Fortress at closing and an additional $0.6 million to be received in February 2017. Fortress may also receive an additional cash payment of $0.6 million in February 2017, subject to certain conditions. This resulted in a $1.7 million gain included in gains (losses) on the consolidated statements of operations for the three months ended March 31, 2016.

Principals’ and Others’ Interests in Consolidated Subsidiaries

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

This balance sheet caption was comprised of the following:

	March 31, 2016	December 31, 2015
Fortress Operating Group units held by the Principals and a former senior employee	$277,287	$307,539
Employee interests in majority owned and controlled fund advisor and general partner entities	43,521	61,833
Other	1,765	1,747
Total	$322,573	$371,119

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

	March 31, 2016	December 31, 2015
Fortress Operating Group equity	$676,529	$764,429
Less: Others' interests in equity of consolidated subsidiaries	(45,286)	(63,580)
Total Fortress shareholders' equity in Fortress Operating Group	$631,243	$700,849
Fortress Operating Group units outstanding (A)	169,514,478	169,514,478
Class A shares outstanding	216,384,655	216,790,409
Total	385,899,133	386,304,887
Fortress Operating Group units as a percent of total (B)	43.9 %	43.9 %
Equity of Fortress Operating Group units held by the Principals and a former senior employee	$277,287	$307,539

(A) Held by the Principals and a former senior employee; exclusive of Class A shares.
(B) As a result, the Registrant owned 56.1% of Fortress Operating Group as of March 31, 2016 and December 31, 2015, respectively.

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

	Three Months Ended March 31,	
	2016	2015
Fortress Operating Group units held by the Principals and a former senior employee	$(8,030)	$51,605
Employee interests in majority owned and controlled fund advisor and general partner entities	587	840
Other	17	(222)
Total	$(7,426)	$52,223

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

	Three Months Ended March 31,	
	2016	2015
Fortress Operating Group net income (loss)	$(17,811)	$99,759
Adjust:		
Others' interests in net (income) loss of consolidated subsidiaries	(604)	(618)
Redeemable Non-controlling interests in (income) loss of consolidated subsidiaries	—	16
Total Fortress shareholders' net income (loss) in Fortress Operating Group	$(18,415)	$99,157
Fortress Operating Group as a percent of total (A)	43.6 %	52.0 %
Fortress Operating Group net income (loss) attributable to the Principals and a former senior employee	$(8,030)	$51,605

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

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

	Three Months Ended March 31, 2016	2015
Transfers (to) from the Principals' and Others' Interests:		
Increase in Fortress's shareholders' equity for the delivery of Class A shares primarily in connection with vested RSUs	$3,467	$25
Decrease in Fortress's shareholders' equity for the repurchase and cancellation of Class A shares and FOGUs	(3,708)	—
Dilution impact of equity transactions	(241)	25
Net income (loss) attributable to Class A shareholders	(8,526)	34,713
Change from net income (loss) attributable to Fortress and transfers (to) from Principals' and Others' Interests	$(8,767)	$34,738

7. EQUITY-BASED AND OTHER COMPENSATION

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

	Three Months Ended March 31, 2016	2015
Equity-based compensation, per below	$8,023	$14,345
Profit-sharing expense, per below	28,900	38,912
Discretionary bonuses	61,395	62,581
Other payroll, taxes and benefits	65,887	63,050
	$164,205	$178,888

Equity-Based Compensation

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

	RSUs Employees		Non-Employees	
	Number	Value (A)	Number	Value (A)
Outstanding at December 31, 2015	20,927,169	$6.66	322,278	$6.74
Issued	2,604,641	$3.56	—	—
Transfers	—	—	—	—
Converted	(5,841,528)	$6.13	(131,884)	$7.38
Forfeited	(183,729)	$6.49	—	—

Outstanding at March 31, 2016 (B)	17,506,553	$6.38	190,394	$6.30

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	Three Months Ended March 31,	
	2016	2015
Expense incurred (B)		
Employee RSUs	$6,903	$11,004
Non-employee RSUs	73	982
Principal Performance Payments (C)	1,011	2,359
Restricted shares (D)	36	—
Total equity-based compensation expense	$8,023	$14,345

(A) Represents the weighted average grant date estimated fair value per share or unit.
(B) In future periods, Fortress will further recognize compensation expense on its non-vested equity based awards outstanding as of March 31, 2016 of $79.1 million, with a weighted average recognition period of 3.9 years.
(C) Accrued based on year-to-date performance; the actual number of RSUs granted is determined at year end. Based on year-to-date performance, zero RSUs would be awarded as Principal Performance Payments.
(D) Represents expense associated with restricted shares granted to a director during 2015. These restricted shares will vest over a period of two years.

Fortress's management reviewed the estimated forfeiture factor as of March 31, 2016 and, based on the actual forfeiture rate incurred and the remaining vesting period of certain grants, determined that the forfeiture assumptions for certain grants required adjustment. The result of these changes in estimates did not materially impact equity-based compensation expense.

During the three months ended March 31, 2016, Fortress granted 2.1 million non-dividend paying RSUs to its employees valued at an aggregate of $7.3 million on the respective grant dates. These RSUs vest over a period of three years.

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

	Three Months Ended March 31, 2016		
	Equity-Based Compensation	Profit Sharing Expense	Total
Private equity businesses	$435	$ 1,047	$1,482
Credit businesses	576	2,137	2,713
Total	$1,011	$ 3,184	$4,195

In April 2010, in connection with the acquisition of Logan Circle, Fortress created the Logan Circle Comp Plan, as amended. The Logan Circle Comp Plan provides for annual bonuses which may be paid partially in RSUs, as well as for potential Class A share awards to certain employees related to the years 2016 and 2017. These awards are annual performance-based awards and depend on the future performance of Logan Circle in the specific years to which they relate. Furthermore, the amounts of RSUs or shares to be awarded are not fixed until the respective year is completed. As such, these awards are expensed over the related service period. If Logan Circle meets the future performance targets under this plan, the amounts to be awarded could be significant. Through March 31, 2016, no compensation expense was recognized under this plan as the satisfaction of the performance condition and granting of the award were not considered to be probable.

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Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

	Three Months Ended March 31,	
	2016	2015
Private equity funds	$—	$—
Permanent capital vehicles (A)	1,569	6,499
Credit hedge funds	3,015	11,609
Credit PE funds	20,612	13,948
Liquid hedge funds	520	4,053
Principal Performance Payments (B)	3,184	2,803
Total	$28,900	$38,912

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

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

8. EARNINGS PER SHARE AND DISTRIBUTIONS

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

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

The primary difference between basic and diluted earnings per share ("EPS"), if any, is income tax related. If the Principals and a former senior employee converted all of their Fortress Operating Group units into Class A shares, their portion of FOG's income would become subject to corporate level taxation. Certain permanent differences in the

Registrant’s tax calculation are not based on FIG Corp.’s ownership percentage of FOG. Thus, the effective tax rate changes when more income or loss is allocated to FIG Corp. This change in the effective tax rate results in incremental per share income or loss in the diluted EPS calculation, depending on whether the Registrant has income tax expense or benefit for the period. The comparison of the Registrant’s effective tax rate and the if-converted tax rate determines the dilutive or anti-dilutive impact of the Fortress Operating Group units held by the Principals and a former senior employee.

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

	Three Months Ended March 31, 2016	
	Basic	Diluted
Weighted average shares outstanding		
Class A shares outstanding	218,401,447	218,401,447
Fully vested restricted Class A share units with dividend equivalent rights	1,676,531	1,676,531
Restricted Class A shares	769,429	769,429
Fortress Operating Group units exchangeable into Class A shares (1)	—	—
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)	—	—
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	—
Total weighted average shares outstanding	220,847,407	220,847,407
Basic and diluted net income per Class A share		
Net income (loss) attributable to Class A shareholders	$(8,526)	$ (8,526)
Dividend equivalents declared on non-vested restricted Class A shares and restricted Class A share units (2)	(367)	(367)
Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates, attributable to Fortress Operating Group units (1)	—	—
Net income (loss) available to Class A shareholders	$(8,893)	$ (8,893)
Weighted average shares outstanding	220,847,407	220,847,407
Basic and diluted net income (loss) per Class A share	$(0.04)	$ (0.04)

	Three Months Ended March 31, 2015	
	Basic	Diluted
Weighted average shares outstanding		
Class A shares outstanding	207,713,350	207,713,350
Fully vested restricted Class A share units with dividend equivalent rights	7,231,768	7,231,768
Restricted Class A shares	840,658	840,658
Fortress Operating Group units exchangeable into Class A shares (1)	—	—
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)	—	—
Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)	—	5,749,413
Total weighted average shares outstanding	215,785,776	221,535,189
Basic and diluted net income per Class A share		
Net income attributable to Class A shareholders	$34,713	$ 34,713
Dividend equivalents declared on, and undistributed earnings allocated to, non-vested restricted Class A shares and restricted Class A share units (2)	(2,125)	(2,125)
Add back Principals' and others' interests in income of Fortress Operating Group, net of assumed income taxes at enacted rates, attributable to Fortress Operating Group units (1)	—	—

Net income available to Class A shareholders	$32,588	$ 32,588
Weighted average shares outstanding	215,785,776	221,535,189
Basic and diluted net income per Class A share	$0.15	$ 0.15

(1) The Fortress Operating Group units not held by Fortress (that is, those held by the Principals and a former senior employee) are exchangeable into Class A shares on a one-to-one basis. These units are not included in the computation of basic earnings per share. These units enter into the computation of diluted net income (loss) per Class A share when the effect is dilutive using the if-converted method, which

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includes the income tax effects of nondiscretionary adjustments to the net income (loss) attributable to Class A shareholders from assumed conversion of these units. To the extent charges, particularly tax related charges, are incurred by the Registrant (i.e. not at the Fortress Operating Group level), the effect may be anti-dilutive.

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

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

	Three Months Ended March 31,	
	2016	2015
Share Units	8,755,877	11,703,251

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

During the three months ended March 31, 2016, in connection with the delivery of vested RSUs, Fortress paid $6.5 million of statutory withholding tax on behalf of employees and, therefore, issued only 2.1 million Class A shares in satisfaction of 3.8 million RSUs originally granted. This payment is treated as a financing activity on the consolidated statements of cash flows since it had the same effect as if Class A shares were repurchased.

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

	Weighted Average Three Months Ended March 31,	
	2016	2015
Class A shares	218,401,447	207,713,350
Restricted Class A shares (directors)	769,429	840,658
Restricted Class A share units (employees) (A)	1,676,531	7,231,768
Restricted Class A share units (employees) (B)	7,817,892	8,347,402
Fortress Operating Group units (Principals and a former senior employee)	169,514,478	226,331,513
Total	398,179,777	450,464,691

	As of March 31, 2016	As of December

		31, 2015
Class A shares	215,613,860	216,061,061
Restricted Class A shares (directors)	770,795	729,348
Restricted Class A share units (employees) (A)	303,254	1,360,960
Restricted Class A share units (employees) (B)	8,063,715	9,174,707
Fortress Operating Group units (Principals and a former senior employee)	169,514,478	169,514,478
Total	394,266,102	396,840,554

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

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

On February 13, 2014, Fortress entered into a purchase agreement with Nomura Investment Managers U.S.A. ("Nomura") to acquire 60,568,275 Class A shares for $363.4 million. All of the purchased Class A shares (and underlying Fortress Operating Group units) were canceled and ceased to be outstanding. As part of the purchase agreement, Fortress agreed for each year, until the third anniversary of the date of the agreement, to engage Nomura and its affiliates to provide certain financial advisory and financing services. As such, Fortress recorded an estimated liability of $30.0 million as of the date of the agreement and a corresponding reduction to equity. During three months ended March 31, 2016 and 2015, Fortress paid $10.6 million and $9.7 million, respectively, to Nomura related to the estimated liability.

During the three months ended March 31, 2016, Fortress completed a modified "Dutch auction" self-tender offer and purchased 4,798,863 of its Class A shares at a purchase price of $4.75 per share, or an aggregate purchase price of $22.8 million. Additionally, Fortress incurred $0.7 million in expenses in connection with the transaction. All of these Class A shares were canceled and cease to be outstanding.

Dividends and distributions during the three months ended March 31, 2016 are summarized as follows:

	Declared in Prior Year, Paid in Current Year	Declared in Current Year		
		Declared and Paid	Declared but not yet Paid	Total
Dividends on Class A shares	$ —	$ 17,311	$ —	$ 17,311
Dividend equivalents on restricted Class A share units (A)	66	647	22	669
Distributions to Fortress Operating Group unit holders (Principals and a former senior employee) (B)	7,739	11,519	1,140	12,659
Total distributions	$ 7,805	$ 29,477	$ 1,162	$ 30,639

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

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

On May 4, 2016, Fortress declared a cash dividend of $0.20 per Class A share, comprised of a base quarterly cash dividend of $0.09 per Class A share for the first quarter of 2016 and a special cash dividend of $0.11 per Class A share. The dividend is payable on May 20, 2016 to holders of record of Class A shares on May 17, 2016.

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

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9. COMMITMENTS AND CONTINGENCIES

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

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

In March 2011, a private equity fund fell into a negative equity position, after considering all of Fortress's interests in such fund and its reserves related thereto. As described above, the amount of the negative equity was recorded, through earnings (losses) from equity method investees, by the general partner entity and is therefore included in the consolidated financial statements of Fortress. When the fund matures and is liquidated, Fortress will record a gain in the event and to the extent it does not fund this negative equity. The amount of negative equity recorded at March 31, 2016 was $46.8 million.

Litigation — Fortress is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions that existed as of March 31, 2016, individually and in the aggregate, will not materially affect Fortress's results of operations, liquidity or financial position.

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

Private Equity Fund and Credit PE Fund Capital Commitments — Fortress has remaining capital commitments, which aggregated $149.4 million as of March 31, 2016, primarily to certain of the Fortress Funds. These commitments can be drawn by the funds on demand.

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

Minimum future rental payments (excluding expense escalations) under these leases as of March 31, 2016 are as follows:

April 1, 2016 to December 31, 2016	$18,919
2017	17,454
2018	24,818
2019	23,317
2020	22,171

2021	21,158
Thereafter	245,493
Total	$373,330

Rent expense, including operating expense escalations, during the three months ended March 31, 2016 and 2015 was $7.1 million and $7.6 million, respectively, and was included in general, administrative and other expense on the consolidated statements of operations.

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10. SEGMENT REPORTING

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

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

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

Management assesses the net performance of each segment based on its "distributable earnings" ("DE") and utilizes "fund management distributable earnings" or "fund management DE" as a supplemental measure of segment performance. Neither distributable earnings or fund management DE is a measure of cash generated by operations which is available for distribution. Rather, they are supplemental measures of operating performance used by management in analyzing its segments and overall results. Neither distributable earnings or fund management DE should be considered as an alternative to cash flow, in accordance with GAAP, as a measure of Fortress's liquidity, and they are not necessarily indicative of cash available to fund cash needs (including dividends and distributions).

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

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

(i) Incentive Income

a. for Fortress Funds which are private equity funds, the private permanent capital vehicle through IPO in May 2015 and credit PE funds, adding (a) incentive income paid (or declared as a distribution) to Fortress, less an applicable reserve for potential future clawbacks if the likelihood of a clawback is deemed greater than remote by Fortress's CODM (net of the reversal of any prior such reserves that are no longer deemed necessary), less (b) incentive income recorded in accordance with GAAP,

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

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

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

(ii) Other Income

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

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

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

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

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(iii) subtracting management fee income recorded in accordance with GAAP in connection with the receipt of options from the publicly traded permanent capital vehicles, if any,
(iv) for 2015, subtracting the gain on transfer of Graticule,
Expenses
(v) adding or subtracting, as necessary, the employee profit sharing portion of incentive income described in (i) above to match the timing of the expense with the revenue,
(vi) adding back equity-based compensation expense (including options in the publicly traded permanent capital vehicles assigned to employees, RSUs (including the portion of related dividend and distribution equivalents recorded as compensation expense) and restricted shares),
(vii) adding back the amortization of intangible assets and any impairment of goodwill or intangible assets recorded under GAAP,
(viii) for 2015, adding back the expense related to the transfer of interest in Graticule,
(ix) adding the income (or subtracting the loss) allocable to the interests in consolidated subsidiaries attributable to Fortress Operating Group units, and
(x) adding back income tax benefit or expense and any income or expense recorded in connection with the tax receivable agreement (Note 5).

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

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

Embedded Incentive Income

As of March 31, 2016, Fortress had $1.0 billion of gross undistributed incentive income and no intrinsic clawback exists for any of the Fortress Funds (Note 2). Of the $1.0 billion, $7.9 million has been recognized in distributable earnings. This amount represents accrued hedge fund and permanent capital vehicle incentive income recorded during the three months ended March 31, 2016.

In addition, Fortress has foreign exchange option contracts, related to the Japanese Yen, used to economically hedge future estimated incentive income with a net unrealized gain of $7.2 million as of March 31, 2016. If these contracts would have been settled as of March 31, 2016, Fortress would have recorded $7.2 million of gross additional distributable earnings, or $4.2 million net of employee interests. Furthermore, if Fortress had (i) exercised all of its in-the-money publicly traded permanent capital vehicle options (Note 3) and sold all of the resulting shares and (ii) sold all of its publicly traded permanent capital vehicle shares which it received as incentive income, it would have recorded $20.2 million of gross additional distributable earnings, or $18.6 million net of employee interests, based on their respective March 31, 2016 closing price.

Embedded Gain/Loss and Impairment of Investments for DE Purposes

During the three months ended March 31, 2016, Fortress recorded $2.1 million of impairment on its direct and indirect investments in its funds for segment reporting purposes. Fortress had $4.4 million of unrealized losses on certain investments that have not been recorded as impairment. As of March 31, 2016, Fortress’s share of the net asset value of its direct and indirect investments exceeded its segment cost basis by $460.9 million, representing a net unrealized gain.

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Clawback Reserve on Incentive Income for DE Purposes

As of March 31, 2016, Fortress has no intrinsic clawback obligation for any of its private equity funds and credit PE funds (Note 2). As such, Fortress's CODM has determined no clawback DE reserve is necessary.

Segment Results of Operations

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

March 31, 2016 and the Three Months Then Ended

	Private Equity							
	Funds	Permanent Capital Vehicles	Credit Hedge Funds	PE Funds	Liquid Hedge Funds	Logan Circle	Unallocated	Total
Segment revenues								
Management fees	$25,758	$ 27,302	$37,099	$30,842	$6,636	$13,588	$—	$141,225
Incentive income	—	2,200	7,196	52,793	1,471	—	—	63,660
Segment revenues - total	$25,758	$ 29,502	$44,295	$83,635	$8,107	$13,588	$—	$204,885
Fund management distributable earnings (loss) before earnings from Affiliated Managers and Principal Performance Payments (B)	$15,578	$ 9,532	$15,412	$25,779	$(1,635)	$650	$—	$65,316
Fund management distributable earnings (loss) before Principal Performance Payments (B)	$15,578	$ 9,532	$15,412	$25,779	$(732)	$650	$—	$66,219
Fund management distributable earnings (loss)	$15,567	$ 8,496	$14,116	$24,938	$(732)	$650	$—	$63,035
Pre-tax distributable earnings (loss)	$14,446	$ 9,150	$14,262	$28,112	$1,446	$775	$(3,734)	$64,457
Total segment assets	$645,618	$ 77,800	$72,547	$320,687	$130,695	$52,117	$745,195 (A)	$2,044,659

Three Months Ended March 31, 2015

Private Equity

	Funds	Permanent Capital Vehicles	Credit Hedge Funds	PE Funds	Liquid Hedge Funds	Logan Circle	Unallocated	Total
Segment revenues								
Management fees	$29,140	$ 19,202	$29,664	$26,348	$20,989	$13,261	$ —	$138,604
Incentive income	—	3,020	23,165	24,148	891	134	—	51,358
Segment revenues - total	$29,140	$ 22,222	$52,829	$50,496	$21,880	$13,395	$ —	$189,962
Fund management distributable earnings (loss) before earnings from Affiliated Managers and Principal Performance Payments (B)	$14,976	$ 3,769	$23,105	$6,366	$(2,503)	$(863)	$ —	$44,850
Fund management distributable earnings (loss) before Principal Performance Payments (B)	$14,976	$ 3,769	$23,105	$6,366	$6,779	$(863)	$ —	$54,132
Fund management distributable earnings (loss)	$14,976	$ 3,769	$20,744	$5,780	$6,499	$(863)	$ —	$50,905
Pre-tax distributable earnings (loss)	$14,998	$ 4,109	$21,731	$7,029	$9,590	$(1,119)	$ (1,141)	$55,197

(A) Unallocated assets includes cash of $217.4 million and net deferred tax assets of $418.8 million.

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

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Reconciling items between segment measures and GAAP measures:

	Three Months Ended March 31,	
	2016	2015
Fund management distributable earnings	$63,035	$50,905
Investment income (loss)	4,431	5,113
Interest expense	(3,009)	(821)
Pre-tax distributable earnings	64,457	55,197
Adjust incentive income		
Incentive income received from or declared by private equity funds, the private permanent capital vehicle through IPO in May 2015 and credit PE funds, subject to contingent repayment	(52,793)	(24,544)
Incentive income received from third parties, subject to contingent repayment	—	—
Incentive income from private equity funds, the private permanent capital vehicle through IPO in May 2015 and credit PE funds, not subject to contingent repayment	29,310	20,964
Incentive income from hedge funds, permanent capital vehicles and Logan Circle, subject to annual performance achievement	(7,948)	(23,169)
Incentive income from third parties, not subject to contingent repayment	—	—
Incentive income received related to the exercise of options	—	—
	(31,431)	(26,749)
Adjust other income (loss)		
Distributions of earnings from equity method investees*	(3,511)	(3,842)
Earnings (losses) from equity method investees*	(24,019)	26,973
Gains (losses) on options in equity method investees	(2,495)	32,328
Gains (losses) on other investments	(14,525)	704
Impairment of investments (see discussion above)	2,130	2,994
Adjust income from the receipt of options	—	4,144
Gain on transfer of Graticule (see Note 1)	—	134,400
	(42,420)	197,701
Adjust employee, Principal and director compensation		
Adjust employee, Principal and director equity-based compensation expense (including publicly traded permanent capital vehicle options assigned)	(8,776)	(20,460)
Adjust employee portion of incentive income from private equity funds and credit PE funds, accrued prior to the realization of incentive income	5,781	84
	(2,995)	(20,376)
Adjust for the transfer of interest in Graticule (see Note 1)	—	(101,000)
Adjust amortization of intangible assets and impairment of goodwill and intangible assets	(659)	(83)
Adjust non-controlling interests related to Fortress Operating Group units	8,030	(51,605)
Adjust tax receivable agreement liability	(2,699)	—
Adjust income taxes and other tax related items	(809)	(18,372)
Total adjustments	(72,983)	(20,484)

Net Income (Loss) Attributable to Class A Shareholders	(8,526)	34,713
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	(7,426)	52,223
Redeemable non-controlling interests in Income (Loss) of Consolidated Subsidiaries	—	(16)
Net Income (Loss) (GAAP)	$(15,952)	$86,920

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

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	March 31, 2016
Total segment assets	$2,044,659
Adjust equity investments from segment carrying amount	(12,745)
Adjust investments gross of employees' and others' portion	9,080
Adjust intangible assets to cost	(24,757)
Accrued incentive income subject to annual performance achievement	(7,948)
Total assets (GAAP)	$2,008,289

	Three Months Ended March 31,	
	2016	2015
Total segment revenues	$204,885	$189,962
Adjust management fees	(416)	250
Adjust incentive income*	(31,431)	(27,135)
Adjust income from the receipt of options	—	4,144
Adjust other revenues (including expense reimbursements)**	58,579	59,468
Total revenues (GAAP)	$231,617	$226,689

* Incentive income received from third parties, not subject to contingent repayment was $0.0 million and $0.4 million for the three months ended March 31, 2016 and March 31, 2015, respectively, and are included in segment measures as part of incentive income while included in GAAP as part of other revenues.

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

Fortress's depreciation and amortization expense by segment prior to the allocation of corporate and intra-segment depreciation and amortization expense to the business segments was as follows. Amortization expense, related to intangible assets, is not a component of distributable earnings.

	Private Equity		Credit					
Three Months Ended March 31,	Funds	Permanent Capital Vehicles	Hedge Funds	PE Funds	Liquid Hedge Funds	Logan Circle	Corporate	Total
2016								
Depreciation	$690	$ 927	$1,587	$ 677	$824	$ 71	$ 831	$5,607
Amortization	—	—	576	—	—	83	—	659
Total	$690	$ 927	$2,163	$ 677	$824	$ 154	$ 831	$6,266
2015								
Depreciation	$374	$ 235	$1,390	$ 256	$2,043	$ 280	$ 670	$5,248
Amortization	—	—	—	—	—	83	—	83
Total	$374	$ 235	$1,390	$ 256	$2,043	$ 363	$ 670	$5,331

11. SUBSEQUENT EVENTS

These financial statements include a discussion of material events, if any, which have occurred subsequent to March 31, 2016 (referred to as “subsequent events”) through the issuance of these consolidated financial statements. Events subsequent to that date have not been considered in these financial statements.

Subsequent events are described in Notes 2 and 8.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

Overview

Our Business

Fortress is a leading, highly diversified global investment management firm with approximately $70.6 billion in AUM as of March 31, 2016. Fortress applies its deep experience and specialized expertise across a range of investment strategies — private equity, credit, liquid markets and traditional fixed income — on behalf of our over 1,750 institutional clients and private investors worldwide. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our alternative investment funds, receive reimbursements of certain expenses from funds we manage and earn investment income (loss) from our investments in our funds. We continue to invest capital in our alternative investment businesses.

The performance of our funds was mixed in the first three months of 2016, with positive performance in some funds and negative performance in others, and overall our segment operating results were up in comparison to the first three months of 2015. In addition, we have improved our capital structure by repurchasing our equity at a discount to its market price. For more information about these topics, please refer to "— Assets Under Management," "— Performance of our Funds," and "— Liquidity and Capital Resources" below.

As of March 31, 2016, we managed the following businesses:

Private Equity — a business that manages approximately $14.0 billion of AUM comprised of two business segments: (i) general buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America and Western Europe; and (ii) permanent capital vehicles, which includes publicly traded companies that are externally managed by Fortress pursuant to management agreements and a senior living property management business. The publicly traded companies invest in a wide variety of real estate related assets, including securities, loans, real estate properties and mortgage servicing related assets, media assets, senior living properties and transportation and infrastructure assets. All of the capital of Worldwide Transportation and Infrastructure Investors ("WWTAI"), formerly a private fund managed by Fortress, was contributed to Fortress Transportation and Infrastructure Investors LLC ("FTAI") which completed its initial public offering in May 2015.

Credit Funds — a business that manages approximately $18.7 billion of AUM comprised of two business segments: (i) credit hedge funds which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager or co-manager as part of an advisory business; and (ii) credit private equity ("PE") funds which are comprised of a family of "credit opportunities" funds focused on investing in distressed and undervalued assets, a family of "long dated value" funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of “real assets” funds focused on investing in tangible and intangible assets in 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, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector.

Liquid Hedge Funds — a business that manages approximately $5.2 billion of AUM which includes $4.5 billion of AUM relating to Graticule Asset Management Asia ("Graticule") on the affiliated manager platform ("Affiliated Managers") as a result of the Fortress Asia Macro Funds and related managed accounts transition on January 5, 2015. Fortress also receives fees for providing infrastructure services (technology, back office, and related services) to Graticule. During the second quarter of 2015, Graticule notified Fortress of its intention to terminate the infrastructure services agreement effective at the end of May 2016. Fortress will continue to earn fees for providing services to Graticule through the effective date of the termination. In addition, this business includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments; a fund that primarily focuses on an international "event driven" investment strategy, particularly in Europe, Asia-Pacific and Latin

America; and a fund that seeks to generate returns by executing a positively convex investment strategy.

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

Logan Circle — our traditional asset management business, which has approximately $32.8 billion of AUM, provides institutional clients actively managed investment solutions across a broad spectrum of fixed income strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt.

Understanding the Asset Management Business

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

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

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

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

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

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

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

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

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

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

Each of these objectives is discussed below.

Assets Under Management

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

- Capital raising: AUM increases when we receive more capital from our fund investors to manage on their behalf, when the publicly traded permanent capital vehicles raise capital such as in an equity offering or when our Affiliated Managers receive more capital. Typically, fund investors make this decision based on: (a) the amount of capital they wish, or are able, to invest in the types of investments a certain manager or fund makes, and (b) the reputation and track record of the manager and its key investment employees.
- Realization of private equity investments and return of capital distributions: In "closed-end" funds, AUM decreases when we return capital to fund investors as investments are realized. Investments are realized when they are sold or otherwise converted to cash by the manager. Similarly, AUM decreases in publicly traded investment vehicles, including the publicly traded permanent capital vehicles, when return of capital distributions are made to investors.
- Redemptions: In "open-end" funds, AUM decreases after fund investors ask for their capital to be returned, or "redeemed," at periodic intervals. Typically, fund investors make this decision based on the same factors they used in making the original investment, which may have changed over time or based on circumstances, as well as on their liquidity needs.
- Fund performance: AUM increases or decreases in accordance with the performance of fund investments.

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

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

Performance

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

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

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

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

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

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

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

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

Liquidity, Debt and Expense Management

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

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

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

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

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

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

Understanding our Financial Statements

Balance Sheet

Our assets consist primarily of the following:

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

Our liabilities consist primarily of the following:

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

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

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

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

Statement of Operations

Our revenues and other income consist primarily of the following:

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

Our expenses consist primarily of the following:

1) Employee compensation paid in cash, including profit sharing compensation.
2) Equity-based compensation, which is not paid in cash but has a dilutive effect when it vests because it results in additional shares being issued (this amount is broken out from total compensation in Note 7 to our consolidated financial statements).
3) Other general and administrative expenses and interest expense.
4) Taxes.

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

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

Managing Business Performance

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

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

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

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

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

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Market Considerations

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

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

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

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

The first quarter of 2016 was marked by a V-shaped trajectory in global equity markets with stocks declining sharply to mid-February and recovering thereafter to finish the quarter essentially flat in US Dollar terms. Markets declined at the beginning of the year amid worries about China's slowing economy, lower oil prices, disappointing data and tensions in the Middle East. The market recovery in the second half of the quarter can be mainly attributed to interventions by central banks, to improving economic data and to a rebound in oil prices; which encouraged investors to reconsider risk assets. The trend of developed market equities outperforming emerging market equities reversed during the first quarter of 2016. Emerging market equities had positive returns and were supported by an easing in U.S. Dollar strength. During the first quarter of the year, the U.S. Dollar declined against most major currencies, including the euro, the yen, and, to a lesser extent, the renminbi. Risk aversion at the beginning of the year increased demand for safe-haven securities; intermediate and long term U.S. Treasury yields decreased significantly in the first quarter. The appetite for riskier asset classes boosted investment-grade corporate bonds, high yield bonds and emerging markets debt in the second half of the quarter. Government bonds from non-US developed markets experienced gains as both the European Central Bank and the Bank of Japan ramped up their stimulus efforts.

In the U.S., during the first quarter of 2016, there was a focus on the path of U.S. monetary policy and its impact on rates. The Federal Reserve raised the federal funds target rate by 25 basis points in mid-December 2015, the first rate hike in nine years, which reflected the Federal Reserve's confidence that the U.S. economy was on a path to “sustainable improvement”. During the quarter, the Federal Reserve adopted an increasingly dovish stance and decided to keep interest rates unchanged throughout the quarter. This posture was partly due to volatility in the financial markets. Moreover, U.S. data started the year on a weak note. However, later in the quarter, there were signs of increasing health in the U.S. economy, with improving manufacturing, retail sales and labor market data. The U.S. labor market remained strong, with U.S. employers adding more than 600,000 jobs during the quarter. Gross domestic product (GDP) last year was up 2.4% and GDP for the fourth quarter of 2015 was revised up to 1.4%. Inflation was on the rise, but still below the central bank’s target level of 2%. U.S. equities ended the quarter in positive territory.

In Europe, in January 2015, the European Central Bank announced a Federal Reserve-style stimulus plan and committed to a trillion-Euro asset-purchase plan to fight deflation and stimulate growth. Eurozone equities suffered during the first half of the quarter on weak economic growth, deflationary pressures, weak Chinese data and declining oil prices. Eurozone equities subsequently recovered, but still finished the quarter in negative territory. European growth continued to be anemic, with GDP expanding by 0.3% in Q4 2015. Moreover, inflation remained far below the ECB’s 2% target and Eurozone jobless rates were mixed. Additional risks for the region include potential for a British exit ("Brexit"), the migrant crisis, geopolitical uncertainties and terrorism. In response to the weak outlook and to boost growth, the ECB announced supplementary monetary policy easing in early March. The ECB cut key interest rates, increased its bond-buying program from Euro 60 billion to Euro 80 billion a month,

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expanded asset purchases to include corporate bonds in addition to sovereign debt and announced a new series of four targeted longer-term refinancing operations.

Japanese equities finished down in the first quarter of 2016 due to concerns over global growth and plummeting commodity prices; as well as domestic worries over growth. At the end of January, the Bank of Japan kept its monetary expansion of ¥80.0 trillion a year in place, but took the markets by surprise by adopting a negative interest rate policy. This new policy is an attempt by the Bank of Japan to boost the country's economy after a series of poor economic numbers. The Japanese economy contracted for the fourth time in seven quarters and inflation remained low. There were no major changes to the Bank of Japan's policy in March, but Governor Kuroda reiterated his commitment to reach the Bank of Japan's 2% inflation target, which does not rule out further stimulus.

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

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

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

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

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

Solving for funding gaps and low interest rates have caused pension plans and other institutional investors to look to alternative investments in order to increase the yield on their investments. As a result, the amount of capital being invested into the alternative investment industry appears to have increased during the year ended December 31, 2015 and into the first three months of 2016. The outlook for the rest of the year remains generally positive, though the pace of growth may be decreasing. In addition, weaker performance of certain asset classes within the alternative investment industry may temper positivity in the industry. In addition, certain investors appear to have become increasingly focused on the liquidity and redemption terms of alternative investment funds and have expressed a desire to have the ability to redeem or otherwise liquidate their investments in a more rapid time frame than what is permitted under the terms of many existing funds. Investors in long-term, locked-up (i.e., “private equity style”) funds have engaged in longer, more intensive and detailed due diligence procedures prior to making commitments to invest in such funds, which has led to the general perception across the alternative asset management industry that capital raising for long-term

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capital will require longer time periods, a greater commitment of capital raising resources and will generally be more difficult overall than it was previously. Moreover, some investors are increasingly shifting to managed accounts with fee structures that are less favorable to us.

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

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

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

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Assets Under Management

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

	Private Equity		Credit (J)				
	Funds (J)	Permanent Capital Vehicles	Hedge Funds (K)	PE Funds	Liquid Hedge Funds (K)	Logan Circle	Total
AUM December 31, 2015	$8,991	$ 6,816	$8,799	$9,308	$5,409	$31,178	$70,501
Capital raised (A)	—	—	268	13	63	—	344
Increase in invested capital	10	—	66	256	—	—	332
Capital acquisitions (B)	—	—	682	—	—	—	682
Redemptions (C)	—	—	(36)	—	(233)	—	(269)
RCA distributions (D)	—	—	(124)	—	—	—	(124)
Return of capital distributions (E)	(254)	(35)	—	(274)	(19)	—	(582)
Adjustment for capital reset (F)	(650)	—	—	—	—	—	(650)
Crystallized incentive income (G)	—	—	(53)	—	—	—	(53)
Equity buyback	—	(42)	—	—	—	—	(42)
Change in AUM of Affiliated Managers and co-managed funds	—	—	(264)	—	(27)	—	(291)
Net client flows (traditional)	—	—	—	—	—	261	261
Income (loss) and foreign exchange (H)	(918)	34	(2)	50	2	1,362	528
AUM March 31, 2016 (I)	$7,179	$ 6,773	$9,336	$9,353	$5,195	$32,801	$70,637

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

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

(C) Excludes redemptions which reduced AUM subsequent to March 31, 2016. Redemptions are further detailed below.

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

(F) 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 (not applicable to credit PE funds) or (iii) the date on which all unpaid capital obligations have been canceled. For the period commencing with the initial closing of or contribution to the fund and ending on the last day of the semi-annual or quarterly period ending on or after the reset date, certain funds generate management fees as a percentage of the fund's capital commitments and certain funds generate management fees as a percentage of the fund's aggregate capital contributions. Thereafter, such funds generally generate management fees as a percentage of the aggregate capital contributed adjusted for the fair value of each investment that is below the associated investment's contributed capital.

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

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

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

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

(J) As of March 31, 2016, the private equity funds and credit funds had approximately $0.6 billion and $6.7 billion of uncalled and recallable capital, respectively, that will become assets under management if deployed/called, of which an aggregate of $2.9 billion is only available for follow-on investments, management fees and other fund expenses.

(K) As of March 31, 2016, liquid hedge funds AUM included $4.5 billion related to Affiliated Managers and credit hedge funds AUM included $2.6 billion related to co-managed funds.

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Redemptions

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 2016 return of capital request notice date is October 2, 2016 for capital to be returned after December 31, 2016. Such returns of capital may be paid over time as the underlying fund investments are realized, in accordance with the governing terms of the applicable funds. During the period prior to the return of capital for which a return request has been submitted, such amounts continue to be subject to management fees and, as applicable, incentive income. In particular, return of capital requests within the flagship credit hedge fund for 2009 through 2015 (onshore fund only except for 2015 which included the offshore fund) are being paid over time as the underlying fund investments are realized. In such a case, pending payment, this capital is referred to as a redeeming capital account or "RCA." The Mount Kellett Funds, which are co-managed by Fortress, and the JP Funds are not subject to redemptions.

Fortress's liquid hedge funds, other than the Fortress Partners Funds and Drawbridge Global Macro 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. Prior to 2016, the Fortress Partners Funds and Drawbridge Global Macro Funds were subject to redemption.

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

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

Redemption Notices / Return of Capital Requests Received and Outstanding through March 31, 2016 (in thousands):

Request/Notice Receipt Period	Credit Hedge Return of Capital Requests Received	Payments Made with Respect to those Requests - Inception to Date (C)	Credit Hedge Fund Remaining Outstanding Requests		Liquid Hedge Fund Redemption Notices Received	Payments Made with Respect to those Notices - Inception to Date	Liquid Hedge Fund Remaining Outstanding Notices	
2016	$ 60,256	$ 21,250	$ 39,006		$ 38,927	$ —	$ 38,927	
2015	773,268	304,896	470,071		486,598	472,249	—	
2014	220,185	112,177	116,632		357,892	382,909	—	
Prior			239,246	(A)			—	(A)
			$ 864,955	(B)			$ 38,927	(B)

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

(B) For credit hedge funds, reflects $28.6 million to be paid in the second quarter of 2016, $10.4 million to be paid in the first quarter of 2017 and thereafter and $826.0 million in RCAs to be paid as the underlying investments are realized. For liquid hedge funds, reflects $38.9 million to be paid primarily within one quarter which includes $17.0 million related to the Convex Asia Funds and $21.9 million related to Fortress Centaurus Global Funds.

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

In the fourth quarter of 2015, Fortress closed the Fortress Macro Funds and related managed accounts. As such, the above table has been updated to exclude the Fortress Macro Funds and related managed accounts.

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

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Performance of Our Funds

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

Name of Fund	Inception Date	Maturity Date (A)	AUM March 31, 2016	AUM March 31, 2015	Returns (B) Inception to March 31, 2016
Private Equity					
Private Equity Funds that Report IRR’s					
Fund I	Nov-99	Closed May-13	$ N/A	$ N/A	25.7 %
Fund II	Jul-02	Closed Dec-15	N/A	—	35.5 %
Fund III	Sep-04	In Liquidation	—	765	0.4 %
Fund III Coinvestment	Nov-04	In Liquidation	—	41	0.9 %
Fund IV	Mar-06	Jan-17	1,357	1,991	(1.9)%
Fund IV Coinvestment	Apr-06	Jan-17	272	335	(2.6)%
Fund V	May-07	Feb-18	3,550	4,969	4.9 %
Fund V Coinvestment	Jul-07	Feb-18	412	430	(5.2)%
GAGACQ Coinvestment Fund (GAGFAH)	Sep-04	Closed Dec-14	N/A	N/A	19.4 %
FRID (GAGFAH)	Mar-05	Closed Nov-14	N/A	N/A	(0.3)%
FRIC (Brookdale)	Mar-06	Closed Dec-14	N/A	N/A	(1.6)%
FICO (Intrawest)	Aug-06	Jan-17	—	—	(100.0)%
FHIF (Holiday)	Dec-06	Jan-17	459	763	3.1 %
FECI (Florida East Coast Railway/Florida East Coast Industries)	Jun-07	Feb-18	409	425	(0.4)%
MSR Opportunities Fund I A	Aug-12	Aug-22	149	206	14.4 %
MSR Opportunities Fund I B	Aug-12	Aug-22	37	52	14.3 %
MSR Opportunities Fund II A	Jul-13	Jul-23	118	63	9.0 %
MSR Opportunities Fund II B	Jul-13	Jul-23	2	1	8.6 %
MSR Opportunities MA I	Jul-13	Jul-23	27	15	9.0 %
Italian NPL Opportunities Fund	Dec-13	Sep-24	231	19	(C)
Fortress Equity Partners	Mar-14	Mar-24	156	104	(C)

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Name of Fund	Inception Date	Maturity Date (A)	AUM March 31, 2016	AUM March 31, 2015	Returns (B) Inception to Date (D)	Returns (B) Three Months Ended March 31, 2016	Returns (B) Three Months Ended March 31, 2015
Publicly Traded Permanent Capital Vehicles							
Newcastle Investment Corp.	Jun-98	Permanent	$680	$680	N/A	11.1 %	9.9 %
New Residential Investment Corp.	May-13	Permanent	2,689	1,367	N/A	15.8 %	10.1 %
Eurocastle Investment Limited	Oct-03	Permanent	608	432	N/A	9.5 %	5.9 %
New Media Investment Group Inc.	Feb-14	Permanent	637	637	N/A	7.9 %	5.0 %
New Senior Investment Group Inc.	Nov-14	Permanent	1,024	813	N/A	10.1 %	5.5 %
Fortress Transportation and Infrastructure Investors LLC (E)	May-15	Permanent	1,135	693	N/A	13.3 %	N/A
Liquid Hedge Funds							
Drawbridge Global Macro Funds (A)	Jun-02	Non-redeemable	116	227	5.9 %	(G)	(4.9)%
Fortress Macro Funds	May-09	Closed Nov-15	N/A	1,292	2.8 %	N/A	(4.7)%
Fortress Macro MA1	Nov-11	Closed Dec-15	N/A	241	5.6 %	N/A	3.6 %
Fortress Redwood Fund LTD	Aug- 13	Closed Dec-15	N/A	738	(3.5)%	N/A	(2.5)%
Fortress Partners Fund LP (A)	Jul-06	Non-redeemable	139	339	1.6 %	(G)	1.2 %
Fortress Partners Offshore Fund LP (A)	Nov-06	Non-redeemable	89	203	1.7 %	(G)	0.3 %
Fortress Centaurus Global Funds	Jun-14	Redeemable	206	64	1.2 %	1.8 %	3.9 %
Fortress Convex Asia Funds	May-12	Redeemable	176	226	(3.7)%	1.5 %	(0.6)%
Credit Hedge Funds							
Drawbridge Special Opp's Fund LP (F)	Aug-02	PE style redemption	4,524	4,381	10.7 %	0.6 %	2.2 %
Drawbridge Special Opp's Fund LTD (F)	Aug-02	PE style redemption	1,121	1,375	9.5 %	(1.3)%	1.1 %
Worden Fund	Jan-10	PE style redemption	170	225	9.1 %	(1.1)%	1.4 %
Worden Fund II	Aug-10	Closed Feb-16	—	38	6.8 %	(2.7)%	1.0 %
Japan Income Fund (Yen only)	Dec-13	Redeemable	116	59	(B)	(B)	(B)
Third Party Originated Funds							
JP Funds (A)	(G)	Non-redeemable	735	N/A	(G)	(G)	(G)
Value Recovery Funds and related assets (A)	(G)	Non-redeemable	80	189	(G)	(G)	(G)

Continued on next page.

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Name of Fund	Inception Date	Maturity Date (A)	AUM March 31, 2016	2015	Returns (B) Inception to March 31, 2016	
Credit PE Funds						
Credit Opportunities Fund	Jan-08	Oct-20	$557	$591	23.8	%
Credit Opportunities Fund II	Jul-09	Jul-22	458	554	16.4	%
Credit Opportunities Fund III	Sep-11	Mar-24	1,697	1,993	9.9	%
Credit Opportunities Fund IV	Feb-15	Feb-27	555	141	(C)	
FCO Managed Accounts (H)	Sep-08 to Jun-12	Apr-22 to Dec-24	1,711	1,854	15.0	%
FCO Managed Accounts (H)	Mar-15 to Jun-15	Mar-25 to Feb-28	416	105	(C)	
Long Dated Value Fund I	Apr-05	Apr-30	129	163	5.5	%
Long Dated Value Fund II	Nov-05	Nov-30	95	119	3.6	%
Long Dated Value Fund III	Feb-07	Feb-32	64	68	6.0	%
LDVF Patent Fund	Nov-07	Nov-27	4	2	8.2	%
Real Assets Fund	Jun-07	Jun-17	50	52	6.3	%
Japan Opportunity Fund (Yen only)	Jun-09	Jun-19	97	220	34.4	%
Japan Opportunity Fund II (Dollar)	Dec-11	Dec-21	399	439	25.2	%
Japan Opportunity Fund II (Yen)	Dec-11	Dec-21	458	454	28.2	%
Japan Opportunity Fund III (Dollar)	Dec-14	Dec-24	470	—	(C)	
Japan Opportunity Fund III (Yen)	Dec-14	Dec-24	693	17	(C)	
Net Lease Fund I	Jan-10	Closed Dec-15	N/A	—	21.2	%
Global Opportunities Fund	Sep-10	Sep-20	184	165	7.4	%
Global Opportunities Fund II	Jul-15	Jul-26	78	—	(C)	
Life Settlements Fund	Dec-10	Dec-22	100	88	(C)	
Life Settlements Fund MA	Dec-10	Dec-22	9	8	(C)	
Real Estate Opportunities Fund	May-11	Sep-24	87	142	16.5	%
Real Estate Opportunities Fund II	May-14	May-27	1,000	340	(C)	
Real Estate Opportunities REOC Fund	Oct-11	Oct-23	35	41	11.5	%
Subtotal - all funds			30,770	31,954		
Managed accounts (I)			8	518		
Affiliated Managers and Co-managed Funds (I)			7,058	4,001		
Total - Alternative Investments			37,836	36,473		
Logan Circle			32,801	33,416		
Total (J)			$70,637	$69,889		

(A) For funds with a contractual maturity date, maturity date represents the final contractual maturity date including the assumed exercise of extension options, which in some cases require the approval of the applicable fund advisory board. Fund III and Fund III Coinvestment have passed their contractual maturity date and are in the process of an orderly wind down. The publicly traded permanent capital vehicles are considered to have permanent equity as they have an indefinite life and no redemption terms. Investor capital in the liquid hedge funds is generally redeemable at the option of the fund investors; however, the Drawbridge Global Macro Funds' and Fortress Partner Funds' investor capital is not redeemable by its investors and such capital will only be distributed as underlying sidepocket investments are realized, in accordance with their governing documents. The Drawbridge Special Opportunities Funds and Worden Fund may pay redemptions over time, as the underlying sidepocket investments are realized, in accordance with their governing documents (“PE style redemption”). The JP Funds' AUM includes $504.4 million of permanent equity. 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 86% of our alternative investment AUM as of March 31, 2016.

(B) Represents the following:

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

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For publicly traded permanent capital vehicles, returns represent the current dividend yield which is calculated by annualizing the most recently declared base dividend and dividing the result by the closing stock price for the period. Excludes the impact of special dividends declared in connection with REIT compliance, which may increase returns. There can be no assurance regarding the publicly traded permanent capital vehicles' respective dividend yields, which may fluctuate meaningfully as a result of changes in the amount of dividends paid in the future and/or changes in their respective stock prices.
For credit hedge funds and liquid hedge funds, returns represent net returns after taking into account any fees borne by the funds for a “new issue eligible,” single investor class as of the close of business on the last date of the relevant period. Specific performance may vary based on, among other things, whether fund investors are invested in one or more special investments. No return is shown for Japan Income Fund as returns are not an accurate performance metric for this fund.
For the Drawbridge Global Macro Funds and Fortress Partners Funds, inception to date returns are through October 31, 2015 and December 31, 2015, respectively. Also see Note G.
For funds that are closed, the return(s) that are disclosed for the periods subsequent to closing represents the fund's return through its closing date.

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

(D) For credit hedge funds and liquid hedge funds, reflects a composite of monthly returns presented on an annualized net return basis.

(E) WWTAI was a private fund formed in July 2011 and formerly managed by Fortress. All of the capital of WWTAI was contributed to FTAI which completed its initial public offering in May 2015.

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

(G) As of October 31, 2015 and December 31, 2015, the Drawbridge Global Macro Funds and Fortress Partners Funds, respectively, redeemed all of their investors’ liquid capital. As such, the remaining investor capital in these funds are comprised of sidepocket investments and their returns subsequent to the redemption of all investor liquid capital are not comparable to returns reported for prior historical periods.

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

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

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

(J) In addition to the funds listed, Fortress manages CFT Co-invest Fund (CAD and USD), NIH (closed June 2015) and FPRF. Such funds are excluded from the table because they did not include any management fee paying assets at the end of the periods presented. Fund I, Fund II, GAGACQ Coinvestment Fund (GAGFAH), FRID (GAGFAH), FRIC (Brookdale), FICO (Intrawest) and Net Lease Fund I had no AUM or were closed as of March 31, 2016 and 2015, but for purposes of continuity of presentation, the returns of these funds have been left in the table.

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Results of Operations

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

	Three Months Ended March 31,		Variance
	2016	2015	$
	(Unaudited)	(Unaudited)	
Revenues			
Management fees: affiliates	$127,390	$127,707	$(317)
Management fees: non-affiliates	13,419	15,291	(1,872)
Incentive income: affiliates	31,778	24,223	7,555
Incentive income: non-affiliates	451	—	451
Expense reimbursements: affiliates	55,291	54,565	726
Expense reimbursements: non-affiliates	1,157	3,248	(2,091)
Other revenues	2,131	1,655	476
Total Revenues	231,617	226,689	4,928
Expenses			
Compensation and benefits	164,205	178,888	(14,683)
General, administrative and other expense (including depreciation and amortization)	39,392	48,312	(8,920)
Interest expense	3,037	839	2,198
Transfer of interest in Graticule	—	101,000	(101,000)
Total Expenses	206,634	329,039	(122,405)
Other Income (Loss)			
Gains (losses)	(16,673)	31,561	(48,234)
Tax receivable agreement liability adjustment	(2,699)	—	(2,699)
Earnings (losses) from equity method investees	(20,780)	41,708	(62,488)
Gain on transfer of Graticule	—	134,400	(134,400)
Total Other Income (Loss)	(40,152)	207,669	(247,821)
Income Before Income Taxes	(15,169)	105,319	(120,488)
Income tax benefit (expense)	(783)	(18,399)	17,616
Net Income (Loss)	$(15,952)	$86,920	$(102,872)
Allocation of Net Income (Loss):			
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	$(7,426)	$52,223	$(59,649)
Redeemable Non-controlling Interests in Income (Loss) of Consolidated Subsidiaries	—	(16)	16
Net Income (Loss) Attributable to Class A Shareholders	(8,526)	34,713	(43,239)
	$(15,952)	$86,920	$(102,872)

Factors Affecting Our Results

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

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

Each of these factors is described below.

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Average Management Fee Paying AUM

Average management fee paying AUM represents the reference amounts upon which our management fees are based. The reference amounts for management fee purposes are: (i) capital commitments or invested capital (or NAV, on an investment by investment basis, if lower) for the private equity funds, private permanent capital vehicle through IPO in May 2015 and credit PE funds, which in connection with private equity funds raised after March 2006 includes the mark-to-market value on public securities held within the fund, (ii) contributed capital or book equity (as defined) for the publicly traded permanent capital vehicles, (iii) the NAV for hedge funds and the NAV or fair value for managed accounts (including Logan Circle), (iv) or the AUM for Affiliated Managers and co-managed funds.

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

Three Months Ended	Private Equity Funds (A)	Private Equity Permanent Capital Vehicles (B)	Credit Hedge Funds (C)	Credit PE Funds	Liquid Hedge Funds (D)	Logan Circle	Total
March 31, 2016	$8,085	$ 6,795	$8,863	$9,331	$819	$31,990	$65,883
March 31, 2015	$9,772	$ 4,595	$6,222	$7,259	$4,229	$32,879	$64,956

(A) Effective January 1, 2016, Fortress no longer earns management fees from Fund III and Fund III Coinvestment. These funds had average fee paying AUM, based on a simple quarterly average, of $0.8 billion for the three months ended March 31, 2015. Total management fees from these funds were $2.4 million for the three months ended March 31, 2015.

(B) In December 2015 and January 2016, certain publicly traded permanent capital vehicles announced share repurchase programs to purchase up to $330.0 million of common stock over the next twelve months which will reduce fee paying AUM upon repurchase. During the three months ended March 31, 2016, AUM decreased by $42.0 million as a result of equity buybacks.

(C) In July 2015, Fortress became co-manager of the Mount Kellett Funds and in March 2016 Fortress became investment manager of the JP Funds.

(D) In the fourth quarter of 2015, we closed the Fortress Macro Funds and related managed accounts. The Fortress Macro Funds and related managed accounts had average fee paying AUM of $3.1 billion for the three months ended March 31, 2015. Total management fees for the Fortress Macro Funds and related managed accounts were $13.2 million for the three months ended March 31, 2015. There was no incentive income for the Fortress Macro Funds and related managed accounts for the three months ended March 31, 2015. Liquid hedge funds excludes AUM of Affiliated Managers.

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

Management Fees

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

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

Incentive Income

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

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

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periods in our hedge funds, which we regard as positive events, the related incentive income impact improves our segment distributable earnings while reducing our GAAP results for the same period.

As of March 31, 2016, we had $21.1 billion of incentive eligible NAV in the Fortress Funds at or above their incentive income threshold which is eligible to generate future incentive income and thus potentially contribute to our earnings. As of December 31, 2015, we had $21.9 billion of incentive eligible NAV in the Fortress Funds at or above their incentive income threshold. The decrease in the incentive eligible NAV in the Fortress Funds at or above their incentive income threshold was primarily related to negative performance from certain of our credit hedge funds and private equity funds. These decreases were partially offset by an increase in incentive eligible NAV due to certain permanent capital vehicles being at or above their incentive income threshold. Additionally, the March 31, 2016 incentive eligible NAV in the Fortress Funds at or above their incentive income threshold decreased from $25.2 billion as of March 31, 2015 primarily due to a decrease in the liquid hedge funds business as a result of the closing of the Fortress Macro Funds and related managed accounts in the fourth quarter of 2015 and negative performance from certain of our credit hedge funds and private equity funds. These decreases were partially offset by a net increase from (i) our permanent capital vehicles as a result of capital raised during 2015 and positive performance and (ii) our credit PE funds as a result of a net increase in invested capital.

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

Fund Management and Investment Platform

In order to accommodate the demands of our funds' investment portfolios, we have created investment platforms, which are comprised primarily of our people, financial and operating systems and supporting infrastructure. Our investment platform historically required changes in headcount, including changes in the number of hired investment professionals and support staff, as well as changes to leases and associated improvements to corporate offices to house our employees, and related augmentation of systems and infrastructure. Our headcount included 1,130 asset management employees as of March 31, 2016 and 2015, respectively. Additionally, we had 1,885 employees as of March 31, 2016 at the senior living properties that we manage (whose compensation expense is reimbursed to us by the owners of the facilities) compared to 1,790 such employees as of March 31, 2015.

Revenues

Three months ended March 31

Total revenues were $231.6 million for the three months ended March 31, 2016, a net increase of $4.9 million, compared to $226.7 million for the three months ended March 31, 2015.

The increase in revenues of $4.9 million was primarily attributable to an increase of $7.6 million in incentive income from affiliates. This increase was partially offset by decreases of (i) $0.3 million and $1.9 million in management fees from affiliates and non-affiliates, respectively, and (ii) $2.1 million in expense reimbursements from non-affiliates.

The increase in incentive income from affiliates of $7.6 million was primarily attributable to (i) a net increase of $7.9 million from our credit PE funds primarily related to an increase in crystalized incentive income as a result of realization events during the three months ended March 31, 2016 which resulted in the recognition of revenue as certain contingencies for repayment were resolved and (ii) a net increase of $0.9 million from our liquid hedge funds. These increases were partially offset by a net decrease of $1.5 million in incentive income recognized from our permanent capital vehicles.

The decrease in management fees from affiliates of $0.3 million was primarily attributable to decreases of (i) $10.7 million as a result of the closing of the Fortress Macro Funds in the fourth quarter of 2015, (ii) $4.1 million related to a decrease of permanent capital vehicle options granted to Fortress during the three months ended March 31, 2016 as compared to the prior period, (iii) $2.4 million related to Fund III and Fund III Coinvestment as we no longer receive management fees effective January 1, 2016, (iv) $2.8 million from our other liquid hedge funds and our other private equity funds as a result of decreases in their average management fee paying AUM, based on a simple quarterly average, of $0.3 billion and $0.9 billion, respectively, and (v) $0.4 million from Logan Circle as a result of a decrease in average management fee paying AUM from affiliates of $1.9 billion. These decreases were partially offset by (i) net increases of $12.7 million from our permanent capital vehicles and credit PE funds as a result of increases in the average management fee paying AUM of $2.2 billion and $2.0 billion, respectively, and (ii) $7.0 million related to a co-management agreement which began in July 2015.

The decrease in management fees from non-affiliates of $1.9 million was primarily related to a decrease of $2.5 million as a result of the closing of the Fortress Macro Fund related managed accounts. This decrease was partially offset by an increase of $0.7

million related to Logan Circle as a result of an increase in average management fee paying AUM from non-affiliates of $1.0 billion.

The decrease in expense reimbursements from non-affiliates of $2.1 million was primarily related to the closing of the Fortress Macro Fund related managed accounts.

Expenses

Three months ended March 31

Expenses were $206.6 million for the three months ended March 31, 2016, a net decrease of $122.4 million, compared to $329.0 million for the three months ended March 31, 2015. Expenses for the three months ended March 31, 2015 included a non-cash expense of $101.0 million relating to the transfer of an interest in Graticule. Excluding the impact of the Graticule transfer, expenses for the three months ended March 31, 2016 decreased by $21.4 million compared to $228.0 million for the three months ended March 31, 2015. The decrease in expenses is primarily due to (i) a decrease in compensation and benefits of $14.7 million and (ii) a decrease in general, administrative and other expenses (including depreciation and amortization) of $8.9 million. These decreases were partially offset by an increase in interest expense of $2.2 million.

Total compensation and benefits decreased primarily due to (i) a $17.1 million decrease in profit-sharing expenses primarily related to our credit hedge funds, liquid hedge funds and permanent capital vehicles, as a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective periods, (ii) a $1.2 million decrease in discretionary bonus accruals and (iii) a $6.3 million decrease in equity based compensation. These decreases were partially offset by (i) a $7.0 million increase in profit-sharing expenses primarily related to our credit PE funds and Principal Performance Payments in our private equity and credit businesses as a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective periods and (ii) a $2.8 million increase in other payroll, taxes and benefits primarily as a result of an increase in severance and health benefit costs.

The decrease in general, administrative and other expenses was primarily due to decreases of (i) $4.2 million in professional fees, (ii) $1.4 million in market data costs primarily related to our liquid hedge fund business, and (iii) $4.2 million in general and other expenses. These decreases were partially offset by an increase of $0.9 million in depreciation and amortization.

The increase in interest expense of $2.2 million primarily related to an increase in the average outstanding debt balance for the three months ended March 31, 2016, as compared to the prior period. The average outstanding debt balance increased primarily from the issuance of a promissory note to a former principal to purchase his Fortress Operating Group units and corresponding Class B shares.

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 March 31, 2016 of $79.1 million with a weighted average recognition period of 3.9 years.

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

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trader (regardless of overall fund performance). The actual expense is based on actual performance within the funds and is detailed by business in Note 7 to our consolidated financial statements contained herein.

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

As of March 31, 2016, we have $1.0 billion of gross undistributed incentive income. If this incentive income were realized, we would also recognize an additional $492.6 million of compensation expense.

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

Other Income (Loss)

Three months ended March 31

Other income (loss) was $(40.2) million, for the three months ended March 31, 2016, a net decrease of $247.8 million, compared to $207.7 million for the three months ended March 31, 2015. Other income (loss) for the three months ended March 31, 2015 included a non-cash gain of $134.4 million relating to the transfer of an interest in Graticule. Excluding the impact of the Graticule transfer, other income (loss) for the three months ended March 31, 2016 decreased by $113.4 million compared to $73.3 million for the three months ended March 31, 2015. The net decrease of $113.4 million is primarily related to (i) a net decrease of $62.5 million in earnings from equity method investees primarily with respect to our investments in our private equity funds and liquid hedge funds for the three months ended March 31, 2016 as compared to the prior period, (ii) a net realized and unrealized loss of $13.2 million in the fair value of derivatives, primarily Japanese Yen foreign exchange contracts for the three months ended March 31, 2016, as compared to a net realized and unrealized gain of $1.1 million in the prior period, resulting in a net decrease of $14.3 million and (iii) a net decrease in realized and unrealized losses of $37.9 million in the fair value of options and common stock held in our publicly traded permanent capital vehicles and publicly traded private equity companies for the three months ended March 31, 2016, as compared to the prior period. These decreases were partially offset by a $1.7 million gain on the sale of certain software and technology-related assets to Graticule during the three months ended March 31, 2016.

Income Taxes

Three months ended March 31

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 three months ended March 31, 2016 and 2015, Fortress recognized income tax expense of $0.8 million and $18.4 million, respectively. The primary reasons for changes in income tax expense 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) and (ii) changes in the mix of businesses producing income, which may be subject to tax at different rates, and related changes in our structure.

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

	Comparative Periods Three Months Ended March 31, 2016 vs. 2015		
Change in pre-tax income applicable to Class A Shareholders (A)	$	(20,965	)
Change in foreign and state income taxes (B)	(4,063		)
Change in mix of business (C)	7,539		
Change in deferred tax asset valuation allowance and related adjustments (D)	(447		)
Tax receivable agreement liability adjustment (E)	945		
Change in tax credits and other deductions	(625		)
Total change (F)	$	(17,616	)

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(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) Primarily related to the change in the amount of pre-tax income of Fortress Operating Group.

(C) For the three months ended March 31, 2016, the amount of income passed through to shareholders was lower when compared to the three months ended March 31, 2015, resulting in an increase in income tax expense in 2016. In 2016, we generated less unrealized gains and certain other income, which is passed directly to shareholders, resulting in an increase in taxable income.

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

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

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

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

Three months ended March 31

Principals’ and Others’ Interests in Income (Loss) of Consolidated Subsidiaries decreased from $52.2 million to $(7.4) million, a decrease of $59.6 million, primarily attributable to (i) a decrease of $59.6 million in the amount of consolidated net income (loss) allocable to the FOG units held by the Principals and a former senior employee and (ii) a less than $0.1 million decrease in Others’ interests in the net income of consolidated subsidiaries of Fortress Operating Group during the three months ended March 31, 2016, as compared to the three months ended March 31, 2015. The $59.6 million decrease in the amount of consolidated net income (loss) allocable to the FOG units held by the principals and a former senior employee was primarily a result of a $61.2 million decrease in Fortress's shareholders' net income in Fortress Operating Group during the three months ended March 31, 2016 as compared to the three months ended March 31, 2015. These decreases were partially offset by a net increase of $1.6 million resulting from the dilution of non-controlling interests in Fortress Operating Group related to the delivery of restricted stock awards and the purchase of Fortress Operating Group units from a former principal which was partially offset by the repurchase and cancellation of Class A shares and Fortress Operating Group units.

Redeemable Non-controlling Interests in Income (Loss)

Redeemable Non-controlling Interests in Income (Loss) of Consolidated Subsidiaries represent the share of income (loss) attributable to equity interests which are redeemable and not owned by Fortress.

Segment Analysis

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

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

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

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

Distributable earnings is described in Note 10 to Part I, Item 1, “Financial Statements — Segment Reporting,” which includes 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.

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

Incentive Income

(i) a. for Fortress Funds which are private equity funds, the private permanent capital vehicle through IPO in May 2015 and credit PE funds, adding (a) incentive income paid (or declared as a distribution) to Fortress, less an applicable reserve for potential future clawbacks if the likelihood of a clawback is deemed greater than remote by Fortress's CODM (net of the reversal of any prior such reserves that are no longer deemed necessary), less (b) incentive income recorded in accordance with GAAP,

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

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

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

Other Income

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

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

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

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

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

(iv) for 2015, subtracting the gain on transfer of Graticule,

Expenses

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

(vi) adding back equity-based compensation expense (including options in the publicly traded permanent capital vehicles assigned to employees, RSUs (including the portion of related dividend and distribution equivalents recorded as compensation expense), and restricted shares),

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

(viii) for 2015, adding back the expense related to the transfer of interest in Graticule,

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

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

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Private Equity Funds

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

	Three Months Ended March 31,		2016 vs. 2015
	2016	2015	$
Segment revenues			
Management Fees	$25,758	$29,140	$(3,382)
Incentive Income	—	—	—
Segment revenues — total	$25,758	$29,140	$(3,382)
Pre-tax distributable earnings	$14,446	$14,998	$(552)

Three months ended March 31

Pre-tax distributable earnings decreased by $0.6 million primarily due to:

Revenues

Management fees were $25.8 million for the three months ended March 31, 2016, a net decrease of $3.4 million, compared to $29.1 million for the three months ended March 31, 2015. Management fees decreased by $3.4 million primarily due to a decrease of (i) $2.7 million from Fund IV, Fund IV Coinvestment, FHIF and Fund V Coinvestment as a result of decreases in AUM due to return of capital distributions and a decrease in the average market value of certain portfolio companies, some of which were below their invested capital, which impacted the computation of management fees as compared to the prior period and (ii) $2.4 million from Fund III and Fund III Coinvestment, which are no longer subject to management fees effective January 2016. These decreases were partially offset by an increase of (i) $1.0 million from Fund V primarily as a result of an increase in the average market value of a certain portfolio company which impacted the computation of management fees as compared to the prior period and (ii) $0.8 million from Fortress Equity Partners and Italian NPL Opportunities Fund as a result of an increase in AUM due to capital contributed.

Expenses

Expenses were $10.2 million for the three months ended March 31, 2016, a net decrease of $4.0 million, compared to $14.2 million for the three months ended March 31, 2015. The decrease of $4.0 million in expenses was primarily attributable to (i) a net decrease of $2.9 million in general and administrative and corporate allocable expenses for the three months ended March 31, 2016 and (ii) a $1.1 million net decrease in compensation and benefits expense for the three months ended March 31, 2016, as compared to the prior period.

Net Investment Income

Net investment income (loss) was $(1.1) million for the three months ended March 31, 2016, a decrease of $1.1 million, compared to less than $0.1 million for the three months ended March 31, 2015. The net investment loss of $1.1 million for the three months ended March 31, 2016 was primarily due to the impairment of a certain private equity investment.

Permanent Capital Vehicles

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

	Three Months Ended March 31,		2016 vs. 2015
	2016	2015	$
Segment revenues			
Management Fees	$27,302	$19,202	$8,100
Incentive Income	2,200	3,020	(820)
Segment revenues — total	$29,502	$22,222	$7,280
Pre-tax distributable earnings	$9,150	$4,109	$5,041

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Three months ended March 31

Pre-tax distributable earnings increased by $5.0 million primarily due to:

Revenues

Management fees were $27.3 million for the three months ended March 31, 2016, an increase of $8.1 million, compared to $19.2 million for the three months ended March 31, 2015. Management fees increased by $8.1 million due to an increase of (i) $6.0 million from New Residential, New Senior, Eurocastle and New Media related to an increase in average AUM as a result of equity raised in 2015, (ii) $1.9 million related to a new management agreement as a result of the FTAI IPO and (iii) $0.2 million increase from Blue Harbor.

Incentive income was $2.2 million for the three months ended March 31, 2016, a net decrease of $0.8 million, compared to $3.0 million of incentive income recognized for the three months ended March 31, 2015. Incentive income decreased by $0.8 million primarily due to a decrease of $2.1 million related to New Residential for the three months ended March 31, 2016 as compared to the prior period and was partially offset by an increase of $1.0 million and $0.7 million related to Eurocastle and New Media, respectively.

Expenses

Expenses were $21.0 million for the three months ended March 31, 2016, a net increase of $2.5 million, compared to $18.5 million for the three months ended March 31, 2015. The increase of $2.5 million in expenses was primarily attributable to (i) a $2.0 million net increase in compensation and benefits expense, (ii) a $1.0 million increase in accruals for Principal Performance Payments and (iii) a $0.5 million increase in profit sharing expense related to the three months ended March 31, 2016, as compared to the prior period. These increases were partially offset by a decrease of $1.0 million in general and administrative and corporate allocable expenses for the three months ended March 31, 2016, as compared to the prior period.

Net Investment Income

Net investment income was $0.7 million for the three months ended March 31, 2016, a net increase of $0.4 million, compared to $0.3 million for the three months ended March 31, 2015. The increase of $0.4 million in net income was primarily attributable to an increase in dividends from our direct investments in permanent capital vehicles.

Credit Hedge Funds

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

Three Months Ended March 31,		2016 vs. 2015
2016	2015	