

Fortress Investment Group LLC
Form 10-Q
August 12, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number: 001-33294

Fortress Investment Group LLC

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation

20-5837959
(I.R.S. Employer Identification No.)

or organization)

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

10105
(Zip Code)

(212) 798-6100

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

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

Class A Shares: 94,609,525 outstanding as of August 8, 2008.

Class B Shares: 312,071,550 outstanding as of August 8, 2008.

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FORTRESS INVESTMENT GROUP LLC

FORM 10-Q

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DEFINED TERMS

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

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

- (i) the capital commitments or invested capital (or NAV, if lower) of our private equity funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with funds raised after March 2006 includes the mark-to-market value of public securities held within the funds;
- (ii) the contributed capital of our publicly traded alternative investment vehicles, which we refer to as our Castles ;
- (iii) the net asset value, or NAV, of our hedge funds; and
- (iv) the NAV of our managed accounts, to the extent management fees are charged.

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

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

Fortress, we, us, our, and the company refer, (i) following the consummation of the reorganization and the Nomura transaction on January 17, 2007, collectively, to Fortress Investment Group LLC and its subsidiaries, including the Fortress Operating Group and all of its subsidiaries, and, (ii) prior to the consummation of the reorganization and the Nomura transaction on January 17, 2007, to the Fortress Operating Group and all of its subsidiaries, in each case not including funds that, prior to March 31, 2007, were consolidated funds, except with respect to our historical financial statements and discussion thereof unless otherwise specified. Effective March 31, 2007, all of our previously consolidated funds were deconsolidated. The financial statements contained herein represent consolidated financial statements of Fortress Investment Group LLC subsequent to the reorganization and combined financial statements of Fortress Operating Group, considered the predecessor, prior to the reorganization. See Part I, Item 1, Financial Statements.

Fortress Funds and our funds refers to the private investment funds and alternative asset companies that are managed by the Fortress Operating Group.

Fortress Operating Group refers to the combined entities, which were wholly-owned by the principals prior to the Nomura transaction and in each of which Fortress Investment Group LLC acquired an indirect controlling interest upon completion of the Nomura transaction.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under 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, Part II, Item 1A, Risk Factors, and elsewhere in this Quarterly Report on

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Form 10-Q may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. Readers can identify these forward-looking statements by the use of forward-looking words such as outlook, believes, expects, potential, continues, may, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates those words or other comparable words. Any forward-looking statements contained in this report are based upon the historical performance of us and our subsidiaries and on our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these statements. 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.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS
FORTRESS INVESTMENT GROUP LLC**

(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Cash and cash equivalents	\$ 255,155	\$ 100,409
Due from affiliates	141,765	198,669
Investments		
Equity method investees	961,123	1,091,918
Options in affiliates	871	16,001
Deferred tax asset	512,237	511,204
Other assets	72,684	71,580
	\$ 1,943,835	\$ 1,989,781
Liabilities and Shareholders' Equity		
Liabilities		
Accrued compensation and benefits	\$ 126,040	\$ 269,324
Due to affiliates	464,709	455,734
Dividends payable	21,286	21,285
Deferred incentive income	164,144	173,561
Debt obligations payable	800,000	535,000
Other liabilities	40,239	36,729
	1,616,418	1,491,633
Commitments and Contingencies		
Principals and Others' Interests in Equity of Consolidated Subsidiaries	173,104	308,023
Shareholders' Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 94,604,806 and 94,597,646 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively		
Class B shares, no par value, 750,000,000 shares authorized, 312,071,550 shares issued and outstanding		
Paid-in capital	469,319	384,700
Retained earnings (accumulated deficit)	(315,564)	(193,200)
Accumulated other comprehensive income (loss)	558	(1,375)
	154,313	190,125
	\$ 1,943,835	\$ 1,989,781

See notes to consolidated and combined financial statements

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(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS (Unaudited)

(dollars in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues				
Management fees from affiliates	\$ 149,605	\$ 118,678	\$ 293,662	\$ 161,965
Incentive income from affiliates	18,300	132,961	55,444	177,189
Other revenues (affiliate portion disclosed in Note 6)	20,191	16,480	39,870	36,265
Interest and dividend income - investment company holdings				
Interest income				243,713
Interest income from controlled affiliate investments				4,707
Dividend income				7,436
Dividend income from controlled affiliate investments				53,174
	188,096	268,119	388,976	684,449
Expenses				
Interest expense				
Investment company holdings				132,620
Other	9,888	6,711	20,224	18,731
Compensation and benefits	137,460	187,783	264,479	405,300
Principals agreement compensation	237,367	242,659	474,734	380,933
General, administrative and other	19,746	23,603	36,316	62,908
Depreciation and amortization	2,436	2,184	4,872	4,193
	406,897	462,940	800,625	1,004,685
Other Income (Loss)				
Gains (losses) from investments				
Investment company holdings				
Net realized gains (losses)				86,264
Net realized gains (losses) from controlled affiliate investments				715,024
Net unrealized gains (losses)				(19,928)
Net unrealized gains (losses) from controlled affiliate investments				(1,428,837)
Other investments				
Net realized gains (losses)	61	(1,735)	1,674	54
Net realized gains (losses) from affiliate investments	(92)	9,452	155	145,493
Net unrealized gains (losses)		(396)		(677)
Net unrealized gains (losses) from affiliate investments	(6,584)	(36,338)	(36,401)	(167,166)
Earnings (losses) from equity method investees	(26,500)	7,231	(75,629)	7,427
	(33,115)	(21,786)	(110,201)	(662,346)
Income (Loss) Before Deferred Incentive Income, Principals and Others Interests in Income of Consolidated Subsidiaries and Income Taxes				
	(251,916)	(216,607)	(521,850)	(982,582)
Deferred incentive income				307,034

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Principals and others interests in (income) loss of consolidated subsidiaries	194,411	166,485	402,680	702,016
Income (Loss) Before Income Taxes	(57,505)	(50,122)	(119,170)	26,468
Income tax benefit (expense)	1,949	(5,009)	(5,303)	(19,456)
Net Income (Loss)	\$ (55,556)	\$ (55,131)	\$ (124,473)	\$ 7,012
Dividends declared per Class A share	\$ 0.2250	\$ 0.2250	\$ 0.4500	\$ 0.3924

	January 1 through January 16
<u>Earnings Per Unit - Fortress Operating Group</u>	
Net income per Fortress Operating Group unit	\$ 0.36
<u>Weighted average number of Fortress Operating Group units outstanding</u>	367,143,000

	January 17 through June 30
<u>Earnings Per Class A share - Fortress Investment Group</u>	
Net income (loss) per Class A share, basic	\$ (0.62) \$ (0.59) \$ (1.36) \$ (1.43)
Net income (loss) per Class A share, diluted	\$ (0.67) \$ (0.66) \$ (1.37) \$ (1.43)
<u>Weighted average number of Class A shares outstanding, basic</u>	94,913,677 94,894,636 94,904,157 89,226,434
<u>Weighted average number of Class A shares outstanding, diluted</u>	406,985,227 406,966,186 406,975,707 89,226,434

See notes to consolidated and combined financial statements

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(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

CONSOLIDATED AND COMBINED STATEMENT OF SHAREHOLDERS EQUITY (Unaudited)

FOR THE SIX MONTHS ENDED JUNE 30, 2008

(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Shareholders Equity - December 31, 2007	94,597,646	312,071,550	\$ 384,700	\$ (193,200)	\$ (1,375)	\$ 190,125
Director restricted share grant	7,160		164			164
Dividends declared			(42,572)			(42,572)
Capital increase related to equity-based compensation			129,286			129,286
Dividend and distribution equivalents accrued in connection with equity-based compensation (net of tax)			(2,259)			(2,259)
Cumulative effect adjustment - adoption of SFAS 159 (Note 3)				2,109	1,212	3,321
Comprehensive income (loss) (net of tax)						
Net income (loss)				(124,473)		(124,473)
Foreign currency translation					95	95
Comprehensive income (loss) from equity method investees					274	274
Allocation to Principals and others interests in equity of consolidated subsidiaries					352	352
Total comprehensive income (loss)						(123,752)
Shareholders Equity - June 30, 2008	94,604,806	312,071,550	\$ 469,319	\$ (315,564)	\$ 558	\$ 154,313

See notes to consolidated and combined financial statements

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(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

CONSOLIDATED AND COMBINED STATEMENT OF CASH FLOWS (Unaudited)

(dollars in thousands)

	Six Months Ended June 30,	
	2008	2007
Cash Flows From Operating Activities		
Net income (loss)	\$ (124,473)	\$ 7,012
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	4,872	4,193
Other amortization and accretion	1,420	1,275
(Earnings) losses from equity method investees	75,629	(7,427)
Distributions of earnings from equity method investees	2,792	4,211
(Gains) losses from investments	34,572	669,773
Deferred incentive income	(35,494)	(311,174)
Principals and others interests in income (loss) of consolidated subsidiaries	(402,680)	(702,016)
Deferred tax (benefit) expense	(3,434)	2,484
Options received from affiliates		(2,006)
Assignments of options to employees		1,717
Equity-based compensation	556,131	445,233
Cash flows due to changes in		
Cash held at consolidated subsidiaries and restricted cash		(166,199)
Due from affiliates	14,841	186,215
Receivables from brokers and counterparties and other assets	902	(9,106)
Accrued compensation and benefits	(124,550)	72,733
Due to affiliates	(1,066)	(8,380)
Deferred incentive income	26,077	
Due to brokers and counterparties and other liabilities	7,634	65,592
Investment company holdings		
Purchases of investments		(5,105,865)
Proceeds from sale of investments		3,398,739
Net cash provided by (used in) operating activities	33,173	(1,452,996)
Cash Flows From Investing Activities		
Proceeds from sale of other loan and security investments		317
Contributions to equity method investees	(82,343)	(58,004)
Distributions of capital from equity method investees	182,072	39,906
Proceeds from sale of equity method investments		29,071
Cash received on settlement of derivatives		132
Purchase of fixed assets	(3,906)	(7,136)
Proceeds from disposal of fixed assets	53	
Net cash provided by (used in) investing activities	95,876	4,286
Cash Flows From Financing Activities		
Borrowings under debt obligations	450,000	1,924,070
Repayments of debt obligations	(185,000)	(2,010,025)
Payment of deferred financing costs	(5,060)	(6,656)
Issuance of Class A shares to Nomura		888,000

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Issuance of Class A shares in initial public offering		729,435
Costs related to initial public offering		(76,766)
Dividends and dividend equivalents paid	(52,821)	(16,542)
Fortress Operating Group capital distributions to Principals		(219,112)
Purchase of Fortress Operating Group units from Principals		(888,000)
Principals and others interests in equity of consolidated subsidiaries - contributions	145	3,193,618
Principals and others interests in equity of consolidated subsidiaries - distributions	(181,567)	(1,808,987)
Net cash provided by (used in) financing activities	25,697	1,709,035
Net Increase (Decrease) in Cash and Cash Equivalents	154,746	260,325
Cash and Cash Equivalents, Beginning of Period	100,409	61,120
Cash and Cash Equivalents, End of Period	\$ 255,155	\$ 321,445
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest (excluding interest paid by master funds while such funds were consolidated of \$85.1 million in 2007)	\$ 16,790	\$ 63,944
Cash paid during the period for income taxes	\$ 5,637	\$ 28,407
Supplemental Schedule of Non-cash Investing and Financing Activities		
Employee compensation invested directly in subsidiaries	\$ 24,716	\$ 15,072
Investments of receivable amounts into Fortress Funds	\$ 43,355	\$ 36,747
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	\$ 103,776	\$ 47,272
Fortress Operating Group pre-IPO distributions of investments to Principals	\$	\$ 196,764
Fortress Operating Group pre-IPO distributions of investments to employees	\$	\$ 23,238
See Note 1 regarding the non-cash deconsolidation transaction in 2007		
See notes to consolidated and combined financial statements		

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FORTRESS INVESTMENT GROUP LLC

(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2008

(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

- 1) Private equity funds:
 - a) Funds which invest in debt and equity securities of public or privately held entities; and
 - b) Publicly traded alternative investment vehicles that Fortress refers to as the Castles, which are companies that invest in operating real estate and real estate related loans and securities (debt and equity).
- 2) Hedge funds:
 - a) Liquid hedge funds, which invest in the global fixed income, commodities, currency and equity markets, and their related derivatives; and
 - b) Hybrid hedge funds, which invest in undervalued, distressed and other less liquid investments, as well as investment funds managed by external managers.
- 3) Principal investments in the above described funds.

The accompanying consolidated and combined financial statements include the following:

subsequent to Fortress's reorganization and the inception of operations of Fortress Investment Group LLC on January 17, 2007, the accounts of Fortress Investment Group LLC and its consolidated subsidiaries, and

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prior to such reorganization and the inception of operations of Fortress Investment Group LLC, the accounts of eight affiliated entities under common control and management (Fortress Operating Group or the predecessor) and their respective consolidated subsidiaries. Each of the eight entities was owned either directly or indirectly by its members, Peter Briger, Wesley Edens, Robert Kauffman, Randal Nardone, and Michael Novogratz (the Principals).

Reorganization of Fortress Operating Group

Fortress Investment Group LLC was formed on November 6, 2006 for the purpose of becoming the general partner of Fortress Operating Group, completing the Nomura Transaction (described below), and effecting a public offering of shares and related transactions (the Transactions) in order to carry on the business of its predecessor, Fortress Operating Group, as a publicly traded entity. The Registrant is a limited liability company and its members are not responsible for any of its liabilities beyond the equity they have invested. Fortress s formation documents allow for an indefinite life.

Nomura Transaction

In December 2006, the Principals entered into a securities purchase agreement with Nomura Investment Managers U.S.A., Inc., or Nomura (whose ultimate parent is Nomura Holdings, Inc., a Japanese corporation). On January 17, 2007, Nomura completed the transaction by purchasing 55,071,450 Class A shares of the Registrant for \$888 million and the Registrant, in turn, purchased 55,071,450 Fortress Operating Group units, which then represented 15% of Fortress Operating Group s economic interests, from the Principals for \$888 million.

Initial Public Offering (IPO)

On February 8, 2007, the Registrant completed an initial public offering of 39,428,900 of its Class A shares for net proceeds of approximately \$652.7 million.

Consolidation and Deconsolidation of Fortress Funds

Certain of the Fortress Funds were consolidated into Fortress prior to the Transactions, notwithstanding the fact that Fortress has only a minority economic interest in these funds. Consequently, Fortress s financial statements reflected the assets, liabilities, revenues, expenses and cash flows of the consolidated Fortress Funds on a gross basis through the date of their deconsolidation, as described below. The majority ownership interests in these funds, which are not owned by Fortress, were reflected as Principals and others interests in equity of consolidated subsidiaries in the accompanying financial statements during periods in which such funds were consolidated. The management fees and incentive income earned by Fortress from the consolidated

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(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2008

(dollars in tables in thousands, except share data)

Fortress Funds were eliminated in consolidation; however, Fortress's allocated share of the net income from these funds was increased by the amount of these eliminated fees. Accordingly, the consolidation of these Fortress Funds had no net effect on Fortress's earnings from the Fortress Funds.

Following the IPO, each Fortress subsidiary that acts as a general partner of a consolidated Fortress Fund granted rights, effective March 31, 2007, to the investors in the fund to provide that a simple majority of the fund's unrelated investors are able to liquidate the fund, without cause, in accordance with certain procedures, or to otherwise have the ability to exert control over the fund. The granting of these rights has led to the deconsolidation of the Fortress Funds from Fortress's financial statements as of March 31, 2007. The deconsolidation of the Fortress Funds has had significant effects on many of the items within these financial statements but has had no net effect on net income or equity. Since the deconsolidation did not occur until March 31, 2007, the statement of operations and the statement of cash flows for the six months ended June 30, 2007 are presented with these funds on a consolidated basis for the period prior to the deconsolidation. The unaudited pro forma effects of the deconsolidation on these financial statements are described in Note 12.

The accompanying consolidated and combined financial statements and related notes of Fortress have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of Fortress's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with Fortress's consolidated and combined financial statements for the year ended December 31, 2007 and notes thereto included in Fortress's annual report on Form 10-K filed with the Securities and Exchange Commission. Capitalized terms used herein, and not otherwise defined, are defined in Fortress's consolidated and combined financial statements for the year ended December 31, 2007.

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

2. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS***Management Fees, Incentive Income and Related Profit Sharing Expense***

Fortress recognized management fees and incentive income as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007(A)
Private Equity Funds				
Management fees	\$ 42,588	\$ 35,630	\$ 84,405	\$ 62,294
Incentive income	3,535	5,502	38,175	211,942
Castles				
Management fees	13,136	11,966	26,073	22,995
Management fees- options		1,195		2,006
Incentive income		14,217	12	17,905
Hedge Funds				

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Liquid Hedge Funds				
Management fees	57,542	38,204	110,189	68,062
Incentive income	14,346	112,512	16,838	158,199
Hybrid Hedge Funds				
Management fees	36,339	31,683	72,995	59,680
Incentive income	419	730	419	825
Total				
Management fees	\$ 149,605	\$ 118,678	\$ 293,662	\$ 215,037
Incentive income	\$ 18,300	\$ 132,961	\$ 55,444	\$ 388,871

(A) Presented on a pro forma basis (Note 12), as adjusted for the deconsolidation of the Fortress Funds as if it has occurred on January 1, 2007.

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(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2008

(dollars in tables in thousands, except share data)

Incentive Income Subject to Annual Performance Criteria

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year) and has not been recognized for these funds during the six months ended June 30, 2008 and 2007. If the amount of incentive income contingent on achieving annual performance criteria was not contingent on the results of the subsequent quarters, \$0.0 million and \$83.4 million of additional incentive income from affiliates would have been recognized during the six months ended June 30, 2008 and 2007, respectively. Incentive income based on achieving annual performance criteria that has not yet been recognized is included as undistributed deferred incentive income in the table below.

Deferred incentive income from the Fortress Funds, subject to contingent repayment, was comprised of the following, on an inception to date basis:

	June 30, 2008	December 31, 2007
Distributed - gross	\$ 470,798	\$ 444,721
Less: Recognized (A)	(306,654)	(271,160)
Distributed - unrecognized	\$ 164,144	\$ 173,561
Undistributed, net (B)	63,858	384,520
Total	\$ 228,002	\$ 558,081

(A) All related contingencies have been resolved.

(B) On a deconsolidated basis, subsequent to March 31, 2007, undistributed incentive income is no longer recorded and is not reflected on the balance sheet. At June 30, 2008, the undistributed incentive income is comprised of \$147.4 million of gross undistributed incentive income, net of \$83.5 million of previously distributed incentive income that would be returned by Fortress to the related funds if such funds were liquidated on June 30, 2008 at their net asset values.

From inception to June 30, 2008, Fortress has recognized and paid compensation expense under its employee profit sharing arrangements in connection with the \$470.8 million of distributed incentive income. If the \$63.9 million of undistributed incentive income were realized, Fortress would recognize and pay an additional \$28.5 million of compensation expense.

The change in deferred incentive income is summarized as follows:

Distributed	Undistributed	Total
-------------	---------------	-------

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Deferred incentive income as of December 31, 2007	\$ 173,561	\$ 384,520	\$ 558,081
Share of income (loss) of Fortress Funds	26,077	(320,662)	(294,585)
Recognition of previously deferred incentive income	(35,494)		(35,494)
Deferred incentive income as of June 30, 2008	\$ 164,144	\$ 63,858	\$ 228,002

Recognized profit sharing compensation expense is summarized as follows (see Note 7 regarding Fortress's compensation expense):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Private equity funds	\$ 1,146	\$ 20,692	\$ 2,544	\$ 92,445
Castles	1,175	4,518	2,341	6,874
Liquid hedge funds	16,119	58,499	33,117	87,446
Hybrid hedge funds	1,651	18,728	3,706	38,246
Total	\$ 20,091	\$ 102,437	\$ 41,708	\$ 225,011

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Principals and Others Interests in Consolidated Subsidiaries

This balance sheet caption was comprised of the following:

	June 30, 2008	December 31, 2007
Principals Fortress Operating Group units	\$ 120,278	\$ 232,826
Employee interests in majority owned and controlled fund advisor and general partner entities	52,650	75,062
Other	176	135
Total	\$ 173,104	\$ 308,023

This statement of operations caption was comprised of shares of consolidated net income related to the following, on a pre-tax basis:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008 Actual	2007 Actual	2008 Actual	2007 Actual
Principals Fortress Operating Group units	\$ (194,714)	\$ (169,759)	\$ (403,590)	\$ (247,401)
Employee interests in majority owned and controlled fund advisor and general partner entities	303	3,158	442	6,000
Third party investors in Fortress Funds				(460,615)
Other		116	468	
Total	\$ (194,411)	\$ (166,485)	\$ (402,680)	\$ (702,016)

Private Equity Funds

In 2008, Fortress made an additional \$100 million commitment to Fund V. Fortress's affiliates, including employees and the Principals, made additional commitments to this fund of \$67.3 million at the same time.

During the six months ended June 30, 2008, Fortress formed new private equity funds which had capital commitments as follows:

Fortress's commitments	\$ 24,327
Fortress's affiliates' commitments	24,950
Third party investors' commitments	2,431,575
Total capital commitments	\$ 2,480,852

Liquid Hedge Funds and Hybrid Hedge Funds

During the six months ended June 30, 2008, Fortress formed new hedge funds with net asset values as follows:

	June 30, 2008 NAV	
	Liquid	Hybrid
Fortress (A)	\$ 15,719	\$
Fortress's affiliates	503,408	
Third party investors	1,206,976	
 Total NAV	 \$ 1,726,103	 \$

(A) Includes a second quarter incentive income allocation of \$14.6 million.

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3. INVESTMENTS IN EQUITY METHOD INVESTEES AND OTHER EQUITY INVESTMENTS

Fortress elected to record its investments in and options from Newcastle and Eurocastle at fair value pursuant to SFAS 159 (The Fair Value Option For Financial Assets and Financial Liabilities) beginning January 1, 2008. Fortress made this election to simplify its accounting for these publicly traded equity securities (and related options), which were previously recorded based on the equity method of accounting. As a result, Fortress recorded an aggregate increase to the carrying amounts of these assets of \$22.9 million, which was recorded as a cumulative effect adjustment to retained earnings (\$2.1 million) and also impacted the Principals' interests in the equity of consolidated subsidiaries (Fortress Operating Group) (\$17.6 million), deferred tax assets (\$1.9 million), and accumulated other comprehensive income (\$1.2 million). Fortress accounts for dividends received from these investments as dividend income, a component of Other Revenues.

Investments in Equity Method Investees

Fortress holds investments in certain unconsolidated Fortress Funds which are recorded based on the equity method of accounting. Upon the deconsolidation of the consolidated Fortress Funds on March 31, 2007 (Note 1), these funds also became equity method investees. 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 as described below. In addition, unconsolidated affiliates also hold an ownership interests in certain of these entities. Summary financial information related to these investments is as follows:

	Fortress's Investment		Fortress's Equity in Net Income (Loss)			
	June 30, 2008	December 31, 2007	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Private equity funds, excluding NIH (A)	\$ 634,879	\$ 623,830	\$ (27,968)	\$ (8,024)	\$ (68,297)	\$ (8,024)
NIH	4,540	5,770	(178)	(843)	881	(1,024)
Newcastle (B)	7,190	3,184	N/A	460	N/A	1,189
Eurocastle (B)	9,690	11,799	N/A	309	N/A	(89)
Total private equity	656,299	644,583	(28,146)	(8,098)	(67,416)	(7,948)
Liquid hedge funds (A)	42,101	73,748	(412)	3,993	551	3,993
Hybrid hedge funds (A)	260,148	371,310	2,048	11,335	(8,775)	11,335
Other	2,575	2,277	10	1	11	47
	\$ 961,123	\$ 1,091,918	\$ (26,500)	\$ 7,231	\$ (75,629)	\$ 7,427

(A) These entities were consolidated prior to March 31, 2007.

(B) Fortress elected to record these investments at fair value pursuant to SFAS 159 beginning on January 1, 2008. A summary of the changes in Fortress's investments in equity method investees is as follows:

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Six Months Ended June 30, 2008

	Private Equity Funds		Castles (A)		Liquid	Hybrid	Other	Total
	NIH	Other	Newcastle	Eurocastle	Hedge Funds	Hedge Funds		
Investment, beginning	\$ 5,770	\$ 623,830	\$ 3,184	\$ 11,799	\$ 73,748	\$ 371,310	\$ 2,277	\$ 1,091,918
Earnings from equity method investees	881	(68,297)	N/A	N/A	551	(8,775)	11	(75,629)
Other comprehensive income from equity method investees	(9)	3,322	N/A	N/A				3,313
Contributions to equity method investees		80,751	N/A	N/A	44,395	262	290	125,698
Distributions of earnings from equity method investees	(2,102)	(180)	N/A	N/A	(580)		(3)	(2,865)
Distributions of capital from equity method investees		(3,410)	N/A	N/A	(76,013)	(102,649)		(182,072)
Total distributions from equity method investees	(2,102)	(3,590)	N/A	N/A	(76,593)	(102,649)	(3)	(184,937)
Sale of investments		(1,137)						(1,137)
Mark to fair value - January 1, 2008 (B)	N/A	N/A	10,110	12,762	N/A	N/A	N/A	22,872
Mark to fair value - during period (C)	N/A	N/A	(6,104)	(16,872)	N/A	N/A	N/A	(22,976)
Translation adjustment				2,001				2,001
Investment, ending	\$ 4,540	\$ 634,879	\$ 7,190	\$ 9,690	\$ 42,101	\$ 260,148	\$ 2,575	\$ 961,123
Ending balance of undistributed earnings	\$ 1,430	\$	N/A	N/A	\$ 86	\$ 8,004	\$ 8	\$ 9,528

(A) Fortress elected to record the investments at fair value pursuant to SFAS 159 beginning on January 1, 2008.

(B) Recorded as a cumulative effect adjustment to Retained Earnings.

(C) Recorded to Other Investments Net Unrealized Gains (Losses) from Affiliate Investments.

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	<i>Newcastle Investment Corp.</i>		<i>Eurocastle Investment Ltd.</i>	
	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007
Assets	\$ 6,216,307	\$ 8,037,770	\$ 10,875,509	\$ 10,713,687
Liabilities	(6,120,564)	(7,590,145)	(9,177,658)	(8,865,921)
Minority interest			(8)	(8)
Equity	\$ 95,743	\$ 447,625	\$ 1,697,843	\$ 1,847,758
Ownership, basic (A)	1.9%	1.9%	1.6%	1.6%
Ownership, diluted (A) (B)	4.7%	4.7%	9.8%	9.8%
Ownership by Fortress and affiliates, diluted (B)	15.3%	15.5%	29.9%	29.3%
Market value of shares owned (A) (C)	\$ 7,190	\$ 13,293	\$ 9,690	\$ 24,561
	Six Months Ended June 30, 2008	June 30, 2007	Six Months Ended June 30, 2008	June 30, 2007
Revenues and gains (losses) on investments	\$ 248,589	\$ 374,016	\$ 405,837	\$ 346,862
Expenses	(183,802)	(300,693)	(445,576)	(408,234)
Other income (loss)	(181,020)		37,808	51,564
Discontinued operations	(8,951)	(19)		
Preferred dividends	(6,751)	(5,890)		
Net Income (Loss)	\$ (131,935)	\$ 67,414	\$ (1,931)	\$ (9,808)
Fortress's equity in net income (loss)	N/A	\$ 1,189	N/A	\$ (89)

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

(B) Fully diluted ownership represents the percentage of outstanding common shares assuming that all options are exercised. Currently, all of the options are out of the money (that is, their strike price is below the current market price per share).

(C) Based on the closing price of the related shares and, if applicable, the foreign currency exchange rate on the last day of trading in the applicable period.

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\$ 871 \$ 16,001

Investments in Variable Interest Entities

As part of the deconsolidation of the consolidated Fortress Funds (Note 1), Fortress caused reconsideration events to occur in each of the variable interest entities in which it was deemed to be the primary beneficiary. As a result of these reconsideration events, Fortress is no longer considered the primary beneficiary of, and therefore does not consolidate, any of the variable interest entities in which it holds an interest. No reconsideration events occurred during the six months ended June 30, 2008 which caused a change in Fortress's accounting.

The following table presents information as of June 30, 2008 regarding entities formed during the six months ended June 30, 2008 that were determined to be VIEs in which Fortress holds a variable interest:

Business Segment	Fortress is not Primary Beneficiary		Notes
	Gross Assets	Fortress Investment (B)	
Private Equity Funds	\$ 1,107,144	\$ 404	(A)
Liquid Hedge Funds	\$ 313,977	\$ 95	

(A) Fortress's investment includes \$0.2 million of management fees receivable from the Private Equity Funds.

(B) Represents Fortress's maximum exposure to loss with respect to these entities.

Fair Value of Financial Instruments

The following table presents information regarding Fortress's financial instruments which are recorded at fair value:

	June 30, 2008 Fair Value	Valuation Method
Assets - Carried at Fair Value		
Newcastle and Eurocastle common shares	\$ 16,880	Level 1 - Quoted prices in active markets for identical assets
Newcastle and Eurocastle options	\$ 871	Level 2 - Lattice-based option valuation models using significant observable inputs

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4. DEBT OBLIGATIONS

Debt Obligation	Month Issued	Face Amount and Carrying Value		Contractual Interest Rate	Final Stated Maturity	June 30, 2008	
		June 30, 2008	December 31, 2007			Weighted Average Funding Cost (A)	Weighted Average Maturity (Years)
Credit agreement (B)							
Revolving debt (C)	May 2007	\$	\$ 185,000	LIBOR + 0.85% (D)	May 2012	0.00%	N/A
Term loan	May 2007	350,000	350,000	LIBOR + 0.85%	May 2012	3.66%	3.86
Delayed term loan	May 2007	450,000		LIBOR + 0.85%	May 2012	3.78%	1.67
Total		\$ 800,000	\$ 535,000			3.73%	2.63

(A) The weighted average funding cost is calculated based on the contractual interest rate (utilizing the most recently reset LIBOR rate) plus the amortization of deferred financing costs. The most recently reset LIBOR rate was 2.48%.

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

(C) Approximately \$189 million was undrawn and available under the revolving debt facility as of June 30, 2008, including a \$25 million letter of credit subfacility of which \$11 million was utilized.

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

In connection with the repayment of a portion of a prior term loan, \$2.0 million of deferred loan costs were written off to interest expense in February 2007. In May 2007, Fortress entered into a new credit agreement to refinance its existing credit agreement, reduce the amount of interest and other fees payable under its credit facilities, and increase the amount of funds available for investments.

On April 17, 2008, Fortress entered into an amendment to its credit agreement. The amendment, among other things, (i) permits Fortress to issue an unlimited amount of subordinated indebtedness with specified terms so long as 40% of the net proceeds are used to repay amounts outstanding under the credit agreement, (ii) increased the applicable rate on Eurodollar loans and letters of credit by 20 basis points (making the current rate LIBOR plus 0.85%) and the undrawn commitment fee by 5 basis points (making the current fee 0.25%), (iii) added an amortization schedule requiring Fortress to repay \$100 million of amounts outstanding under the agreement each year during the next three years (with the first payment due on January 15, 2009), (iv) modified the financial covenants by (a) replacing the EBITDA-based financial covenant with a Consolidated Leverage Ratio covenant, (b) increasing the minimum amount of management fee earning assets by \$3 billion to \$21.5 billion (which minimum amount increases annually by \$500 million) and (c) eliminating the annual \$50 million increase in required minimum investment assets, and (v) revised various definitions and clarified terms with respect to swap providers who are lenders under the agreement. In connection with this amendment, Fortress incurred \$4.9 million of deferred loan costs which were recorded in Other Assets. In addition, on

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May 29, 2008, Fortress entered into an amendment to its credit agreement to change from a co-borrower structure to a single borrower structure.

Fortress was in compliance with all of its debt covenants as of June 30, 2008.

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5. INCOME TAXES AND TAX RELATED PAYMENTS

The provision for income taxes consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<u>Current</u>				
Federal income tax	\$ (660)	\$ (1,160)	\$ 1,994	\$ 5,055
Foreign income tax	562	360	1,199	1,066
State and local income tax	1,862	5,722	5,544	10,106
	1,764	4,922	8,737	16,227
<u>Deferred</u>				
Federal income tax expense (benefit)	(1,311)	5,060	(20)	11,068
Foreign income tax expense (benefit)	22	(219)	180	(733)
State and local income tax expense (benefit)	(2,424)	(4,754)	(3,594)	(7,106)
	(3,713)	87	(3,434)	3,229
Total	\$ (1,949)	\$ 5,009	\$ 5,303	\$ 19,456

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

	June 30, 2008	December 31, 2007
Deferred tax assets	\$ 512,237	\$ 511,204
Deferred tax liabilities (A)	\$ 778	\$ 891

(A) Included in Other Liabilities

For the six months ended June 30, 2008, an estimated annual negative effective tax rate of (4.45%) was used to compute the tax provision. Fortress incurred a loss before income taxes for financial reporting purposes, after deducting the compensation expense arising from the Principals' forfeiture agreement. However, this compensation expense is not deductible for income tax purposes. Also, a portion of Fortress' income is not subject to U.S. federal income tax, but is allocated directly to Fortress' shareholders. For the six months ended June 30, 2008, a deferred income tax provision of \$0.3 million was debited to other comprehensive income, primarily related to the equity method investees. A current income tax benefit of \$2.1 million was credited to additional paid in capital, related to (i) dividend equivalent payments on RSUs, and (ii) distributions to Fortress Operating Group restricted partnership unit holders (Note 7), which are currently deductible for income tax purposes.

Tax Receivable Agreement

Although the tax receivable agreement payments are calculated based on annual tax savings, for the six months ended June 30, 2008, the payments which would have been made pursuant to the tax receivable agreement, if such period was calculated by itself, were estimated to be \$8.4 million.

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6. RELATED PARTY TRANSACTIONS

Due from affiliates was comprised of the following:

June 30, 2008	Private Equity Funds	Castles	Liquid Hedge Funds	Hybrid Hedge Funds	Other	Total
Management fees and incentive income	\$ 6,194	\$ 10,595	\$ 14,911	\$ 1,857	\$	\$ 33,557
Expense reimbursements	3,657	4,419	5,542	3,784		17,402
Dividends and distributions		345				345
Other (A)	89,639			151	671	90,461
Total	\$ 99,490	\$ 15,359	\$ 20,453	\$ 5,792	\$ 671	\$ 141,765

December 31, 2007	Private Equity Funds	Castles	Liquid Hedge Funds	Hybrid Hedge Funds	Other	Total
Management fees and incentive income	\$ 1,733	\$ 45,004	\$ 40,751	\$ 98,197	\$	\$ 185,685
Expense reimbursements	1,307	2,051	3,074	3,487		9,919
Dividends and distributions		739				739
Other				1	2,325	2,326
Total	\$ 3,040	\$ 47,794	\$ 43,825	\$ 101,685	\$ 2,325	\$ 198,669

Due to affiliates was comprised of the following:

	June 30, 2008	December 31, 2007
Principals		
- Tax receivable agreement - Note 5	\$ 393,266	\$ 393,265
- Distributions payable on Fortress Operating Group units	70,216	60,176
Other	1,227	2,293
	\$ 464,709	\$ 455,734

(A) Includes an \$85 million loan to a newly formed fund. The loan was made to finance a fund investment prior to the fund's related capital call, was outstanding less than two weeks, and bore interest at 7.0%.

For the six months ended June 30, 2008 and 2007, Other Revenues included approximately \$31.2 million and \$20.5 million, respectively, of revenues from affiliates, primarily expense reimbursements. Dividend income from affiliates of approximately \$1.0 million was recorded during the six months ended June 30, 2008.

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Fortress has entered into cost sharing arrangements with the Fortress Funds, including subleases of certain of its office space. Expenses borne by the Fortress Funds under these agreements are generally paid directly by those entities (i.e. they are generally not paid by Fortress and reimbursed). For the six months ended June 30, 2008 and 2007, these expenses, mainly related to subscriptions to market data services, approximated \$9.4 million and \$10.8 million, respectively.

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7. EQUITY-BASED COMPENSATION

The following tables present information regarding equity-based compensation during the six months ended June 30, 2008.

	Employees		RSUs		Restricted Shares Issued to Directors		RPU Employees	
	Number	Value (A)	Number	Value (A)	Number	Value (A)	Number	Value (A)
Outstanding as of December 31, 2007	43,215,535	\$ 16.74	9,318,968	\$ 15.22	97,296	\$ 18.50		\$
Issued	2,063,600	10.79	283,457	10.39	7,159	13.15	31,000,000	13.75
Forfeited	(1,603,015)	17.65	(345,069)	14.54				
Outstanding as of June 30, 2008 (B)	43,676,120	\$ 16.43	9,257,356	\$ 15.10	104,455	\$ 18.13	31,000,000	\$ 13.75

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Expense incurred (B)				
Employee RSUs	\$ 27,337	\$ 24,533	\$ 53,909	\$ 54,015
Non-Employee RSUs	5,421	4,664	5,411	8,478
Restricted Shares	150	149	299	233
LTIP	1,715	(251)	3,429	1,574
RPU	18,349		18,349	
Total equity-based compensation expense	\$ 52,972	\$ 29,095	\$ 81,397	\$ 64,300

(A) Represents the weighted average grant date estimated fair value per share or unit. The weighted average estimated fair value per unit as of June 30, 2008 for RSU awards granted to non-employees was \$9.45.

(B) In future periods, Fortress will recognize compensation expense on its non-vested equity based awards of \$1,027.7 million, with a weighted average recognition period of 4.6 years.

In April 2008, Fortress granted 31 million Fortress Operating Group (FOG) restricted partnership units (RPUs) to a senior employee. In connection with the grant of these interests, the employee receives partnership distribution equivalent payments on such units with economic effect as from January 1, 2008. The interests will vest into full capital interests in FOG units in three equal portions on the first business day of 2011, 2012 and 2013, respectively, subject to continued employment with Fortress. In connection with this grant, Fortress has reduced the employee's profit sharing interests in various Fortress Funds.

When Fortress records equity-based compensation expense, including that related to the Principals Agreement, it records a corresponding increase in capital. Of the total increase in capital during the six months ended June 30, 2008 from equity-based compensation arrangements of \$556.1 million, \$129.3 million increased Fortress's paid-in capital, as reflected in the Statement of Shareholders' Equity, and \$426.8 million

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increased Principals' interests in equity of consolidated subsidiaries, corresponding to the Principals' interest in the equity-based compensation expense.

Fortress's total compensation and benefits expense, excluding Principals Agreement compensation, is comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Equity-based compensation, per above	\$ 52,972	\$ 29,095	\$ 81,397	\$ 64,300
Profit-sharing expense, per Note 2	20,091	102,437	41,708	225,011
Discretionary bonuses	29,599	29,778	74,056	53,059
Other payroll, taxes and benefits	34,798	26,473	67,318	62,930
	\$ 137,460	\$ 187,783	\$ 264,479	\$ 405,300

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8. EARNINGS PER SHARE AND DISTRIBUTIONS

As a result of Fortress's reorganization in January 2007 (Note 1), Fortress has calculated its earnings per share for two different periods within the six months ended June 30, 2007. For the first period, prior to the reorganization on January 17, 2007, the calculation is based on the income and outstanding units of Fortress Operating Group, which were owned by the Principals, as if such units had been outstanding from the beginning of the period. For the second period, subsequent to the reorganization and commencement of operations of the Registrant, the calculation is based on the consolidated income of Fortress from January 17, 2007 through June 30, 2007 and the Class A shares outstanding for such period.

The computations of net income per Fortress Operating Group unit are set forth below:

	January 1 through January 16, 2007	
	Basic	Diluted
Weighted average units outstanding		
Fortress Operating Group units outstanding	367,143,000	367,143,000
Total weighted average units outstanding	367,143,000	367,143,000
Net income per unit is calculated as follows:		
Net income	\$ 133,397	\$ 133,397
Dilution in earnings of certain equity method investees		
Net income available to Fortress Operating Group unitholders	\$ 133,397	\$ 133,397
Weighted average units outstanding	367,143,000	367,143,000
Net income per unit	\$ 0.36	\$ 0.36

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

	Three Months Ended June 30, 2007		January 17 through June 30, 2007	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	94,500,350	94,500,350	89,004,200	89,004,200
Fully vested restricted Class A share units with dividend equivalent rights	394,286	394,286	222,234	222,234
Fortress Operating Group units exchangeable into Fortress Investment Group LLC Class A shares (1)		312,071,550		
Class A restricted shares and Class A restricted share units granted to employees and directors (eligible for dividend and dividend equivalent payments) (2)				

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Class A restricted share units granted to employees (not eligible for dividend and dividend equivalent payments) (3)

Total weighted average shares outstanding	94,894,636	406,966,186	89,226,434	89,226,434
Basic and diluted net income (loss) per Class A share				
Net income (loss)	\$ (55,131)	\$ (55,131)	\$ (126,385)	\$ (126,385)
Dividend equivalents declared on non-vested restricted Class A share units	(1,048)	(1,048)	(1,617)	(1,617)
Dilution in earnings of certain equity method investees				
Add back Principals and others interests in loss of Fortress Operating Group, net of assumed corporate income tax at enacted rates, attributable to Fortress Operating Group units exchangeable into Fortress Investment Group LLC Class A shares (1)		(212,759)		
Net income (loss) available to Class A shareholders	\$ (56,179)	\$ (268,938)	\$ (128,002)	\$ (128,002)
Weighted average shares outstanding	94,894,636	406,966,186	89,226,434	89,226,434
Basic and diluted net income (loss) per Class A share	\$ (0.59)	\$ (0.66)	\$ (1.43)	\$ (1.43)

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NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2008

(dollars in tables in thousands, except share data)

	Three Months Ended June 30, 2008		Six Months Ended June 30, 2008	
	Basic	Diluted	Basic	Diluted
Weighted average shares outstanding				
Class A shares outstanding	94,500,351	94,500,351	94,500,351	94,500,351
Fully vested restricted Class A share units with dividend equivalent rights	394,286	394,286	394,286	394,286
Fully vested restricted Class A shares	19,040	19,040	9,520	9,520
Fortress Operating Group units exchangeable into Fortress Investment Group LLC Class A shares (1)		312,071,550		312,071,550
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	94,913,677	406,985,227	94,904,157	406,975,707
Basic and diluted net income (loss) per Class A share				
Net income (loss)	\$ (55,556)	\$ (55,556)	\$ (124,473)	\$ (124,473)
Dilution in earnings due to RPUs treated as a participating security of Fortress Operating Group (4)	(2,040)	(2,040)	(1,987)	(1,987)
Dividend equivalents declared on non-vested restricted Class A shares and restricted Class A share units	(1,159)	(1,159)	(2,276)	(2,276)
Add back Principals and others interests in loss of Fortress Operating Group, net of assumed corporate income taxes at enacted rates, attributable to Fortress Operating Group units exchangeable into Fortress Investment Group LLC Class A shares (1)		(214,667)		(429,829)
Net income (loss) available to Class A shareholders	\$ (58,755)	\$ (273,422)	\$ (128,736)	\$ (558,565)
Weighted average shares outstanding	94,913,677	406,985,227	94,904,157	406,975,707
Basic and diluted net income (loss) per Class A share	\$ (0.62)	\$ (0.67)	\$ (1.36)	\$ (1.37)

- (1) The Fortress Operating Group units not held by Fortress (that is, those held by the Principals) 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.

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- (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 our Class A shares and therefore participate fully in the results of our operations from the date they are granted. They are included in the computation of both basic and diluted earnings per Class A share using the two-class method for participating securities, except during periods of net losses.
- (3) Certain restricted Class A share units granted to employees are not entitled to dividend or dividend equivalent payments until they are vested and are therefore non-participating securities. These units are not included in the computation of basic earnings per share. They are included in the computation of diluted earnings per share when the effect is dilutive using the treasury stock method. As a result of the net loss incurred for the period, the effect of the units on the calculation is anti-dilutive for the periods. The weighted average restricted Class A share units which are not entitled to receive dividend or dividend equivalent payments outstanding were:

Period	Share Units
Three months ended:	
June 30, 2008	27,641,251
June 30, 2007	25,705,670
Six months ended June 30, 2008	27,729,198
Period from January 17, 2007 to June 30, 2007	21,993,462

- (4) Fortress Operating Group RPU's are eligible to receive partnership distribution equivalent payments when distributions are declared and paid on Fortress Operating Group units. The RPU's represent a participating security of Fortress Operating Group and the resulting dilution in Fortress Operating Group earnings available to Fortress is reflected in the computation of both basic and diluted earnings per Class A share using the method prescribed for securities issued by a subsidiary.

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. The number of Class B shares outstanding did not change subsequent to the IPO.

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

	Weighted Average			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Class A shares	94,500,351	94,500,350	94,500,351	81,136,426
Restricted Class A share units (A)	394,286	394,286	394,286	202,589
Restricted Class A shares	104,219	97,296	100,757	76,331
Restricted Class A share units	23,652,206	23,730,308	23,708,849	18,753,486
Fortress Operating Group units	312,071,550	312,071,550	312,071,550	316,939,744
Fortress Operating Group RPU's	25,208,791		12,604,396	
Total	455,931,403	430,793,790	443,380,189	417,108,576

	As of June 30, 2008	As of December 31, 2007
Class A shares	94,500,351	94,500,350
Restricted Class A share units (A)	394,286	394,286
Restricted Class A shares	104,455	97,296
Restricted Class A share units	24,171,891	23,906,779
Fortress Operating Group units	312,071,550	312,071,550
Fortress Operating Group RPU's	31,000,000	
Total	462,242,533	430,970,261

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

Dividends and distributions during the six months ended June 30, 2008 are summarized as follows:

	Declared in Prior Year, Paid Current Year	Declared and Paid	Current Year Declared but not yet Paid	Total
Dividends on Class A Shares	\$ 21,285	\$ 21,286	\$ 21,286	\$ 42,572
Dividend equivalents on restricted Class A share units (A)	5,428	5,387	5,527	10,914
Distributions to Fortress Operating Group unit holders (Principals)	60,176	73,246	70,216	143,462
Distributions to Fortress Operating Group RPU holders (Note 7)			6,975	6,975
Total distributions	\$ 86,889	\$ 99,919	\$ 104,004	\$ 203,923

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

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9. COMMITMENTS AND CONTINGENCIES

Other than as described below, Fortress's commitments and contingencies remain materially unchanged from December 31, 2007.

Private Equity Fund Capital Commitments Fortress has remaining capital commitments to certain of the Fortress Funds which aggregated \$183.3 million as of June 30, 2008. 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 New York, Atlanta, Charlotte, Chicago, Dallas, Frankfurt, Geneva, Hong Kong, London, Los Angeles, Munich, New Canaan, Rome, San Diego, San Francisco, Shanghai, Sydney, Tokyo, and Toronto.

Minimum future rent payments under these leases is as follows:

July 1 to December 31, 2008	\$ 9,124
2009	18,930
2010	15,087
2011	12,141
2012	10,508
2013	9,791
Thereafter	31,021
Total	\$ 106,602

Rent expense recognized on a straight-line basis during the six months ended June 30, 2008 and 2007 was \$9.3 million and \$7.4 million, respectively, and during the three months ended June 30, 2008 and 2007 was \$4.5 million and \$3.8 million, respectively, and was included in General, Administrative and Other Expense.

Litigation Fortress is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions that existed as of June 30, 2008, if any, will not materially affect Fortress's results of operations, liquidity or financial position.

On September 15, 2005, a lawsuit captioned David T. Atkins et al. v. Apollo Real Estate Advisors, L.P. et al. was brought on behalf of current and former limited partners in certain investing partnerships related to the sale of certain facilities to Ventas Realty Limited Partnership (Ventas) against a number of defendants, including one of the Portfolio Companies and a subsidiary of Fortress (FIG). FIG was the investment manager of consolidated Fortress Funds that were controlling shareholders of the Portfolio Company during the relevant time periods. The suit alleges that the defendants improperly obtained certain rights with respect to such facilities from the investing partnerships. The plaintiffs have asked for damages in excess of \$100 million on each of nine counts, as to which FIG is a defendant on seven counts, including treble damages with respect to certain counts. On April 18, 2006, Fortress filed a motion to dismiss the claims with prejudice. On April 30, 2008, the court entered a memorandum and order granting the motion and dismissing the plaintiff's complaint in its entirety. The plaintiffs were granted a period of 30 days from April 30, 2008 in which to file an amended complaint, after which the parties entered into a preliminary settlement, which will be paid in its entirety by Brookdale.

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In addition, in the ordinary course of business, the Fortress Funds are and can be both the defendant and the plaintiff in numerous actions with respect to bankruptcy, insolvency and other types of proceedings. Such lawsuits may involve claims that adversely affect the value of certain financial instruments owned by the Fortress Funds. Although the ultimate outcome of actions cannot be ascertained with certainty, Fortress believes that the resolution of any such actions will not have a material adverse effect on its financial condition, liquidity or results of operations.

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10. SEGMENT REPORTING

Fortress conducts its management and investment business through the following five primary segments: (i) private equity funds, (ii) Castles, (iii) liquid hedge funds, (iv) hybrid hedge funds, and (v) principal investments in these funds as well as cash that is available to be invested. These segments are differentiated based on their varying investment strategies. Due to the increased significance of the principal investments segment, it has been disaggregated from the other segments in this period and for all periods presented.

Distributable earnings for the existing Fortress businesses is equal to net income adjusted as follows:

Incentive Income

- (i) a. for Fortress Funds which are private equity 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 (net of the reversal of any prior such reserves that are no longer deemed necessary), minus (b) incentive income recorded in accordance with GAAP,
- b. for other Fortress Funds, at interim periods, adding (a) incentive income on an accrual basis as if the incentive income from these funds were payable on a quarterly basis, minus (b) incentive income recorded in accordance with GAAP,

Other Income

- (ii) with respect to income from certain principal investments and certain other interests that cannot be readily transferred or redeemed:
 - a. for equity method investments in the Castles (prior to 2008) and private equity funds as well as indirect equity method investments in hedge fund special investment accounts (which generally have investment profiles similar to private equity funds), treating these investments as cost basis investments by adding (a) realizations of income, primarily dividends, from these funds, minus (b) impairment with respect to these funds, if necessary, minus (c) equity method earnings (or losses) recorded in accordance with GAAP,
 - b. subtracting gains (or adding losses) on stock options held in the Castles,
 - c. subtracting unrealized gains (or adding unrealized losses) from consolidated private equity funds,
 - d.

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subtracting unrealized gains (or adding unrealized losses) from the Castles subsequent to the election of the fair value option under SFAS 159,

- Expenses
- (iii) adding (a) proceeds from the sale of shares received pursuant to the exercise of stock options in certain of the Castles, in excess of their strike price, minus (b) management fee income recorded in accordance with GAAP in connection with the receipt of these options,
 - (iv) adding or subtracting, as necessary, the employee profit sharing in incentive income described in (i) above to match the timing of the expense with the revenue,
 - (v) adding back equity-based compensation expense (including Castle options assigned to employees, RSUs and RPU's (including the portion of related dividend and distribution equivalents recorded as compensation expense), restricted shares and the LTIP),
 - (vi) adding back compensation expense recorded in connection with the forfeiture arrangements entered into among the principals,
 - (vii) adding the income (or subtracting the loss) allocable to the interests in consolidated subsidiaries attributable to Fortress Operating Group units, and
 - (viii) adding back income tax expense and any expense recorded in connection with the tax receivable agreement (Note 5).
- Total segment assets are equal to total GAAP assets adjusted for:
- (i) the 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 cost for nonpublic investments,
 - (ii) employee 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, and
 - (iii) the difference between the GAAP carrying amount for options owned in certain of the Castles and their carrying amount for segment reporting purposes, which is intrinsic value.

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

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	Private Equity Funds	Castles	Liquid Hedge Funds	Hybrid Hedge Funds	Principal Investments	Unallocated	Fortress Subtotal
June 30, 2008 and the Six Months Then Ended							
Segment revenues							
Management fees	\$ 84,330	\$ 27,655	\$ 110,325	\$ 73,455	\$	\$	\$ 295,765
Incentive income	28,741	12	17,040	872			46,665
Segment revenues - total	\$ 113,071	\$ 27,667	\$ 127,365	\$ 74,327	\$	\$	\$ 342,430
Pre-tax distributable earnings	\$ 81,886	\$ 8,204	\$ 45,426	\$ 11,279	\$ (30,656)	\$ 7	\$ 116,146
Total segment assets	\$ 10,023	\$ 16,741	\$ 20,452	\$ 5,474	\$ 1,351,895	\$ 588,506	\$ 1,993,091

(A)

	Fortress Subtotal	Reconciliation to GAAP	Fortress Consolidated
Revenues	\$ 342,430	\$ 46,546	\$ 388,976
Pre-tax distributable earnings / net income	\$ 116,146	\$ (240,619)	\$ (124,473)
Total assets	\$ 1,993,091	\$ (49,256)	\$ 1,943,835

(A) Unallocated assets include deferred tax assets of \$512.2 million.

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June 30, 2008 and the Six Months Then Ended**Reconciling items between segment measures and GAAP measures:**

<u>Adjustments from segment revenues to GAAP revenues</u>	
Adjust management fees*	\$ 325
Adjust incentive income	9,434
Adjust income from the receipt of options	
Other revenues*	36,787
Total adjustments	\$ 46,546
* Segment revenues do not include GAAP other revenues; GAAP other revenues are included elsewhere in the calculation of distributable earnings.	
<u>Adjustments from pre-tax distributable earnings to GAAP net income</u>	
Adjust incentive income	
Incentive income received from private equity funds, subject to contingent repayment	\$ (26,077)
Incentive income accrued from private equity funds, no longer subject to contingent repayment	35,494
Incentive income received from private equity funds, not subject to contingent repayment	17
Incentive income received from hedge funds, subject to annual performance achievement	
Reserve for clawback	
	9,434
Adjust other income	
Distributions of earnings from equity method investees**	(367)
Earnings (losses) from equity method investees**	(67,483)
Gains (losses) on options in equity method investees	(15,426)
Unrealized gains (losses) on Castles	(20,975)
Impairment of investments	9,507
Adjust income from the receipt of options	
	(94,744)
Adjust employee compensation	
Adjust employee equity-based compensation expense (including Castle options assigned)	(88,507)
Adjust employee portion of incentive income from private equity funds, accrued prior to the realization of incentive income	9,648
Adjust employee portion of incentive income from one private equity fund, not subject to contingent repayment	(4)
	(78,863)
Adjust Principals equity-based compensation expense	(474,734)
Adjust Principals interests related to Fortress Operating Group units	403,591
Adjust income taxes	(5,303)

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Total adjustments	\$ (240,619)
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** This adjustment relates to all of the Castles, private equity Fortress Funds and hedge fund special investment accounts in which Fortress has an investment.

<u>Adjustments from total segment assets to GAAP assets</u>	
Adjust equity investments from fair value	\$
Adjust equity investments from cost	(92,966)
Adjust investments gross of employee portion	42,839
Adjust option investments to intrinsic value	871
Total adjustments	\$ (49,256)

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	Private Equity Funds	Castles	Liquid Hedge Funds	Hybrid Hedge Funds	Principal Investments	Unallocated	Fortress Subtotal
Three Months Ended June 30, 2008							
Segment revenues							
Management fees	\$ 42,550	\$ 13,961	\$ 57,606	\$ 36,611	\$	\$	\$ 150,728
Incentive income			14,345	447			14,792
Segment revenues - total	\$ 42,550	\$ 13,961	\$ 71,951	\$ 37,058	\$	\$	\$ 165,520
Pre-tax distributable earnings	\$ 31,942	\$ 3,928	\$ 30,695	\$ 9,231	\$ (17,326)	\$ (31)	\$ 58,439

	Fortress Subtotal	Reconciliation to GAAP	Fortress Consolidated
Revenues	\$ 165,520	\$ 22,576	\$ 188,096
Pre-tax distributable earnings / net income	\$ 58,439	\$ (113,995)	\$ (55,556)

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Three Months Ended June 30, 2008**Reconciling items between segment measures and GAAP measures:****Adjustments from segment revenues to GAAP revenues**

Adjust management fees*	\$ 162
Adjust incentive income	3,535
Adjust income from the receipt of options	
Other revenues*	18,879
Total adjustments	\$ 22,576

* Segment revenues do not include GAAP other revenues; GAAP other revenues are included elsewhere in the calculation of distributable earnings.

Adjustments from pre-tax distributable earnings to GAAP net income

Adjust incentive income	
Incentive income received from private equity funds, subject to contingent repayment	\$
Incentive income accrued from private equity funds, no longer subject to contingent repayment	3,535
Incentive income received from private equity funds, not subject to contingent repayment	
Incentive income received from hedge funds, subject to annual performance achievement	
Reserve for clawback	
	3,535
Adjust other income	
Distributions of earnings from equity method investees**	(2)
Earnings (losses) from equity method investees**	(26,841)
Gains (losses) on options in equity method investees	(2,933)
Unrealized gains (losses) on Castles	(3,651)
Impairment of investments	9,507
Adjust income from the receipt of options	
	(23,920)
Adjust employee compensation	
Adjust employee equity-based compensation expense (including Castle options assigned)	(52,906)
Adjust employee portion of incentive income from private equity funds, accrued prior to the realization of incentive income	
Adjust employee portion of incentive income from one private equity fund, not subject to contingent repayment	
	(52,906)
Adjust Principals equity-based compensation expense	(237,367)
Adjust Principals interests related to Fortress Operating Group units	194,714
Adjust income taxes	1,949

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Total adjustments	\$ (113,995)
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** This adjustment relates to all of the Castles, private equity Fortress Funds and hedge fund special investment accounts in which Fortress has an investment.

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	Private Equity Funds	Castles	Liquid Hedge Funds	Hybrid Hedge Funds	Principal Investments	Unallocated	Fortress Unconsolidated Subtotal
Six Months Ended June 30, 2007							
Segment revenues							
Management fees	\$ 62,616	\$ 22,746	\$ 69,341	\$ 60,720	\$	\$	\$ 215,423
Incentive income	190,298	17,905	158,199	84,369			450,771
Segment revenues - total	\$ 252,914	\$ 40,651	\$ 227,540	\$ 145,089	\$	\$	\$ 666,194
Pre-tax distributable earnings	\$ 166,843	\$ 18,938	\$ 105,387	\$ 49,314	\$ 29,641	\$ (7,286)	\$ 362,837

	Fortress Unconsolidated Subtotal	Consolidation of Fortress Funds	Eliminations	Reconciliation to GAAP	Fortress Consolidated
Revenues	\$ 666,194	\$ 317,114	\$ (269,607)	\$ (29,252)	\$ 684,449
Pre-tax distributable earnings / net income	\$ 362,837	\$ (326,375)	\$ 326,375	\$ (355,825)	\$ 7,012

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Six Months Then Ended June 30, 2007**Reconciling items between segment measures and GAAP measures:****Adjustments from segment revenues to GAAP revenues**

Adjust management fees*	\$ 325
Adjust incentive income	(61,793)
Adjust income from the receipt of options	2,006
Other revenues*	30,210
Total adjustments	\$ (29,252)

* Segment revenues do not include GAAP other revenues; GAAP other revenues are included elsewhere in the calculation of distributable earnings.

Adjustments from pre-tax distributable earnings to GAAP net income

Adjust incentive income	
Incentive income received from private equity funds, subject to contingent repayment	\$ (138,822)
Incentive income accrued from private equity funds, no longer subject to contingent repayment	211,942
Incentive income received from private equity funds, not subject to contingent repayment	(51,476)
Incentive income received from hedge funds, subject to annual performance achievement	(83,437)
Reserve for clawback	
	(61,793)
Adjust other income	
Distributions of earnings from equity method investees**	(12,326)
Earnings (losses) from equity method investees**	(19,248)
Gains (losses) on options in equity method investees, treated as derivatives	(24,456)
Adjust income from the receipt of options	2,006
	(54,024)
Adjust employee compensation	
Adjust employee equity-based compensation expense (including Castle options assigned)	(67,363)
Adjust employee portion of incentive income from private equity funds, accrued prior to the realization of incentive income	(19,657)
	(87,020)
Adjust Principals equity-based compensation expense	(380,933)
Adjust Principals interests related to Fortress Operating Group units	247,401
Adjust income taxes	(19,456)
Total adjustments	\$ (355,825)

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** This adjustment relates to all of the Castles, private equity Fortress Funds and hedge fund special investment accounts in which Fortress has an investment. On an unconsolidated basis, each of these funds is accounted for under the equity method.

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	Private Equity Funds	Castles	Liquid Hedge Funds	Hybrid Hedge Funds	Principal Investments	Unallocated	Fortress Unconsolidated Subtotal
Three Months Ended June 30, 2007							
Segment revenues							
Management fees	\$ 35,852	\$ 11,841	\$ 38,400	\$ 31,707	\$	\$	\$ 117,800
Incentive income		14,217	112,920	38,264			165,401
Segment revenues - total	\$ 35,852	\$ 26,058	\$ 151,320	\$ 69,971	\$	\$	\$ 283,201
Pre-tax distributable earnings	\$ 28,070	\$ 13,883	\$ 74,871	\$ 17,534	\$ 13,650	\$ (4,752)	\$ 143,256

	Fortress Unconsolidated Subtotal	Reconciliation to GAAP	Fortress Consolidated
Revenues	\$ 283,201	\$ (15,082)	\$ 268,119
Pre-tax distributable earnings / net income	\$ 143,256	\$ (198,387)	\$ (55,131)

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Adjust management fees*	\$ 325
Adjust incentive income	(32,376)
Adjust income from the receipt of options	1,195
Other revenues*	15,774
Total adjustments	\$ (15,082)

*Segment revenues do not include GAAP other revenues; GAAP other revenues are included elsewhere in the calculation of distributable earnings

Adjustments from pre-tax distributable earnings to GAAP net income

Adjust incentive income	
Incentive income received from private equity funds, subject to contingent repayment	\$
Incentive income accrued from private equity funds, no longer subject to contingent repayment	5,502
Incentive income received from private equity funds, not subject to contingent repayment	
Incentive income received from hedge funds, subject to annual performance achievement	(37,878)
Reserve for clawback	
	(32,376)
Adjust other income	
Distributions of earnings from equity method investees**	(2,433)
Earnings (losses) from equity method investees**	(8,098)
Gains (losses) on options in equity method investees, treated as derivatives	(29,606)
Adjust income from the receipt of options	1,195
	(38,942)
Adjust employee compensation	
Adjust employee equity-based compensation expense (including Castle options assigned)	(28,934)
Adjust employee portion of incentive income from private equity funds, accrued prior to the realization of incentive income	(19,657)
Adjust employee portion of incentive income from one private equity fund, not subject to contingent repayment	(569)
	(49,160)
Adjust Principals equity-based compensation expense	(242,659)
Adjust Principals interests related to Fortress Operating Group units	169,759
Adjust income taxes	(5,009)
Total adjustments	\$ (198,387)

** This adjustment relates to all of the Castles, private equity Fortress Funds and hedge fund special investment accounts in which Fortress has an investment. On an unconsolidated basis, each of these funds is accounted for under the equity method.

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Fortress's depreciation expense by segment was as follows:

	Private Equity Funds	Castles	Liquid Hedge Funds	Hybrid Hedge Funds	Unallocated	Total
<u>Six Months Ended June 30,</u>						
2008	\$ 546	\$ 374	\$ 1,495	\$ 1,486	\$ 971	\$ 4,872
2007	\$ 482	\$ 426	\$ 1,211	\$ 1,229	\$ 845	\$ 4,193
<u>Three Months Ended June 30,</u>						
2008	\$ 287	\$ 182	\$ 767	\$ 714	\$ 486	\$ 2,436
2007	\$ 243	\$ 212	\$ 631	\$ 653	\$ 445	\$ 2,184

11. SUBSEQUENT EVENTS

In July 2008, three of the Principals invested an aggregate of \$14.4 million in preferred equity interests of a subsidiary of one of the private equity Fortress Funds. The preferred equity does not pay a dividend.

12. PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma financial information presented below was derived from the application of pro forma adjustments to the combined and consolidated financial statements of Fortress, as applicable, to give effect to the deconsolidation of the consolidated Fortress Funds. The deconsolidation transaction occurred effective March 31, 2007 as described in Note 1. The unaudited pro forma statement of operations and statement of cash flows information for the six months ended June 30, 2007 have been prepared as if this transaction had occurred on January 1, 2007.

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(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2008

(dollars in tables in thousands, except share data)

The unaudited pro forma effects of the deconsolidation of the Fortress Funds on the statement of operations information are as follows:

	Six Months Ended June 30, 2007		
	Consolidated	Deconsolidation Adjustments	Pro Forma Deconsolidated
Revenues			
Management fees from affiliates	\$ 161,965	\$ 53,072	\$ 215,037
Incentive income from affiliates	177,189	211,682	388,871
Other revenues	36,265	(3,232)	33,033
Interest and dividend income - investment company holdings	309,030	(309,030)	
	684,449	(47,508)	636,941
Expenses			
Interest expense			
Investment company holdings	132,620	(132,620)	
Other	18,731		18,731
Compensation and benefits	405,300	(9,805)	395,495
Principals agreement compensation	380,933		380,933
General, administrative and other	62,908	(22,024)	40,884
Depreciation and amortization	4,193		4,193
	1,004,685	(164,449)	840,236
Other income			
Gains (losses) from investments			
Investment company holdings	(647,477)	647,477	
Other investments			
Net realized gains	54		54
Net realized gains from affiliate investments	145,493		145,493
Net unrealized gains (losses)	(677)		(677)
Net unrealized gains (losses) from affiliate investments	(167,166)		(167,166)
Earnings from equity method investees	7,427	3,231	10,658
	(662,346)	650,708	(11,638)
Income (loss) before Deferred Incentive Income, Principals and Others			
Interests in Income of Consolidated Subsidiaries and Income Taxes	(982,582)	767,649	(214,933)
Deferred incentive income	307,034	(307,034)	
Principals and others interests in loss (income) of consolidated subsidiaries	702,016	(460,615)	241,401
Income Before Income Taxes	26,468		26,468
Income tax expense	(19,456)		(19,456)

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Net Income \$ 7,012 \$ 7,012

Total comprehensive income for this period was calculated as follows:

Comprehensive income		\$ 7,012
Net income		\$ 7,012
Foreign currency translation		97
Net unrealized (loss) on derivatives designated as cash flow hedges		(8)
Comprehensive income (loss) from equity method investees		(2,652)
Allocation to Principals and others interests un equity of consolidated subsidiaries		463
Total comprehensive income		\$ 4,912

Table of Contents**FORTRESS INVESTMENT GROUP LLC**

(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2008

(dollars in tables in thousands, except share data)

The unaudited pro forma effects of the deconsolidation of the Fortress Funds on the statement of cash flows information are as follows:

	Six Months Ended June 30, 2007		
	Consolidated	Deconsolidation Adjustments	Pro Forma Deconsolidation
Cash Flows From Operating Activities			
Net income	\$ 7,012	\$	7,012
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation and amortization	4,193		4,193
Other amortization and accretion	1,275	(483)	792
Earnings from equity method investees	(7,427)	(3,231)	(10,658)
Distributions of earnings from equity method investees	4,211	3,231	7,442
(Gains) losses from investments	669,773	(647,477)	22,296
Recognition of deferred incentive income		(156,326)	(156,326)
Deferred incentive income	(311,174)	307,034	(4,140)
Principals and others interests in income of consolidated subsidiaries	(702,016)	460,615	(241,401)
Deferred tax expense	2,484		2,484
Options received from affiliates	(2,006)		(2,006)
Assignments of options to employees	1,717		1,717
Equity-based compensation	445,233		445,233
Cash flows due to changes in			
Cash held at consolidated subsidiaries and restricted cash	(166,199)	166,199	
Due from affiliates	186,215	65,445	251,660
Receivables from brokers and counterparties and other assets	(9,106)	32,131	23,025
Accrued compensation and benefits	72,733	(144)	72,589
Due to affiliates	(8,380)	8,594	214
Deferred incentive income		142,041	142,041
Due to brokers and counterparties and other liabilities	65,592	(87,935)	(22,343)
Investment company holdings			
Purchases of investments	(5,105,865)	5,105,865	
Proceeds from sale of investments	3,398,739	(3,398,739)	
Net cash provided by (used in) operating activities	(1,452,996)	1,996,820	543,824
Cash Flows From Investing Activities			
Proceeds from sale of other loan and security investments	317		317
Contributions to equity method investees	(58,004)	(148,812)	(206,816)
Distributions of capital from equity method investments	39,906	22,685	62,591
Proceeds from sale of equity method investees	29,071		29,071
Cash received on settlement of derivatives	132		132
Purchase of fixed assets	(7,136)	125	(7,011)
Net cash used in investing activities	4,286	(126,002)	(121,716)

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Cash Flows From Financing Activities

Borrowings under debt obligations	1,924,070	(1,564,070)	360,000
Repayments of debt obligations	(2,010,025)	1,312,872	(697,153)
Payment of deferred financing costs	(6,656)	660	(5,996)
Issuance of Class A shares to Nomura	888,000		888,000
Issuance of Class A shares in initial public offering	729,435		729,435
Costs related to initial public offering	(76,766)		(76,766)
Dividends paid	(16,542)		(16,542)
Fortress Operating Group capital distributions to Principals	(219,112)		(219,112)
Purchase of Fortress Operating Group units from Principals	(888,000)		(888,000)
Principals and others interests in equity of consolidated subsidiaries - contributions	3,193,618	(3,183,682)	9,936
Principals and others interests in equity of consolidated subsidiaries - distributions	(1,808,987)	1,563,402	(245,585)
Net cash provided by (used in) financing activities	1,709,035	(1,870,818)	(161,783)
Net Increase in Cash and Cash Equivalents	260,325		260,325
Cash and Cash Equivalents, Beginning of Period	61,120		61,120
Cash and Cash Equivalents, End of Period	\$ 321,445	\$	\$ 321,445

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FORTRESS INVESTMENT GROUP LLC

(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2008

(dollars in tables in thousands, except share data)

NOTE 13 CONSOLIDATING FINANCIAL INFORMATION

The consolidating financial information presents the balance sheet, statement of operations and statement of cash flows for Fortress Operating Group (on a combined basis) and Fortress Investment Group LLC (including its consolidated subsidiaries other than those within Fortress Operating Group) on a deconsolidated basis, as well as the related eliminating entries for intercompany balances and transactions, which sum to Fortress Investment Group's consolidated financial statements as of, and for the six months ended, June 30, 2008.

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

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(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2008

(dollars in tables in thousands, except share data)

The consolidating balance sheet information is as follows:

	As of June 30, 2008			
	Fortress Operating Group Combined	Fortress Investment Group LLC Consolidated (A)	Intercompany Eliminations	Fortress Investment Group LLC Consolidated
Assets				
Cash and cash equivalents	\$ 234,628	\$ 20,527	\$	\$ 255,155
Due from affiliates	141,765	1,615	(1,615)	141,765
Investments				
Equity method investees	961,123	42,438	(42,438)	961,123
Options in affiliates	871			871
Deferred tax asset	7,247	504,990		512,237
Other assets	67,495	5,189		72,684
	\$ 1,413,129	\$ 574,759	\$ (44,053)	\$ 1,943,835
Liabilities and Shareholders' Equity				
Liabilities				
Accrued compensation and benefits	\$ 126,040	\$	\$	\$ 126,040
Due to affiliates	71,443	393,266		464,709
Dividends payable	1,615	21,286	(1,615)	21,286
Deferred incentive income	164,144			164,144
Debt obligations payable	800,000			800,000
Other liabilities	40,239			40,239
	1,203,481	414,552	(1,615)	1,616,418
Commitments and Contingencies				
Principals and Others' Interests in Equity of Consolidated Subsidiaries				
	52,826	5,894	114,384	173,104
Shareholders' Equity				
Paid-in capital	1,083,788	469,319	(1,083,788)	469,319
Retained earnings (accumulated deficit)	(930,746)	(315,564)	930,746	(315,564)
Accumulated other comprehensive income (loss)	3,780	558	(3,780)	558
	156,822	154,313	(156,822)	154,313
	\$ 1,413,129	\$ 574,759	\$ (44,053)	\$ 1,943,835

(A) Other than Fortress Operating Group.

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(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2008

(dollars in tables in thousands, except share data)

The consolidating statement of operations information is as follows:

	Six Months Ended June 30, 2008			
	Fortress Operating Group Consolidated	Fortress Investment Group LLC Consolidated (A)	Intercompany Eliminations	Fortress Investment Group LLC Consolidated
Revenues				
Management fees from affiliates	\$ 293,662	\$	\$	\$ 293,662
Incentive income from affiliates	55,444			55,444
Other revenues	39,829	41		39,870
	388,935	41		388,976
Expenses				
Interest expense	20,224			20,224
Compensation and benefits	264,479			264,479
Principals agreement compensation	474,734			474,734
General, administrative and other	36,462		(146)	36,316
Depreciation and amortization	4,872			4,872
	800,771		(146)	800,625
Other Income (Loss)				
Gains (losses) from investments				
Net realized gains (losses)	1,674			1,674
Net realized gains (losses) from affiliate investments	155			155
Net unrealized gains (losses)				
Net unrealized gains (losses) from affiliate investees	(36,401)			(36,401)
Earnings (losses) from equity method investees	(75,629)	(122,182)	122,182	(75,629)
	(110,201)	(122,182)	122,182	(110,201)
Income (Loss) Before Principals and Others Interests in Income of Consolidated Subsidiaries and Income Taxes				
	(522,037)	(122,141)	122,328	(521,850)
Principals and others interests in (income) loss of consolidated subsidiaries	(910)		403,590	402,680
Income Before Income Taxes				
	(522,947)	(122,141)	525,918	(119,170)
Income tax benefit (expense)	(2,971)	(2,332)		(5,303)
Net Income (Loss)				
	\$ (525,918)	\$ (124,473)	\$ 525,918	\$ (124,473)

(A) Other than Fortress Operating Group.

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(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP NOTE 1)

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2008

(dollars in tables in thousands, except share data)

The consolidating statement of cash flows information is as follows:

	Fortress Operating Group Consolidated	Six Months Ended June 30, 2008 Fortress Investment Group LLC Consolidated (A)	Intercompany Eliminations	Fortress Investment Group LLC Consolidated
Cash Flows From Operating Activities				
Net income (loss)	\$ (525,918)	\$ (124,474)	\$ 525,919	\$ (124,473)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	4,872			4,872
Other amortization and accretion	1,420			1,420
(Earnings) losses from equity method investees	75,629	122,183	(122,183)	75,629
Distributions of earnings from equity method investees	2,792			2,792
(Gains) losses from investments	34,572			34,572
Deferred incentive income, net	(35,494)			(35,494)
Principals and others interests in income (loss) of consolidated subsidiaries	910		(403,590)	(402,680)
Deferred tax (benefit) expense	(2,440)	(994)		(3,434)
Equity-based compensation	556,131			556,131
Cash flows due to changes in				
Due from affiliates	14,841			14,841
Other assets	(1,639)	2,541		902
Accrued compensation and benefits	(124,550)			(124,550)
Due to affiliates	(1,066)			(1,066)
Deferred incentive income	26,077			26,077
Other liabilities	7,184	596	(146)	7,634
Net cash provided by (used in) operating activities	33,321	(148)		33,173
Cash Flows From Investing Activities				
Contributions to equity method investees	(82,343)			(82,343)
Distributions of capital from equity method investees	182,072	60,115	(60,115)	182,072
Purchase of fixed assets	(3,906)			(3,906)
Proceeds from disposal of fixed assets	53			53
Net cash provided by (used in) investing activities	95,876	60,115	(60,115)	95,876
Cash Flows From Financing Activities				
Borrowings under debt obligations	450,000			450,000
Repayments of debt obligations	(185,000)			(185,000)
Payment of deferred financing costs	(5,060)			(5,060)
Dividends and dividend equivalents paid	(203,788)	(42,570)	193,537	(52,821)

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Principals and others interests in consolidated subsidiaries - distributions	145			145
Principals and others interests in consolidated subsidiaries - contributions	(48,145)		(133,422)	(181,567)
Net cash provided by (used in) financing activities	8,152	(42,570)	60,115	25,697
Net Increase (Decrease) in Cash and Cash Equivalents	137,349	17,397		154,746
Cash and Cash Equivalents, Beginning of Period	97,279	3,130		100,409
Cash and Cash Equivalents, End of Period	\$ 234,628	\$ 20,527	\$	\$ 255,155

(A) Other than Fortress Operating Group.

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

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

The following discussion should be read in conjunction with Fortress Investment Group's consolidated and combined 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.

During the first quarter of 2007, we consummated a number of significant transactions, including the Nomura transaction, the formation transactions, our initial public offering, and the deconsolidation of a number of Fortress Funds. The deconsolidation of the Fortress Funds has had significant effects on many of the items within our financial statements but had no net effect on net income or equity. Since the deconsolidation did not occur until March 31, 2007, the statement of operations and the statement of cash flows for the six months ended June 30, 2007 are presented including these funds on a consolidated basis for the period prior to deconsolidation. The pro forma effects of the deconsolidation on these financial statements are described in Note 12 to Part I, Item 1, Financial Statements Pro Forma Financial Information.

General

Our Business

Fortress is a leading global alternative asset manager with approximately \$35.1 billion in AUM as of June 30, 2008. We raise, invest and manage private equity funds and hedge funds. We earn management fees based on the size of our funds, incentive income based on the performance of our funds, and investment income from our principal investments in those funds. We invest capital in each of our businesses.

As of June 30, 2008, we managed alternative assets in two core businesses:

Private Equity Funds a business that manages approximately \$17.0 billion of AUM comprised of two business segments: (i) funds that primarily make significant, control-oriented investments in North America and Western Europe, with a focus on acquiring and building asset-based businesses with significant cash flows. We also manage a family of long dated value funds focused on investing in undervalued assets with limited current cash flows and long investment horizons; and (ii) publicly traded alternative investment vehicles, which we refer to as Castles, that invest primarily in real estate and real estate related debt investments.

Hedge Funds a business that manages approximately \$18.1 billion of AUM comprised of two business segments; (i) hybrid hedge funds which make highly diversified investments globally in assets, opportunistic lending situations and securities through the capital structure with a value orientation, as well as investment funds managed by external managers; and (ii) liquid hedge funds which invest globally in fixed income, currency, equity and commodity markets and related derivatives to capitalize on imbalances in the financial markets.

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

Managing Business Performance

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

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

Management makes operating decisions and assesses performance with regard to each of our primary segments based on financial data that is presented without the consolidation of any Fortress Funds. Accordingly, segment data for these segments is reflected on an unconsolidated basis, even for periods prior to the deconsolidation. Management also assesses our segments on a Fortress Operating Group and pre-tax basis, and therefore adds back the interests in consolidated subsidiaries related to Fortress Operating Group units (held by the principals) and income tax expense.

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Management assesses the net performance of each segment based on its distributable earnings. Distributable earnings is not a measure of cash generated by operations which is available for distribution. Rather distributable earnings is a supplemental measure of the value created during any period which management uses in its determination of its periodic distributions to its dividend paying share and unit holders. 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).

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

Market Considerations

Our revenues consist primarily of (i) management fees which are based on the size of our funds, (ii) incentive income which is based on the performance of our funds and (iii) investment income from our investments in those funds. Our ability to grow our revenues depends on our ability to attract new capital and investors, both at Fortress and within our funds, which in turn depends on our ability to successfully invest our capital and our funds' capital. The primary market factors that impact this are:

The strength of the alternative investment management industry, including t