Fortress Investment Group LLC
Form 10-K
February 26, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-33294
Fortress Investment Group LLC
(Exact name of registrant as specified in its charter)

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

Registrant’s telephone number, including area code: (212) 798-6100
Securities registered pursuant to Section 12 (b) of the Act:

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the Class A shares held by non-affiliates as of June 30, 2014 (computed based on the closing price on such date as reported on the NYSE) was $1.54 billion.

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: 208,554,885 outstanding as of February 20, 2015.
Class B shares: 226,331,513 outstanding as of February 20, 2015.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant’s definitive proxy statement for the registrant’s 2014 annual meeting, to be filed within 120 days after the close of the registrant’s fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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All other schedules are omitted because either the required information is shown in the consolidated financial statements or notes thereto or it is not applicable.

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

‘‘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 net asset value, "NAV," if lower) of our private equity funds, private permanent capital vehicle and credit PE funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with private equity funds raised after March 2006 includes the mark-to-market value of public securities held within the funds,
(ii) the contributed capital of our publicly traded permanent capital vehicles,
(iii) the NAV of our hedge funds, including the Value Recovery Funds and certain advisory engagements which pay fees based on realizations; and
(iv) the NAV or fair value of our managed accounts, to the extent management fees are charged.

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

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

“Fortress,” “we,” “us,” “our,” the “Company” and the “public company” refer, collectively, to Fortress Investment Group LLC its subsidiaries, including the Fortress Operating Group (as defined below) and all of its subsidiaries, excluding consolidated variable interest entities, unless the context requires otherwise.

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

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

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

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

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

“principals” or “Principals” refers to Peter Briger, Wesley Edens, Randal Nardone and Michael Novogratz, collectively, as well as Robert Kauffman until his retirement in December 2012. The principals control the public company through their ownership of the public company’s Class B shares (together with, from time to time, a former senior employee who owned securities convertible into Class B shares). The Class B shares and the Class A shares are each entitled to one vote per share, and the number of Class B shares outstanding represents a majority of the aggregate number of Class B shares and Class A shares outstanding. The Class B shares do not represent an economic interest in the public company and therefore are not entitled to any dividends. The principals own their economic interest in the public company primarily through their direct ownership of FOGUs.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Part I, Item 1, “Business,” Part I, Item 1A, “Risk Factors,” Part II, Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations,” Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” and elsewhere in this Annual Report on Form 10-K may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. Readers can identify these forward-looking statements by the use of forward-looking words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predict “plans,” “estimates,” “anticipates” or the negative version of those words or other comparable words. Any forward-looking statements contained in this report are based upon the historical performance of us and our subsidiaries and on our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these statements. Accordingly, you should not place undue reliance on any forward-looking statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

SPECIAL NOTE REGARDING EXHIBITS

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

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

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Annual Report on Form 10-K and the Company’s other public filings, which are available without charge through the SEC’s website at http://www.sec.gov. See “Business — Where Readers Can Find Additional Information.”

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

PART I
Item 1. Business.

Fortress Investment Group LLC (NYSE listed under the symbol "FIG") is a leading, highly diversified global investment management firm with approximately $67.5 billion in AUM as of December 31, 2014. Fortress applies its deep experience and specialized expertise across a range of investment strategies - private equity, credit, liquid markets and traditional fixed income - on behalf of our over 1,600 institutional clients and private investors worldwide. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our alternative investment funds, and investment income (loss) from our investments in the Fortress Funds.

Fortress was founded in 1998 as an asset-based investment management firm with a fundamental philosophy premised on alignment of interests with the investors in our funds. Our managed funds primarily employ absolute return strategies — we strive to have positive returns regardless of the performance of the markets. Investment performance is our cornerstone — as an investment manager, we earn more if our investors earn more. In keeping with our fundamental philosophy, Fortress invests capital in each of its alternative investment businesses. As of December 31, 2014, Fortress's investments in and commitments to our funds were $1.2 billion, consisting of the net asset value of Fortress's investments in the Fortress Funds of $1.1 billion, and unfunded commitments to private equity funds, credit PE funds and a private permanent capital vehicle of $0.1 billion.

As of December 31, 2014, we had 1,186 asset management employees, including approximately 319 investment professionals, at our headquarters in New York and our affiliate offices around the globe. Additionally, we had 1,674 employees at the senior living properties that we manage on behalf of New Senior Investment Group Inc. ("New Senior") and a third party (whose compensation expense is reimbursed to us by the owners of the facilities). New Media Investment Group Inc. ("New Media"), a consolidated entity of Fortress, had approximately 6,133 full time equivalent employees, consisting of hourly and salaried employees and includes 923 union personnel at a number of our core publications as of December 31, 2014. New Senior does not have any employees as all of its officers and other individuals who perform services for New Senior are employees of Fortress or an affiliate of Fortress.

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

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

Recent Developments

- Fortress's board of directors declared a base quarterly dividend of $0.08 per share and a special cash dividend of $0.30 per share, for the fourth quarter of 2014, resulting in total dividends of $0.80 per share related to 2014.
- In 2014, Fortress announced that it was launching an affiliated manager platform. On January 5, 2015, Fortress Asia Macro Funds and related managed accounts became the first funds to join the new platform as they transitioned to an autonomous asset management business named Graticule Asset Management Asia, L.P. ("Graticule Asset Management"). Fortress retained a perpetual minority interest in Graticule Asset Management amounting to 30% of earnings in 2015 and declining to approximately 27% of earnings over time. Fortress also receives additional fees for providing infrastructure services (technology, back office, and related services) to Graticule Asset Management.
- During 2014, we raised $6.4 billion of new third-party capital and launched four new funds. As of December 31, 2014, we had $7.8 billion of capital commitments from investors to our funds that will be included in AUM if called,

of which $5.5 billion is in newer vintage funds and is available for general investment purposes. In addition, we had net client inflows in our traditional asset management business of $5.4 billion in 2014.

Key Performance Indicators

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

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Net Income and Distributable Earnings

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

Assets Under Management

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

Fund Performance

Our incentive income is typically earned as a percentage of the profits of our alternative investment funds. In certain cases, we earn incentive income only if a fund's investments meet specified performance thresholds. We therefore monitor our funds' proximity to such performance thresholds. For more information on our funds' performance, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Performance of our Funds." For more information on our funds' incentive income terms and their proximity to their various performance thresholds, please refer to Part II, Item 8 "Financial Statements and Supplementary Data — Note 3 — Management Agreements and Fortress Funds." For more information on embedded incentive income, which has not yet been distributed to us by our funds, and the portion thereof that has not yet been recognized in distributable earnings, please refer to Part II, Item 8 "Financial Statements and Supplementary Data — Note 11 — Segment Reporting — Embedded Incentive Income."

Investment Performance

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

Our Current Businesses

Our current offering of alternative investment products includes private equity funds, liquid hedge funds and credit funds. In addition, we offer traditional investment products. Private equity funds generally require fund investors to commit capital over a period of time, do not allow redemptions of capital and make long term, relatively illiquid investments. Hedge funds allow periodic contributions and redemptions of capital by investors and make relatively shorter-term, more liquid investments. Our credit funds share certain of the characteristics of both private equity and hedge funds. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Understanding the Asset Management Business." We refer to these investment products, collectively, as the Fortress Funds. As of December 31, 2014, we managed the following businesses:

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

Liquid Hedge Funds — a business that manages approximately $8.1 billion of AUM, including $3.5 billion of AUM relating to Fortress Asia Macro Funds and related managed accounts, which subsequent to December 31, 2014, transitioned to Graticule Asset Management on the affiliated manager platform. These funds invest globally in fixed income, currency, equity and commodity markets and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments; a fund that primarily focuses on an international "event driven" investment strategy, particularly in Europe, Asia-Pacific and Latin America; and a fund that seeks to generate returns by executing a positively convex investment strategy. In addition, this segment includes the affiliated manager platform.

Credit Funds — a business that manages approximately $13.1 billion of AUM comprised of two business segments: (i) credit hedge funds, which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and (ii) credit private equity ("PE") funds which are comprised of a family of "credit opportunities" funds focused on investing in distressed and undervalued assets, a family of ''long dated value'' funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of "real assets" funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based global opportunities fund, and a family of real estate opportunities funds, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector.

Logan Circle — our traditional asset management business, which has approximately $32.3 billion of AUM, provides institutional clients actively managed investment solutions across a broad spectrum of fixed income. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt. As of December 31, 2014, all of our traditional asset management AUM was related to fixed income investment strategies. Subsequent to December 31, 2014, Logan Circle concluded its growth equities investment strategies.

Principal Sources of Revenue

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

	2014	2013	2012
Private Equity Funds			
Management Fees	$136,110	$134,176	$118,990
Incentive Income	2,854	13,211	10,993
Permanent Capital Vehicles			
Management Fees	69,360	61,200	56,757
Incentive Income	65,448	18,101	242
Liquid Hedge Funds			
Management Fees	137,908	110,622	77,531
Incentive Income	16,067	150,700	67,645
Credit Funds			
Hedge Funds			

Management Fees	113,825	101,890	101,194
Incentive Income	121,768	190,846	130,305
PE Funds			
Management Fees	96,715	95,925	98,393
Incentive Income	254,461	120,137	68,568
Logan Circle			
Management Fees	46,996	35,833	26,796
Incentive Income	106	—	—

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

Private Equity Funds

Fortress Investment Funds

Our private equity business is comprised of (i) a series of diversified funds referred to as the “Fortress Investment Funds” and organized to make control-oriented investments in cash flow generating, asset-based businesses in North America and Western Europe and (ii) various sector focused funds organized to invest in specific opportunities in sectors where Fortress has proven expertise. Sector focused funds include the MSR Opportunities Funds and the Italian NPL Opportunities Fund. Investors in our private equity funds contractually commit capital at the outset of a fund, which is then drawn down as investment opportunities become available, generally over a two to three year investment period. Proceeds are returned to investors as investments are realized, generally over eight to ten years. Management fees between 1.0% and 1.5% are generally charged on committed or invested capital (or NAV, if lower). We also generally earn between 10% and 20% of the profits on each realized investment in a fund - our incentive income - subject to the fund's achieving a minimum return as a whole, that is, taking into account all gains and losses on all investments in the fund.

Permanent Capital Vehicles

The permanent capital business is comprised of entities which we refer to as the “permanent capital vehicles” including: (i) Newcastle Investment Corp. (“Newcastle”), New Residential Investment Corp. (“New Residential”), Eurocastle Investment Limited ("Eurocastle"), New Media, and New Senior, which are publicly traded companies that are externally managed by us pursuant to management agreements (collectively referred to as the “publicly traded permanent capital vehicles”) and (ii) Worldwide Transportation and Infrastructure Investors, currently a private fund (referred to as the “private permanent capital vehicle” or “WWTAI”), and FHC Property Management LLC (together with its subsidiaries, referred to as “Blue Harbor”), a senior living property management business. The publicly traded permanent capital vehicles invest in a wide variety of real estate related assets, including securities, loans, real estate properties, senior living properties and mortgage servicing related assets, media assets and golf assets, and the private permanent capital vehicle invests in transportation and infrastructure assets. The private permanent capital vehicle is expected to become a publicly traded permanent capital vehicle externally managed by us. Pursuant to our management agreements, we earn management fees from each publicly traded permanent capital vehicle equal to 1.25% - 1.5% of the company's equity (as defined in such agreements). In addition, we generally earn incentive income equal to 25% of operating results in excess of specified returns to the shareholders. In addition to these fees, we also receive, for services provided, options in connection with each of their common stock offerings. For WWTAI, management fees between 1.25% and 1.5% are charged on invested capital and we earn incentive income equal to 10% of the profits on each realized investment of the fund subject to the fund achieving a minimum return as a whole.

Fortress has a senior living property management subsidiary, Blue Harbor, and has agreements to manage 24 senior living properties, including 22 which are owned by New Senior and two which are owned by third parties. Fortress generally receives management fees of between 6.0% and 7.0% of revenues (as defined in the agreements).

Liquid Hedge Funds

Overview

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

Fortress Macro Funds

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

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

Management fees are charged based on the AUM of the Fortress Macro Funds and related managed accounts at a rate between 1.5% and 2.0% annually, depending on the investment and liquidity terms elected by investors. We generally earn incentive income of between 15% and 25% of the fund's profits, generally payable annually, depending on the investment and liquidity terms elected by investors, and subject to achieving cumulative positive returns since the prior incentive income payment. In other words, an incentive income payment establishes a “high water mark” such that the fund must earn a cumulative positive return from that point forward in order for Fortress to earn incentive income. Investors in the Fortress Macro Funds and related managed accounts may invest with the right to redeem without paying any redemption fee either monthly, quarterly, or annually after three years. Some investors with three-year liquidity may redeem annually before three years, subject to an early redemption fee payable to the funds.

Fortress Partners Funds

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

Convex Asia Funds

The Convex Asia Funds’ principal investment objective is to generate a superior total return on its capital over multi-year market cycles by executing a positively convex investment strategy in the Asia-Pacific fixed income, commodities, currency, credit and equity markets, and their related derivatives or similar markets globally that are thematically related to the Asia-Pacific region. The management fee rate for these funds is 1.25% and we earn incentive income of 18% of their profits, subject to achieving cumulative positive returns since the prior incentive income payment.

Fortress Centaurus Global Funds

The Fortress Centaurus Global Funds employ a multi-strategy, equity biased event driven strategy, which generally focuses on soft and hard catalyst situations in liquid securities across the capital structure in the core markets of Europe, Asia-Pacific and Latin America. The management fee rate for these funds range from 1.0% to 1.75% and we earn incentive income of 20% of their profits, subject to achieving cumulative positive returns since the prior incentive income payment.

Affiliated Manager Platform

The affiliated manager platform takes a non-controlling economic interest in autonomous asset management businesses under a fee-for-services model for infrastructure services. In January 2015, the Fortress Asia Macro Funds and related managed accounts transitioned to Graticule Asset Management under the affiliated manager platform. Fortress retained a perpetual minority interest amounting to 30% of earnings in 2015 and declining to approximately 27% of earnings over time. Fortress will also receive fees for providing infrastructure services to Graticule Asset Management. The Fortress Asia Macro Funds and related managed accounts invest in global fixed income, commodities, currency and equity markets, and their related derivatives, thematically related to the Asia-Pacific region through a fundamental macroeconomic strategy that focuses on liquid investments. Their investment program focuses on global trading and capital flows that affect one or more of the Asian countries and/or are affected by them and the region as a whole. Management fee rates for these funds range from 1.25% to 2.0% and incentive income generally from 17% to 25% of their profits subject to achieving cumulative positive returns since the prior incentive income payment. Rates for management fees and incentive income charged by affiliated managers may vary in the future for any affiliated manager product.

Credit Funds

Credit Hedge Funds

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

The funds are able to invest in a wide array of financial instruments, ranging from direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance on a global basis and throughout the capital structure with a value orientation. All of these investments are based on fundamental bottom up analysis and are typically event driven. The funds' diverse and situation-specific investments require significant infrastructure and asset management experience to fully realize value. We have developed a substantial asset management infrastructure with expertise in managing the funds' investments in order to be able to maximize the net present value of investments on a monthly basis. In addition to the funds noted below, Fortress has been retained as a manager of certain non-Fortress originated funds as part of an advisory business that forms part of the credit hedge funds business.

Drawbridge Special Opportunities Funds

The Drawbridge Special Opportunities Funds form the core of our credit hedge fund investing strategy. The funds opportunistically acquire a diversified portfolio of investments primarily throughout the United States, Western Europe and the Pacific region. The funds' investment program incorporates complementary investment strategies, focusing on direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance. The majority of the funds’ investments are relatively illiquid, and the funds generally make investments that are expected to liquidate or be realized within a five year period.

Management fees are charged based on the AUM of the Drawbridge Special Opportunities Funds at a rate generally equal to 2.0% annually. We generally earn incentive income of 20% of the fund's profits, payable annually, and subject to achieving cumulative positive returns since the prior incentive income payment. Investors in the Drawbridge Special Opportunities Funds may redeem annually on December 31. Because of the illiquid nature of the funds' investments, rather than paying out redemption requests immediately, the fund may elect to pay out redeeming investors as and when the particular investments held by the fund at the time of redemption are realized.

Worden Funds

The Worden Funds invest in a diversified portfolio of undervalued and distressed investments primarily in North America and Western Europe, but also in Australia, Asia and elsewhere on an opportunistic basis. These funds seek to achieve their investment objectives primarily through investments in loans and asset-based investments, including portfolios of consumer and commercial receivables and asset-backed financial instruments of undervalued or financially troubled companies. Management fees of 1.75% to 2.0% are generally charged based on the AUM of the Worden Funds. We earn incentive income of 20% of the funds’ profits, payable annually, subject to achieving cumulative positive returns since the prior incentive income payment.

Japan Income Fund

We launched the Japan Income Fund in December 2013 to invest in a diversified portfolio consisting primarily of long-term, stable, income-generating assets in Japan. The fund primarily targets investments in real estate subject to long-term leases, capital assets and renewable energy projects. The fund is structured as an open ended fund with periodic subscription and redemption rights. A management fee rate of 1.0% is charged on the AUM of the Japan Income Fund, as well as acquisition and disposition fees. We will earn incentive income of 20% on the fund's distributions in excess of a 4% dividend yield.

Credit PE Funds

Our credit PE funds are primarily comprised of families of funds as described below, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector. They generally have management fee rates between 1.0% and 1.5% and generate incentive income of between 10% and 20% of a fund’s profits subject to the fund achieving a minimum return as a whole.

Credit Opportunities Funds

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

Long Dated Value Funds

The Long Dated Value family of funds was established to focus on making investments with long dated cash flows that may be undervalued because of the lack of current cash flows or because the investment is encumbered by a long term lease or financing. We believe that these investments provide the potential for significant capital appreciation over the long term. The Long Dated Value Funds have an investment life of 25 years, reflecting the funds' longer-term investment profiles. In addition, incentive income is distributed to us after all of a fund's invested capital has been returned, rather than as each investment is realized.

Real Assets Funds

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

Asia Funds

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

Real Estate Opportunities Funds

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

Logan Circle

Logan Circle primarily provides traditional separate account investment management services to institutional clients, including corporate entities, pension plans, mutual funds, private funds, and foundations, as well as public and government entities. Logan Circle also provides investment advisory services to private funds that are sponsored or managed by Logan Circle or its affiliates. Management fee rates average 0.16% of AUM and may be tiered based on the amount of AUM of the account.

Competition

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

Regulatory and Compliance Matters

Our operations are subject to regulation and supervision in a number of jurisdictions. The level of regulation and supervision to which we are subject varies from jurisdiction to jurisdiction and is based on the type of business activity involved. The regulatory and legal requirements that apply to our activities are subject to change from time to time and may become more restrictive. The United States Securities and Exchange Commission ("SEC"), Commodity Futures Trading Commission ("CFTC") and various other regulatory and self-regulatory organizations have in recent years increased their regulatory activities, including regulation, examination and enforcement in respect of asset management firms. Our businesses have operated for many years within a legal framework that requires our being able to monitor and comply with a broad range of legal and regulatory developments that affect our activities. Rigorous legal and compliance analysis of our businesses and investments is important to our culture. We strive to maintain a culture of compliance through the use of policies and procedures, such as codes of conduct, compliance systems, communication of compliance guidance and employee education and training. Employees in our legal and compliance departments monitor our compliance with all of the regulatory requirements to which we are subject and manage our compliance policies and procedures. Our compliance policies and procedures address a variety of regulatory and compliance risks including, but not limited to, the handling of material non-public information, position reporting, personal securities trading, valuation of investments on a vehicle-specific basis, document retention, potential conflicts of interest and the allocation of investment opportunities.

United States

Our business, as well as the financial services industry generally, is subject to extensive regulation in the United States and elsewhere. Certain of our subsidiaries are registered as investment advisers with the SEC. Registered investment advisers are subject to the requirements and regulations of the Investment Advisers Act of 1940, as amended (the "Investment Advisers Act”). Such requirements relate to, among other things, fiduciary duties to advisory clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency, cross and principal transactions between an adviser and advisory clients and general anti-fraud prohibitions. In addition, our registered investment advisers may be subject to routine periodic examinations by the staff of the SEC.

We are also subject to regulation under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Investment Company Act of 1940, as amended (the “Investment Company Act”), the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) and various other statutes. A number of our investing activities are subject to regulation by various U.S. state regulators. A number of portfolio companies owned by Fortress-managed funds are also publicly traded and/or are subject to significant regulatory oversight. For example, Springleaf Holdings Inc. (“Springleaf”) is in the consumer finance industry and Nationstar Mortgage Holdings Inc. (“Nationstar”) is in the mortgage servicing industry. Both industries have recently been the focus of extensive regulatory focus. In addition, two of Springleaf’s subsidiaries are in the insurance industry and are subject to extensive regulation by state authorities. Moreover, investments are subject to regulation from non-financial, sector-specific regulatory bodies. For example, WWTAI currently invests across, among other things, the rail, aviation, and offshore energy sectors, and its investments are subject to regulations applicable to those sectors.

We conduct fundraising activities for our managed funds through Fortress Capital Formation LLC, an affiliate that is registered as a limited purpose broker-dealer with the SEC, is a member of the Financial Industry Regulatory Authority (“FINRA”), and is registered as a broker-dealer in all 50 states, the District of Columbia, and the Virgin Islands. Fortress Capital Formation LLC is subject to regulation and examination by the SEC, as well as by the state securities regulatory agencies. Additionally, FINRA, a self-regulatory organization that is subject to SEC oversight, maintains regulatory authority over all securities firms doing business in the United States (including our broker-dealer), adopts and enforces rules governing the activities of its member firms, and conducts cycle examinations and targeted sweep inquiries on issues of immediate concern, among other roles and responsibilities. Broker-dealers are subject to various rules relating to internal operations and dealings with customers including, but not limited to, the form or organization of the firm, qualifications of associated persons, net capital and customer protection rules, books and records, financial statements, and reporting.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the CFTC obtained regulatory jurisdiction over certain derivative instruments, including swaps. As such, certain of our or our subsidiaries' risk management or other commodities interest-related activities may be subject to CFTC oversight. In addition, new rules adopted by the CFTC removed or limited previously available exemptions and exclusions from registration, which has imposed additional registration and reporting requirements for operators of pooled vehicles that use or trade in futures, swaps and other derivatives regulated by the CFTC. Accordingly, certain of our affiliates have registered with the CFTC as commodity pool operators and have obtained membership with the National Futures Association in connection with such CFTC registration. Such entities are subject to the rules and requirements applicable to such registration and membership, including record-keeping, reporting, operational and marketing requirements and disclosure obligations.

Certain of our permanent capital vehicles, as public companies, are subject to SEC regulation, applicable stock exchange regulations and Sarbanes-Oxley. Moreover, our permanent capital vehicles are subject to regulation from financial and non-financial regulatory bodies. For example, New Senior is subject to regulations applicable to operators of independent living and assisted living facilities, as well as laws designed to protect Medicaid; New Media is subject to environmental and employee safety and health laws and regulations pertaining to its print facilities; New Residential is subject to numerous laws and regulations with respect to mortgage servicing rights and various other investments; Newcastle is subject to a number of environmental regulations in connection with its golf facilities and operations; and Eurocastle is subject to a variety of regulations in connection with its investments in real estate related assets in Europe.

Certain of the permanent capital vehicles are organized and conduct their operations to qualify as a real estate investment trust ("REIT") for U.S. federal income tax purposes. To maintain their qualification as REITs, such companies have to distribute at least 90% of their taxable income to their shareholders and meet, on a continuing basis, certain other complex requirements under the Internal Revenue Code.

A meaningful portion of the capital managed in Logan Circle is subject to regulation by the Department of Labor under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), as amended. In addition, each of the U.S. mutual funds and investment companies we, through Logan Circle, manage is registered under the Investment Company Act as an investment company or is exempt from such registration. The U.S. mutual funds and investment companies and the entities that serve as those vehicles' investment advisers or sub-advisers are subject to the Investment Company Act and the rules thereunder, which among other things regulate the relationship between a registered investment company and its investment adviser and prohibit joint transactions. Logan Circle also manages non-U.S. mutual funds and investment companies, and is subject to similar laws and regulations in such non-U.S. jurisdictions.

We are subject to a number of laws and regulations governing payments and contributions to political persons or other third parties including, but not limited to, restrictions imposed by Rule 206(4)-5 of the Investment Advisers Act addressing "pay-to-play" practices, the Foreign Corrupt Practices Act ("FCPA"), as well as trade sanctions and other export control laws administered by Office of Foreign Asset Controls ("OFAC"), the U.S. Department of Commerce and the U.S. Department of State. The FCPA is intended to prohibit bribery of foreign governments and their officials and political parties, and requires U.S. public companies to keep books and records that accurately and fairly reflect those companies' transactions. OFAC, the U.S. Department of Commerce and the U.S. Department of State administer and enforce various export control laws and regulations, including economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, organizations and individuals. These laws and regulations relate to a number of aspects of our business, including sourcing new investments. Similar laws in non-U.S. jurisdictions, such as EU sanctions or the U.K. Bribery Act, as well as other applicable anti-bribery, anticorruption, anti-money laundering, or sanctions or other export control laws in the U.S. and abroad, may impose stricter or more onerous requirements than the FCPA, OFAC, the U.S. Department of Commerce and the U.S. Department of State, and implementing them may disrupt our business or cause us to incur significantly more costs to comply with those laws. Different laws may also contain conflicting provisions, making compliance with all laws more difficult.

United Kingdom and the European Union

Fortress Investment Group (UK) Ltd. and Drawbridge (UK) LLP are each authorized in the United Kingdom under the Financial Services and Markets Act 2000 (the “FSMA”) and have obtained permission to engage in a number of corporate finance activities regulated under FSMA, including advising on, managing and arranging deals in relation to certain types of, investments. FSMA and related rules govern most aspects of investment businesses, including sales, research and trading practices, provision of investment advice, corporate finance, use and safekeeping of client funds and securities, regulatory capital, record keeping, margin practices and procedures, approval standards for individuals, anti-money laundering, periodic reporting and settlement procedures. The Financial Conduct Authority is responsible for administering these requirements and compliance with them.

The EU Alternative Investment Fund Managers Directive ("AIFMD") entered into effect on July 22, 2013. AIFMD establishes a comprehensive regulatory and supervisory framework for alternative investment fund managers ("AIFM"s) managing and/or marketing alternative investment funds ("AIF"s) in the EU. Non-EU AIFMs, such as us, may continue to market fund interests within the EU under the private placement regimes of the individual member states subject to complying with certain requirements imposed by the AIFMD (including, without limitation, baseline disclosures to prospective investors, EU member state-specific notification or registration requirements, ongoing reporting obligations to both regulators and investors, and specific rules concerning control positions in EU-based portfolio companies) and any additional requirements that individual member states may impose. To date, we have registered several funds in various EU member states pursuant to AIFMD, and we may register additional funds in the future.

Similar to Dodd-Frank in the United States, European regulators have adopted the European Market Infrastructure Regulation (“EMIR”) relating to the regulation of derivative transactions, including reporting of derivative transactions, conduct standards and risk mitigation.

In addition, a new market abuse regime focused on anti-money laundering and insider trading, among other things, is expected to be implemented over the next two years, which may also impose additional costs on the operation of our business in Europe.

Other Jurisdictions

Outside the United States, certain of our affiliates are subject to registration and compliance with laws and regulations of non-U.S. governments, their respective agencies and/or various self-regulatory organizations or exchanges relating to, among other things, investment advisory services and the marketing of investment products and any failure to comply with these regulations could expose us to liability and/or damage our reputation. For example:

- FIG HK (Hong Kong) Limited is licensed by the Hong Kong Securities and Futures Commission to carry on Type 9 (asset management) regulated activity;

- Fortress (Dubai) Transportation & Infrastructure Advisors Ltd., a company limited by shares in the Dubai International Financial Centre, holds a Category 3C license issued by the Dubai Financial Services Authority and is authorized to arrange credit or deal in investments, advise on financial products or credit, and manage assets;

- Fortress Investment Group (Japan) GK is registered as an investment adviser with the Japan Financial Services Agency and holds a real estate brokerage license, which is required for an entity to engage in the business of selling real estate in Japan;

- Fortress Investment Group (Australia) Pty Limited is licensed by the Australian Securities and Investments Commission as an Australian Financial Services Licensee and is authorized to carry on a financial services business to provide financial product advice for certain enumerated classes of financial products and deal in financial products for wholesale clients; and

- Fortress Investment Group (Singapore) Pte. Ltd. is registered as a fund manager with the Monetary Authority of Singapore.

In addition, we and/or our affiliates and subsidiaries may become subject to additional regulatory demands in the future to the extent we expand our investment advisory business in existing and new jurisdictions. There are also a number of pending or recently enacted legislative and regulatory initiatives in the United States and in other jurisdictions that could significantly impact our business.

Structure

The diagram below depicts our organizational structure as of December 31, 2014.

(1) The principals generally hold almost all of the Class B shares, which represent approximately 52.0% of the total combined voting power (i.e., combined voting power of Class A shares and Class B shares) in Fortress Investment Group LLC. The Class B shares are held by the principals and a former senior employee. The Class B shares have no economic interest in Fortress Investment Group LLC.

(2) Represents approximately 48.0% of the limited partner interests (Class A Common Units) and a 100% general partner interest in each of the Operating Entities and in Principal Holdings. We refer to a collection of one limited partner interest in each such entity as a Fortress Operating Group unit, or FOGU.

(3) FOGU is the term we use to refer to a collection of one limited partner interest in each Fortress Operating Group entity. Represents approximately 52.0% of the limited partner interests (Class B Common Units) in each of the Operating Entities and in Principal Holdings.

(4) Excludes the effect of equity interests to be granted under our equity incentive plan to employees and directors.

Performance Graph

The following graph compares the cumulative total return for our Class A shares (stock price change plus reinvested dividends) with the comparable return of four indices: Russell 3000, S&P 500, S&P Financial Services, and SNL Asset Manager Index. The graph assumes an investment of $100 in the Company's Class A shares and in each of the indices on December 31, 2009, and that all dividends were reinvested. The past performance of our Class A shares is not an indication of future performance.

	Period Ending					
Index	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Fortress Investment Group LLC	100.00	128.09	75.96	103.84	209.25	209.64
SNL Asset Manager Index	100.00	115.11	99.56	127.74	196.30	207.09
Russell 3000	100.00	116.93	118.13	137.52	183.66	206.72
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14
S&P Financial Services	100.00	104.58	66.70	100.80	136.53	167.48

Where Readers Can Find Additional Information

Fortress Investment Group LLC is a Delaware limited liability company that was formed on November 6, 2006. Our principal executive offices are located at 1345 Avenue of the Americas, New York, New York 10105.

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

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

Item 1A. Risk Factors

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

Risks Related to Our Business

We depend on Messrs. Briger, Edens, Nardone and Novogratz, and the loss of any of their services could have a material adverse effect on us.

The success of our business depends on the efforts, judgment and personal reputations of our principals, Peter Briger, Wesley Edens, Randal Nardone and Michael Novogratz. One of our principals, Randal Nardone, was appointed Chief Executive Officer of the Company in addition to his other duties. Our principals' reputations, expertise in investing, relationships with our investors and relationships with members of the business community on whom our funds depend for investment opportunities and financing, are each critical elements in operating and expanding our businesses. We believe our performance is strongly correlated to the performance of these individuals. Accordingly, the retention of our principals is crucial to our success. In addition, if any of our principals were to join or form a competitor, some of our investors could choose to invest with that competitor rather than in our funds. The loss of the services of any of our principals could have a material adverse effect on us, including our ability to retain and attract investors and raise new funds, and the performance of our funds. Two or more of our principals occasionally travel together, which concentrates the potential impact of an accident on our Company. We do not carry any “key man” insurance that would provide us with proceeds in the event of the death or disability of any of our principals.

Each of our principals has an employment agreement with us, which extends to January 1, 2017. If a principal terminates his employment voluntarily or we terminate his employment for cause (as defined in the agreement), the principal will be subject to eighteen-month post-employment covenants requiring him not to compete with us. However, if we terminate a principal's employment without cause, the principal will not be subject to the non-competition provisions.

There is no guarantee that our principals will not resign, join our competitors or form a competing company, or that the non-competition provisions in the employment agreements would be upheld by a court. If any of these events were to occur, our business, prospects, financial condition and results of operations could be materially adversely affected.

Several of our funds have “key person” provisions pursuant to which the failure of one or more of our principals or senior employees (other than our principals) to be actively involved in the business provides investors with the right to redeem their investment or otherwise limits our rights to manage the funds. The loss of the services of any one of such senior employees could have a material adverse effect on certain of our funds to which such key person provisions relate and in some circumstances on us.

Certain of our existing funds have key person provisions relating to our principals or senior employees other than our principals, and the resignation or termination of any such senior employee could result in a material adverse effect on the applicable fund or funds and on us.

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

The loss of Mr. Novogratz or his inability to perform his services for 90 days could result in substantial withdrawal requests from investors in our Fortress Macro Funds. In January 2015, the Fortress Asia Macro Funds, previously managed by us, transitioned into an autonomous business, named Graticule Asset Management, with Fortress as a non-control shareholder, which transition reduced our overall economics from these funds. Adam Levinson, previously the Chief Investment Officer of the Fortress Asia Macro Funds, continues to invest for Fortress managed accounts. Substantial withdrawals would have a material adverse effect on the Fortress Macro Funds, Fortress Asia Macro Funds under our affiliated manager platform, related managed accounts, and us by reducing our management fees from those funds. Further, such withdrawals could possibly lead to the liquidation of the funds and a corresponding elimination of our management fees and potential to earn incentive income from those funds. The loss of Mr. Novogratz could, therefore, ultimately result in a loss of a material portion of our earnings attributable to our liquid hedge fund business segment. In addition, a departure of Mr. Levinson from the affiliated manager platform could ultimately result in the loss of our earnings attributable to this new platform.

The loss of Mr. Briger or his inability to perform his services for 90 days could result in substantial withdrawal requests from investors in our credit hedge funds and, in the event that a replacement for him is not approved, the termination of a substantial portion of the funds' financing arrangements. Such withdrawals and terminations would have a material adverse effect on the credit hedge funds and us by reducing our management fees from those funds. Further, such withdrawals and terminations could lead possibly to the eventual liquidation of the funds and a corresponding elimination of our management fees and potential to earn incentive income from those funds. Similarly, our credit PE funds contain key man provisions with respect to Mr. Briger, which would limit the ability of the funds to make future investments or call capital if both Mr. Briger and the funds' co-chief investment officer, Constantine Dakolias, were to cease to devote time to the funds. The loss of Mr. Briger could, therefore, ultimately result in a loss of a material portion of our earnings attributable to our credit hedge fund and/or credit PE business segments.

If either Mr. Edens or Mr. Nardone ceases to devote certain minimum portions of their business time to the affairs of certain of our private equity funds, the funds will not be permitted to make further investments, and then-existing investments may be liquidated if investors vote to do so. Our ability to earn management fees and realize incentive income from our private equity funds therefore would be adversely affected if we cannot make further investments or if we are required to liquidate fund investments at a time when market conditions result in our obtaining less for investments than could be obtained at later times. In addition, we may be unable to raise additional private equity funds if existing private equity fund key-man provisions are triggered. The loss of either Mr. Edens or Mr. Nardone could, therefore, ultimately result in a loss of substantially all of our earnings attributable to our private equity funds.

In addition, the terms of certain of our existing funds may be amended over time to add additional key persons, and senior employees (including, but not limited to, our principals) may also be deemed as key persons for funds that are formed in the future. Any such events would potentially have a direct material adverse effect on our revenues and earnings (depending on the size of the particular fund to which a key person event relates), and would likely harm our ability to maintain or grow management fee paying assets under management in existing funds or raise additional funds in the future.

Our ability to retain our managing directors is critical to our success, and our ability to grow depends on our ability to attract additional key personnel.

Our success depends on our ability to retain our managing directors and the other members of our investment management team and to recruit additional qualified personnel. We refer to these key employees (other than our principals) collectively as our “investment professionals.” Our investment professionals possess substantial experience and expertise in investing, are responsible for locating and executing our funds' investments, have significant relationships with the institutions that are the source of many of our funds' investment opportunities, and in certain cases have strong relationships with our investors. Therefore, if our investment professionals join competitors or form competing companies, it could result in the loss of significant investment opportunities and certain existing investors. As a result, the loss of even a small number of our investment professionals could impact the performance of our funds, which could have a material adverse effect on our results of operations as well as our ability to retain and attract investors and raise new funds. Also, while we have non-competition and non-solicitation agreements with certain investment professionals, there is no guarantee that the agreements to which our investment professionals are subject, together with our other arrangements with them, will prevent them from leaving us, joining our competitors or otherwise competing with us or that these agreements will be enforceable in all cases. In particular, some jurisdictions in which we operate our businesses (for example, California) have public policies limiting the enforcement of restrictive covenants applicable to employees. In addition, these agreements will expire after a certain period of time following resignation or termination, at which point such persons would be free to compete against us and solicit investors in our funds, clients and employees.

Efforts to retain or attract investment professionals may result in significant additional expenses, which could adversely affect our profitability, and changes in law could hamper our recruitment and retention efforts. We might not be able, or may elect not, to provide future investment professionals with equity interests in our business to the same extent or with the same tax consequences as our existing investment professionals, and the retentive utility of grants of equity of our public company is affected during periods of slow or negative stock price performance. Therefore, in order to recruit and retain existing and future investment professionals, we may need to increase the level of cash compensation that we pay to them. Accordingly, as we promote or hire new investment professionals over time, we may increase the level of cash compensation we pay to our investment professionals, which would cause our total employee compensation and benefits expense as a percentage of our total revenue to increase and adversely affect our profitability. In addition, we may deem it necessary to maintain compensation levels to retain employees even during periods when we generate less revenues than in previous periods, which would reduce our profit margins. Also, if proposed legislation were to be enacted by the U.S. Congress to treat carried interest as ordinary income rather than as capital gain for U.S. federal income tax purposes, such legislation would materially increase the amount of taxes that we and our investment professionals that are compensated in part with carried interest would be required to pay on such compensation, thereby adversely affecting our ability to recruit, retain and motivate our current and future professionals. See "- Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis." Furthermore, in recent years, various legislative and regulatory bodies (particularly in Europe) have focused on the issue of compensation in the financial services industry. Due to the nature and scope of our activities in Europe, we do not anticipate the remuneration regulations in the European Union will have a material impact on our existing compensation structure. However, legal requirements flowing out of these bodies continue to be updated and the specific long-term impact on us is not yet clear. There is the potential that new compensation rules will make it more difficult for us to attract and retain investment professionals by capping the amount of variable compensation compared to fixed pay, requiring the deferral of certain types of compensation over time, implementing "clawback" requirements, or other rules deemed onerous by such investment professionals.

Certain of our businesses face particular retention issues with respect to investment professionals whose compensation is tied, often in large part, to performance thresholds or "high water marks." This retention risk is heightened during periods where market conditions make it more difficult to generate positive investment returns and where capital markets provide fewer opportunities for realization of portfolio company investments. Several investment professionals receive performance-based compensation at the end of each year based upon their annual investment performance, and this performance-based compensation has historically represented a substantial majority of the compensation those professionals are entitled to receive during the year. If an investment professional's annual performance is negative, or insufficient to overcome prior negative results, the professional may not be entitled to any performance-based compensation for the year. If an investment professional or fund, as the case may be, does not produce investment results sufficient to merit performance-based compensation, any affected investment professional may be incentivized to join a competitor because doing so would allow the professional to eliminate the burden of having to satisfy the high water mark before earning performance-based compensation. Similarly, many of our investment professionals in our private equity fund, private permanent capital vehicle and credit PE fund businesses are compensated with grants of carried interest in our funds. During periods of economic volatility, realization events in our private equity fund, private permanent capital vehicle and credit PE fund businesses may be delayed, and it may therefore take significantly longer for investments to result in payments to such professionals. In addition, in the event that overall returns for any of our private equity funds, private permanent capital vehicle or credit PE funds result in the generation of less incentive income than anticipated, such professionals' grants of carried interest in such fund will have similarly decreased in value. To retain such professionals, the fund's manager may elect to compensate the professional using a portion of the management fees earned by the manager, which would, in turn, reduce the amount of cash available to the public company, thereby reducing the amount available for distribution to our Class A shareholders or for other liquidity needs.

Operational risks may disrupt our businesses, result in losses or limit our growth.

We face operational risk from errors made in the negotiation, execution, confirmation or settlement of transactions on behalf of our funds. We also face operational risk from transactions not being properly recorded, valued, evaluated or accounted for in our funds. In particular, our liquid hedge fund, including the affiliated manager platform and, to a lesser extent, credit fund businesses and certain permanent capital vehicles are highly dependent on our ability to process, value and evaluate, on a daily basis, transactions across markets and geographies in a time-sensitive, efficient and accurate manner. Consequently, we rely heavily on our financial, accounting and other data processing systems. For example, the efficacy of investment and trading strategies depends largely on the ability to establish and maintain an overall market position in a combination of financial instruments. If a fund's trading orders are not executed in a timely and efficient manner due to systems failures, human error or otherwise, the funds might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, the funds might not be able to make such adjustment. As a result, the funds would not be able to achieve the market position selected by the management company or general partner of such funds, and might incur a loss in liquidating their position. In addition, new investment products have created, and future investment products may create, a significant risk that our existing systems may not be adequate to identify or control the relevant risks in the investment strategies employed by such new investment products. If any of these systems do not operate properly, are inadequately designed, disabled, or are the target of a cyber security attack (which we are subject to from time to time), we could suffer financial loss, disruption of our businesses, liability to our funds and their investors, regulatory intervention and reputational damage.

In addition, we operate in an industry that is highly dependent on its information systems and technology. We believe that we have designed, purchased and installed high-quality information systems to support our business. There can be no assurance, however, that our information systems and technology will continue to be able to accommodate our operations, or that the cost of maintaining such systems will not increase from its current level. Such a failure to accommodate our operations, or a material increase in costs related to such information systems, could have a material adverse effect on us.

In addition, in connection with the affiliated manager platform, we provide use of certain of these systems to the Fortress Asia Macro Funds as part of the infrastructure services provided for fees. The transition of the Fortress Asia Macro Funds and the provision of our systems to the new autonomous business may heighten our operational risks.

Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. Additionally, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to confidential or other information that we maintain, including information with respect to us, investors in our funds and our counterparties. One or more such events could potentially jeopardize such confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations and, our fund investors', counterparties' or third parties' operations, which could result in significant losses or reputational damage to us. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures arising from operational and security risks, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

Furthermore, we depend on our headquarters, which is located in New York City, and related infrastructure for the operation of our business. A disaster or a disruption in the infrastructure that supports our businesses, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, may have an adverse impact on our ability to continue to operate our business without interruption, which could have a material adverse effect on us. Although we have disaster recovery programs in place, there can be no assurance that these will be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses.

Finally, we rely on third-party service providers for certain aspects of our business. In particular, we rely heavily on the services of third-party administrators in our hedge fund businesses, on the general ledger software provider for a number of our funds, and on third parties to provide critical front- and back-office systems support to Logan Circle. Any interruption or deterioration in the performance of these third parties, particularly with respect to the services provided to Logan Circle, could impair the quality of operations and could impact our reputation and adversely affect our business and limit our ability to grow.

Our removal as the investment manager, or the liquidation, of one or more of our funds could have a material adverse effect on our business, results of operations and financial condition.

We derive a substantial portion of our revenues from funds managed pursuant to investment management agreements that may be terminated or fund partnership agreements that permit investors to request liquidation of investments in our funds on short notice. Material defaults under the investment management agreements would constitute an event of default under our current credit agreement if such defaults continue after the applicable grace period.

The terms of our funds generally give either the general partner of the fund or the fund's board of directors the right to terminate our investment management agreement with the fund. However, insofar as we control the general partner of our funds that are limited partnerships, the risk of termination of any investment management agreement for such funds is limited, subject to our fiduciary or contractual duties as general partner. This risk is more significant for our offshore hedge funds for which we do not serve as the general partner and represent a significant portion of our hedge fund AUM. In addition, the boards of directors of certain hedge funds and our publicly traded permanent capital vehicles, and the holders of a simple majority of the outstanding shares of our publicly traded permanent capital vehicles, have the right under certain circumstances to terminate the investment management agreements or otherwise attempt to renegotiate the terms of such agreements with the applicable fund or publicly traded permanent capital vehicle. Termination of these agreements, or revisions to the terms that are detrimental to the manager, could affect the fees we earn from the relevant funds or permanent capital vehicles, which could have a material adverse effect on our results of operations.

In addition, investors in our private equity funds, private permanent capital vehicle or credit PE funds and certain hedge funds have the ability to act, without cause, to accelerate the date on which the fund must be wound down. We will cease earning management fees on the assets of any such fund that is wound down. In addition, our ability to realize incentive income from such funds would be adversely affected if we are required to liquidate fund investments at a time when market conditions result in our obtaining less for investments than could be obtained at later times. Also, the winding down of a material fund or group of funds within a short period of time could trigger an event of default under certain covenants in our current credit agreement, subject, in certain instances, to the expiration of applicable grace periods.

We may become involved in lawsuits or investigations that could result in significant liabilities and reputational harm, which could materially adversely affect our results of operations, financial condition and liquidity.

We could be sued by many different parties, including, but not limited to, our fund investors, creditors of our funds, shareholders of the companies in which our funds have investments or we manage, our shareholders, our employees, regulators, and residents of senior living facilities that we manage. We have been a defendant in many lawsuits filed by various parties in recent years. In addition, we may participate in transactions that involve litigation (including the enforcement of property rights) from time to time, and such transactions may expose us to increased risk from countersuits. Any of these parties could bring an array of claims not just against us but also against our funds and their portfolio companies, permanent capital vehicles, other investments or the affiliated manager platform based on a variety of allegations relating to, among other things, conflicts of interest, improper related party transactions, breaches of financing or other agreements, violations of any of a multitude of laws applicable to us, non-compliance with organizational documents, misconduct by employees and improper influence over the companies in which our funds or accounts have investments. It is likely that we would be brought into any lawsuit that involves a fund-related issue and we may be brought into lawsuits involving the affiliated manager platform. We also face the risk of lawsuits relating to claims for compensation, which may individually or in the aggregate be significant in amount, particularly since our workforce consists of many very highly paid investment professionals. Such claims are more likely to occur when individual employees experience significant volatility in their year-to-year compensation due to trading performance or other issues, and in situations where previously highly compensated employees are terminated for performance or efficiency reasons, as has occurred recently. The cost of settling such claims could adversely affect our results of operations.

Lawsuits or investigations in which we may become involved could be very expensive and highly damaging to our reputation, even if the underlying claims are without merit. We could potentially be found liable for significant damages. For instance, in a lawsuit based on an allegation of negligent management of any of our funds, plaintiffs could potentially recover damages in an amount equal to the fund's investment losses. In general, the applicable standard of care in our contracts with fund or account investors is gross negligence or willful misconduct. However, the majority of the capital in our Logan Circle business is managed under a negligence or reasonable person standard of care, which is more favorable to plaintiffs.

Fund investments may also be subject to litigation, which could impact the value of the investment and harm the performance of one or more of our funds. Although we have certain indemnification rights from the funds we manage, these rights may be challenged. Moreover, we could incur legal, settlement and other costs in an amount that exceeds the insurance coverage maintained by us or by our funds. The costs arising out of litigation or investigations could have a material adverse effect on our results of operations, financial condition and liquidity.

Certain of our consolidated subsidiaries have potentially unlimited liability for the obligations of various Fortress Funds under applicable partnership law principles, because they act as general partners of such funds. In the event that any such fund was to fall into a negative net equity position, the full amount of the negative net equity would be recorded as a liability on the balance sheet of the general partner entity. Such liability would be recorded on our balance sheet in consolidation until the time such liability was legally resolved.

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), so-called "whistleblower" provisions entitle persons who report alleged wrongdoing to the SEC to cash rewards and the SEC has awarded significant cash awards pursuant to these provisions. Dealing with such claims could generate significant expenses and take up significant management time, even for frivolous and non-meritorious claims. Moreover, there may be a related increase in regulatory investigations of the trading and other investment activities of alternative asset management managers such as us. Such investigations may impose additional expense on us, may require the attention of senior management and may result in fines and/or reputational damage whether or not any of our funds are deemed to have violated any regulations.

The U.S. government's increased focus on the regulation of the financial services industry may adversely affect our business.

Our business may be adversely affected by new or revised legislation or regulations imposed by the U.S. government, the SEC, the CFTC or other U.S. governmental regulatory bodies or self-regulatory organizations that supervise the financial markets. We may also be adversely affected by changes in the interpretation or enforcement of existing laws and rules. Dodd-Frank imposes significant new rules on almost every aspect of the U.S. financial services industry, including aspects of our business and the markets in which we operate, which may adversely affect our business. These rules address, among other things, the following topics:

- oversight and regulation of systemic market risk (including the power to liquidate certain institutions);
- regulation by the Federal Reserve of non-bank institutions;
- prohibitions on insured depositary institutions and their affiliates from conducting proprietary trading and investing in private equity funds and hedge funds;
- new registration, recordkeeping and reporting requirements for private fund investment advisers;
- comprehensive regulation of the OTC derivatives markets;
- minimum equity retention requirements for issuers of asset-backed securities;
- the establishment of a bureau of consumer financial protection;
- new requirements and higher liability standards on credit rating agencies; and
- increased disclosure of executive compensation and mandatory shareholder votes on executive compensation.

Although many of the regulations under Dodd-Frank have been adopted, the regulations thereunder are expansive in scope and we are continuing to review how significantly they will affect us. However, it is likely that Dodd-Frank and the regulations promulgated thereunder will, among other things, require us to modify our business practices to comply with new regulations, increase our costs of operating in the financial markets and impose restrictions on our business activities. For example, Dodd-Frank imposes mandatory clearing, exchange-trading and margin requirements on many derivatives transactions (including formerly unregulated over-the-counter derivatives) in which we engage. Dodd-Frank also creates new categories of regulated market participants, such as “swap-dealers,” “security-based swap dealers,” “major swap participants” and “major security-based swap participants” who are subject to significant new capital, registration, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements. The new regulations, even if they are not directly applicable to us, could increase our overall costs of entering into derivatives transactions and could also adversely affect the performance of certain of our trading strategies. Moreover, new exchange-trading and trade reporting requirements may lead to reductions in the liquidity of derivative transactions, causing higher pricing or reduced availability of derivatives, or the reduction of arbitrage opportunities for us, which could also adversely affect the performance of certain of our trading strategies.

Dodd-Frank also established a regulatory body called the Financial Stability Oversight Counsel (“FSOC”), responsible for identifying, monitoring and constraining systemic risks and maintaining financial stability. Non-bank financial institutions designated as “systemically important” by the FSOC are subject to enhanced regulatory requirements established by the Federal Reserve. If we were designated a systemically important financial institution (“SIFI”) by the FSOC, we would be subject to the Federal Reserve's enhanced regulatory requirements, which could include, among other things, minimum capital requirements, restrictions on leverage, minimum liquidity requirements, heightened risk management and reporting requirements, and other restrictions on our business activities. Although we believe that it is unlikely that we will be designated as a SIFI, U.S. regulators have indicated an interest in reviewing the asset management industry generally with respect to these matters and have begun to designate certain large institutions as SIFIs, which makes it more likely that companies in our industry may eventually be named SIFIs themselves.

In addition, U.S. regulatory reforms also require us to comply with new registration and reporting requirements. In October 2011, the SEC adopted a rule that requires fund advisors with over $1.5 billion in AUM, such as Fortress, to file substantial quarterly disclosure on fund assets, leverage, investment positions, valuations, trading practices and other topics. In addition, due to regulations adopted in 2012, certain of our affiliates have registered with the CFTC as commodity pool operators (“CPOs”). The Commodity Exchange Act and CFTC regulations impose various requirements on CPOs, including record-keeping, reporting, operational and marketing requirements, disclosure obligations and prohibitions on fraudulent activities. Complying with these requirements could increase our expenses and negatively impact our financial results.

Finally, regulatory initiatives that do not apply directly to us may have a negative impact on us indirectly because they may still increase our costs of entering into transactions with the parties to whom the requirements are directly applicable, such as banks and other counterparties with whom we do business. For example, in December 2010, the Basel Committee on Banking Supervision, an international body comprised of senior representatives of bank supervisory authorities and central banks from various countries, including the United States, finalized a comprehensive set of capital, leverage and liquidity standards, commonly referred to as "Basel III," for internationally active banking organizations. These standards require banks to hold more capital, reduce leverage and improve liquidity standards. In July 2013, U.S. federal banking agencies issued final rules to comprehensively revise the regulatory capital framework for the U.S. banking sector, which implements many aspects of Basel III as well as changes required by Dodd-Frank. Compliance with the new standards is expected to result in significant costs to banks and may result in reduction of access to, or increase of costs for, certain types of credit for the private sector, including our funds and portfolio companies.

Our reputation, business and operations could be adversely affected by regulatory compliance failures, the potential adverse effect of changes in laws and regulations applicable to our business and the effects of negative publicity surrounding the alternative asset management industry in general.

Potential regulatory compliance failures pose a significant risk to our reputation and thereby to our business. Our business is subject to extensive regulation in the United States and in the other countries in which our investment activities occur. The SEC oversees our activities as a registered investment adviser under the Investment Advisers Act. We are subject to regulation under the Exchange Act, the Investment Company Act, and various other statutes. We are subject to regulation by the Department of Labor under ERISA. We and certain of our permanent capital vehicles, as public companies, are subject to applicable stock exchange regulations to Sarbanes-Oxley. Certain of the variable interest entities that we consolidate, New Media and New Senior, are also public companies subject to stock exchange regulations and Sarbanes-Oxley. A number of portfolio companies are also publicly traded and/or are subject to significant regulatory oversight. For example, Springleaf is in the consumer finance industry and Nationstar is in the mortgage servicing industry, both of which have recently been the focus of extensive regulation. In particular, state regulators in New York have recently focused on Nationstar competitors in the non-bank loan servicing industry and have announced extensive investigations of their business practices. Moreover, some of our portfolio companies are subject to regulation from non-financial bodies (such as our senior living and railroad investments). For example, as a manager of senior living facilities we are subject to regulations applicable to operators of independent living and assisted living facilities, as well as laws designed to protect Medicaid. As an affiliate of a registered broker-dealer, we are subject to certain rules promulgated by the FINRA and the SEC. A number of our investing activities, such as our lending business, are subject to regulation by various U.S. state regulators. In the United Kingdom, we are subject to regulation by the U.K. Financial Conduct Authority. Our other European operations, and our investment activities in Singapore, Australia, Japan and other parts of the globe, are subject to a variety of regulatory regimes that vary by country.

Many of the regulatory bodies with jurisdiction over us have regulatory powers dealing with many aspects of financial services, including the authority to grant, and in specific circumstances to cancel, permissions to carry on particular businesses and to conduct investigations and proceedings that may result in fines and other sanctions. A failure to comply with the obligations imposed by the Investment Advisers Act on investment advisers, including record-keeping, advertising and operating requirements, disclosure obligations and prohibitions on fraudulent activities, or by the Investment Company Act could result in investigations, sanctions and reputational damage and potentially revocation of our registration as an investment advisor and exemptions from investment company requirements. Private equity funds, in particular, may come under greater regulatory scrutiny from the SEC as examinations of private equity advisers in 2014 have found violations or material weaknesses with respect to the collection of fees and allocation of expenses and the SEC has also highlighted valuation as a key risk area. Our liquid hedge fund business, and, to a lesser degree, our credit fund and our private equity businesses, are involved regularly in trading activities which implicate a broad number of U.S. and foreign securities law regimes, including laws governing trading on inside information, market manipulation and a broad number of technical trading requirements that implicate fundamental market regulation policies. In addition, we are subject to U.S. and foreign laws and regulations relating to corrupt and illegal payments to, and hiring practices with regard to, government officials and others, including the FCPA and the U.K. Bribery Act. Violation of such laws could result in severe restrictions on our activities and in damage to our reputation. Furthermore, the mere investigation by authorities of alleged or potential wrong-doing, such as insider trading, mishandling of fees, expenses or valuation, or anti-bribery and FCPA violations, has the potential to create a material adverse effect on companies in our industry including us, including due to the effects of negative publicity surrounding the alternative asset management industry in general. We may also be adversely affected if there is misconduct by personnel of portfolio companies in which our funds invest and permanent capital vehicles that have personnel whom we do not employ or supervise. For example, failures by such personnel to comply with anti-bribery, trade sanctions or other legal and regulatory requirements could adversely affect our business and reputation.

Changes in ERISA requirements, or a failure to comply with ERISA requirements, could adversely affect our business. Our funds generally operate pursuant to exemptions from the fiduciary requirements of ERISA with respect to their assets. However, it is possible that the U.S. Department of Labor may amend the relevant regulations or that the characteristics of our funds may change. If these funds fail to qualify for such exemptions or otherwise satisfy the requirements of ERISA, including the requirement of investment prudence and diversification or the prohibited transaction rules, it could materially interfere with our activities in relation to these funds or expose us to risks related to our failure to comply with such requirements. A meaningful portion of the capital managed in our Logan Circle business is subject to ERISA requirements, and our failure to comply with those requirements could have a material adverse effect on our business.

Our failure to comply with applicable laws or regulations could result in fines, censure, suspensions of personnel or investing activities or other sanctions. The regulations to which our businesses are subject are designed primarily to protect investors in our funds and to ensure the integrity of the financial markets. They are not designed to protect holders of our publicly traded Class A shares. Even if a sanction imposed against us or our personnel by a regulator is for a small monetary amount, the adverse publicity related to such sanction could harm our reputation, result in redemptions by our fund investors and impede our ability to raise additional capital or new funds, all of which would be materially damaging to the value of our Class A shares.

Our results of operations may also be negatively impacted if certain proposed tax legislation is enacted. If legislation were to be enacted by the U.S. Congress to treat carried interest as ordinary income rather than as capital gain for U.S. federal income tax purposes, such legislation would materially increase the amount of taxes that we and possibly our equity holders are required to pay, thereby reducing the value of our Class A shares and adversely affecting our ability to recruit, retain and motivate our current and future professionals. President Obama has publicly stated that he supports similar changes to the tax code. See "-Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis" and "-Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis."

New legislation in Europe and in other international markets in which we operate could increase our costs and make it more difficult to operate and market our funds.

Similar to the United States, our business may be adversely affected by new or revised legislation or regulation imposed by governmental regulators and other authorities in Europe or other jurisdictions in which we operate. European regulators have approved and are implementing legislation (AIFMD) requiring fund managers to comply with new rules regarding their activities in the EU, including the marketing of fund interests to EU-domiciled investors. AIFMD additionally covers topics such as periodic reporting to fund investors, disclosures to shareholders of EU companies targeted for acquisition or disposition, limitations on dividends by fund-controlled EU companies, monitoring the use of leverage, and imposition of remuneration guidelines. The legislation came into effect in July 2013 although the implementation of the rules will be staggered over the next five years. AIFMD could impose significant additional costs on the operation of our business in the EU, limit our operating flexibility and generally hamper our ability to grow our business in Europe. In addition, similar to Dodd-Frank, European regulators have adopted the EMIR relating to the regulation of derivative transactions, including reporting of derivative transactions, conduct standards and risk mitigation. Further, a new market abuse regime focused on anti-money laundering and insider trading, among other things, is expected to be implemented over the next two years, which may also impose additional costs on the operation of our business in Europe.

In addition, similar to Europe, lawmakers and regulators in Asia and other jurisdictions in which we operate are in the process of implementing derivatives reforms similar to those under Dodd-Frank, including as to mandatory clearing of derivatives, margin, reporting, business conduct standards and risk mitigation. Although regulators are working to harmonize these regulations across jurisdictions so as to create common global standards, such a result is unlikely. Monitoring and complying with divergent regulations across multiple jurisdictions may, among other things, increase our operating costs or otherwise force us to modify our business practices in respect of these financial markets, which may adversely affect our business.

Our failure to deal appropriately with conflicts of interest could damage our reputation and adversely affect our business.

As we have expanded the number and scope of our businesses, we increasingly confront potential conflicts of interest relating to our funds' investment activities, the management of our permanent capital vehicles and our other activities, such as our management of senior living facilities. Certain of our funds and permanent capital vehicles, which may have different fee structures, have overlapping investment objectives, and potential conflicts may arise with respect to our decisions regarding how to allocate investment opportunities among these vehicles. For example, a decision to receive material non-public information about a company while pursuing an investment opportunity for a particular fund gives rise to a potential conflict of interest if it results in our having to restrict the ability of other funds to take any action. In addition, perceived conflicts of interest regarding investment decisions for funds in which our principals, who have and may continue to make significant personal investments in a variety of Fortress Funds, are personally invested may also arise, particularly with respect to funds in which they have made significant investments. Similarly, conflicts of interest may exist or develop regarding decisions about the allocation of specific investment opportunities between Fortress and the Fortress Funds, in situations where multiple funds are making investments in one portfolio company at the same or different levels of the investee's capital structure, in situations where one portfolio company engages another portfolio company to provide goods or services or in situations where funds and permanent capital vehicles, or multiple permanent capital vehicles, are competing for or making investments in the same assets. In addition, the publicly traded permanent capital vehicles are public companies that generally have no employees and their officers and many of the individuals that perform services for them are Fortress employees. Many of their officers and directors have responsibilities and commitments to Fortress entities other than such permanent capital vehicles. Moreover, because certain of our operating entities are held, in part, by FIG Corp., which is subject to U.S. federal corporate income tax, conflicts of interest may exist regarding decisions about which of Fortress's holdings should be held by these taxable entities and which by entities not subject to U.S. federal corporate income tax. We have, from time to time, made advances or loans to, or acquired preferred equity interests in, several of our investment funds or other investment vehicles. In addition, our principals have sometimes extended capital to our funds, or made equity investments in portfolio companies, in their individual capacities. The existence and the repayment of such obligations by the funds to us and our principals, or the existence of personal investments by our principals in our portfolio companies, creates the potential for claims of conflicts of interest by our fund and portfolio company investors.

Pursuant to the terms of our operating agreement, whenever a potential conflict of interest exists or arises between any of the principals, one or more directors or their respective affiliates, on the one hand, and the Company, any subsidiary of the Company or any member other than a principal, on the other, any resolution or course of action by our board of directors shall be permitted and deemed approved by all shareholders if the resolution or course of action (i) has been specifically approved by a majority of the members of a committee composed entirely of two or more independent directors, or it is deemed approved because it complies with rules or guidelines established by such committee, (ii) has been approved by a majority of the total votes held by disinterested parties that may be cast in the election of directors, (iii) is on terms no less favorable to the Company or shareholders (other than a principal) than those generally being provided to or available from unrelated third parties or (iv) is fair and reasonable to the Company taking into account the totality of the relationships between the parties involved. In addition, we bring actual and potential conflicts of interest to the advisory boards of funds that we manage on a regular basis. Notwithstanding the foregoing, it is possible that potential or perceived conflicts could give rise to investor or shareholder dissatisfaction or litigation or regulatory enforcement actions. For example, fund investors could claim that a conflict should have been brought before a board or that disclosure of the conflict was inadequate. Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest would have a material adverse effect on our reputation, which could lead to redemptions by investors in our hedge funds, hamper our ability to raise additional funds and discourage counterparties to do business with us. Any such development could have a material adverse effect on our business.

Employee misconduct could harm us by impairing our ability to attract and retain investors and by subjecting us to significant legal liability, regulatory scrutiny and reputational harm.

Our reputation is critical to maintaining and developing relationships with the investors in our funds, potential investors and third parties with whom we do business. There have been a number of highly-publicized cases involving fraud, insider trading, conflicts of interest or other misconduct by individuals in the financial services industry in general and the hedge fund industry in particular. There is a risk that our employees or employees at entities we manage could engage in misconduct that adversely affects our business. We could be subject to litigation, regulatory sanctions and suffer serious harm to our reputation, financial position, investor relationships and ability to attract future investors if an employee were to engage or be accused of engaging in illegal or suspicious activities such as improper trading, disclosure of confidential information or breach of fiduciary duties. Moreover, in July 2012, we entered into agreements to manage senior living facilities pursuant to which we became the employer of a significant number of on-site employees (the compensation expense of which is reimbursed to us by the owners of the facilities). As a result, we are now subject to the risk of employee misconduct with respect to the personal care of the residents of such facilities. We are also subject to risk of employee misconduct from employees of portfolio companies in which our funds invest and permanent capital vehicles that have personnel whom we do not employ or supervise. Employee misconduct could also prompt regulators to allege or to determine based upon such misconduct that we have not established adequate supervisory systems and procedures to inform employees of applicable rules or to detect and deter violations of such rules. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent misconduct may not be effective in all cases. Misconduct by employees, or even unsubstantiated allegations, could result in a material adverse effect on our reputation and our business.

Additionally, public state pension plans and retirement systems considering an investment in our funds may require us to make certain representations, warranties and covenants with respect to our and our employees' use of placement agents, political donations and gifts to state employees. A misrepresentation or breach of such covenants could result in damage to our reputation or in such investors seeking recovery of losses, withdrawal of their investment, repayment of management fees or liquidated damages, any of which could cause our revenues and earnings to decline.

The alternative investment management business is intensely competitive.

The alternative investment management business is intensely competitive. We compete in all aspects of our business with a large number of investment management firms, private equity fund sponsors, hedge fund sponsors and other financial institutions. Competition is based on a number of factors, including:

- investment performance;
- identifying suitable investments;
- investor perception of investment managers' drive, focus and alignment of interest;

- terms of investment, including the level of fees and expenses charged for services;
- actual or perceived financial condition, liquidity and stability;
- the quality and mix of services provided to, and the duration of relationships with, investors; and
- business reputation.

A number of factors increase our competitive risks, some of which are outside of our control, and could reduce revenues and profitability and materially and adversely affect our business:

- some of our funds may not perform as well as competitor funds or other available investment products;
- investors' liquidity and willingness to invest;
- changing decision making processes of investors, including concerns that we will allow a business to grow to the detriment of its performance or a preference to invest with an investment manager that is not publicly traded;
- investors may reduce their investments with us or not make additional investments with us based upon dissatisfaction with our investment performance, market conditions, their available capital or their perception of the health of our business;
- some of our competitors have greater capital, lower cost of capital, better access to financing, lower targeted returns or greater sector or investment strategy specific expertise than we do, which creates competitive disadvantages with respect to investment opportunities;
- some of our competitors may have greater technical, marketing and other resources than we possess;
- some of our competitors may perceive risk differently than we do, which could allow them either to outbid us for investments in particular sectors or, generally, to consider a wider variety of investments;
- some of our competitors may agree to more restrictive terms or policies (such as those related to electoral donations or a different standard of care), which would allow them to compete for the capital being invested by entities wishing to impose such terms;
- some of our competitors are corporate buyers and may be able to achieve synergistic cost savings in respect of an investment, which may provide them with a competitive advantage in bidding for an investment, particularly if conditions in the debt markets increase our financing costs or make debt financing generally unavailable or cost prohibitive; and
- other industry participants continuously seek to recruit our investment professionals, particularly our top performers, away from us.

Furthermore, competition in the alternative asset management business has been increasing, including the level of competition for capital raising, particularly for big-fund capital in the alternative investment industry. When trying to raise new capital, we are competing for fewer total available assets in an increasingly competitive environment, and there can be no assurance that we will be successful in continuing to raise capital at our historical growth rates. Depending on industry dynamics, we and our competitors may be compelled to offer investors improved terms (such as lower fees, improved liquidity or increased investments in funds) in order to continue to attract significant amounts of new investment capital. If we are forced to compete with other alternative asset managers on the basis of fees, we may not be able to maintain our current management and performance fee structures. Such changes would adversely affect our revenues and profitability.

The due diligence process that we undertake in connection with investments by our investment funds or the public company may not reveal all relevant facts in connection with an investment.

Before making investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. When conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and outside advisors and, in some circumstances, third-party investigations. In addition, if investment opportunities are scarce or the process for selecting bidders is competitive, our ability to conduct a due diligence investigation may be limited, and we would be required to make investment decisions based upon a less thorough diligence process than would otherwise be the case. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity, including, among other things, the existence of fraud or other illegal or improper behavior. Moreover, such an investigation will not necessarily result in the investment being successful.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of Sarbanes-Oxley. While management has certified that our internal controls over financial reporting were effective as of December 31, 2014, 2013 and 2012, because internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules, we cannot assure you that our internal control over financial reporting will be effective in the future. For example, we consolidate New Media, New Senior and certain funds and may be required to consolidate other entities that we manage, and therefore document and test effective controls over financial reporting of any of the entities that we consolidate in accordance with Section 404. The consolidation of New Media and the consolidation of New Senior have each resulted in a change to our internal control over financial reporting which has materially affected our internal control over financial reporting. Any failure to implement required controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. In addition, the FASB has proposed changes to the rules for consolidating entities in financial statements, which, if enacted with respect to our funds, may require us to consolidate entities that we do not currently consolidate, and, therefore, to document and test effective internal controls over the financial reporting of these entities in accordance with Section 404, which we may be unable to do. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm would not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable New York Stock Exchange listing rules, and result in a breach of the covenants under our credit agreement. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by leading to a decline in our share price and impairing our ability to raise capital.

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

Our success depends in part on our continued growth and the development of our business, which is uncertain and creates significant demands on our legal, accounting and operational infrastructure, and results in increased expenses. The complexity of these demands, and the expense required to address them, is a function not simply of our growth, but also of significant differences in the investing strategies of our different businesses and of the differences between lines of business. For example, in April 2010, we acquired Logan Circle, which requires operational infrastructure that differs from the infrastructure used in our alternative asset management business, which we were not familiar with prior to the acquisition. In July 2012, our workforce grew significantly when we became the manager of several senior living facilities (the compensation expense of which is reimbursed to us by the owners of the facilities), which has placed significant demands on our human resources and other infrastructure. In 2014, we announced the launch of the affiliated manager platform, and in 2015, we transitioned the management of the Fortress Asia Macro Funds to an autonomous asset management business in which we retain an economic interest in and provide infrastructure services for.

Our ability to continue to grow will depend, among other things, on our ability to maintain an operating platform and management system sufficient to address our growth. In order to grow, we will have to incur significant additional expenses and to commit additional senior management and operational resources. As a result, we face significant challenges:

- maintaining adequate accounting, financial, compliance, trading and other business controls;
- implementing new or updated information, financial and disclosure systems and procedures; and
- recruiting, training, managing and appropriately sizing our work force and other components of our business on a timely and cost-effective basis.

In addition, we are required to continuously develop our systems and infrastructure in response to the increasing sophistication of the investment management market and legal, accounting and regulatory developments. Moreover, the strains upon our resources caused by our growth are compounded by the additional demands imposed upon us as a public company with shares listed on the New York Stock Exchange and, thus, subject to an extensive body of regulations.

Our organizational documents do not limit our ability to enter into new lines of businesses, and we may enter into new businesses, make future strategic investments or acquisitions or enter into joint ventures, each of which may result in additional risks and uncertainties in our business and reputation.

We intend, to the extent that market conditions warrant, to grow our business by increasing management fee paying assets under management in existing businesses and creating new investment products. In addition, our organizational documents do not limit us to the investment management business and we may pursue growth through strategic investments, acquisitions or joint ventures, which may include entering into new lines of business, such as the banking, insurance or financial advisory industries, and which may involve assuming responsibility for the actual operation of assets or entire companies. For example, in July 2012, we entered into the business of managing senior living facilities on behalf of owners of senior living facilities and in 2014 we launched the affiliated manager platform. In addition, opportunities may arise to acquire other alternative or traditional asset managers.

To the extent we make strategic investments or acquisitions, enter into joint ventures, or enter into a new line of business, we will face numerous risks and uncertainties, including risks associated with (i) the required investment of capital and other resources, (ii) the possibility that we have insufficient expertise to engage in such activities profitably or without incurring inappropriate amounts of risk, and (iii) combining or integrating or separating and providing operational and management systems and controls. Entry into certain lines of business may subject us to new laws and regulations with which we are not familiar, or from which we are currently exempt, and may lead to increased litigation and regulatory risk and negative publicity. For example, in April 2010 we acquired Logan Circle, which is a traditional investment manager that is required to comply with ERISA regulations from which our other funds are currently generally exempt and which operates under a standard of care that is generally less favorable to us and exposes us to greater liability for simple negligence than do our alternative asset management businesses. In addition, our management of senior living facilities exposes us to licensing and regulatory regimes with which we have limited experience, as well as litigation risk arising from, among other things, the care of seniors. In the case of joint ventures, we are subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to, systems, controls and personnel that are not under our control. If a new business generates insufficient revenues or if we are unable to efficiently manage our expanded operations, our results of operations will be adversely affected.

In addition, generally, there are few limitations on the execution of our funds' investment strategies, which are, in some cases, subject to the sole discretion of the management company or the general partner of such funds. The execution of a particular fund's strategy - for example, a strategy involving the enforcement of intellectual property rights through litigation, or a strategy of purchasing pools of tax liens on residential properties or pools of life settlements - may negatively impact one or more other Fortress funds whether due to reputational or other concerns. We have historically been subjected to intermittent protests by groups affiliated with an animal rights movement related to a particular investment. Although no Fortress Fund continues to hold the investment targeted by such protesters, the protest activity may nevertheless have a negative effect on our reputation.

Our revenue and profitability fluctuate, particularly inasmuch as we cannot predict the timing of realization events in our private equity and credit PE businesses, which may make it difficult for us to achieve steady earnings growth on a quarterly basis and may cause volatility in the price of our Class A shares.

We experience significant variations in revenues and profitability during the year and among years because, among other reasons, we are paid incentive income from certain funds only when investments are realized, rather than periodically on the basis of increases in the funds' NAVs. The timing and receipt of incentive income generated by our private equity funds, private permanent capital vehicle, and credit PE funds is event driven and thus highly variable, which contributes to the volatility of our segment revenue, and our ability to realize incentive income from our private equity funds, private permanent capital vehicle and credit PE funds may be limited. It takes a substantial period of time to identify attractive investment opportunities, to raise all the funds needed to make an investment and then to realize the cash value (or other proceeds) of an investment through a sale, public offering, recapitalization or other exit. Even if an investment proves to be profitable, it may be several years before any profits can be realized. We cannot predict when, or if, any realization of investments will occur. If we were to have a realization event in a particular quarter, it may have a significant impact on our segment revenues and profits for that particular quarter that may not be replicated in subsequent quarters. In addition, our private equity funds, private permanent capital vehicle and credit PE fund investments are adjusted for accounting purposes to their NAV at the end of each quarter, resulting in income (loss) attributable to our investments in our funds, even though we receive no cash distributions from our private equity funds, private permanent capital vehicle and credit PE funds, which could increase the volatility of our quarterly earnings. The terms of the operating documents of our private equity funds, private permanent capital vehicle, and credit PE funds generally require that if any investment in a particular fund has been marked down below its initial cost basis, the aggregate amount of any such markdowns (plus the amount of the accrued preferred return on the capital used to make such investments) be factored into the computation of the amount of any incentive income we would otherwise collect on the realization of other investments within the same fund. This provision generally will result in an overall lower level of incentive income being collected by the Company in the near term for any private equity fund, private permanent capital vehicle, or credit PE fund that has investments that are carried both above and below their cost basis. To the extent that our investments in our private equity funds, private permanent capital vehicle, or credit PE funds (or direct investments in private equity transactions) are marked down, such mark-downs will flow through our statements of operations as a GAAP loss, even in circumstances where we have a long investment horizon and have no present intention of selling the investment.

With respect to our liquid and credit hedge funds, our incentive income is generally paid annually if the NAV of a fund has increased for the period. The amount (if any) of the incentive income we earn from our hedge funds depends on the increase in the NAV of the funds, which is subject to market volatility. Our liquid hedge funds have historically experienced significant fluctuations in NAV from month to month. Certain of our hedge funds also have “high water marks” whereby we do not earn incentive income for a particular period even though the fund had positive returns in such period if the fund had greater losses in prior periods. Therefore, if a hedge fund experiences losses in a period, we will likely not be able to earn incentive income from that fund until it surpasses the previous high water mark. As of December 31, 2014, the investment performance of certain hedge funds including our Fortress Macro Funds, Fortress Asia Macro Funds and Fortress Convex Asia Funds is down from the date on which such funds last earned incentive income. Each fund must generate earnings, on an investor by investor basis, equal to any amount lost as a result of negative performance before it will generate additional incentive income for us from existing fund investors. See the “Management Agreements and Fortress Funds” note to the consolidated financial statements included herein for more information.

In addition, no private equity fund, permanent capital vehicle, or credit PE fund will earn incentive income on any particular investment in the event that the aggregate carrying value of the other investments contained in the same fund is lower than the invested and unreturned capital in such fund plus, in some cases, any preferred return relating to such fund or the operating results of the publicly traded permanent capital vehicle are lower than specified returns to shareholders. The NAVs of some of these private equity style funds, as of period end, and operating results of some of the publicly traded permanent capital vehicles for the period were below these amounts as they apply to the respective funds or vehicle and, thus, these funds and vehicles will not be able to earn incentive income until their respective NAVs or operating results exceed these amounts. In addition, incentive income for the publicly traded permanent capital vehicles are calculated on a cumulative basis and therefore we may not earn incentive income for a particular period even though the vehicle had positive operating results for such period if the vehicle had greater losses on a cumulative basis. See the “Management Agreements and Fortress Funds” note to the consolidated financial statements included herein for more information.

Furthermore, we earn investment income from our investments in the Fortress Funds. Certain investments may be more speculative and more likely to result in loss of capital than other investments, which may contribute to volatility of our income. For example, investments in digital currencies differ from traditional currencies, commodities or securities, and its value is entirely market-based, which subjects the investment to increased risks.

These quarterly fluctuations in our revenues and profits in any of our businesses could lead to significant volatility in the price of our Class A shares.

The terms of our credit agreement may restrict our current and future operations, particularly our ability to respond to certain changes or to take future actions.

We entered into a credit agreement, which we also refer to as the "Credit Agreement", for a new revolving facility, which contains a number of restrictive covenants. These covenants collectively impose significant operating and financial restrictions on us, including restrictions that may limit our ability to engage in acts that may be in our long-term best interests. The financial covenants require that we:

- not exceed a total leverage ratio;

- maintain a minimum AUM; and
- maintain a minimum consolidated interest coverage ratio.

The leverage ratio and consolidated interest coverage ratio covenants are tested as of the end of each fiscal quarter, while the AUM covenant is tested as of the end of the each calendar month. Our ability to comply with these and other covenants is dependent upon a number of factors, some of which are beyond our control but could nonetheless result in noncompliance. For example, our leverage ratio fluctuates depending upon changes in revenues and expenses relative to our outstanding debt; our consolidated interest coverage ratio fluctuates depending upon changes in revenues and expenses relative to our interest payment obligations; and the value of our AUM fluctuates due to a variety of factors, including mark-to-market valuations of certain assets, other market factors, and our net capital raised or returned.

Our credit agreement also contains other covenants that restrict our operations and a number of events that would constitute an event of default under the agreement.

A failure by us to comply with the covenants in our credit agreement could result in an event of default under the agreement, which would give the lenders under the agreement the right to terminate their commitments to provide additional loans under our revolving credit facility and to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, the lenders would have the right to proceed against the collateral we granted to them, which would consist of substantially all our assets. If the debt under our credit agreement were accelerated, we might not have sufficient cash on hand or be able to sell sufficient collateral to repay this debt, which could have an immediate material adverse effect on our business, results of operations and financial condition. For more detail regarding our current credit agreement and the status of our compliance with the related covenants, please see “Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Debt Obligations,” and “— Covenants.”

In addition, our revolving credit facility matures in February 2016. The terms of any new revolving credit facility or other replacement financing may be less favorable to us than the terms of our existing credit agreement.

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

Under our current credit agreement, as of December 31, 2014, we had a $150.0 million revolving credit facility (including a $15.0 million letter of credit subfacility). As of December 31, 2014, $72.3 million was available to be drawn; we had $75.0 million outstanding thereunder and $2.7 million of letters of credit were outstanding. Borrowings under our revolving credit facility mature in February 2016. As we approach the maturity date of a facility, we may seek to enter into new facilities or issue new debt, which could result in higher borrowing costs, or to issue equity, which would dilute existing shareholders. We could also repay a facility by using cash on hand (if available) or cash from the sale of our assets. No assurance can be given that we will be able to enter into new facilities, issue new debt or issue equity in the future on attractive terms, or at all.

Our credit facility loans are typically LIBOR-based floating-rate obligations, and the interest expense we incur will vary with changes in the applicable LIBOR reference rate. As a result, an increase in short-term interest rates will increase our interest costs and will reduce the spread between the returns on our investments and the cost of our borrowings. An increase in interest rates would adversely affect the market value of any fixed-rate debt investments and/or subject them to prepayment or extension risk, which may adversely affect our earnings and liquidity. We may, from time to time, hedge these interest rate related risks. There is no guarantee that any such hedges will be economically effective.

The results of variable interest entities that we consolidate, which will be affected by their business and the industry in which they operate, will effect on our results of operations.

We may be required to consolidate certain variable interest entities that we manage though they are majority-owned by third parties. We consolidated New Media beginning February 2014 and New Senior beginning November 2014. Each of New Media's and New Senior’s income impacts our net income but does not have a material impact on our net income attributable to Class A shareholders, Class A earnings per share or total Fortress shareholders' equity as substantially all of the operating results of New Media and New Senior are attributable to non-controlling interests. New Media's and New Senior's assets and liabilities are also recorded on our balance sheet, including $222.1 million of debt outstanding under New Media's credit facility as of December 31, 2014 and $1,259.4 million of New Senior's mortgage notes payable outstanding as of December 31, 2014. New Media is focused on investing in a diversified portfolio of local media assets and also has an online advertising and digital marketing business. New Senior is a real estate investment trust with a diversified portfolio of senior housing properties across the United States. Risks related to New Media's business and industry, including general economic conditions, the economies and demographics of the local communities it serves and their indebtedness, and risks related to New Senior’s business and industry, including its ability to operate as a standalone company, access to financing and quality property managers and tenants at its properties, may have a material adverse impact on each of their results, which in turn could impact our results, primarily net income.

In addition, as of December 31, 2014, we recorded $422.1 million in goodwill and intangible assets with indefinite lives in connection with the consolidation of New Media and New Senior. Goodwill and intangible assets with indefinite lives are tested for impairment annually or when events indicate that impairment could exist, including potentially an economic downturn in their market, a change in the assessment of future operations or a decline in New Media's or New Senior's stock price. An annual impairment assessment is performed on each of New Media's and New Senior's reporting units. The fair value of the applicable reporting unit is compared to its carrying value. If the carrying value of the reporting unit exceeds the estimate of fair value, an impairment charge calculated as the excess of the carrying value of goodwill over its impaired value is recorded. Calculating the fair value of a reporting unit requires significant estimates and assumptions. Fair value is estimated by applying third-party market value indicators to projected cash flows and/or projected earnings before interest, taxes, depreciation, and amortization. In applying this methodology, we rely on a number of factors, including current operating results and cash flows, expected future operating results and cash flows, future business plans, and market data.

In addition, as public companies, New Media and New Senior are required to maintain effective internal control over financial reporting in accordance with Section 404 of Sarbanes-Oxley. To the extent that any material weakness or significant deficiency exists in New Media's or New Senior's internal control over financial reporting, it could result in a material weakness or significant deficiency in Fortress's internal control over financial reporting, which may adversely affect our ability to provide timely and reliable information necessary for the conduct of our business and satisfaction of our obligations under federal securities laws. See "Failure to maintain effective internal control over financial reporting in accordance with Section 404 of Sarbanes-Oxley Act could have a material adverse effect on our business and stock price."

Risks Related to Our Funds

Our results of operations are dependent on the performance of our funds. Poor fund performance will result in reduced revenues, reduced returns on our investments in our funds and reduced earnings. Poor performance of our funds will also make it difficult for us to retain or attract investors to our funds and to grow our business. The performance of each fund we manage is subject to some or all of the following risks.

The historical performance of our funds should not be considered as indicative of the future results of our funds or of our future results or of any returns expected on our Class A shares.

The historical and potential future returns of the funds we manage are not directly linked to returns on our Class A shares. Therefore, readers should not conclude that positive performance of the funds we manage will necessarily result in positive returns on our Class A shares.

Moreover, with respect to the historical performance of our funds:

- the historical performance of our funds should not be considered indicative of the future results that should be expected from such funds or from any future funds we may raise;
- our funds' returns have benefited historically from investment opportunities and general market conditions that currently may not exist and may not repeat themselves, and there can be no assurance that our current or future funds will be able to avail themselves of profitable investment opportunities;
- the performance of a number of our funds that is calculated on the basis of NAV of the funds' investments reflects unrealized gains that may never be realized;
- several of our private equity portfolio companies have become public companies and have experienced significant subsequent decreases in their public market value. There can be no assurance that we will be able to realize such investments at profitable sale prices, particularly if market conditions are weak or the market perceives that the companies will perform less well when a Fortress fund reduces its investment in them; and
- Certain of the funds are newly established funds without any operating history or are managed by management companies or general partners who do not have a significant track record as an independent manager and certain of our publicly traded permanent capital vehicles are also new public companies without any operating history as independent companies.

Poor performance of our funds would cause a decline in our revenue and results of operations, could obligate us to repay incentive income previously paid to us, and could adversely affect our ability to raise capital for future funds.

Poor performance of our funds could have a material adverse impact on our primary sources of revenue, which are: (1) management fees, which are based on AUM; (2) incentive income, which is based on the performance of our funds; and (3) investment income (loss) from our investments in our funds. Losses in our funds result in a decrease in AUM, which results in lower management fee revenues. In addition, our funds may be unable to pay all or part of the management fees that we are owed for an indeterminate period of time, or they may require advances to cover expenses if they perform poorly or suffer from liquidity constraints due to operational or market forces.

In situations where we have deferred the receipt of management or other fees in order to provide liquidity to one or more of our managed funds, amounts that we have receivable from those funds may be difficult to collect in the future (or may take longer than anticipated to collect) if such funds have continued liquidity problems or if fund investors raise objections to such collections. As of December 31, 2014, the aggregate amount of management fees that various of our managed funds owed but had not yet paid was approximately $33.6 million, excluding $12.2 million which has been fully reserved by us, and the aggregate amount of advances made by the public company on behalf of various of our managed funds to cover expenses was approximately $11.3 million, excluding $6.6 million which has been fully reserved by us. The amount of deferred management fees and reimbursements may increase in the future.

In addition, as a result of the performance of our funds or other factors, hedge fund investors may redeem their investments in our funds, while investors in our private equity funds, private permanent capital vehicle and credit PE funds may decline to invest in future funds we raise. Poor performance of our publicly traded permanent capital vehicles may result in the lowering of the market price of their common stock and impair their ability to raise capital or pay dividends. Our liquid hedge funds received redemption requests from fee-paying investors for a total of $2.2 billion, $1.0 billion and $1.5 billion during the years ended December 31, 2014, 2013 and 2012 respectively, and our credit hedge funds received return of capital requests from fee-paying investors for a total of $0.2 billion, $0.2 billion and $0.2 billion during the periods ended December 31, 2014, 2013 and 2012, respectively. Our liquid hedge fund redemptions for 2012 include $0.7 billion of capital returned to investors in the Fortress Commodities Funds which closed in the second quarter of 2012. The annual return of capital request date for our flagship credit hedge fund occurs in October.

If, as a result of poor performance of investments in a private equity fund, private permanent capital vehicle or credit PE fund, the fund does not achieve total investment returns that exceed a specified investment return threshold for the life of the fund, we will be obligated to repay the amount by which incentive income that was previously distributed to us exceeds the amounts to which we are ultimately entitled. We have contractually agreed to guarantee the payment in certain circumstances of such “clawback” obligations for our managed investment funds that are structured as private equity style funds. During the year ended December 31, 2014, we returned $16.4 million to one of our private equity funds which is in the process of liquidation. If all of our existing private equity funds, private permanent capital vehicle and credit PE funds were liquidated at their NAV as of December 31, 2014, the cumulative clawback obligation to investors in these funds would be approximately $45.1 million (net of amounts that would be due from employees pursuant to profit sharing arrangements, and without regard to potential tax adjustments).

We may be unable — as a result of poor fund performance or other issues — to raise enough new capital and new funds to seize investment opportunities in the future. If our competitors are more successful than we are in raising new fund capital and seizing investment opportunities, we may face challenges in competing for future investor capital and investment opportunities.

Difficult market conditions can adversely affect our funds in many ways, including by reducing the value or performance of the investments made by our funds and reducing the ability of our funds to raise or deploy capital, which could materially reduce our revenue and adversely affect our results of operations.

Our funds are materially affected by conditions in the global financial markets and economic conditions throughout the world. The global market and economic climate may be adversely affected by factors beyond our control, including rising interest rates or accelerating asset deflation or inflation, deterioration in the credit and finance markets, deterioration in the credit of sovereign nations, terrorism or political uncertainty. In the event of a continued market downturn, each of our businesses could be affected in different ways. Our private equity style funds have faced reduced opportunities to sell and realize value from their existing investments. In addition, adverse market or economic conditions as well as the slowdown of activities in particular sectors in which portfolio companies of these funds or the permanent capital vehicles operate (including, but not limited to, transportation and infrastructure, financial services, gaming, real estate and senior living) have had an adverse effect on the earnings and liquidity of such portfolio companies, which in some cases has negatively impacted the valuations of our funds' investments, or the operating results of our publicly traded permanent capital vehicles and, therefore, our actual and potential earnings from management and incentive fees. Our liquid hedge funds may also be adversely affected by difficult market conditions if they fail to predict the adverse effect of such conditions on particular investments, resulting in a significant reduction in the value of those investments.

The 2008 financial crisis adversely affected our operating performance in a number of ways, and if the economy were to re-enter a period of recession, it may cause our revenue, results of operations and financial condition to decline by causing:

- AUM to decrease, lowering management fees;
- increases in costs associated with financial instruments;
- adverse conditions for our portfolio companies or publicly traded permanent capital vehicles (e.g., decreased revenues, liquidity pressures, increased difficulty in obtaining access to financing and complying with the terms of existing financings as well as increased financing costs);
- lower investment returns, reducing incentive income or eliminating incentive income for a period of time;
- reduced demand to purchase assets held by our funds, which would negatively affect the funds' ability to realize value from such assets;
- material reductions in the value of our private equity fund investments in portfolio companies or the operating results of our publicly traded permanent capital vehicles, which would reduce our ability to realize incentive income from these investments or vehicles;
- difficulty raising additional capital;
- investor redemptions, resulting in lower fees and potential increased difficulty in raising new capital; and
- decreases in the carrying value of our investments in our funds.

The deterioration of market conditions in the future, particularly another failure of one or more major financial institutions, a default or serious deterioration in the financial condition of one or more sovereign nations, or another severe contraction of available debt or equity capital, would have a negative impact on our funds, which could materially reduce our revenue and adversely affect our results of operations. Furthermore, while difficult market conditions may increase opportunities to make certain distressed asset investments, our ability to take advantage of these opportunities may depend on our access to debt and equity capital and these trends may also be disadvantageous to us, for example such conditions also increase the risk of default with respect to debt investments held by our funds, in particular the mortgage opportunities funds and certain of our permanent capital vehicles.

Our funds may make investments that are concentrated in certain companies, asset types or geographical regions, which means that negative developments in certain sectors could have a material adverse effect on our revenues and results of operations.

The governing agreements of our funds contain limited investment restrictions and limited requirements as to diversification of fund investments, whether by geographic region or asset type. Many of our private equity funds have significant investments in particular companies whose assets are concentrated in certain industries, and from time to time we establish funds that target particular asset classes, such as our Italian NPL Funds, MSR Opportunities Funds, Real Estate Opportunities Funds, Japan Opportunity Funds and LDVF Patent and Life Settlements Funds. Our permanent capital vehicles, such as New Senior which is concentrated in senior living, also have assets concentrated in certain industries. Sectors in which our funds have significant investments include transportation and infrastructure, financial services (particularly loan servicing and consumer finance), gaming, real estate (including Florida commercial real estate) and senior living. In particular, the performance of our investments in Nationstar, Springleaf, Florida East Coast Railway and Florida East Coast Industries have the potential to significantly influence the overall financial results of our private equity segment. If these sectors, or any other sector in which our funds have concentrated investments, were adversely affected by market conditions or other factors, certain of our funds may perform poorly. Moreover, poor performance by our private equity fund, permanent capital vehicle, and credit fund businesses could harm our reputation, which could make it difficult for us to raise capital for our other businesses. For a description of the consequences to us of poor fund performance, see “Poor performance of our funds would cause a decline in our revenue and results of operations, could obligate us to repay incentive income previously paid to us, and could adversely affect our ability to raise capital for future funds.”

Certain of our permanent capital vehicles and funds could be adversely affected by a contraction of the structured finance and mortgage markets.

Certain of our permanent capital vehicles have historically relied on the structured finance and mortgage markets in order to obtain leverage and thereby increase the yield on portions of their investments. To the extent that volatility in those credit markets leads to a situation where financing of that type is unavailable or limited (as was the case during the 2008 financial crisis and several years thereafter), Newcastle, New Residential or Eurocastle may be unable to make new investments on a basis that is as profitable as during periods when such financing was available. Furthermore, it could significantly reduce the yield available for reinvesting capital received from prior investments, thereby reducing profits. As a result of impairments recorded in connection with the 2008-2009 structured finance and mortgage market disruption, we do not expect to earn incentive income from Newcastle for an indeterminate period of time.

Many of our funds also have relied on the structured finance markets. To the extent that financing of that type is unavailable or limited, such funds may be unable to make certain types of investments as the yield on those investments will be outside of the funds' target range without leverage. This could reduce the overall rate of return such funds obtain from their investments and could lead to a reduction in overall investments by those funds and a slower rate of growth of fee paying assets under management in those funds, with a commensurate decrease in the rate of growth of our management fees.

We and our funds are subject to counterparty default and concentration risks.

Our funds enter into numerous types of financing arrangements with counterparties globally, including loans, hedge contracts, swaps, repurchase agreements and other derivative and non-derivative contracts. The terms of these contracts are often customized and complex, and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight. Generally, funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. In particular, some of our funds utilize prime brokerage arrangements with a relatively limited number of counterparties, which has the effect of concentrating the transaction volume (and related counterparty default risk) of these funds with these counterparties. Our funds may also experience counterparty concentration risk with respect to partners in coinvestments.

Our funds are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such default may occur rapidly and without notice to us. Moreover, if a counterparty defaults, we may be unable to take action to cover our exposure, either because we lack the contractual ability or because market conditions make it difficult to take effective action. This inability could occur in times of market stress, which are precisely the times when defaults may be most likely to occur. In the event of a counterparty default, particularly a default by a major investment bank, one or more of our funds could incur material losses, and the resulting market impact of a major counterparty default could harm our business, results of operations and financial condition. In the event that one of our counterparties becomes insolvent or files for bankruptcy, our ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding.

Our funds are also exposed to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the fund to suffer a loss. Counterparty risk is increased for contracts with longer maturities where events may intervene to prevent settlement, or where the fund has concentrated its transactions with a single or small group of counterparties. The absence of a regulated market to facilitate settlement may increase the potential for losses.

In addition, our funds' risk-management models may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not take sufficient action to reduce our risks effectively. Although each of our funds monitors its credit exposures, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

The counterparty risks that we face have increased in complexity and magnitude as a result of the insolvency of certain financial institutions (such as Lehman Brothers and MF Global) who served as counterparties for derivative contracts, insurance policies and other financial instruments. The consolidation and elimination of counterparties has increased our concentration of counterparty risk and decreased the universe of potential counterparties, and our funds are generally not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. For additional detail on counterparty risks, please see “-We are subject to risks in using prime brokers, custodians and other financial intermediaries.”

Because the public company is dependent on receiving cash from our funds, any loss suffered by a fund as a result of a counterparty default would also affect the results of the public company. In addition, the board of directors of the public company has only limited ability to influence any fund's choice of, or the amount of a fund's exposure to, any given counterparty. As a result, our funds may have concentrated exposure to one or more counterparties and thus be exposed to a heightened risk of loss if that counterparty defaults. This may mean that the Company has a significant concentration of risk with one or more particular counterparties at any particular time if aggregate counterparty risk were to be measured across all of the various Fortress Funds.

Third party investors in our investment funds with commitment-based structures may not satisfy their contractual obligation to fund capital calls when requested by us, which could adversely affect a fund's operations and performance.

Investors in our private equity funds, private permanent capital vehicle and credit PE funds make capital commitments to those funds that we are entitled to call from those investors at any time during prescribed periods. We depend on investors fulfilling their commitments when we call capital from them in order for those funds to consummate investments and otherwise pay their obligations (for example, management fees) when due. As of the end of this reporting period, we have not had investors fail to honor capital calls to any extent meaningful to us. Any investor that did not fund a capital call would generally be subject to several possible penalties, including having a significant amount of its existing investment forfeited in that fund. However, the impact of the penalty is directly correlated to the amount of capital previously invested by the investor in the fund and if an investor has invested little or no capital, for instance early in the life of the fund, then the forfeiture penalty may not be as meaningful. Investors may also negotiate for lesser or reduced penalties at the outset of the fund, thereby inhibiting our ability to enforce the funding of a capital call. If investors were to fail to satisfy a significant amount of capital calls for any particular fund or funds, the operation and performance of those funds could be materially and adversely affected.

Investors in our hedge funds may redeem their investments, and investors in our private equity funds and credit PE funds and certain hedge funds may elect to dissolve the funds, at any time without cause. These events would lead to a decrease in our AUM (and, therefore, our revenues), which could be substantial and could lead to a material adverse effect on our business.

Investors in our hedge funds may generally redeem their investments on an annual or quarterly basis, subject to the applicable fund's specific redemption provisions, and our flagship liquid markets hedge fund has a monthly redemption class. Investors may decide to move their capital away from us to other investments for any number of reasons in addition to poor investment performance. Factors that could result in investors leaving our funds include the need to increase available cash reserves or to fund other capital commitments, changes in interest rates that make other investments more attractive, the publicly traded nature of the indirect parent of their manager, changes in investor perception regarding our focus or alignment of interest, dissatisfaction with changes in or broadening of a fund's investment strategy, changes in our reputation, and departures or changes in responsibilities of key investment professionals. In a declining financial market, the pace of redemptions and consequent reduction in our fee paying assets under management could accelerate. The decrease in our revenues that would result from significant redemptions in our hedge fund business would have a material adverse effect on our business.

Our liquid hedge funds received redemption requests from fee-paying investors for a total of $2.2 billion, $1.0 billion and $1.5 billion during the years ended December 31, 2014, 2013 and 2012, respectively. Our liquid hedge fund redemptions for 2013 include $0.7 billion of capital returned to investors in the Fortress Commodities Funds which closed in the second quarter of 2013. Investors in our credit hedge funds are permitted to request that their capital be returned generally on an annual basis, and such returns of capital may be paid over time as the underlying investments are liquidated, in accordance with the governing documents of the applicable funds. Our credit hedge funds received $0.2 billion, $0.2 billion and $0.2 billion return of capital requests from fee-paying investors during the periods ended December 31, 2014, 2013 and 2012, respectively. The annual return of capital request date for our flagship credit hedge fund occurs in October.

In addition, the investors in our private equity funds, private permanent capital vehicle, credit PE funds and certain hedge funds may, subject to certain conditions, act at any time to accelerate the liquidation date of the fund without cause, resulting in a reduction in management fees we earn from such funds and a significant reduction in the amounts of total incentive income we could earn from those funds. See "-Our removal as the investment manager, or the liquidation, of one or more of our funds could have a material adverse effect on our business, results of operations and financial condition." Incentive income could be significantly reduced as a result of our inability to maximize the value of a fund's investments in a liquidation. The occurrence of such an event with respect to any of our funds would, in addition to the significant negative impact on our revenue and earnings, likely result in significant reputational damage as well.

A significant decline in AUM could result in one or more defaults under certain fund agreements, which could negatively impact our business.

Our funds have various agreements that create debt or debt-like obligations (such as repurchase arrangements, ISDAs, credit default swaps and total return swaps, among others) with a material number of counterparties. Such agreements in many instances contain covenants or "triggers" that require our funds to maintain specified amounts of AUM. In particular, many such covenants to which our hedge funds are party are designed to protect against sudden and pronounced drops in AUM over specified periods, so if our funds were to receive larger-than-anticipated redemption requests during a period of poor performance, such covenants may be breached. Decreases in such funds' AUM (whether due to performance, redemption, or both) that breach such covenants may result in defaults under such agreements, and such defaults could permit the counterparties to take various actions that would be adverse to the funds, including terminating the financing arrangements, increasing the amount of margin or collateral that the funds are required to post (so-called "supercollateralization" requirements) or decreasing the aggregate amount of leverage that such counterparty is willing to provide to our funds. Defaults under any such covenants would be likely to result in the affected funds being forced to sell financed assets (which sales would presumably occur in suboptimal or distressed market conditions) or otherwise raise cash by reducing other leverage, which would reduce the funds' returns and our opportunities to produce incentive income from the affected funds.

Many of our funds invest in high-risk, illiquid assets that often have significantly leveraged capital structures, and we may fail to realize any profits from these activities for a considerable period of time or lose some or all of the principal amount we invest in these activities.

Many of our funds invest in securities, loans or other assets that are not publicly traded. In many cases, our funds may be prohibited by contract or by applicable securities laws from selling such securities for a period of time. Our funds will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. The ability of many of our funds, particularly our private equity style funds, to dispose of investments is heavily dependent on the public equity markets, inasmuch as our ability to realize any value from an investment may depend upon our ability to sell equity of the portfolio company in the public equity markets through an initial public offering or secondary public offering of shares of the portfolio company in which such investment is held. Furthermore, large holdings even of publicly traded equity securities can often be disposed of only over a substantial period of time, exposing the investment returns to risks of downward movement in market prices during the disposition period. Accordingly, our funds may be forced to sell securities at a loss under certain conditions. The illiquid nature of many of our funds' assets may also negatively affect a fund's ability to retain sufficient liquidity to satisfy its obligations as they become due. As a result, a fund with illiquid assets may be unable, for example, to generate sufficient liquidity to pay the management fees or other amounts due to the manager, which would, in turn, reduce the amounts we receive from our funds, thereby reducing the amount of funds available to us to satisfy our obligations, including any obligations under our credit agreement.

In addition, many of our funds invest in businesses with capital structures that have significant leverage. The large amount of borrowing in the leveraged capital structure of such businesses increases the risk of losses due to factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the investment or its industry. In the event of defaults under borrowings, the assets being financed would be at risk of foreclosure, and the fund could lose its entire investment.

Our funds are subject to risks due to potential illiquidity of assets and leverage of capital structure.

Our funds may make investments or hold trading positions in markets that are volatile and which may be illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which we may be a party, and changes in industry and government regulations. When a fund holds a security or position it is vulnerable to price and value fluctuations and may experience losses to the extent the value of the position decreases and it is unable to timely sell, hedge or transfer the position. Therefore, it may be impossible or costly for our funds to liquidate positions rapidly, particularly if the relevant market is moving against a position or in the event of trading halts or daily price movement limits on the market or otherwise. Alternatively, it may not be possible in certain circumstances for a position to be purchased or sold promptly, particularly if there is insufficient trading activity in the relevant market or otherwise.

In addition, the funds we manage may operate with a substantial degree of leverage. They may borrow, invest in derivative instruments and purchase securities using borrowed money, so that the positions held by the funds may in aggregate value exceed the NAV of the funds. This leverage creates the potential for higher returns, but also increases the volatility of a fund, including the risk of a total loss of the amount invested. In addition, our private equity funds have historically leveraged some of their investments in order to return capital to investors earlier than would have otherwise been possible without a sale of the asset. In many such cases, such debt was secured by publicly-traded stock of portfolio companies. To the extent that the value of such collateral decreases due to decreases in the share price of such portfolio companies, our funds may be subject to margin calls that require them to call additional capital from investors, sell assets or otherwise take actions that decrease the overall return of the impacted funds. Such actions would result in overall decreased revenues for us and a lower likelihood of generating incentive income from the affected investments.

The risks identified above will be increased if a fund is required to rapidly liquidate positions to meet redemption requests, margin requests, margin calls or other funding requirements on that position or otherwise. The inability to rapidly sell positions due to a lack of liquidity has historically been the cause of substantial losses in the hedge fund industry. The ability of counterparties to force liquidations following losses or a failure to meet a margin call can result in the rapid sale of highly leveraged positions in declining markets, which would likely subject our hedge funds to substantial losses. We may fail to adequately predict the liquidity that our funds require to address counterparty requirements due to falling values of fund investments being financed by such counterparties, which could result not only in losses related to such investments, but in losses related to the need to liquidate unrelated investments in order to meet the fund's obligations. Our funds may incur substantial losses in the event significant capital is invested in highly leveraged investments or investment strategies. Such losses would result in a decline in AUM, lead to investor requests to redeem remaining AUM (in the case of our hedge funds), and damage our reputation, each of which would materially and adversely impact our earnings.

Valuation methodologies for certain assets in our funds can be subject to significant subjectivity, and the values of assets established pursuant to such methodologies may never be realized, which could result in significant losses for our funds.

There are no readily-ascertainable market prices for a very large number of illiquid investments in our private equity funds, private permanent capital vehicle and credit PE funds and, to a lesser extent, credit hedge funds as well as a small number of so called “sidepocket” investments in our liquid hedge funds. The fair value of such investments of our funds is determined periodically by us based on the methodologies described in the funds' valuation policies. These policies are based on a number of factors, including the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment, the length of time the investment has been held, the trading price of securities (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies. The methodologies we use in valuing individual investments are based on a variety of estimates and assumptions specific to the particular investments, and actual results related to the investment therefore often vary materially from such assumptions or estimates. In addition, because many of the illiquid investments held by our funds are in industries or sectors that are unstable, in distress, or in the midst of some uncertainty, such investments are subject to rapid changes in value caused by sudden company-specific or industry-wide developments. Moreover, in many markets, transaction flow is further limited by uncertainty about accurate asset valuations, which may cause hedge fund investors to become concerned about valuations of funds that have illiquid or hard-to-value assets. This concern may lead to increased redemptions by investors irrespective of the performance of the funds. In addition, uncertainty about asset values on redemptions from our investments in our hedge funds may lead to an increased risk of litigation by investors over NAVs.

Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, the fair values of such investments as reflected in a fund's NAV do not necessarily reflect the prices that would actually be obtained by us on behalf of the fund when such investments are sold. Realizations at values significantly lower than the values at which investments have been reflected in fund NAVs would result in losses for the applicable fund, a decline in management fees and the loss of potential incentive income. Also, a situation where asset values turn out to be materially different than values reflected in fund NAVs could cause investors to lose confidence in us, which would, in turn, result in redemptions from our hedge funds or difficulties in raising additional private equity funds and credit PE funds. The SEC has highlighted valuation practices as one of its areas of focus in investment adviser examinations and has instituted enforcement actions against private equity fund advisers for misleading investors about valuation.

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

Our private equity and credit funds, permanent capital vehicles and hedge funds invest in obligors and issuers with weak financial conditions, poor operating results, substantial financial needs, negative net worth, and/or special competitive problems and/or securities that are illiquid, distressed, tied to real estate or have other high-risk features. These funds also invest in obligors and issuers that are involved in bankruptcy or reorganization proceedings. It may be difficult to obtain complete information as to the exact financial and operating conditions of these obligors and issuers. Additionally, the fair values of such investments are subject to abrupt and erratic market movements and significant price volatility if they are widely traded securities and significant uncertainty in general if they are not widely traded securities or have no recognized market. A fund's or vehicle’s exposure to such investments may be substantial in relation to the market for those investments, and the assets are likely to be illiquid and difficult to sell or transfer. As a result, it may take a number of years for the fair value of such investments to ultimately reflect their intrinsic value as perceived by us. For example, several of our funds and permanent capital vehicles from time to time make significant investments in mortgage-backed securities and other investments that are directly or indirectly related to the value of real estate in various locations globally, particularly in the United States. As a result, the results of a number of our funds and permanent capital vehicles have been, and may continue to be affected, in some cases materially, by fluctuations in the value of real estate and real estate related investments. Such fluctuations could have a meaningful impact on the performance of the applicable fund or vehicle and potentially on our operating results.

A central feature of our distressed investment strategy is our ability to successfully predict the occurrence of events such as mortgage default rates, mortgage prepayment rates, the amounts of any prepayments, maturity extensions, interest rates for mortgage-backed securities and similar instruments as well as corporate events such as capital raises, restructurings, reorganizations, mergers and other transactions. Predicting any of these data points is difficult and subject to uncertainty, and if our analyses are inaccurate, the actual results of such investments could be materially lower than expected and the applicable fund's investment results could decline sharply.

In addition, these investments could subject our private equity, credit PE funds, permanent capital vehicles and hedge funds to certain potential additional liabilities that may exceed the value of their original investment. Under certain circumstances, payments or distributions on certain investments may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. In addition, under certain circumstances, a lender that has inappropriately exercised control of the management and policies of a debtor may have its claims subordinated or disallowed, or may be found liable for damages suffered by parties as a result of such actions. In the case where the investment in securities of troubled companies is made in connection with an attempt to influence a restructuring proposal or plan of reorganization in bankruptcy, our funds may become involved in substantial litigation.

Furthermore, our funds may engage in short-selling, which is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A fund may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the fund is otherwise unable to borrow securities that are necessary to hedge its positions.

If our risk management systems for our fund business are ineffective, we may be exposed to material unanticipated losses.

In our fund business, we continue to refine our risk management techniques, strategies and assessment methods. However, our risk management techniques and strategies do not fully mitigate the risk exposure of our funds in all economic or market environments, or against all types of risk, including risks that we might fail to identify or anticipate. Some of our strategies for managing risk in our funds are based upon our use of historical market behavior statistics. We apply statistical and other tools to these observations to measure and analyze the risks to which our funds are exposed. Any failures in our risk management techniques and strategies to accurately quantify such risk exposure could limit our ability to manage risks in the funds or to seek adequate risk-adjusted returns. In addition, any risk management failures could cause fund losses to be significantly greater than the historical measures predict. Further, our mathematical modeling does not take all risks into account. Our more qualitative approach to managing those risks could prove insufficient, exposing us to material unanticipated losses.

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

Our funds participate in large transactions from time to time. The increased size of these investments involves certain complexities and risks that may not be encountered in small- and medium-sized investments. For example, larger transactions may be more difficult to finance and complete, and exiting larger deals may present challenges in many cases. In addition, larger transactions may entail greater scrutiny by regulators, labor unions, political bodies and other third parties and greater risk of litigation. Any of these factors could increase the risk that our larger investments could be unsuccessful. The consequences to our investment funds of an unsuccessful larger investment could be more severe than those of a smaller investment.

Our investment funds often make investments in companies that we do not control and the affiliated manager platform will involve having interests in funds that we do not control.

Investments by most of our investment funds will include debt instruments and equity securities of companies that we do not control. Such instruments and securities may be acquired by our investment funds through trading activities or through purchases of securities from the issuer. In addition, our private equity funds, private permanent capital vehicle and credit funds may acquire debt investments or minority equity interests and may also dispose of a portion of their majority equity investments in portfolio companies over time in a manner that results in the investment funds retaining a minority investment. In addition, we launched the affiliated manager platform that involves taking a non-control economic interest in autonomous fund management businesses under a fee-for-services model for infrastructure services. In January 2015, the Fortress Asia Macro Funds transitioned into an autonomous business with Fortress as a non-control partner and provider of infrastructure services. The typical platform participant will pay fees to Fortress for support services in addition to Fortress having a significant minority ownership stake in the general partner and/or manager. Those investments will be subject to increased risk that the entity in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the entity may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of investments by our investment funds and the fees we earn from the affiliated manager business could decrease, and our financial condition, results of operations and cash flow could suffer as a result.

Some of our funds invest in foreign countries and securities of issuers located outside of the United States, which involves foreign exchange, political, social, regulatory and economic uncertainties and risks.

Some of our funds invest a portion of their assets in the equity, debt, loans or other securities of issuers located outside the United States, which may entail risks that are not typically associated with an investment in a U.S. issuer. In addition to business uncertainties, such investments may be affected by changes in currency exchange values, including currencies in the Asia-Pacific region and the Euro. Instability of the Eurozone, including fears of sovereign debt defaults, and stagnant growth generally, and of certain Eurozone member states in particular, have resulted in concerns regarding the suitability of a shared currency for the region, which could lead to the reintroduction of individual currencies for member states. If this were to occur, Euro-denominated assets and liabilities of certain of our funds would be redenominated to such individual currencies, which could result in a mismatch in the values of assets and liabilities and expose us and certain of our funds to additional currency risks. Even if the Euro is maintained, continued concerns regarding the stability of the Eurozone and the potential effects of government intervention intended to address it could materially adversely affect our business.

Foreign investments and operations may also expose us to political, social, regulatory and economic uncertainties affecting a country or region, or to political hostility to investments by foreign or private equity investors. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher in those markets than in more developed markets. The legal and regulatory environment may also be different, particularly with respect to bankruptcy and reorganization, and may afford us less protection as a creditor than we may be entitled to under U.S. law. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

Restrictions imposed or actions taken by foreign governments could include exchange controls, seizure or nationalization of foreign deposits and adoption of other governmental restrictions which adversely affect the prices of securities or the ability to repatriate profits on investments or even the capital invested, which may adversely impact the value of our fund investments. In addition, income received by our funds from sources in some countries may be reduced by withholding and other taxes. Any such taxes paid by a fund will reduce the net income or return from such investments. While we will take these factors into consideration in making investment decisions, including when hedging positions, no assurance can be given that the funds will be able to fully avoid these risks or generate sufficient risk-adjusted returns.

Investments by our funds will frequently rank junior to investments made by others in the same company.

In most cases, the companies in which our investment funds invest will have indebtedness or equity securities, or may be permitted to incur indebtedness or to issue equity securities, that rank senior to our investment. By their terms, such instruments may provide that their holders are entitled to receive payments of dividends, interest or principal on or before the dates on which payments are to be made in respect of our fund's investment. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a company in which an investment is made, holders of securities ranking senior to our investment would typically be entitled to receive payment in full before distributions could be made in respect of our investment. After repaying senior security holders, the company may not have any remaining assets to use for repaying amounts owed in respect of our fund's investment. To the extent that any assets remain, holders of claims that rank equally with our investment would be entitled to share on an equal and ratable basis in distributions that are made out of those assets. Also, during periods of financial distress or following an insolvency, the ability of our investment funds to influence a company's affairs and to take actions to protect their investments may be substantially less than that of the senior creditors.

Fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives.

Fund investments are subject to risks relating to investments in commodities, futures, options and other derivatives, the prices of which are highly volatile and may be subject to the theoretically unlimited risk of loss in certain circumstances, including if the fund writes a call option. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, hedge funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties. Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing “daily price fluctuation limits” or “daily limits,” the existence of which may reduce liquidity or effectively curtail trading in particular markets. Dodd-Frank also gives rise to a substantial set of new rules focused on the use of derivatives, which when fully formulated and enacted will likely require modification of business practices to comply with new regulations, increase costs of operating in the financial markets and impose restrictions on activities in these markets. For additional information on the potential impacts of Dodd-Frank regulations see “The U.S. government’s increased focus on the regulation of the financial services industry may adversely affect our business.”

We have been engaged as the investment manager of third-party investment funds and managed accounts, and we may be engaged as the investment manager of other third-party investment funds or managed accounts in the future, and each such engagement exposes us to a number of potential risks.

Changes within the alternative asset management industry may cause investors of some funds to replace their existing fund or managed account managers or may cause certain such managers to resign. In such instances, we may seek to be engaged as investment manager of these funds or accounts. For example, in 2009, we became the investment manager of certain investment funds and accounts previously managed by D.B. Zwirn & Co., L.P.

While being engaged as investment manager of third-party funds or accounts potentially enables us to grow our business, it also entails a number of risks that could harm our reputation, results of operations and financial condition. For example, we may choose not to, or be unable to, conduct significant due diligence of the fund and its investments, and any diligence we undertake may not reveal all relevant facts that may be necessary or helpful in evaluating such engagement. We may be unable to complete such transactions, which could harm our reputation and subject us to costly litigation. We may willingly or unknowingly assume actual or contingent liabilities for significant expenses, we may become subject to new laws and regulations with which we are not familiar, and we may become subject to increased risk of litigation, regulatory investigation or negative publicity. For example, we have been named as a defendant in various lawsuits relating to the Zwirn portfolio, and as part of our role as manager, we may incur time and expense in defending these and any similar future litigation. In addition to defending against litigation, being engaged as investment manager may require us to invest significant capital and other resources for various other reasons, which could detract from our existing funds or our ability to capitalize on future opportunities. In addition, being engaged as investment manager may require us to integrate complex technological, accounting and management systems, which may be difficult, expensive and time-consuming and which we may not be successful in integrating into our current systems. If we include the financial performance of funds for which we have been engaged as the investment manager in our public filings, we are subject to the risk that, particularly during the period immediately after the engagement, this information may prove to be inaccurate or incomplete. The occurrence of any of these negative integration events could negatively impact our reputation with both regulators and investors, which could, in turn, subject us to additional regulatory scrutiny and impair our relationships with the investment community. The occurrence of any of these problems could negatively affect our reputation, financial condition and results of operations.

We are subject to risks in using prime brokers, custodians and other financial intermediaries.

The funds in our hedge fund business depend on the services of prime brokers and custodians to carry out certain securities transactions. In the event of the insolvency of a prime broker and/or custodian, the funds might not be able to recover equivalent assets in full as they will rank among the prime broker's and custodian's unsecured creditors in relation to assets which the prime broker or custodian borrows, lends or otherwise uses. In addition, the funds' cash held with a prime broker or custodian will not be segregated from the prime broker's or custodian's own cash, and the funds will therefore rank as unsecured creditors in relation to the cash they have deposited. In addition, credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This “systemic risk” may adversely affect the financial intermediaries (such as clearing agencies, clearing houses, banks, investment banks, securities firms and exchanges) with which the funds interact on a daily basis.

Risks Related to Our Organization and Structure

Control by our principals of the combined voting power of our shares and holding their economic interest through Fortress Operating Group may give rise to conflicts of interests.

Our principals control a majority of the combined voting power of our Class A and Class B shares. Accordingly, our principals have the ability to elect all of the members of our board of directors and thereby to control our management and affairs. In addition, they are able to determine the outcome of all matters requiring shareholder approval and are able to cause or prevent a change of control of our Company or a change in the composition of our board of directors, and could preclude any unsolicited acquisition of our Company. The control of voting power by our principals could deprive Class A shareholders of an opportunity to receive a premium for their Class A shares as part of a sale of our Company, and might ultimately affect the market price of the Class A shares.

In addition, the shareholders agreement among us and the principals provides the principals, who are then employed by the Fortress Operating Group and who hold shares representing greater than 50% of the total combined voting power of all shares held by such principals, so long as the principals and their permitted transferees continue to hold more than 40% of the total combined voting power of our outstanding Class A and Class B shares, with approval rights over a variety of significant corporate actions, including:

- ten percent indebtedness: any incurrence of indebtedness, in one transaction or a series of related transactions, by us or any of our subsidiaries in an amount in excess of approximately 10% of the then existing long-term indebtedness of us and our subsidiaries;
- ten percent share issuance: any issuance by us, in any transaction or series of related transactions, of equity or equity-related securities that would represent, after such issuance, or upon conversion, exchange or exercise, as the case may be, at least 10% of the total combined voting power of our outstanding Class A and Class B shares other than (1) pursuant to transactions solely among us and our wholly owned subsidiaries, or (2) upon conversion of convertible securities or upon exercise of warrants or options, which convertible securities, warrants or options are either outstanding on the date of, or issued in compliance with, the shareholders agreement;
- investment of $250 million or more: any equity or debt commitment or investment or series of related equity or debt commitments or investments in an entity or related group of entities in an amount equal to or greater than $250 million;
-

new business requiring investment in excess of $100 million: any entry by us or any of our controlled affiliates into a new line of business that does not involve investment management and that requires an investment in excess of $100 million;

- the adoption of a shareholder rights plan;
- any appointment of a chief executive officer or co-chief executive officer; or
- the termination without cause of the employment of a principal with us or any of our material subsidiaries.

Furthermore, the principals have certain consent rights with respect to structural changes involving our Company.

Because our principals primarily hold their economic interests in our business directly through Fortress Operating Group, rather than through the public company, they may have conflicting interests with holders of Class A shares. For example, our principals may have different tax positions from us, which could influence their decisions regarding whether and when to dispose of assets, and whether and when to incur new or refinance existing indebtedness, especially in light of the tax receivable agreement. In addition, the structuring of future transactions may take into consideration the principals' tax considerations even where no similar benefit would accrue to us. Moreover, any distribution by Fortress Operating Group to us to satisfy our tax obligations or to make payments to our principals under the tax receivable agreement will result in a corresponding pro rata distribution to our principals. Our principals are also entitled to distributions on their Fortress Operating Group units in respect of their tax obligations as holders of Fortress Operating Group units. As a result of the foregoing, amounts may be distributed to the holders of the Fortress Operating Group units that are greater in the aggregate, or are distributed earlier in time, than distributions that are made to holders of Class A shares (on a per share basis).

Our ability to pay regular dividends may be limited by our holding company structure; we are dependent on distributions from the Fortress Operating Group to pay dividends, taxes and other expenses. Our ability to pay dividends is also subject to not defaulting on our credit agreement.

As a holding company, our ability to pay dividends is subject to the ability of our subsidiaries to provide cash to us. When we declare a dividend on our Class A shares, we generally expect to cause Fortress Operating Group to make distributions to its unitholders, including our wholly-owned subsidiaries, pro rata in an amount sufficient to enable us to pay such dividends to our Class A shareholders. However, no assurance can be given that such distributions will or can be made. Our board can reduce or eliminate our dividend at any time, in its discretion. For example, our board determined not to pay any dividend to our Class A shareholders from the third quarter of 2008 through the third quarter of 2011. Our board has elected to resume quarterly dividends, beginning with the fourth quarter of 2011. In addition, Fortress Operating Group is required to make minimum tax distributions to its unitholders. See also “- Risks Related to Taxation - There can be no assurance that amounts paid as dividends on Class A shares will be sufficient to cover the tax liability arising from ownership of Class A shares.” If Fortress Operating Group has insufficient funds, we may have to borrow additional funds or sell assets, which could materially adversely affect our liquidity and financial condition. In addition, Fortress Operating Group's earnings may be insufficient to enable it to make required minimum tax distributions to unitholders.

We are also subject to certain contingent repayment obligations that may affect our ability to pay dividends. We earn incentive income - generally 20% of the profits - from each of our private equity funds, private permanent capital vehicle and credit PE funds based on a percentage of the profits earned by the fund as a whole, provided that the fund achieves specified performance criteria. We generally receive, however, our percentage share of the profits on each investment in the fund as it is realized, before it is known with certainty that the fund as a whole will meet the specified criteria. As a result, the incentive income paid to us as a particular investment made by the funds is realized is subject to contingent repayment (or “clawback”) if, upon liquidation of the fund, the aggregate amount paid to us as incentive income exceeds the amount actually due to us based upon the aggregate performance of the fund. If we are required to repay amounts to a fund in order to satisfy a clawback obligation, any such repayment will reduce the amount of cash available to distribute as a dividend to our Class A shareholders. While the principals have personally guaranteed, subject to certain limitations, this "clawback" obligation related to certain funds, we have agreed to indemnify the principals for all amounts that the principals pay pursuant to any of these personal guarantees in favor of such funds. Consequently, any requirement to satisfy a clawback obligation could impair our ability to pay dividends on our Class A shares.

There may also be circumstances under which we are restricted from paying dividends under applicable law or regulation (for example due to Delaware limited partnership or limited liability company act limitations on making distributions if liabilities of the entity after the distribution would exceed the value of the entity's assets). In addition, under our credit agreement, the ability of the loan parties thereunder and certain of our other subsidiaries to make cash distributions is subject to certain restrictions, including the following restriction: no default exists at the time of declaration or event of default exists at the time of payment or immediately after giving effect thereto. Such restrictions on certain of our subsidiaries may in turn limit our ability to make cash distributions. The events of default under the credit agreement are typical of such agreements and include payment defaults, failure to comply with credit agreement covenants (including a leverage covenant that is negatively affected by realized losses), cross-defaults to material indebtedness, bankruptcy and insolvency and change of control. Our lenders may also attempt to exercise their security interests over substantially all of the assets of the Fortress Operating Group upon the occurrence of an event of default.

Tax consequences to the principals may give rise to conflicts of interests.

As a result of unrealized built-in gain attributable to the value of our assets held by the Fortress Operating Group entities at the time of our initial public offering, or as a result of other differences between the tax attributes of our principals and the Fortress Operating Group entities, upon the sale, refinancing or disposition of the assets owned by the Fortress Operating Group entities, our principals will incur different and significantly greater tax liabilities as a result of the disproportionately greater allocations of items of taxable income and gain to the principals upon a realization event. As the principals will not receive a corresponding greater distribution of cash proceeds, they may, subject to applicable fiduciary or contractual duties, have different incentives regarding the appropriate pricing, timing and other material terms of any sale, refinancing, or disposition, or whether to sell such assets at all. Decisions made with respect to an acceleration or deferral of income or deductions or the sale or disposition of assets may also influence the timing and amount of payments that are received by an exchanging or selling principal under the tax receivable agreement. All other factors being equal, earlier disposition of assets following a transaction will tend to accelerate such payments and increase the present value of the tax receivable agreement, and disposition of assets before a transaction will increase a principal's tax liability without giving rise to any rights to receive payments under the tax receivable agreement. Decisions made regarding a change of control also could have a material influence on the timing and amount of payments received by the principals pursuant to the tax receivable agreement.

We are required to pay our principals for most of the tax benefits we realize as a result of the tax basis step-up we receive in connection with taxable exchanges by our principals of units held in the Fortress Operating Group entities or our acquisitions of units from our principals.

At any time and from time to time, each of our principals and a former senior employee (who is not a principal) has the right to exchange his Fortress Operating Group units for our Class A shares in a taxable transaction. These taxable exchanges, as well as our acquisitions of units from our principals, may result in increases in the tax depreciation and amortization deductions, as well as an increase in the tax basis of other assets, of the Fortress Operating Group that otherwise would not have been available. These increases in tax depreciation and amortization deductions, as well as the tax basis of other assets, may reduce the amount of tax that FIG Corp. and any other corporate taxpayers would otherwise be required to pay in the future, although the IRS may challenge all or part of increased deductions and tax basis increase, and a court could sustain such a challenge.

We have entered into a tax receivable agreement with our principals that provides for the payment by the corporate taxpayers to our principals of 85% of the amount of tax savings, if any, that the corporate taxpayers actually realize (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change of control, as discussed below) as a result of increases in tax deductions and tax basis of the Fortress Operating Group caused by such transactions with the principals. The payments that the corporate taxpayers may make to our principals could be material in amount.

Although we are not aware of any issue that would cause the IRS to challenge a tax basis increase, our principals will not reimburse the corporate taxpayers for any payments that have been previously made under the tax receivable agreement. As a result, in certain circumstances, payments could be made to our principals under the tax receivable agreement in excess of the corporate taxpayers' cash tax savings. The corporate taxpayers' ability to achieve benefits from any tax basis increase, and the payments to be made under this agreement, will depend upon a number of factors, including the timing and amount of our future income.

In addition, the tax receivable agreement provides that, upon a merger, asset sale or other form of business combination or certain other changes of control, the corporate taxpayers' (or their successors') obligations with respect to exchanged or acquired units (whether exchanged or acquired before or after such change of control) would be based on certain assumptions, including that the corporate taxpayers would have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the tax receivable agreement.

If we were deemed an investment company under the Investment Company Act of 1940, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business and the price of our Class A shares.

We do not believe that we are an “investment company” under the Investment Company Act of 1940 because the nature of our assets and the sources of our income exclude us from the definition of an investment company pursuant to Rule 3a-1 under the Investment Company Act of 1940. In addition, we believe we are not an investment company under Section 3(b)(1) of the Investment Company Act because we are primarily engaged in a non-investment company business. If one or more of the Fortress Operating Group entities ceased to be a wholly owned subsidiary of ours as such term is defined in the Investment Company Act, our interests in those subsidiaries could be deemed an "investment security" for purposes of the Investment Company Act of 1940. Generally, a person is an "investment company" if it owns investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the Investment Company Act of 1940, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and would have a material adverse effect on our business and the price of our Class A shares.

Risks Related to Our Class A Shares

The market price and trading volume of our Class A shares may be volatile, which could result in rapid and substantial losses for our shareholders.

The market price of our Class A shares may be highly volatile. In addition, the trading volume in our Class A shares may fluctuate and cause significant price variations to occur, which may limit or prevent investors from readily selling their Class A shares and may otherwise negatively affect the liquidity of our Class A shares. If the market price of our Class A shares declines significantly, holders may be unable to resell their Class A shares at or above their purchase price, if at all. We cannot provide any assurance that the market price of our Class A shares will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our Class A shares or result in fluctuations in the price or trading volume of our Class A shares include:

- variations in our quarterly operating results or dividends, or a reversal of our decision to resume quarterly dividends;
- failure to meet analysts' earnings estimates;
- sales by the Company, key executives or other shareholders of a significant amount of our equity securities, including sales to cover withholding taxes with respect to equity-based compensation;
- difficulty in complying with the provisions in our credit agreement such as financial covenants;
- publication of research reports or press reports about us, our investments or the investment management industry or the failure of securities analysts to cover our Class A shares;
- additions or departures of our principals and other key management personnel or lack of certainty about our principals' employment agreements, whose term ends in January 2017;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- actions by shareholders;
- changes in market valuations and performance or share price of other alternative asset managers;
- speculation in the press or investment community;
- changes or proposed changes in laws or regulations or differing interpretations thereof affecting our business or enforcement of these laws and regulations, or announcements relating to these matters;
- litigation or governmental investigations or regulatory activities;
- poor performance or other complications affecting our funds or current or proposed investments;
- adverse publicity about the asset management industry generally, our specific funds or investments, or individual scandals, specifically;
- general market and economic conditions; and
- dilution resulting from the issuance of equity-based compensation to employees.

In addition, when the market price of a stock has been volatile in the past, holders of that stock have, at times, instituted securities class action litigation against the issuer of the stock. If any of our shareholders brought a lawsuit against us, we may be required to incur substantial costs defending any such suit, even those without merit. Such a lawsuit could also divert the time and attention of our management from our business and lower our Class A share price.

Our Class A share price may decline due to the large number of shares eligible for future sale and for exchange into Class A shares.

The market price of our Class A shares could decline as a result of sales of a large number of our Class A shares or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. As of December 31, 2014, we had 455,417,290 outstanding Class A shares on a fully diluted basis, including 92,922,957 resulting from vested equity compensation granted pursuant to our equity incentive plan, 20,550,620 restricted Class

A share units granted to employees and affiliates pursuant to our equity incentive plan (net of forfeitures) and 1,045,134 restricted Class A shares granted to directors pursuant to our equity incentive plan. In addition, as of December 31, 2014, we had 67,075,137 Class A shares that remained available for future grant under our equity incentive plan. The Class A shares reserved under our equity incentive plan is increased on the first day of each fiscal year during the plan's term by the lesser of (x) the excess of (i) 15% of the number of outstanding Class A and Class B shares of the Company on the last day of the immediately preceding fiscal year over (ii) the number of shares reserved and available for issuance under our equity incentive plan as of such date or (y) 60,000,000 shares. In January 2015, 2014, and 2013, the number of shares reserved for issuance pursuant to this calculation increased by zero, 8,174,614, and zero shares, respectively. We may issue and sell in the future additional Class A shares or any securities issuable upon conversion of or exchange or exercise for, Class A shares (including Fortress Operating Group units) at any time.

As of December 31, 2014, our principals directly owned an aggregate of 226,024,370 Fortress Operating Group units and also owned an aggregate of six Class A shares. Each principal has the right to exchange each of his directly owned Fortress Operating Group units for one of our Class A shares at any time, subject to the exchange agreement. These Class A shares and Fortress Operating Group units are eligible for resale from time to time, subject to certain contractual restrictions and Securities Act limitations.

Our principals are parties to shareholders agreements with us. The principals have the ability to cause us to register the Class A shares they acquire upon exchange for their Fortress Operating Group units and we have filed a shelf registration statement for that purpose. On March 18, 2014, we closed an offering of 23,202,859 Class A Shares pursuant to the registration statement, the proceeds of which were used to purchase from the principals an equivalent number of Fortress Operating Group units and Class B shares, and 5,077,141 Class A shares offered by the principals, certain officers and senior employees.

Concentrated ownership of our Class B shares and anti-takeover provisions in our charter documents and Delaware law could delay or prevent a change in control.

Our principals (and a former senior employee) beneficially own all of our Class B shares. Class B shares represent a majority of the total combined voting power of our outstanding Class A and Class B shares. As a result, if they vote all of their shares in the same manner, they will be able to exercise control over all matters requiring the approval of shareholders and will be able to prevent a change in control of our Company. In addition, provisions in our operating agreement may make it more difficult and expensive for a third party to acquire control of us even if a change of control would be beneficial to the interests of our shareholders. For example, our operating agreement provides for a staggered board, requires advance notice for proposals by shareholders and nominations, places limitations on convening shareholder meetings, and authorizes the issuance of preferred shares that could be issued by our board of directors to thwart a takeover attempt. In addition, certain provisions of Delaware law may delay or prevent a transaction that could cause a change in our control. The market price of our Class A shares could be adversely affected to the extent that our principals' control over us, as well as provisions of our operating agreement, discourage potential takeover attempts that our shareholders may favor.

There are certain provisions in our operating agreement regarding exculpation and indemnification of our officers and directors that differ from the Delaware General Corporation Law in a manner that may be less protective of the interests of our Class A shareholders.

Our operating agreement provides that, to the fullest extent permitted by applicable law, our directors or officers will not be liable to us. However, under the Delaware General Corporate Law (“DGCL”), a director or officer would be liable to us for (i) breach of duty of loyalty to us or our shareholders, (ii) intentional misconduct or knowing violations of the law that are not done in good faith, (iii) improper redemption of shares or declaration of dividend, or (iv) a transaction from which the director or officer derived an improper personal benefit. In addition, our operating agreement provides that we indemnify our directors and officers for acts or omissions to the fullest extent provided by law. However, under the DGCL, a corporation can only indemnify directors and officers for acts or omissions if the director or officer acted in good faith, in a manner he reasonably believed to be in the best interests of the corporation, and, in a criminal action, if the officer or director had no reasonable cause to believe his conduct was unlawful. Accordingly, our operating agreement may be less protective of the interests of our Class A shareholders as compared to the DGCL, insofar as it relates to the exculpation and indemnification of our officers and directors.

We have elected to become a “controlled company” within the meaning of the New York Stock Exchange rules and, as a result, will qualify for, and may rely on, exemptions from certain corporate governance requirements.

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

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

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

Risks Related to Taxation

Class A shareholders may be subject to U.S. federal income tax on their share of our taxable income, regardless of whether they receive any cash dividends from us.

So long as we are not required to register as an investment company under the Investment Company Act of 1940 and 90% of our gross income for each taxable year constitutes “qualifying income” within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”), on a continuing basis, we will be treated, for U.S. federal income tax purposes, as a partnership and not as an association or a publicly traded partnership taxable as a corporation. Class A shareholders may be subject to U.S. federal, state, local and possibly, in some cases, foreign income taxation on their allocable share of our items of income, gain, loss, deduction and credit (including our allocable share of those items of any entity in which we invest that is treated as a partnership or is otherwise subject to tax on a flow through basis) for each of our taxable years ending with or within their taxable year, regardless of whether or not they receive cash dividends from us. They may not receive cash dividends equal to their allocable share of our net taxable income or even the tax liability that results from that income.

In addition, certain of our holdings, including holdings, if any, in a Controlled Foreign Corporation (“CFC”) and a Passive Foreign Investment Company (“PFIC”), may produce taxable income prior to the receipt of cash relating to such income, and holders of our Class A shares will be required to take such income into account in determining their taxable income. Under our operating agreement, in the event of an inadvertent partnership termination in which the Internal Revenue Service (“IRS”) has granted us limited relief, each holder of our Class A shares also is obligated to make such adjustments as are required by the IRS to maintain our status as a partnership. Such adjustments may require persons who hold our Class A shares to recognize additional amounts in income during the years in which they hold such shares. We may also be required to make payments to the IRS.

Our subsidiary, FIG Corp., is subject to corporate income taxation in the United States, and we may be subject to additional taxation in the future.

A significant portion of our investments and activities may be made or conducted through FIG Corp. Dividends paid by FIG Corp. from time to time will, as is usual in the case of a U.S. corporation, then be included in our income. Income received as a result of investments made or activities conducted through our subsidiary FIG Asset Co. LLC (but excluding through its taxable corporate affiliates) is not subject to corporate income taxation in our structure, but we cannot provide any assurance that it will not become subject to additional taxation in the future, which would negatively impact our results of operations.

There can be no assurance that amounts paid as dividends on Class A shares will be sufficient to cover the tax liability arising from ownership of Class A shares.

Any dividends paid on Class A shares will not take into account a shareholder's particular tax situation (including the possible application of the alternative minimum tax) and, therefore, because of the foregoing as well as other possible reasons, may not be sufficient to pay their full amount of tax based upon their share of our net taxable income. In addition, the actual amount and timing of dividends will always be subject to the discretion of our board of directors. In particular, the amount and timing of dividends will depend upon a number of factors, including, among others:

- our actual results of operations and financial condition;
- restrictions imposed by our operating agreement or applicable law;
- restrictions imposed by our credit agreements;
- reinvestment of our capital;
- the timing of the investment of our capital;

- the amount of cash that is generated by our investments or to fund liquidity needs;
- levels of operating and other expenses;
- contingent liabilities; or
- factors that our board of directors deems relevant.

Even if we do not distribute cash in an amount that is sufficient to fund a shareholder's tax liabilities, they will still be required to pay income taxes on their share of our taxable income.

Tax gain or loss on disposition of our Class A shares could be more or less than expected.

Upon a sale of Class A shares the shareholder will recognize a gain or loss equal to the difference between the amount realized and the adjusted tax basis in those shares. Prior distributions to such shareholder in excess of the total net taxable income allocated to such shareholder, which decreased the tax basis in its Class A shares, will increase the gain recognized upon a sale when the Class A shares are sold at a price greater than such shareholder's tax basis in those shares, even if the price is less than the original cost. A portion of the amount realized, whether or not representing gain, may be treated as ordinary income to such shareholder.

We have not made an election under Section 754 of the Internal Revenue Code to adjust our asset basis, so a holder of our Class A shares could be allocated more taxable income in respect of those shares prior to disposition than if such an election were made.

We have not made an election under Section 754 of the Internal Revenue Code to adjust our asset basis. Since no Section 754 election was made, there will generally be no adjustment to the basis of our assets in connection with our initial public offering, or upon a subsequent transferee's acquisition of Class A shares from a prior holder of such shares, even if the purchase price for those shares is greater than the portion of the aggregate tax basis of our assets attributable to those shares immediately prior to the acquisition. Consequently, upon our sale of an asset, gain allocable to a holder of Class A shares could include built-in gain in the asset existing at the time such holder acquired such shares, which built-in gain would otherwise generally be eliminated if a Section 754 election had been made.

If we are treated as a corporation for U.S. federal income tax purposes, the value of the Class A shares would be adversely affected.

We have not requested, and do not plan to request, a ruling from the IRS on our treatment as a partnership for U.S. federal income tax purposes, or on any other matter affecting us. As of the date of the consummation of our initial public offering, under then current law and assuming full compliance with the terms of our operating agreement (and other relevant documents) and based upon factual statements and representations made by us, our outside counsel opined, as of that date, that we would be treated as a partnership, and not as an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes. However, opinions of counsel are not binding upon the IRS or any court, and the IRS may challenge this conclusion and a court may sustain such a challenge. The factual representations made by us upon which our outside counsel relied related to our organization, operation, assets, activities, income, and present and future conduct of our operations. In general, if an entity that would otherwise be classified as a partnership for U.S. federal income tax purposes is a “publicly traded partnership” (as defined in the Code) it will be nonetheless treated as a corporation for U.S. federal income tax purposes, unless the exception described below, and upon which we intend to rely, applies. A publicly traded partnership will, however, be treated as a partnership, and not as a corporation for U.S. federal income tax purposes, so long as 90% or more of its gross income for each taxable year constitutes “qualifying income” within the meaning of the Code and it is not required to register as an investment company under the Investment Company Act of 1940. We refer to this exception as the “qualifying income exception.”

Qualifying income generally includes dividends, interest, capital gains from the sale or other disposition of stocks and securities and certain other forms of investment income. We expect that our income generally will consist of interest, dividends, capital gains and other types of qualifying income, including dividends from FIG Corp. and interest on indebtedness from FIG Corp. No assurance can be given as to the types of income that will be earned in any given year. If we fail to satisfy the qualifying income exception described above, items of income and deduction would not pass through to holders of our Class A shares, and holders of our Class A shares would be treated for U.S. federal (and certain state and local) income tax purposes as shareholders in a corporation. In such a case, we would be required to pay income tax at regular corporate rates on all of our income. In addition, we would likely be liable for state and local income and/or franchise taxes on all of such income. Dividends to holders of our Class A shares would constitute ordinary dividend income taxable to such holders to the extent of our earnings and profits, and the payment of these dividends would not be deductible by us. Taxation of us as a publicly traded partnership taxable as a corporation could result in a material adverse effect on our cash flow and the after-tax returns for holders of our Class A shares and thus could result in a substantial reduction in the value of our Class A shares.

Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our structure also is subject to potential legislative, judicial or administrative change and differing interpretations, possibly on a retroactive basis.

The U.S. federal income tax treatment of holders of the Class A shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Readers should be aware that the U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the IRS, and the U.S. Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. The IRS pays close attention to the proper application of tax laws to partnerships. The present U.S. federal income tax treatment of an investment in the Class A shares may be modified by administrative, legislative or judicial interpretation at any time, possibly on a retroactive basis, and any such action may affect investments and commitments previously made. For example, changes to the U.S. federal tax laws and interpretations thereof could make it more difficult or impossible to meet the qualifying income exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation, affect or cause us to change our investments and commitments, change the character or treatment of portions of our income (including, for instance, treating carried interest as ordinary fee income rather than capital gain), affect the tax considerations of an investment in us and adversely affect an investment in our Class A shares. See " - Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis."

Our organizational documents and agreements permit the board of directors to modify our operating agreement from time to time, without the consent of the holders of our Class A shares, in order to address certain changes in U.S. federal income tax regulations, legislation or interpretation. In some circumstances, such revisions could have a material adverse impact on some or all of the holders of our Class A shares. Moreover, we will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, deduction, loss and credit to holders in a manner that reflects such holders' beneficial ownership of partnership items, taking into account variation in ownership interests during each taxable year because of trading activity. However, these assumptions and conventions may not be in compliance with all aspects of applicable tax requirements. It is possible that the IRS will assert successfully that the conventions and assumptions used by us do not satisfy the technical requirements of the Code and/or Treasury regulations and could require that items of income, gain, deductions, loss or credit, including interest deductions, be adjusted, reallocated, or disallowed, in a manner that adversely affects holders of the Class A shares.

We cannot match transferors and transferees of our Class A shares, and we have therefore adopted certain income tax accounting positions that may not conform with all aspects of applicable tax requirements. The IRS may challenge this treatment, which could adversely affect the value of our Class A shares.

Because we cannot match transferors and transferees of our Class A shares, we have adopted depreciation, amortization and other tax accounting positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our common unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of our Class A shares and could have a negative impact on the value of our Class A shares or result in audits of and adjustments to our shareholders' tax returns.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for U.S. federal income tax purposes. We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. Our termination would, among other things, result in the closing of our taxable year for all shareholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

FIG Asset Co. LLC may not be able to invest in certain assets, other than through a taxable corporation.

In certain circumstances, FIG Asset Co. LLC or one of its subsidiaries may have an opportunity to invest in certain assets through an entity that is characterized as a partnership for U.S. federal income tax purposes, where the income of such entity may not be “qualifying income” for purposes of the publicly traded partnership rules. In order to manage our affairs so that we will meet the qualifying income exception, we may either refrain from investing in such entities or, alternatively, we may structure our investment through an entity classified as a corporation for U.S. federal income tax purposes. If the entity were a U.S. corporation, it would be subject to U.S. federal income tax on its operating income, including any gain recognized on its disposal of its interest in the entity in which the opportunistic investment has been made, as the case may be, and such income taxes would reduce the return on that investment.

Complying with certain tax-related requirements may cause us to forego otherwise attractive business or investment opportunities or enter into acquisitions, borrowings, financings or arrangements that we may not have otherwise entered into.

In order for us to be treated as a partnership for U.S. federal income tax purposes, and not as an association or publicly traded partnership taxable as a corporation, we must meet the qualifying income exception discussed above on a continuing basis, and we must not be required to register as an investment company under the Investment Company Act of 1940. In order to effect such treatment we (or our subsidiaries) may be required to invest through foreign or domestic corporations, forego attractive business or investment opportunities or enter into borrowings or financings we may not have otherwise entered into. This may adversely affect our ability to operate solely to maximize our cash flow. Our structure also may impede our ability to engage in certain corporate acquisitive transactions because we generally intend to hold all of our assets through the Fortress Operating Group. In addition, we may be unable to participate in certain corporate reorganization transactions that would be tax-free to our holders if we were a corporation. To the extent we hold assets other than through the Fortress Operating Group, we will make appropriate adjustments to the Fortress Operating Group agreements so that distributions to principals and us would be the same as if such assets were held at that level.

The IRS could assert that we are engaged in a U.S. trade or business, with the result that some portion of our income would be properly treated as effectively connected income with respect to non-U.S. holders. Moreover, certain REIT dividends and other stock gains may be treated as effectively connected income with respect to non-U.S. holders.

While we expect that our method of operation will not result in a determination that we are engaged in a U.S. trade or business, there can be no assurance that the IRS will not assert successfully that we are engaged in a U.S. trade or business, with the result that some portion of our income would be properly treated as effectively connected income with respect to non-U.S. holders. Moreover, dividends paid by an investment that we make in a REIT that is attributable to gains from the sale of U.S. real property interests will, and sales of certain investments in the stock of U.S. corporations owning significant U.S. real property may, be treated as effectively connected income with respect to non-U.S. holders. To the extent our income is treated as effectively connected income, non-U.S. holders generally would be subject to withholding tax on their allocable shares of such income, would be required to file a U.S. federal income tax return for such year reporting their allocable shares of income effectively connected with such trade or business, and would be subject to U.S. federal income tax at regular U.S. tax rates on any such income. Non-U.S. holders may also be subject to a 30% branch profits tax on such income in the hands of non-U.S. holders that are corporations.

An investment in Class A shares will give rise to UBTI to certain tax-exempt holders.

We will not make investments through taxable U.S. corporations solely for the purpose of limiting unrelated business taxable income, or UBTI, from "debt-financed" property and, thus, an investment in Class A shares will give rise to UBTI to certain tax-exempt holders. For example, FIG Asset Co. LLC will invest in or hold interests in entities that are treated as partnerships, or are otherwise subject to tax on a flow-through basis, that will incur indebtedness. FIG Asset Co. LLC may borrow funds from FIG Corp. or third parties from time to time to make investments. These investments will give rise to UBTI from "debt-financed" property. However, we expect to manage our activities to avoid a determination that we are engaged in a trade or business, thereby limiting the amount of UBTI that is realized by tax-exempt holders of our Class A shares.

We may hold or acquire certain investments through an entity classified as a PFIC or CFC for U.S. federal income tax purposes.

Certain of our investments may be in foreign corporations or may be acquired through a foreign subsidiary that would be classified as a corporation for U.S. federal income tax purposes. Such an entity may be a PFIC or a CFC for U.S. federal income tax purposes. U.S. holders of Class A shares indirectly owning an interest in a PFIC or a CFC may experience adverse U.S. tax consequences.

Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis.

In May 2010, the U.S. House of Representatives passed H.R. 4213, the American Jobs and Closing Tax Loopholes Act of 2010. That proposed legislation contains a provision that, if enacted, would have the effect of treating some or all of the income recognized from "carried interests" as ordinary income. While the proposed legislation, if enacted in its current form, would explicitly treat such income as nonqualifying income under the publicly traded partnership rules, thereby precluding us from qualifying for treatment as a partnership for U.S. federal income tax purposes, the proposed legislation provides for a 10-year transition period before such income would become nonqualifying income. In addition, the proposed legislation could, upon its enactment, prevent us from completing certain types of internal reorganization transactions, or converting to a corporation, on a tax free basis and acquiring other asset management companies on a tax free basis. The proposed legislation may also increase the ordinary income portion of any gain realized from the sale or other disposition of a Class A Share.

On February 26, 2014, the House Ways and Means Committee Chairman proposed the Tax Reform Act of 2014. The proposed legislation, if enacted, would limit the definition of qualifying income under the publicly traded partnership rules to income from activities relating to mining and natural resources effective in tax years beginning after 2016. Based on our current income, this change would thereby preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes. Therefore, this results in us being subject to taxation as a U.S. corporation, which would have a material adverse effect on our net income. It is not possible to predict whether this or similar legislation will be enacted in the future.

Other legislative proposals previously considered would subject our offshore funds to significant U.S. federal income taxes and potentially state and local taxes, which would adversely affect our ability to raise capital from foreign investors and certain tax-exempt investors.

In addition, as a result of widespread budget deficits, several states are evaluating proposals to subject partnerships to state entity level taxation through the imposition of state income, franchise or other forms of taxation. If any version of any of these legislative proposals were to be enacted into law in the form in which it was introduced, or if other similar legislation were enacted or any other change in the tax laws, rules, regulations or interpretations were to preclude us from qualifying for treatment as a partnership for U.S. federal income tax purposes under the publicly-traded partnership rules or otherwise impose additional taxes, Class A shareholders would be negatively impacted because we would incur a material increase in our tax liability as a public company from the date any such changes became applicable to us, which could result in a reduction in the value of our Class A shares.

Item 1B. Unresolved Staff Comments

We have no unresolved staff comments.

Item 2. Properties.

Our principal executive offices are located in leased office space at 1345 Avenue of the Americas, New York, New York. As of December 31, 2014, we lease our offices in New York, San Francisco, Philadelphia, London, Tokyo, Dallas, Frankfurt, Portland, Los Angeles, Plano, Tampa, Summit, Sydney, New Canaan, Atlanta, Luxembourg City, Singapore, Rome, Lake Oswego, Shanghai, Dubai, Hong Kong and Tel Aviv. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

None.

PART II

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

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

	High	Low	Last Sale	Dividends Declared (A)
2014				
First Quarter	$9.16	$7.20	$7.40	$0.08
Second Quarter	$8.03	$6.58	$7.44	$0.26
Third Quarter	$7.75	$6.68	$6.88	$0.08
Fourth Quarter	$8.08	$5.58	$8.02	$0.38
2013				
First Quarter	$6.99	$4.41	$6.40	$0.06
Second Quarter	$7.66	$5.61	$6.56	$0.06
Third Quarter	$8.19	$6.57	$7.94	$0.06
Fourth Quarter	$9.10	$7.26	$8.56	$0.08

(A) Represents amounts our board of directors declared as dividends based on earnings and liquidity with respect to the specified periods. The actual declaration dates occurred in the following quarter.

Our board of directors adopted a new dividend policy on July 30, 2014. On an annual basis, we expect to distribute substantially all of our after-tax distributable earnings from all sources, including net management fees, net incentive income and distributable earnings generated by balance sheet investment realizations (with potential for incremental distribution based on returns of capital from balance sheet realizations). These distributions will include quarterly base dividends in an amount generally equal to net management fees and potential quarterly special dividends, which would be primarily balance sheet related, with potential special dividends at year-end also taking into consideration net incentive income. Any dividend declared by us will be subject to our determination of cash necessary or appropriate to provide for the conduct of our business, including making investments in our business or funds and maintaining compliance with applicable laws and covenants associated with our debt instruments or other obligations.

We increased our base quarterly dividend to $0.08 per share, effective for the fourth quarter of 2013 and full year 2014. This supplemented the investment made in February 2014 to repurchase approximately 12% of our then outstanding dividend paying shares. In addition to the base quarterly dividend, a special dividend of $0.18 per share was declared for the second quarter of 2014. In February 2015, we declared a base quarterly cash dividend of $0.08 per share and a special cash dividend of $0.30 per share for the fourth quarter of 2014.

Dividend declarations are announced concurrently with earnings releases. The declaration and payment of any dividends will be made in the sole discretion of our board of directors, which may decide to change our dividend policy at any time. No assurance can be given that any dividends, whether quarterly or otherwise, will or can be paid. Actual dividends paid to Class A shareholders depend upon the board’s assessment of a number of factors, including general economic and business conditions, our strategic plans and prospects, business and investment opportunities, our financial condition, liquidity and operating results, working capital requirements and anticipated cash needs, contractual restrictions and obligations, including fulfilling our current and future capital commitments, legal, tax and regulatory restrictions and other factors that our board of directors may deem relevant. The amount of dividends we are able to pay may be limited by the covenants under our credit agreement, as described under Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Covenants.”

On February 18, 2015, the closing price for our Class A shares, as reported on the NYSE, was $7.82. As of February 18, 2015, there were approximately 27 record holders of our Class A shares. This figure does not reflect the beneficial ownership of shares held in nominee name, nor does it include holders of our Class B shares, restricted Class A shares, restricted Class A share units or restricted partnership units.

Item 6. Selected Financial Data.

The selected historical financial information set forth below as of, and for the years ended, December 31, 2014, 2013, 2012, 2011, and 2010 has been derived from our audited historical consolidated financial statements.

The information below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in Item 7 and the consolidated financial statements and notes thereto included in Item 8 in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2014 (A)	2013	2012	2011	2010
	(in thousands, except share data)				
Operating Data					
Revenues					
Investment Manager					
Management fees, incentive income, expense reimbursements and other revenues	$1,185,340	$1,264,983	$969,869	$858,628	$950,245
Investment Company - consolidated VIEs					
Interest and dividend income	281	—	—	—	—
Non-Investment Manager - consolidated VIEs					
Advertising, circulation, commercial printing and other	584,111	—	—	—	—
Rental revenue, resident fees and services	42,085	—	—	—	—
Total Revenue	1,811,817	1,264,983	969,869	858,628	950,245
Expenses					
Investment Manager (B)	991,541	897,603	908,220	1,954,908	1,817,994
Investment Company - consolidated VIEs	1,011	—	—	—	—
Non-Investment Manager - consolidated VIEs	621,258	—	—	—	—
Total Expense	1,613,810	897,603	908,220	1,954,908	1,817,994
Other Income (Loss)					
Investment Manager					
Gains (losses)	(8,313)	53,933	48,921	(30,054)	2,997
Tax receivable agreement liability adjustment	(33,116)	(8,787)	(8,870)	3,098	22,036
Earnings (losses) from equity method investees	78,193	136,866	156,530	41,935	115,954
Investment Company - consolidated VIEs					
Gains (Losses)	8,442	—	—	—	—
Total Other Income (Loss)	45,206	182,012	196,581	14,979	140,987
Income (loss) before income taxes	243,213	549,392	258,230	(1,081,301)	(726,762)
Income tax benefit (expense) - Investment Manager	(6,947)	(65,801)	(39,408)	(36,035)	(54,931)
Income tax benefit (expense) - Non-Investment Manager - consolidated VIEs	(2,909)	—	—	—	—
Net Income (Loss)	$233,357	$483,591	$218,822	$(1,117,336)	$(781,693)
Allocation of Net Income (Loss)					
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	$138,960	$283,144	$140,538	$(685,821)	$(497,082)

Redeemable Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIEs	(709)	—	—	—	—
Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIEs	9,737	—	—	—	—
Non-controlling Interests in Income (Loss) of Non-Investment Manager - consolidated VIEs	(14,593)	—	—	—	—
Net Income (Loss) Attributable to Class A Shareholders	99,962	200,447	78,284	(431,515)	(284,611)
	$233,357	$483,591	$218,822	$(1,117,336)	$(781,693)
Dividends declared per Class A share	$0.50	$0.24	$0.20	$—	$—
Earnings Per Class A Share - Fortress Investment Group					
Net income (loss) per Class A share, basic	$0.47	$0.83	$0.29	$(2.34)	$(1.79)
Net income (loss) per Class A share, diluted	$0.43	$0.79	$0.27	$(2.36)	$(1.83)
Weighted average number of Class A shares outstanding, basic	210,303,241	236,246,296	214,399,422	186,662,670	164,446,404
Weighted average number of Class A shares outstanding, diluted	455,154,136	500,631,423	524,900,132	493,392,235	467,569,571

Continued on next page.

	As of December 31,				
	2014 (A)	2013	2012	2011	2010
Balance Sheet Data					
Assets					
Investment Manager					
Investments, including options	$1,156,277	$1,357,604	$1,249,761	$1,079,777	$1,012,883
Cash and cash equivalents	391,089	364,583	104,242	333,166	210,632
Investment Company - consolidated VIEs assets	91,659	—	—	—	—
Non-Investment Manager - consolidated VIEs					
Cash and cash equivalents	350,086	—	—	—	—
Investments in senior housing real estate, net	1,799,848	—	—	—	—
Total assets	5,934,886	2,674,432	2,155,678	2,220,686	2,076,695
Liabilities and Equity					
Investment Manager					
Debt obligations payable	75,000	—	149,453	261,250	277,500
Deferred incentive income	304,526	247,556	231,846	238,658	198,363
Non-Investment Manager - consolidated VIEs					
Mortgage notes payable (C)	1,259,430	—	—	—	—
Debt obligations payable (C)	222,052	—	—	—	—
Total liabilities	2,867,051	1,059,527	939,028	1,158,294	1,147,280
Shareholders' equity, including accumulated other comprehensive income (loss)	642,585	825,067	626,471	487,431	411,464
Principals' and others' interests in equity of consolidated subsidiaries	638,360	789,838	590,179	574,961	517,951
Non-controlling interests in equity of Investment Company - consolidated VIEs	85,001	—	—	—	—
Non-controlling interests in equity of Non-Investment Manager - consolidated VIEs	1,700,172	—	—	—	—
Total Equity	3,066,118	1,614,905	1,216,650	1,062,392	929,415

(A) Investment Manager includes the asset management business and entities that Fortress determined qualify as VIEs and that it was the primary beneficiary and therefore consolidated (the "Investment Company").

Investment Company - consolidated VIEs includes a liquid hedge fund, private equity fund and a fund of the traditional asset management business as follows:

- Statement of operations data includes a consolidated liquid hedge fund from June 1, 2014 to December 1, 2014. During December 2014, a reconsideration event occurred at the liquid hedge fund and Fortress was no longer required to consolidate the fund.
- Statement of operations and balance sheet data includes a consolidated private equity fund for the year ended and as of December 31, 2014.
- Statement of operations and balance sheet data includes a fund of the traditional asset management business from December 1, 2014 to December 31, 2014 and as of December 31, 2014.

Non-Investment Manager - consolidated VIEs includes New Media and New Senior as follows:

- Statement of operations and balance sheet data include New Media for the period from February 14, 2014 to December 31, 2014 and as of December 31, 2014. On February 14, 2014, Newcastle completed the distribution of all of the common shares it held of New Media, a publisher of locally based print and online media in the United States, to its stockholders. We determined that New Media qualifies as a VIE and, upon completion of Newcastle's distribution of New Media's common shares, that Fortress is the primary beneficiary. Although New Media's operating results impact net income, they do not have a material impact on the net income (loss) attributable to Fortress's Class A shareholders, Class A basic and diluted earnings per share, or total Fortress's shareholders' equity as substantially all of the operating results of New Media are attributable to non-controlling interests.

- Statement of operations and balance sheet data include New Senior for the period from November 7, 2014 to December 31, 2014 and as of December 31, 2014. On November 7, 2014, Newcastle distributed the common shares of New Senior to its shareholders. We determined that New Senior qualifies as a VIE and upon completion of Newcastle's distribution of New Senior's common shares, that Fortress is the primary beneficiary. Although New Senior's operating results impact net income, they do not have a material impact on the net income (loss) attributable to Fortress's Class A shareholders, Class A basic and diluted earnings per share, or total Fortress's shareholders' equity, as substantially all of New Senior's operating results are attributable to non-controlling interests.

(B) Includes expenses related to non-cash compensation expense associated with the Principals Agreement for the years ended December 31, 2011 and 2010. The Principals Agreement expired in December 2011.

(C) The debt obligations of New Media and New Senior are not cross collateralized with the debt obligations of Fortress and have no impact on Fortress's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The following discussion should be read in conjunction with Fortress Investment Group’s consolidated financial statements and the related notes (referred to as “consolidated financial statements” or “historical consolidated financial statements”) included in Item 8 in this Annual Report on Form 10-K. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events may differ significantly from those expressed or implied in such forward-looking statements due to a number of factors, including those included in Part I, Item 1A, “Risk Factors” and elsewhere in this Annual Report on Form 10-K.

Overview

Our Business

Fortress is a leading, highly diversified global investment management firm with approximately $67.5 billion in AUM as of December 31, 2014. Fortress applies its deep experience and specialized expertise across a range of investment strategies — private equity, credit, liquid markets and traditional fixed income — on behalf of our over 1,600 institutional clients and private investors worldwide. We earn management fees based on the amount of capital we manage, incentive income based on the performance of our alternative investment funds, and investment income (loss) from our investments in our funds. We continue to invest capital in each of our alternative investment businesses.

The performance of our funds was mixed in 2014, with strong performances in some funds and weaker performance in others, and overall our segment operating results were flat in comparison with 2013. In addition, we have continued significant capital raising within our funds and we have improved our capital structure by repurchasing Class A shares at a discount to their market price. For more information about these topics, please refer to “— Performance of our Funds,” “— Assets Under Management,” and “— Liquidity and Capital Resources” below.

As of December 31, 2014, we managed the following businesses:

Private Equity — a business that manages approximately $13.9 billion of AUM comprised of two business segments: (i) general buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America and Western Europe; and (ii) permanent capital vehicles, which includes publicly traded companies that are externally managed by Fortress pursuant to management agreements, a private fund and a senior living property management business. The publicly traded companies invest in a wide variety of real estate related assets, including securities, loans, real estate properties and mortgage servicing related assets, media assets, senior living properties and the private fund invests in transportation and infrastructure assets. There were multiple realization events within our private equity funds for the year ended December 31,2014, primarily related to GAGFAH (the sale of which was completed in June 2014), FRID and FRIC (the final distribution of which were completed in November 2014 and December 2014, respectively).

Liquid Hedge Funds — a business that manages approximately $8.1 billion of AUM and includes $3.5 billion of AUM relating to Fortress Asia Macro Funds and related managed accounts which subsequent to December 31, 2014, transitioned to Graticule Asset Management on the affiliated manager platform. These funds invest globally in fixed income, currency, equity and commodity markets and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments; a fund that primarily focuses on an international "event driven" investment strategy, particularly in Europe, Asia-Pacific and Latin America; and a fund that seeks to generate returns by executing a positively convex investment strategy. Subsequent to December 31, 2014, this segment will include the results of the affiliated manager platform.

Credit Funds — a business that manages approximately $13.1 billion of AUM comprised of two business segments: (i) credit hedge funds which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager as part of an advisory business; and (ii) credit private equity (“PE”) funds which are comprised of a family of “credit opportunities” funds focused on investing in distressed and undervalued assets, a family of "long dated value" funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of “real assets” funds focused on investing in tangible and intangible assets in four principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based global opportunities fund, and a family of real estate opportunities funds, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector.

Logan Circle — our traditional asset management business, which has approximately $32.3 billion of AUM, provides institutional clients actively managed investment solutions across a broad spectrum of fixed income and growth equity strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt. As of December 31, 2014, all of our traditional asset management AUM is related to fixed income investment strategies.

Understanding the Asset Management Business

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

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

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

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

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

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

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

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

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

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

Each of these objectives is discussed below.

Assets Under Management

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

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

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

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

Performance

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

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

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

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

- Since it is impractical to disclose this information on a fund investor-by-investor basis, it may be disclosed based on the following metrics: the percentage of fund investors who have a high water mark, and the aggregate dollar difference between the value of those fund investors' investments and their applicable aggregate high water mark. The investments held by fund investors who do not have a high water mark are eligible to generate incentive income for us on their next dollar earned.
- We generally earn incentive income from private equity style funds based on a percentage of the returns of the fund, subject to the achievement of a minimum return (the “preferred” return) to fund investors. Incentive income is generally paid as each investment in a fund is realized, subject to a “clawback.” At the termination of a fund, a computation is done

to determine how much incentive income we should have earned based on the fund's overall performance, and any incentive income payments received by us in excess of the amount we should have earned must be returned by us (or “clawed back”) to the fund for distribution to fund investors. Certain of our private equity style funds pay incentive income only after all of the fund's invested capital has been returned.

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

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

PE Style Fund Status			Key Disclosures
	In a liquidation of the fund’s assets at their estimated fair value as of the reporting date:		
Has the fund made incentive income payments to us?	Would the fund owe us incentive income?	Would we owe a clawback of incentive income to the fund?	(Refer to Note 3 to our consolidated financial statements included in Item 8)
Yes	Yes	No	- The amount of previously distributed incentive income. - The amount of "undistributed incentive income," which is the amount of incentive income that would be due to us upon a liquidation of the fund’s remaining assets at their current estimated fair value.
Yes	No	Yes	- The amount of previously distributed incentive income. - The "intrinsic clawback," which is the amount of incentive income that we would have to return to the fund upon a liquidation of its remaining assets at their current estimated fair value. - The amount by which the total current fund value would have to increase as of the reporting date in order to reduce the intrinsic clawback to zero such that we would be in a position to earn additional incentive income from the fund in the future.
No	Yes	N/A	- The amount of "undistributed incentive income," which is the amount of incentive income that would be due to us upon a liquidation of the fund’s remaining assets at their current estimated fair value.
No	No	N/A	- The amount by which the total current fund value would have to increase as of the reporting date such that we would be in a

position to earn incentive income from the fund in the future.

We disclose each of these performance measures, as applicable, for all of our funds in Note 3 to our consolidated financial statements included in Item 8.

Liquidity, Debt and Expense Management

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

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

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

- Profit sharing means that when profits increase, either of Fortress as a whole or of a specified component (such as a particular fund) of Fortress, employees receive increased compensation. In this way, employees' interests are aligned with Fortress's, employees can receive significant compensation when performance is good, and we are able to reduce expenses when necessary.
- Equity-based compensation means that employees are paid in equity of Fortress rather than in cash. This form of compensation has the advantage of not requiring a cash expenditure, while aligning employees' interests with those of Fortress.

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

Understanding Our Financial Statements

We divide our financial statements into two sections: (i) Investment Manager and (ii) Non-Investment Manager-consolidated VIEs. The Investment Manager section reflects our asset management business. The Non-Investment Manager section reflects the permanent capital vehicles that we are required to consolidate: New Media Investment Group Inc. ("New Media") and New Senior Investment Group Inc. ("New Senior").

We consolidate New Media and New Senior because we have determined that each qualifies as a variable interest entity ("VIE") and that we are the primary beneficiary of each. As with all of our publicly traded permanent capital vehicles, we are a party to management agreements with New Media and New Senior pursuant to which we receive management fees, incentive income and options. As of December 31, 2014, we owned approximately 0.20% of New Media's outstanding common stock and approximately 0.26% of New Senior's outstanding common stock. For further information about the VIE rules, see "— Critical Accounting Policies-Consolidation."

Each of New Media's and New Senior's results impact our net income, but do not have a material impact on our net income attributable to Class A shareholders, Class A basic and diluted earnings per share or total Fortress shareholders' equity as substantially all of the operating results of New Media and New Senior are attributable to non-controlling interests. Each of New Media's and New Senior's assets and liabilities are also recorded on our balance sheet. However, Fortress has no obligation to satisfy the liabilities of New Media or New Senior. Similarly, Fortress does not have the right to make use of New Media's or New Senior's assets to satisfy its obligations. In addition, the debt obligations of New Media or New Senior are not cross collateralized with the debt obligations of Fortress. Neither New Media's nor New Senior's debt obligations have an impact on Fortress's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.

New Media

We began consolidating New Media in February 2014, upon the completion of the spin-off of New Media from Newcastle. New Media had no operations until November 2013, when it became the owner of GateHouse Media, LLC ("GateHouse" or the predecessor) and Local Media Group Holdings LLC, the parent of Local Media Group, Inc. (formerly known as Dow Jones Local Media Group, Inc.) ("Local Media"). New Media has a particular focus on owning, operating and acquiring local media assets in small to mid-size markets. They focus on two large business categories: consumers and small to medium size businesses ("SMBs"). Consumer revenue comes primarily from subscription income as consumers pay for local content, primarily in print and to a lesser extent online. SMB revenue comes from a variety of print and digital advertising products, digital service products offered through its Propel business, a digital marketing services business, and commercial printing services. Operating costs consist primarily of labor, newsprint, and delivery costs. Selling, general and administrative expenses consist primarily of labor costs. Advertising revenue tends to follow a seasonal pattern, with higher advertising revenue in months containing significant events or holidays. Accordingly, first quarter, followed by third quarter, historically are the smallest quarters of the year in terms of revenue. Correspondingly, second and fourth fiscal quarters, historically, are the largest quarters. We expect that this seasonality will continue to affect advertising revenue in future periods.

New Media's predecessor, GateHouse, has experienced on-going declines in print advertising revenue streams and increased volatility of operating performance, despite geographic diversity, well-balanced portfolio of products, broad customer base and reliance on smaller markets. New Media may experience additional declines and volatility in the future. These declines in print advertising revenue have come with the shift from traditional media to the Internet for consumers and businesses. New Media is making investments in its local content and its digital platforms, such as Propel, in order to drive growth in consumer revenue through subscriptions as well as capture revenues from the shift small to medium size businesses are making from traditional media to digital. Print advertising is now a smaller portion of New Media's total revenues and combined with the investments made in content and its digital platforms has led to a more stable revenue environment for New Media.

New Senior

We began consolidating New Senior in November 2014, upon the completion of the spin-off of New Senior from Newcastle. In addition to the management agreement with New Senior, Fortress also has property management agreements to manage certain senior living properties owned by New Senior for which it receives property management fees ranging from 6% to 7% of revenues (as defined in the agreements) and reimbursements of certain expenses, including the compensation expense of all on-site employees.

New Senior is a publicly traded real estate investment trust ("REIT") that invests in a diversified portfolio of senior housing properties across 27 states in the continental United States. New Senior's investment strategy is to target both smaller portfolios to enable New Senior to reduce competition from other active REIT buyers and large portfolios that it believes offers attractive risk-adjusted returns.

New Senior owns 100 senior housing properties as of December 31, 2014. New Senior leases 57 of these properties to two tenants under triple net lease agreements. In a triple net lease transaction, new Senior purchases property and leases it back to the seller or a third party and the lessee agrees to maintain the property at its own expense. The properties leased to the tenant under the triple net lease agreements consist of 52 dedicated independent living ("IL-only") properties, four continuing care retirement community ("CCRC") properties and one property with a combination of assisted living/memory care ("AL/MC"). New Senior also engages three property managers — Holiday Acquisitions Holdings LLC, a portfolio company that is majority owned by private equity funds, FHC Property Management LLC (together with its subsidiaries, ‘‘Blue Harbor’’), and Jerry Erwin Associates, Inc. — to manage 43 properties on a day-to-day basis (these properties are referred to herein as "Managed Properties"). New Senior's Managed Properties consist of four IL-only properties and 39 AL/MC properties.

New Senior intends to continue to acquire senior housing properties under triple net lease agreements and as Managed Properties. Its senior housing acquisitions have been financed with a combination of fixed and floating rate debt. Rising interest rates could increase the cost of financing and negatively impact returns on its senior housing investments.

Balance Sheet

Our assets consist primarily of the following:

1) Investments in our funds, recorded generally based on our share of the funds' underlying net asset value, which in turn is based on the estimated fair value of the funds' investments. In addition, we hold options in our publicly traded permanent capital vehicles.
2) Cash.
3) Amounts due from our funds for fees and expense reimbursements.
4) Deferred tax assets, which relate to potential future tax benefits. This asset is not tangible - it was not paid for and does not represent a receivable or other claim on assets.
5) Assets of the Non-Investment Manager - consolidated VIEs.
6)

Assets of the consolidated investment companies (collectively, the "Investment Company"), which are consolidated VIEs.

Our liabilities consist primarily of the following:

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

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

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

Income Statement

Our revenues and other income consist primarily of the following:

1) Fees and expense reimbursements from our funds, including management fees, which are based on the size of the funds, and incentive income, which is based on the funds' performance.
2) Returns on our investments in the funds.
3) Revenues related to the Non-Investment Manager - consolidated VIEs.
4) Interest and dividends related to the Investment Company, which are consolidated VIEs.

Our expenses consist primarily of the following:

1) Employee compensation paid in cash, including profit sharing compensation.
2) Equity-based compensation, which is not paid in cash but has a dilutive effect when it vests because it results in additional shares being issued. (This amount is broken out from total compensation in Note 8 to our consolidated financial statements included in Item 8.)
3) Other general and administrative expenses and interest expenses.
4) Taxes
5) Expenses related to the Non-Investment Manager - consolidated VIEs.
6) Expenses relating to the Investment Company, which are consolidated VIEs.

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

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

Managing Business Performance

We conduct our management and investment business through the following primary segments: (i) private equity funds, (ii) permanent capital vehicles, (iii) liquid hedge funds, (iv) credit hedge funds, (v) credit PE funds and (vi) Logan Circle. These segments are differentiated based on their varying strategies and, secondarily, on fund investor terms. In the third quarter of 2014, we reorganized our segments. See "— Results of Operations — Segment Analysis" below.

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

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

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

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

Market Considerations

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

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

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

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

In 2014, global markets were impacted by an overall challenging environment characterized by uncertainty and an absence of clear trends. While volatility remained generally low during most of the year, there was significant volatility in the fourth quarter of 2014. In October 2014, markets experienced a surprisingly sharp rise in volatility and the concomitant decline in asset prices followed by a sharp reversal in both. The initial moves were engendered by the unwinding of portfolios by certain large asset managers, a fundamental and surprisingly significant decline in the price of oil and further deflationary forces on global prices and global GDP largely emanating from a weaker outlook in Europe. The reversal was led by the opportunity of purchasing assets, particularly in the U.S., at lower prices after forced liquidations in the market from increased volatility. Lower oil prices continued through the fourth quarter and it appears that lower energy prices may be a trend unlikely to be reversed in the near-term. The downtrend in global energy markets has continued in 2015 and supply-demand dynamics suggest the lower prices could persist throughout much of 2015. U.S. equity markets had strong year in 2014, while international markets as a whole did not perform as well. In fixed income markets, investment-grade corporate bonds had a stronger year than high-yield bonds and bonds without credit risk performed especially well. Equity markets in the U.S. recorded strong returns for the fourth quarter, but most non-U.S. stock markets posted fourth-quarter losses in U.S. dollar terms due to the further weakening of non-U.S. currencies. More recently, the markets were shocked by the Swiss National Bank, which ended its currency floor with the Euro and cut its deposit rate further.

Markets focused on the path of U.S. monetary policy and low inflation as an indicator of the likely direction of global interest rates. In addition, the overall strength of the U.S. Dollar remains a key theme as economic activity and the expected path of monetary policy in the U.S. compared to the rest of the world is expected to continue to diverge in 2015. With low oil prices and gasoline prices at multi-year lows, business and consumer sentiment have scope to drive growth. It is currently anticipated that U.S. economic expansion will build positive momentum in 2015, buoyed by lower energy prices, low interest rates, relaxing borrowing standards in the housing market and steady progress in the labor market. Sustained labor market strength makes a compelling case for the Federal Reserve to lift interest rates from emergency levels for the first time in eight years, after ending quantitative easing in October. The uncertainty over when the Federal Reserve will begin increasing interest rates continues, with some expectation of an increase at their June 2015 meeting, depending on economic data. While energy and the U.S. Dollar may provide a transitory restraint on inflation, it is possible interest rates will increase even when inflation is low, provided the Federal Reserve is confident that inflation will increase over time.

In the Eurozone, the European Central Bank adopted a wide ranging package of easing measures in 2014. Throughout the last quarter of the year, the European Central Bank President appeared committed to fulfilling their mandate of price stability and continued to promote the case for an asset-purchase program, though the European Central Bank did not announce any further easing measures at its meeting in early November. But in January 2015, the European Central Bank announced a Federal Reserve-style stimulus plan and committed to a trillion-Euro asset-purchase plan to fight deflation and stimulate growth. The European

Central Bank will purchase €60 billion of assets per month through September next year. Eurozone officials, including the European Central Bank, appear to be united in seeking a further sizable weakening in the Euro as one of the key means for strengthening GDP in the Eurozone. Given the asset-purchase program of significant size, the benefits of lower energy prices and the continued decline of the Euro, there is renewed confidence in Europe’s growth. However, a few days later in January 2015, Greece’s anti-austerity party won the Greek elections and will need to compromise in reaching an agreement to replace the EU assistance program, which will potentially create volatility and risks for Eurozone recovery. Although we believe sovereign risk generally decreased overall in the Eurozone throughout 2014, it may be increasing again depending on how the Greek situation evolves as well as the Ukraine conflict with Russia. Our hedge funds hold actively-traded long and short positions, with frequently changing levels of exposure, in the debt of several European sovereignties. Based on the positions held by our funds as of December 31, 2014, there was not a material risk to the performance of the Company under typical market stress scenarios. However, the investments held by certain of our funds could be material to the individual performance of such funds and, therefore, our reputation.

In Japan, the Bank of Japan implemented an easing policy at a substantial pace in 2014. The Bank of Japan and Governor Kuroda announced further monetary easing in October 2014, acting earlier and more aggressively than expected by expanding their open-ended quantitative and qualitative easing (QQE) program. The announcement may preempt downside risks of the low inflation outlook due to a somewhat slower economy after the consumption tax imposed in April 2014 and the near term impact of lower oil prices. The additional measures adopted by the Bank of Japan included increasing the annual pace of their asset-purchase program, increasing the amount and average maturity of Japanese government bond purchases, as well as adding a greater percentage of equity and real estate exchange traded funds to its purchases. During the fourth quarter, the Japanese Prime Minister called a snap election and was re-elected for an additional four years, delayed the second leg of the consumption tax increase by 18 months and called for a further short term supplementary fiscal stimulus. The combination of the current monetary and fiscal policy, along with a weaker Yen and lower energy prices, constitutes a positive development for the Japanese economy and markets. At its meeting in April 2015, the Bank of Japan will update its economic forecasts, providing an opportunity for it to assess Japan's economic outlook and whether any additional monetary accommodation may be necessary. The Japanese equity markets experienced volatility in 2014 but finished the year up in local currency terms.

Emerging markets were mixed in 2014. In the fourth quarter, emerging markets did not experience volatility as developed markets did and this is likely to continue into 2015. Growth in the emerging markets is likely to be in those countries that benefit from lower commodity and energy prices like India, South Africa and Turkey. Countries like Brazil, Russia, Venezuela and parts of Southeast Asia may face deteriorating terms of trade that could put pressure on their fiscal positions and incite turbulence and economic hardship in their local markets. In Mexico, growth is likely to be lower than expected as oil sector inflows will take longer to materialize and their reformist President remains politically weak. Brazil may face another difficult 2015 with a combination of weak growth, high inflation and higher unemployment but, on the other hand, may also be on the cusp of improving given the new and very well-respected Finance Minister who is likely to implement much needed fiscal austerity. India may present interesting opportunities given the reforms being enacted by the Prime Minster and the Reserve Bank of India. Chinese growth is looking to be on the lower end of the range, coupled with low inflation. The People’s Bank of China recently cut its benchmark lending rates and it is anticipated that further easing will be announced as policy is focused on keeping growth at 7%.

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

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

- Improved economic conditions over the last several years, including relatively low interest rates, have benefited our business in a number of ways, including, but not limited to, a strong financing environment that has enabled our private equity funds and their portfolio companies to secure long-term financing, refinance debt at attractive levels, raise public and private equity capital and improve portfolio company profitability. Improving economic conditions and higher valuations in private equity funds have also contributed to their ability to launch new investment vehicles and raise capital for them. While improved conditions have created a more challenging environment for identifying new investments, we continue to deploy meaningful amounts of new capital.
- Following a period of deleveraging, that resulted in significant opportunities for investors with sufficient capital to acquire assets at reduced prices, near-term investment opportunities have become more sporadic in nature given pricing and market dynamics. However, potential opportunities exist, particularly where access to capital is restricted and in Europe where economies may remain uncertain.
- Despite the uncertain economic recovery, our funds continue to make investments on an opportunistic basis, and we continue to raise new funds as discussed above and illustrated in the AUM table below.

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

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

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

Solving for funding gaps and historically low interest rates have caused pension plans and other institutional investors to look to alternative investments in order to increase the yield on their investments. As a result, the amount of capital being invested into the alternative investment sector appears to have increased significantly during 2014 and the outlook for 2015 remains positive. However, certain investors appear to have become increasingly focused on the liquidity and redemption terms of alternative investment funds and have expressed a desire to have the ability to redeem or otherwise liquidate their investments in a more rapid time frame than what is permitted under the terms of many existing funds. Investors in long-term, locked-up (i.e., “private equity style”) funds have engaged in longer, more intensive and detailed due diligence procedures prior to making commitments to invest in such funds, which has led to the general perception across the alternative asset management industry that capital raising for long-term capital will require longer time periods, a greater commitment of capital raising resources and will generally be more difficult overall than it was previously. Moreover, some investors are increasingly shifting to managed accounts with fee structures that are less favorable to us.

The factor which most directly impacts our results is our investment performance relative to our competitors, including products offered by other alternative asset managers. As illustrated in “- Performance of Our Funds” below, we have generated strong returns in some funds and weaker returns in others, and the performance of our more recent vintage private equity funds has rebounded significantly since 2008. As illustrated in “— Assets Under Management” below, we have been able to raise additional capital in our funds, including existing hedge funds and permanent capital vehicles. However, our ongoing ability to raise capital for new and existing funds will be a function of investors' assessment of our investment performance relative to that of our competition in the current market environment, as well as other factors.

The strength of the industries or sectors in which our funds have concentrated investments, or in which variable interest entities that we consolidate operate.

Our private equity funds, as well as certain of our managed accounts and permanent capital vehicles, currently have significant investments in companies whose assets are concentrated in the following industries and sectors: financial services (particularly loan servicing and consumer finance), transportation and infrastructure, gaming, real estate (including Florida commercial real estate), and senior living. The overall performance of our funds may be affected by market conditions and trends related to these industries and sectors. Within the financial services industry, the regulatory pressure on banks in the U.S. after the financial crisis contributed to a positive market for the expansion of non-bank financial institutions. This development has recently led to increased regulatory focus on non-bank financial institutions, resulting in slower growth within some of our financial services investments. Worldwide growth in trade and transportation continued to expand albeit at a more modest pace than in the previous years, with growing demand for both cargo and passenger-related transportation infrastructure and equipment. In addition, we believe there are significant investment opportunities in transportation and infrastructure investments in the energy industry, driven by growth in oil and gas production and the recent volatility of oil prices. The senior living sector continues to benefit from a favorable consolidation and supply/demand dynamics as well as an appreciation of related real estate values. European markets have presented opportunities for distressed investments in country specific markets such as Italy.

We believe that unfolding developments in the U.S. residential housing market have generated significant investment opportunities. The residential mortgage industry is undergoing major structural changes that are transforming the way mortgages are originated, owned and serviced. In particular, we believe that mortgage servicing rights, excess mortgage servicing rights and other servicing related investments continue to present an attractive investment opportunity. Nationstar Mortgage Holdings Inc. ("Nationstar") is a mortgage servicer, which is majority owned by our Fortress Funds, and New Residential Investment Corp. ("New Residential"), which is managed by Fortress, and the MSR Opportunities Funds have made significant investments in excess MSRs and other servicing related assets. The timing, size and potential returns of future investments in this sector may be less attractive than prior investments due to a number of factors, most of which are beyond our control. In addition to interest rates, such factors include, but are not limited to, recent increased competition for excess MSRs and other servicing assets, which we believe is causing a related increase in the price for these assets. In addition, regulatory and government sponsored entity approval processes have been more extensive and taken longer than the process and timelines we experienced in prior periods, which has increased the amount of time and effort required to complete transactions.

Our macro liquid hedge funds actively trade in global markets. Overall performance for the year ended December 31, 2014 was slightly negative. Losses were primarily attributable to interest rate and credit positions and were partially offset by gains from foreign currency positions. Global market conditions and trends formed around them are always subject to change as are the positions held by our liquid hedge funds.

In addition, we consolidated New Media and New Senior, which exposes us to the industries in which they operate. The newspaper industry and New Media's predecessor experienced declining same store revenue and profitability over the past several years. General economic conditions, including declines in consumer confidence, continued high unemployment levels, declines in real estate values, and other trends, have also impacted the industry in which New Media operates. Additionally, media companies continue to be impacted by the migration of consumers and businesses to an internet and mobile-based, digital medium. These conditions may continue to negatively impact print advertising and other revenue sources as well as increase operating costs in the future, even after an economic recovery. The senior living industry is discussed above.

Assets Under Management

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

	Private Equity (I)			Credit (I)			
	Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Hedge Funds	PE Funds	Logan Circle	Total
2012							
AUM January 1, 2012	$9,276	$3,190	$5,515	$5,976	$6,232	$13,524	$43,713
Capital raised (A)	—	450	993	247	1,058	—	2,748
Increase in invested capital	68	95	7	21	2,817	—	3,008
Redemptions (B)	—	—	(2,045)	(37)	—	—	(2,082)
RCA distributions (C)	—	—	—	(1,100)	—	—	(1,100)
Return of capital distributions (D)	(1,033)	(3)	(93)	(233)	(1,964)	—	(3,326)
Adjustment for capital reset (E) (J)	—		—	—	(331)	—	(331)
Crystallized incentive income (F)	—	—	(3)	(76)	—	—	(79)
Net client flows (traditional)	—	—	—	—	—	5,710	5,710
Income (loss) and foreign exchange (G)	2,199	29	686	867	(63)	1,451	5,169
AUM December 31, 2012	$10,510	$3,761	$5,060	$5,665	$7,749	$20,685	$53,430
2013							
Capital raised (A)	—	1,398	2,546	505	—	—	4,449
Increase in invested capital	444	97	3	—	2,236	—	2,780
Redemptions (B)	—	—	(850)	(83)	—	—	(933)
RCA distributions (C)	—	—	—	(1,020)	—	—	(1,020)
Return of capital distributions (D)	(985)	(23)	(122)	(20)	(2,150)	—	(3,300)
Adjustment for capital reset (E) (J)	—	(1,492)	—	—	(6)	—	(1,498)
Crystallized incentive income (F)	—	—	(87)	(168)	—	—	(255)
Net client flows (traditional)	—	—	—	—	—	4,753	4,753
Income (loss) and foreign exchange (G)	1,892	(19)	848	977	(302)	(52)	3,344
AUM December 31, 2013	$11,861	$3,722	$7,398	$5,856	$7,527	$25,386	$61,750
2014							
Capital raised (A)	—	483	2,817	561	122	—	3,983
Increase in invested capital	231	543	2	46	1,858	—	2,680
Redemptions (B)	—	—	(1,767)	(37)	—	—	(1,804)
RCA distributions (C)	—	—	—	(616)	—	—	(616)
Return of capital distributions (D)	(3,455)	(115)	(160)	(78)	(1,799)	—	(5,607)
Adjustment for capital reset (E) (J)	—	—	—	—	(614)	—	(614)
Crystallized incentive income (F)	—	—	(130)	(169)	—	—	(299)
Net client flows (traditional)	—	—	—	—	—	5,420	5,420
Income (loss) and foreign exchange (G)	729	(66)	(32)	610	(139)	1,536	2,638
AUM December 31, 2014 (H) (K)	$9,366	$4,567	$8,128	$6,173	$6,955	$32,342	$67,531

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

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

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

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

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distributions from Fortress Japan Income Fund. For publicly traded permanent capital vehicles, return of capital distributions represent the portion of dividends paid and categorized as return of capital.

(E) The reset date of certain private equity or credit PE funds is an event determined by the earliest occurrence of (i) the first day following the expiration of the capital commitment period of a fund, (ii) a successor fund or entity draws capital contributions or charges management fees (not applicable to credit PE funds) or (iii) the date on which all unpaid capital obligations have been canceled. For the period commencing with the initial closing of or contribution to the fund and ending on the last day of the semi-annual or quarterly period ending on or after the reset date, certain funds generate management fees as a percentage of the fund's capital commitments and certain funds generate management fees as a percentage of the fund's aggregate capital contributions. Thereafter, such funds generally generate management fees as a percentage of the aggregate capital contributed adjusted for the fair value of each investment that is below the associated investment's contributed capital.

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

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

(H) AUM is presented mainly in reference to Fortress's ability to generate management fees. Note 3 to our consolidated financial statements, included in Item 8, provides further information regarding incentive income, and Note 4 provides further information regarding Fortress's investments in the funds, including gains and losses thereon. The percentage of capital invested by Fortress across different funds varies.

(I) As of December 31, 2014, the private equity funds, private permanent capital vehicle and credit funds had approximately $2.0 billion, $0.4 billion and $5.4 billion of uncalled and recallable capital, respectively, that will become assets under management if deployed/called, of which an aggregate of $2.3 billion is only available for follow-on investments, management fees and other fund expenses.

(J) In April 2013, Eurocastle completed a restructuring process that resulted in the conversion of its outstanding convertible debt. As part of that restructuring, Fortress entered into an amended management agreement with Eurocastle that reduced the AUM used to compute Eurocastle's management fees from €1.5 billion to €0.3 billion as of April 1, 2013, and in doing so also reduced the earnings threshold required for Fortress to earn incentive income from Eurocastle. Following the conversion of its outstanding convertible debt, Eurocastle effected a one for two hundred reverse split of its common stock.

(K) In January 2015, the Fortress Asia Macro Funds and related managed accounts transitioned to Graticule Asset Management under the affiliated manager platform. AUM at December 31, 2014 included $3.5 billion relating to the Fortress Asia Macro Funds and related managed accounts.

Redemptions

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

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

The Fortress Partners Funds provide for annual redemption terms. Redemption notices must be received at least 180 days prior to a calendar year end, and related payments are made subsequent to year end. For instance, the 2014 redemption notice date was July 5, 2014 for redemptions to be paid in the first quarter of 2015.

The credit hedge funds generally provide for annual return of capital terms. Return of capital requests must be received at least 90 days prior to a calendar year end, and related payments are made subsequent to year end. For instance, the 2014 return of capital request notice date was October 3, 2014 for capital to be returned after December 31, 2014. Such returns of capital may be paid over time as the underlying fund investments are realized, in accordance with the governing terms of the applicable funds. During the period prior to the return of capital for which a return request has been submitted, such amounts continue to be subject to management fees and, as applicable, incentive income. In particular, return of capital requests within the flagship credit hedge fund (onshore only) in 2010, 2011, 2012, 2013 and 2014 are being paid over time as the underlying fund investments are realized. In such a case, pending payment, this capital is referred to as a redeeming capital account or “RCA.”

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

Redemption notices and return of capital requests received from fee-paying investors, and related payments which are made in periods after notices are received, are shown in the table below:

Redemption Notices / Return of Capital Requests Received and Outstanding through December 31, 2014 (in thousands):

Notice Receipt Period	Liquid Hedge Fund Redemption Notices Received	Payments Made with Respect to those Notices - Inception to Date	Liquid Hedge Fund Remaining Outstanding Notices		Credit Hedge Fund Return of Capital Requests Received	Payments Made with Respect to those Requests - Inception to Date (C)	Credit Hedge Fund Remaining Outstanding Notices	
2014	$2,160,974	$1,245,031	$926,392		$220,185	$751	$219,434	
2013	957,414	981,914	—		157,251	118,202	46,075	
2012	1,482,907	1,483,319	—		248,402	252,294	37,872	
Prior			—	(A)			358,087	(A)
			$926,392	(B)			$661,468	(B)

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

(B) For liquid hedge funds, reflects $926.4 million to be paid primarily in the first quarter of 2015 which includes $387.7 million related to the Fortress Macro Funds, $318.2 million related to the Fortress Partners Funds and $189.3 million related to the Fortress Asia Macro Funds which transitioned to Graticule Asset Management under the affiliated manager platform in January 2015. For credit hedge funds, reflects $608.9 million in RCAs to be paid as the underlying investments are realized and $52.6 million to be paid primarily in the first quarter of 2015. Excludes any notices received from investors whose status has changed from fee-paying to non-fee-paying subsequent to notice receipt.

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

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

Performance of Our Funds

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

Name of Fund	Inception Date	Maturity Date (A)	AUM December 31, 2014	2013	2012	Returns (B) Inception to December 31, 2014	2013	2012
Private Equity								
Private Equity Funds that Report IRR's								
Fund I	Nov-99	Closed May-13	$ N/A	$ N/A	$—	25.7 %	25.7 %	25.7 %
Fund II	Jul-02	In Liquidation	—	—	—	35.5 %	35.5 %	35.6 %
Fund III	Sep-04	Jan-15	765	1,099	1,288	4.8 %	6.9 %	5.8 %
Fund III Coinvestment	Nov-04	Jan-15	41	90	118	1.5 %	1.8 %	1.1 %
Fund IV	Mar-06	Jan-17	2,171	2,859	2,790	1.6 %	3.1 %	2.4 %
Fund IV Coinvestment	Apr-06	Jan-17	361	460	485	(0.9)%	(0.7)%	(0.8)%
Fund V	May-07	Feb-18	3,998	4,069	2,891	6.2 %	4.1 %	(1.0)%
Fund V Coinvestment	Jul-07	Feb-18	408	515	603	(6.1)%	(7.2)%	(9.6)%
GAGACQ Coinvestment Fund (GAGFAH)	Sep-04	Closed Dec-14	N/A	—	—	19.4 %	19.4 %	19.2 %
FRID (GAGFAH)	Mar-05	Closed Nov-14	N/A	652	606	(0.3)%	(0.9)%	(3.2)%
FRIC (Brookdale)	Mar-06	Closed Dec-14	N/A	164	153	(1.6)%	(3.7)%	(5.1)%
FICO (Intrawest)	Aug-06	Jan-17	—	—	—	(100.0)%	(100.0)%	(100.0)%
FHIF (Holiday)	Dec-06	Jan-17	763	1,083	1,083	6.7 %	6.8 %	7.6 %
FECI (Florida East Coast/Flagler)	Jun-07	Feb-18	433	436	443	(0.1)%	(0.3)%	(1.6)%
MSR Opportunities Fund I A	Aug-12	Aug-22	216	255	—	16.6 %	(C)	N/A
MSR Opportunities Fund I B	Aug-12	Aug-22	54	64	—	16.4 %	(C)	N/A
MSR Opportunities Fund II A	Jul-13	Jul-23	45	36	N/A	(C)	(C)	N/A
MSR Opportunities Fund II B	Jul-13	Jul-23	1	—	N/A	(C)	(C)	N/A
MSR Opportunities MA I	Jul-13	Jul-23	10	8	N/A	(C)	(C)	N/A
Italian NPL Opportunities Fund	Dec-13	Sep-24	25	—	N/A	(C)	(C)	N/A
Fortress Equity Partners	Mar-14	Mar-24	75	N/A	N/A	(C)	N/A	N/A

Continued on next page.

Name of Fund	Inception Date	Maturity Date (A)	AUM December 31, 2014	2013	2012	Returns (B) Inception to Date (D)	2014	2013	2012
Private Permanent Capital Vehicle									
WWTAI	Jul-11	Jan-25	645	175	101	N/A	(C)	(C)	(C)
Publicly Traded Permanent Capital Vehicles									
Newcastle Investment Corp.	Jun-98	Permanent	768	1,795	1,729	N/A	10.7%	7.0%	10.1%
New Residential Investment Corp.	May-13	Permanent	1,367	1,196	N/A	N/A	11.9%	10.5%	N/A
Eurocastle Investment Limited	Oct-03	Permanent	488	556	1,931	N/A	6.9%	6.7%	—%
New Media Investment Group Inc.	Feb-14	Permanent	487	N/A	N/A	N/A	4.6%	N/A	N/A
New Senior Investment Group Inc.	Nov-14	Permanent	812	N/A	N/A	N/A	5.6%	N/A	N/A
Liquid Hedge Funds									
Drawbridge Global Macro Funds (A)	Jun-02	Redeemable	229	284	357	8.0%	(2.2)%	13.7%	16.9%
Fortress Macro Funds	May-09	Redeemable	1,552	1,546	1,566	6.9%	(1.6)%	14.1%	17.8%
Fortress Macro MA1	Nov-11	Redeemable	287	359	177	8.9%	(3.1)%	14.7%	17.9%
Fortress Partners Fund LP (A)	Jul-06	Redeemable	456	566	691	2.4%	(0.1)%	4.8%	8.0%
Fortress Partners Offshore Fund LP (A)	Nov-06	Redeemable	457	669	706	2.7%	0.4%	6.7%	7.7%
Fortress Asia Macro Funds (I)	Mar-11	Redeemable	3,217	1,697	433	10.1%	(1.2)%	17.1%	21.2%
Fortress Convex Asia Funds	May-12	Redeemable	197	96	50	(4.9)%	(4.9)%	(3.3)%	(C)
Fortress Redwood Fund LTD	Aug-13	Redeemable	759	613	N/A	1.5%	(1.6)%	(C)	N/A
Fortress Centaurus Global Funds	Jun-14	Redeemable	33	N/A	N/A	(C)	(C)	N/A	N/A
Credit Hedge Funds									
Drawbridge Special Opp’s Fund LP (E)	Aug-02	PE style redemption	4,335	3,898	3,793	11.6%	9.9%	18.4%	17.9%
Drawbridge Special Opp’s Fund LTD (E)	Aug-02	PE style redemption	1,328	1,317	1,117	11.1%	5.8%	15.6%	16.6%
Worden Fund	Jan-10	PE style redemption	225	201	209	11.5%	6.5%	13.7%	17.6%
Worden Fund II	Aug-10	PE style redemption	37	31	40	9.7%	4.5%	12.4%	13.2%
Japan Income Fund	Dec-13	Redeemable	44	—	N/A	(B)	(B)	N/A	N/A

Value Recovery Funds and related assets	(F)	Non-redeemable	200	402	496	(F)	(F)	(F)	(F)

Continued on next page.

Name of Fund	Inception Date	Maturity Date (A)	AUM December 31, 2014	2013	2012	Returns (B) Inception to December 31, 2014	2013	2012
Credit PE Funds								
Credit Opportunities Fund	Jan-08	Oct-20	521	692	997	25.6 %	25.8 %	26.9 %
Credit Opportunities Fund II	Jul-09	Jul-22	511	745	1,014	18.2 %	18.3 %	18.5 %
Credit Opportunities Fund III	Sep-11	Mar-24	1,995	1,400	795	(C)	(C)	(C)
FCO Managed Accounts	Sep-08 to Oct-10	Apr-22 to Jun-24	1,106	1,172	1,027	18.8 %	20.0 % (G)	23.1 % (G)
FCO Managed Accounts	Apr-12 to Jun-12	Mar-24 - Mar-27	714	457	514	(C)	(C)	(C)
Long Dated Value Fund I	Apr-05	Apr-30	163	185	186	5.3 %	5.0 %	4.3 %
Long Dated Value Fund II	Nov-05	Nov-30	121	142	153	4.1 %	3.7 %	2.6 %
Long Dated Value Fund III	Feb-07	Feb-32	74	87	128	7.2 %	8.6 %	8.0 %
LDVF Patent Fund	Nov-07	Nov-27	3	3	16	11.4 %	12.7 %	9.7 %
Real Assets Fund	Jun-07	Jun-17	66	77	88	7.4 %	8.5 %	9.3 %
Japan Opportunity Fund	Jun-09	Jun-19	267	364	587	31.2 %	22.2 %	20.5 %
Japan Opportunity Fund II (Dollar)	Dec-11	Dec-21	388	713	713	21.0 %	(C)	(C)
Japan Opportunity Fund II (Yen)	Dec-11	Dec-21	408	696	845	21.7 %	(C)	(C)
Net Lease Fund I	Jan-10	Feb-20	—	33	80	22.1 %	22.8 %	(C)
Global Opportunities Fund	Sep-10	Sep-20	195	255	310	11.3 %	(C)	(C)
Life Settlements Fund	Dec-10	Dec-22	88	261	210	(C)	(C)	(C)
Life Settlements Fund MA	Dec-10	Dec-22	8	23	19	(C)	(C)	(C)
Real Estate Opportunities Fund	May-11	Sep-24	157	187	47	15.5 %	(C)	(C)
Real Estate Opportunities Fund II	May-14	May-27	122	N/A	N/A	(C)	N/A	N/A
Real Estate Opportunities REOC Fund	Oct-11	Oct-23	41	29	13	12.5 %	(C)	(C)
Subtotal - all funds			34,237	34,712	31,598			
Managed accounts (I)			952	1,652	1,147			
Total - Alternative Investments			35,189	36,364	32,745			
Logan Circle			32,342	25,386	20,685			
Total (H)			$67,531	$61,750	$53,430			

(A)

For funds with a contractual maturity date, maturity date represents the final contractual maturity date including the assumed exercise of extension options, which in some cases require the approval of the applicable fund advisory board. Fund II has passed its contractual maturity date and is in the process of an orderly wind down. Our publicly traded permanent capital vehicles are considered to have permanent equity as they have an indefinite life and no redemption terms. Investor capital in the liquid hedge funds and the Fortress Partners Funds is generally redeemable at the option of the fund investors; however, a substantial portion of the Drawbridge Global Macro Funds' and Fortress Partner Funds' investor capital is not redeemable by its investors and such capital will only be distributed as underlying assets are realized, in accordance with their governing documents. The Drawbridge Special Opportunities Funds and Worden Funds may pay redemptions over time, as the underlying investments are realized, in accordance with their governing documents (“PE style redemption”). The Value Recovery Funds generally do not allow for redemptions, but are in the process of realizing their remaining investments in an orderly liquidation. Management notes that funds which had a term of three years or longer at inception, funds which have permanent equity, funds which have a PE style redemption and funds which do not allow for redemptions aggregated approximately 77% of our alternative investment AUM as of December 31, 2014.

(B) Represents the following:

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

For publicly traded permanent capital vehicles, returns represent the current dividend yield which is calculated by annualizing the most recently declared base dividend and dividing the result by the closing stock price for the period. Excludes the impact of special dividends declared in connection with REIT compliance, which may increase returns. There can be no assurance regarding the publicly traded permanent capital vehicles' respective dividend yields, which may fluctuate meaningfully as a result of changes in the amount of dividends paid in the future and/or changes in their respective stock prices. Eurocastle did not declare dividends during 2012.

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

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

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

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

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

(G) Accounts which fall within the description of Note (C) above for certain of the periods presented are excluded from the computations of returns for those periods.

(H) In addition to the funds listed, Fortress manages NIH, FPRF and Mortgage Opportunities Funds I and II. Such funds are excluded from the table because they did not include any fee paying assets under management at the end of the periods presented. Fund I, Fund II, GAGACQ Coinvestment Fund and FICO (Intrawest) had no AUM as of December 31, 2014, 2013 and 2012, but for purposes of continuity of presentation, the returns of these funds have been left in the table.

(I) In January 2015, the Fortress Asia Macro Funds and related managed accounts transitioned to Graticule Asset Management under the affiliated manager platform, in which Fortress will have a non-controlling interest.

Results of Operations

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

The results of operations of Fortress's asset management business are disclosed in the table below under the Investment Manager caption, including the Investment Company. The results of operations of New Media and New Senior, consolidated VIEs, are disclosed in the table below under the Non-Investment Manager caption. See Notes 1 and 4 to our consolidated financial statements, included in Item 8, for information on consolidation of the Investment Company, New Media, New Senior and other VIEs.

	Year Ended December 31,			Variance	
	2014	2013	2012	2014/2013	2013/2012
Revenues					
Investment Manager					
Management fees: affiliates	$527,922	$520,283	$456,090	$7,639	$64,193
Management fees: non-affiliates	68,948	62,795	45,617	6,153	17,178
Incentive income: affiliates	362,380	419,828	246,438	(57,448)	173,390
Incentive income: non-affiliates	1,734	44,383	26,162	(42,649)	18,221
Expense reimbursements: affiliates	205,045	206,452	186,592	(1,407)	19,860
Expense reimbursements: non-affiliates	13,429	7,209	4,580	6,220	2,629
Other revenues	5,882	4,033	4,390	1,849	(357)
Investment Company - consolidated VIEs					
Interest and dividend income	281	—	—	281	—
	1,185,621	1,264,983	969,869	(79,362)	295,114
Non-Investment Manager - consolidated VIEs					
Advertising	346,613	—	—	346,613	—
Circulation	173,436	—	—	173,436	—
Commercial printing and other	64,062	—	—	64,062	—
Rental revenue, resident fees and services	42,085	—	—	42,085	—
	626,196	—	—	626,196	—
Total Revenues	1,811,817	1,264,983	969,869	546,834	295,114
Expenses					
Investment Manager					
Compensation and benefits	796,102	741,761	750,359	54,341	(8,598)
General, administrative and other expense (including depreciation, amortization and impairment)	191,996	150,460	142,080	41,536	8,380
Interest expense	3,443	5,382	15,781	(1,939)	(10,399)
Investment Company - consolidated VIEs					
Other	1,011	—	—	1,011	—
	992,552	897,603	908,220	94,949	(10,617)
Non-Investment Manager - consolidated VIEs					
Operating costs	338,197	—	—	338,197	—
General, administrative and other expense (including depreciation and amortization)	250,296	—	—	250,296	—
Interest expense	23,718	—	—	23,718	—

Loss on extinguishment of debt	9,047	—	—	9,047	—	
	621,258	—	—	621,258	—	
Total Expenses	1,613,810	897,603	908,220	716,207	(10,617	)

Continued on the next page.

	Year Ended December 31,			Variance	
	2014	2013	2012	2014/2013	2013/2012
Other Income (Loss)					
Investment Manager					
Gains (losses)	(8,313)	53,933	48,921	(62,246)	5,012
Tax receivable agreement liability adjustment	(33,116)	(8,787)	(8,870)	(24,329)	83
Earnings (losses) from equity method investees	78,193	136,866	156,530	(58,673)	(19,664)
Investment Company - consolidated VIEs					
Gains (losses)	8,442	—	—	8,442	—
Total Other Income (Loss)	45,206	182,012	196,581	(136,806)	(14,569)
Income (Loss) Before Income Taxes	243,213	549,392	258,230	(306,179)	291,162
Income tax benefit (expense) - Investment Manager	(6,947)	(65,801)	(39,408)	58,854	(26,393)
Income tax benefit (expense) - Non-Investment Manager - consolidated VIE	(2,909)	—	—	(2,909)	—
Total Income Tax Benefit (Expense)	(9,856)	(65,801)	(39,408)	55,945	(26,393)
Net Income (Loss)	$233,357	$483,591	$218,822	$(250,234)	$264,769
Allocation of Net Income (Loss):					
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	$138,960	$283,144	$140,538	$(144,184)	$142,606
Redeemable Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIE	(709)	—	—	(709)	—
Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIEs	9,737	—	—	9,737	—
Non-controlling Interests in Income (Loss) of Non-Investment Manager - consolidated VIEs	(14,593)	—	—	(14,593)	—
Net Income (Loss) Attributable to Class A Shareholders	99,962	200,447	78,284	(100,485)	122,163
	$233,357	$483,591	$218,822	$(250,234)	$264,769

Factors Affecting Our Results

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

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

Each of these factors is described below, except for the consolidation of New Media and New Senior, which is described under "Understanding our Financial Statements.".

Subsequent to December 31, 2014, the Fortress Asia Macro Funds and related managed accounts and the management thereof transitioned to Graticule Asset Management as part of Fortress's affiliated manager platform. For the years ended December 31, 2014 and 2013, Investment Manager revenues include $58.0 million and $26.3 million of management fees, respectively, and $9.1 million and $45.5 million of incentive income, respectively, earned from the Fortress Asia Macro Funds and related managed accounts.

Average Management Fee Paying AUM

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

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

Year Ended	Private Equity Funds	Permanent Capital Vehicles	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds	Logan Circle	Total
December 31, 2014	$10,606	$4,090	$7,732	$6,044	$7,088	$28,910	$64,470
December 31, 2013	11,144	3,459	6,266	5,714	7,191	22,597	56,371
December 31, 2012	10,255	3,449	4,838	5,831	6,388	17,806	48,567

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

Management Fees

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

In July 2012, Fortress formed a senior living property management subsidiary, Blue Harbor, and has agreements to manage certain senior living properties, most of which are owned by New Senior. For these services, Fortress receives management fees based on a percentage of revenues from the properties. Upon the spin-off of New Senior from Newcastle in November 2014, the management fees received from the properties owned by New Senior are eliminated in consolidation.

Incentive Income

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

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

Employees

Fund Management and Investment Platform

In order to accommodate the demands of our funds' investment portfolios, we have created investment platforms, which are comprised primarily of our people, financial and operating systems and supporting infrastructure. Expansion of our investment platform historically required increases in headcount, consisting of newly hired investment professionals and support staff, as well as leases and associated improvements to corporate offices to house the increasing number of employees, and related augmentation of systems and infrastructure. Our headcount changed from 975 asset management employees as of December 31, 2012, to 1,074 asset management employees as of December 31, 2013, and then changed to 1,186 asset management employees as of December 31, 2014. Additionally, we had 1,674 employees as of December 31, 2014 at the senior living properties that we manage (whose compensation expense is reimbursed to us by the owners of the facilities) compared to 1,250 such employees as of December 31, 2013.

Non-Investment Manager

New Media

As of December 31, 2014, New Media had approximately 6,133 employees, consisting of hourly and salaried employees. New Media employs union personnel at a number of their core publications representing approximately 923 employees. As of December 31, 2014, there were 30 collective bargaining agreements covering union personnel. Most of New Media's unionized employees work under collective bargaining agreements that expire in 2017.

New Senior

New Senior does not have any employees. The officers and the other individuals who execute New Senior’s business strategy are employees of Fortress or its affiliates. These individuals are not required to exclusively dedicate their services to New Senior and may provide services for other entities affiliated with Fortress.

Revenues

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Total revenues were $1,811.8 million for the year ended December 31, 2014, a net increase of $546.8 million, compared to $1,265.0 million for the year ended December 31, 2013. The increase in revenues was primarily attributable to an increase of $626.2 million from New Media and New Senior as a result of the consolidation of New Media and New Senior, offset by a decrease of $79.4 million in Investment Manager revenues.

The decrease in Investment Manager revenues of $79.4 million was primarily attributable to decreases of $57.4 million and $42.6 million in incentive income from affiliates and non-affiliates, respectively, and a decrease of $1.4 million in expense reimbursements from affiliates. These decreases were partially offset by (i) increases of $7.6 million and $6.2 million in management fees from affiliates and non-affiliates, respectively, (ii) an increase of $6.2 million in expense reimbursements from non-affiliates and (iii) an increase of $1.8 million in other revenues.

The decrease in incentive income from affiliates of $57.4 million was primarily attributable to (i) a net decrease of $91.6 million in incentive income earned from our liquid hedge funds primarily as a result of a decrease in crystallized incentive due to lower returns in the year ended December 31, 2014, as compared to the prior period, (ii) a decrease of $70.3 million in incentive income earned from our credit hedge funds primarily due to lower returns from non-redeeming capital accounts (or "non-RCA"), which represents accounts where investors have not provided withdrawal notices, decreased redeeming capital accounts ("RCA") and a decrease in crystallized distribution from incentive income from our Worden Funds and (iii) a decrease of $4.9 million of incentive income recognized in the prior period from the liquidation of Fund I in May 2013. These decreases were partially offset by (i) an increase of $69.6 million in incentive income from our credit PE funds, primarily due to an increase in deemed tax distributions, which are not subject to clawback and (ii) an increase of $40.6 million in crystallized incentive income recognized from the permanent capital vehicles, primarily related to New Residential.

The $42.6 million decrease in incentive income from non-affiliates was primarily related to a net decrease in crystallized incentive income of $43.0 million from our liquid hedge fund managed accounts due to lower returns, as compared with the prior period.

The increase in management fees from affiliates of $7.6 million was mainly due to (i) an increase of $43.2 million in management fees from our liquid hedge funds, credit hedge funds, and Logan Circle primarily as a result of increases in average fee paying AUM, based on a simple quarterly average, of $2.3 billion, (ii) an increase of $1.8 million of management fees from our private equity funds primarily as a result of an net increase in the market values of certain portfolio companies and (iii) a net increase of $1.0 million of management fees from our permanent capital vehicles of which approximately $12.8 million was primarily due to an increase in average AUM and properties managed offset by a decrease of $7.0 million in Newcastle management fees due to the distribution of common shares of New Residential, New Media and New Senior (of which New Media and New Senior are eliminated in consolidation) and a $4.9 million decrease in Eurocastle management fees primarily due to a decrease in average AUM as a result of their restructuring process and amended management agreement in April 2013. This increase was partially offset by a decrease of $39.2 million in management fees resulting from publicly traded permanent capital vehicle options granted to Fortress during the year ended December 31, 2014 as compared to the prior period.

The increase in management fees from non-affiliates of $6.2 million was primarily related to an $10.7 million increase in management fees from non-affiliates from Logan Circle due to an increase in average fee paying AUM, based on a simple quarterly average, of $5.8 billion, partially offset by net decreases of $3.5 million and $0.9 million in management fees from non-affiliates from our liquid hedge fund managed accounts and permanent capital vehicles, respectively.

The decrease in expense reimbursements from affiliates of $1.4 million was primarily related to the elimination of $8.0 million of expense reimbursements related to the consolidation of the Non-Investment Manager (primarily New Senior), partially offset by an increase of $6.6 million related to an increase in operating expenses eligible for reimbursement from the funds.

The increase in expense reimbursements from non-affiliates of $6.2 million was primarily related to an increase in operating expenses eligible for reimbursements from our managed accounts.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Total revenues were $1,265.0 million for the year ended December 31, 2013, a net increase of $295.1 million, compared to $969.9 million for the year ended December 31, 2012. The increase in revenues was attributable to (i) increases of $64.2 million and $17.2 million in management fees from affiliates and non-affiliates, respectively, (ii) increases of $173.4 million and $18.2 million in incentive income from affiliates and non-affiliates, respectively, and (iii) increases of $19.9 million and $2.6 million in expense reimbursements from affiliates and non-affiliates, respectively.

The increase in management fees from affiliates of $64.2 million was primarily due to increases in average management fee paying AUM, based on a simple quarterly average, in our private equity funds and liquid hedge funds, of $0.9 billion and $0.8 billion, respectively, and an increase of $21.0 million in management fees resulting from Newcastle and Eurocastle options granted to Fortress during the year ended December 31, 2013 as compared to the prior period.

The increase in management fees from non-affiliates of $17.2 million was primarily related to an increase in average management fee paying AUM, based on a simple quarterly average, of $0.6 billion and $3.8 billion in our liquid hedge fund managed accounts and Logan Circle, respectively.

The increase in incentive income from affiliates of $173.4 million was primarily attributable to (i) an increase of $62.1 million in incentive income primarily earned from the Drawbridge Special Opportunities Funds as a result of an increase in incentive earned on RCA distributions, which represent accounts where investors have provided withdrawal notices and receive payout as underlying fund investments are realized and due to an increase in the average capital eligible for incentive income primarily attributable to higher returns during the year ended December 31, 2013 in the non-RCA accounts, which crystallizes annually, (ii) an increase of $22.9 million of incentive income recognized from Fund II primarily as a result of a realization event and the fund reaching its maturity date during the year ended December 31, 2013, which resulted in the recognition of income as certain contingencies for repayment were resolved, (iii) an increase of $15.7 million in crystallized incentive income recognized from our permanent capital vehicles, (iv) a net increase of $64.4 million in incentive income recognized from our liquid hedge funds primarily as a result of a transfer of interest between two of our funds during August 2013, redemptions and an increase in the average capital eligible for incentive income primarily attributable to higher returns during the year ended December 31, 2013, (v) an increase of $2.2 million of incentive income recognized primarily from the liquidation of Fund I in May 2013, (vi) an increase of $1.7 million of incentive income recognized from the Worden Funds and (viii) a net increase of $4.4 million in incentive income from our credit PE funds primarily due to an increase in deemed tax distributions, which are no longer subject to clawback, for the year ended December 31, 2013, as compared to the prior period.

The $18.2 million increase in incentive income from non-affiliates was primarily related to an increase of $18.7 million in crystallized incentive income from our liquid hedge funds managed accounts, slightly offset by a decrease of $0.3 million in incentive income from our credit PE managed accounts.

The increase in expense reimbursements from affiliates of $19.9 million was primarily related to an increase in operating expenses eligible for reimbursement from our funds, the most significant of which related to the full year effect of the formation of the senior living property management business in July 2012, for the year ended December 31, 2013, as compared to the prior period.

Expenses

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Expenses were $1,613.8 million for the year ended December 31, 2014, a net increase of $716.2 million, compared to $897.6 million for the year ended December 31, 2013. The increase was primarily attributable to $621.3 million of expenses as a result of the consolidation of New Media and New Senior and an increase of $95.0 million in Investment Manager expenses. The increase in Investment Manager expenses was primarily due to (i) an increase in compensation and benefits of $54.4 million, (ii) an increase in general, administrative and other expenses (including depreciation and amortization) of $41.5 million and (iii) an increase in Investment Company expenses of $1.0 million. These increases were partially offset by a decrease in interest expense of $1.9 million.

Total compensation and benefits increased primarily due to (i) a $71.5 million increase in profit sharing expenses related to our credit PE funds and permanent capital vehicles as a result of changes due to realization events and the amount of profit sharing interests held by employees in the respective periods, and (iii) a $29.5 million increase in other payroll, taxes and benefits as a result of an increase in headcount, (ii) a $19.4 million increase in discretionary bonus accruals. These increases were, partially offset by a $65.0 million decrease in profit-sharing expenses primarily related to our liquid hedge funds, credit hedge funds, private equity funds and Principal Performance Payments, as a result of changes in the performance of relevant funds.
The increase in general, administrative and other expenses was primarily due to (i) an increase of $18.4 million in general and other expenses primarily related to increased market data expenses, information technology expenses and general office expenses, (ii) an increase of $17.0 million in professional fees for consultants and other service providers and (iii) an increase of $6.1 million in depreciation and amortization expenses primarily related to technology related assets acquired in 2014.

The decrease in interest expense of $1.9 million primarily relates to a decrease in the average outstanding Investment Manager debt balance and average interest rate for the year ended December 31, 2014, as compared to the prior period.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Expenses were $897.6 million for the year ended December 31, 2013, a net decrease of $10.6 million, compared to $908.2 million for the year ended December 31, 2012. The decrease was attributable to a decrease of $8.6 million in compensation and benefits, and a decrease of $10.4 million in interest expense. These decreases were partially offset by a net increase of $8.4 million in general, administrative and other expenses.

Total compensation and benefits decreased due to a $174.0 million decrease in equity-based compensation primarily due to the final vesting of RSUs issued in connection with our IPO and RPUs in January 2013. This decrease was substantially offset by (i) a $108.8 million increase in profit-sharing expenses primarily related to our liquid hedge funds, credit PE funds, credit hedge funds, and Principal Performance Payments, (ii) a $34.2 million increase in other payroll, taxes, and benefits (including wages), and (iii) a $22.4 million increase in discretionary bonuses. Changes in profit sharing expense are a result of changes in the performance of relevant funds and the amount of profit sharing interests held by employees in the respective periods. The $34.2 million increase in other payroll, taxes and benefits was the result of an increase in headcount and the full year effect of the formation of the senior living property management business in July 2012. The increase of $22.4 million in discretionary bonuses is primarily related to increased headcount and improved performance of the Company.

The decrease in interest expense of $10.4 million primarily relates to a decrease in the average outstanding debt balance and average interest rate for the year ended December 31, 2013, as compared to the prior period.

The increase in general, administrative and other expenses was primarily due to (i) an increase of $3.4 million in professional fees (ii) an increase of $3.2 million in other general and other expenses and (iii) an increase of $1.8 million in recruitment fees.

Current and Future Compensation Expense - Investment Manager

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

Discretionary bonuses are awarded annually based on performance and on our estimation of market compensation. We note that while the payment of discretionary bonuses is optional, it is important for us to maintain a certain level of discretionary bonuses, based on the level of market compensation, even in periods of weaker performance, in order to retain and motivate employees.

Equity-based compensation awards, primarily RSUs, which are typically subject to service-based vesting conditions, are a key component of this compensation as they achieve all three goals. We set the level of our equity-based compensation each year based on performance (firm and individual) and our liquidity, as well as the number of shares available under our equity incentive plan and the dilutive impact they would have upon vesting.

In future periods, we will further recognize non-cash compensation expense on our non-vested equity-based awards outstanding as of December 31, 2014 of $53.2 million with a weighted average recognition period of 2.2 years.

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

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

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

Other Income (Loss)

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Other Income (Loss) was $45.2 million for the year ended December 31, 2014, a net decrease of $136.8 million, compared to $182.0 million for the year ended December 31, 2013. This decrease is primarily related to (i) decreases of $26.8 million in the fair value of options and common stock held in our publicly traded permanent capital vehicles and publicly traded private equity portfolio companies for the year ended December 31, 2014 as compared to an increase of $46.4 million in the prior comparative period, resulting in a net decrease of $73.2 million, (ii) a net decrease of $58.7 million in earnings from equity method investees primarily with respect to our investments in our private equity funds, liquid hedge funds, credit hedge funds and credit PE funds for the year ended December 31, 2014 relative to the prior comparative period, (iii) an increase of $24.3 million in the tax receivable agreement liability expense, (iv) an increase of $5.8 million in losses associated with our holdings of digital currency for the year ended December 31, 2014 as compared to the prior period and (v) a $1.6 million decrease relating to our trading securities. These decreases were partially offset by (i) an increase of $18.3 million in the fair value of the derivatives held, primarily Japanese Yen foreign exchange contracts, for the year ended December 31, 2014 as compared to the prior period and (ii) $8.4 million increase from the consolidated Investment Company.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Other Income (Loss) was $182.0 million for the year ended December 31, 2013, a net decrease of $14.6 million, compared to $196.6 million for the year ended December 31, 2012. This decrease was primarily attributable to (i) a net decrease of $19.7 million in earnings from equity method investees primarily related to the performance of our private equity funds and liquid hedge funds, slightly offset by an increase in performance of our credit PE funds for the twelve months ended December 31, 2013 relative to the prior period, (ii) unrealized losses of $3.7 million associated with the fair value of our holdings of digital currency and (iii) a decrease of $1.1 million in the fair value on affiliate investments and options. This decrease was partially offset by an increase of $8.1 million in the fair value of the derivatives held, primarily Japanese Yen foreign exchange contracts, and a $3.0 million increase in the fair value of equity securities, for the year ended December 31, 2013 as compared to the prior period.

Income Tax Benefit (Expense)

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

For the years ended December 31, 2014, 2013 and 2012 Fortress recognized income tax expense (benefit) of $6.9 million, $65.8 million and $39.4 million respectively. The primary reasons for changes in income tax expense (benefit) are (i) changes in annual taxable income and related foreign and state income taxes, (ii) changes in the mix of businesses producing income, which may be subject to tax at different rates, and related changes in our structure, and (iii) the tax impact of RSUs and RPUs that vested and were delivered at varying stock prices.

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

	Comparative Years	
	2014 vs. 2013	2013 vs. 2012
Change in pre-tax income applicable to Class A Shareholders (A)	$(56,265)	$52,021
Change in foreign and state income taxes	(21,762)	8,046
Change in mix of business (B)	16,893	(5,240)
Change in deferred tax asset-impact of equity compensation vesting and other adjustments (C)	(7,292)	(3,659)
Change in deferred tax asset valuation allowance and related adjustments (D)	(2,353)	(21,186)
Tax receivable agreement liability adjustment (E)	8,515	(29)
Other	3,410	(3,560)
Total change	$(58,854)	$26,393

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

(B) For the year ended December 31, 2014, a greater proportion of our total income was subject to corporate tax, as compared to the year ended December 31, 2013. In 2013, we generated more unrealized gains and certain other income, which income is passed directly to shareholders, increasing the proportion of our total income which was not subject to corporate tax and thereby reducing the proportion which was subject to corporate income tax.

(C) For 2014, this includes the write-off of deferred tax assets relating to public offering basis difference. For 2013 and 2012, write off of deferred tax assets relates to the tax shortfall created by the vesting of RSUs and RPUs. This factor changes based on the amount of equity-based compensation delivered in a given year and the stock price on the date of delivery. To the extent the actual tax benefit is greater than previously estimated, excess tax benefits are credited to stockholders' equity.

(D) Primarily attributable to the valuation allowance related to certain deferred tax assets associated with funds in the process of liquidation, and by the change in the portion of the valuation allowance related to the deferred tax asset that is expected to be realized in connection with future capital gains.

(E) Relates to the tax receivable agreement (discussed in Note 6 to our consolidated financial statements included in Item 8) which is not tax deductible and represents a significant permanent tax/GAAP difference.

For the period from February 14, 2014 to December 31, 2014, New Media recognized an income tax expense of $2.7 million.

For the period from November 7, 2014 to December 31, 2014, New Senior recognized an income tax expense of $0.2 million.

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

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries decreased from $283.1 million to $139.0 million, a decrease of $(144.2) million, primarily attributable to (i) a decrease of $144.9 million resulting from a $282.4 million decrease in Fortress Operating Group consolidated net income during the year ended December 31, 2014 as compared to the year ended December 31, 2013, (ii) a decrease of $1.5 million resulting from Others' interests in the net income of consolidated subsidiaries of Fortress Operating Group offset by (iii) an increase of $2.2 million resulting from the dilution of noncontrolling interests in Fortress Operating Group caused by the delivery of restricted stock and restricted partnership awards.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries increased from $140.5 million to $283.1 million, an increase of $142.6 million, primarily attributable to (i) an increase of $155.9 million resulting from a $291.0 million increase in Fortress Operating Group consolidated net income during the year ended December 31, 2013 as compared to the year ended December 31, 2012, (ii) a decrease of $1.1 million resulting from Others' interests in the net income of consolidated subsidiaries of Fortress Operating Group partially offset by (iii) a decrease of $12.2 million resulting from the dilution of noncontrolling interests in Fortress Operating Group caused by the delivery of restricted stock and restricted partnership awards.

Redeemable Non-controlling Interests in Income (Loss)

Beginning June 1, 2014, Redeemable Non-controlling Interests in Income (Loss) of Investment Company were recognized by us as a result of the consolidation of the Investment Company, representing the share of the Investment Company income (loss) attributable to the equity interests in the Investment Company, which are redeemable by an investor and not owned by Fortress.

Non-controlling Interests in Income (Loss) of Investment Company

Represents the non-redeemable non-controlling Interests in Income (Loss) of the Investment Company for the year ended December 31, 2014.

Non-controlling Interests in Income (Loss) of Non-Investment Manager

Non-controlling Interests in Income (Loss) of Non-Investment Manager were recognized by us as a result of the consolidation of New Media and New Senior, representing the equity interest not owned by Fortress for the period from February 14, 2014 to December 31, 2014 and November 7, 2014 to December 31, 2014 in New Media and New Senior, respectively.

Segment Analysis

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

In the third quarter of 2014, Fortress reorganized its segments by:

(1) Reclassifying its investments in and resulting pre-tax distributable earnings from the Fortress Funds, which were previously presented under the principal investments segment, to each of the other segments that the investment relates to and

(2) Reclassifying one of its private equity funds, Worldwide Transportation and Infrastructure Investors ("WWTAI"), from its private equity funds segment to its permanent capital vehicles segment, as we expect that WWTAI will become a publicly traded company externally managed by us.

The reclassifications were made to reflect changes in the way the business is reviewed and assessed by Fortress's chief operating decision maker ("CODM"). All of Fortress’s internal reports have been changed to reflect this reorganization and Fortress’s allocable expenses are now allocated amongst the segments based on this reorganization. Prior period amounts have been reclassified to reflect the segment reorganization described above.

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

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

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

Distributable earnings is described in Note 11 to Part II, Item 8, “Financial Statements and Supplementary Data — Segment Reporting,” which includes a complete discussion of distributable earnings basis impairment and reserves, including the methodology used in estimating the amounts as well as the amounts incurred in the relevant periods.

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

Incentive Income

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

c. adding the receipt of cash or proceeds from the sale of shares received pursuant to the exercise of options in the publicly traded permanent capital vehicles, in excess of their strike price,

d. adding the incentive income earned by Fortress in connection with New Media, New Senior and the Investment Company, which is eliminated under GAAP as a result of the consolidation of New Media, New Senior and the Investment Company,

Other Income

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

a. for equity method investments in the private equity funds, private permanent capital vehicle and credit PE funds as well as indirect equity method investments in hedge fund special investment accounts (which generally have investment profiles similar to private equity funds), treating these investments as cost basis investments by adding (a) realizations of income, 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 publicly traded permanent capital vehicles,

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

d. adding equity method earnings (or losses) earned by Fortress in connection with the Investment Company, which is eliminated under GAAP,

(iii) subtracting management fee income recorded in accordance with GAAP in connection with the receipt of these options,

(iv) adding the management fee income and expense reimbursement earned by Fortress in connection with New Media, New Senior and the Investment Company, which is eliminated under GAAP as a result of the consolidation of New Media, New Senior and the Investment Company,

Expenses

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

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

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

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

(ix) subtracting the income (or adding the loss) of the Non-Investment Manager and Investment Company allocable to the Class A shareholders, and

(x) adding back income tax benefit or expense and any income or expense recorded in connection with the tax receivable agreement (see Note 6 to our consolidated financial statements included in Item 8).

Private Equity Funds

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

	Year Ended December 31,			Variance	
	2014	2013	2012	2014/2013	2013/2012
Segment revenues					
Management Fees	$136,110	$134,176	$118,990	$1,934	$15,186
Incentive Income	2,854	13,211	10,993	(10,357)	2,218
Segment revenues - total	$138,964	$147,387	$129,983	$(8,423)	$17,404
Pre-tax distributable earnings	$183,078	$109,089	$88,962	$73,989	$20,127

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Pre-tax distributable earnings increased by $74.0 million primarily due to:

Revenues

Management fees were $136.1 million for the year ended December 31, 2014, a net increase of $1.9 million, compared to $134.2 million for the year ended December 31, 2013. Management fees increased by $1.9 million due to (i) a net increase of $9.6 million in management fees primarily from Fund IV, Fund IV Co and Fund V as a result of an increase in the market values of certain portfolio companies, some of which were below their invested capital in the prior period, which impacted the computation of fees for the year ended December 31, 2014 as compared to the prior period and (ii) an increase of $1.2 million in management fees from the MSR Opportunities Funds which called initial capital in January 2013. These increases were partially offset by a decrease of (i) $4.3 million in management fees related to Fund III, Fund III Co and Fund V Co primarily as a result of return of capital distributions and a decrease in the market values of certain portfolio companies, some of which were below their invested capital and (ii) a decrease of $4.7 million related to FRIC and FRID which both substantially liquidated their respective investments during the second quarter of 2014.

Incentive income was $2.9 million for the year ended December 31, 2014, a net decrease of $10.4 million, compared to $13.2 million of incentive income recognized for the year ended December 31, 2013. Incentive income decreased by $10.4 million primarily as a result of (i) a decrease of $4.9 million in the amount of incentive income earned from realization events that occurred as a result of the liquidation of Fund I during the year ended December 31, 2013 and (ii) a decrease of $5.4 million primarily due to a decrease of clawback reserve reversal related to Fund II during the year ended December 31, 2014 as compared to the prior period.

Expenses

Expenses were $50.9 million for the year ended December 31, 2014, a net decrease of $0.9 million, compared to $51.8 million for the year ended December 31, 2013. The net decrease of $0.9 million in expenses was primarily attributable to decrease of $4.8 million in profit sharing compensation expense associated with the decrease in incentive income described above for the year ended December 31, 2014 as compared to the prior period. This decrease was partially offset by a (i) a net increase of $2.9 million in general and administrative and corporate allocable expenses and (ii) an increase of $0.9 million in compensation and benefits expense due to an increase in average headcount.

Net Investment Income

Net investment income was $95.0 million for the year ended December 31, 2014, a net increase of $81.5 million, compared to $13.5 million for the year ended December 31, 2013. Net investment income increased by $81.5 million primarily due to (i) an increase of $47.6 million in distributions from realization events primarily from FRIC, FRID and the Mortgage Opportunities Funds I and II and (ii) an increase of $34.7 million in gain related to the sale of our GAGFAH common stock for the year ended December 31, 2014 as compared to the prior period. These increases were partially offset by a $1.0 million increase in realized losses on foreign currency hedges related to the Euro.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Pre-tax distributable earnings increased by $20.1 million primarily due to:
Revenues

Management fees were $134.2 million for the year ended December 31, 2013, a net increase of $15.2 million, compared to $119.0 million for the year ended December 31, 2012. Management fees increased by $15.2 million due to (i) a net increase of $9.8 million in management fees primarily from Fund IV, Fund V, and FRID primarily as a result of an increase in the market values of certain portfolio companies, some of which were below their invested capital in prior periods, which impacted the computation of fees for the year ended December 31, 2013, (ii) an increase of $3.5 million in management fees from the MSR Opportunities Funds which called initial capital in January 2013 (MSR Opportunities Fund I) and September 2013 (MSR Opportunities Fund II), and (iii) an increase of $1.9 million in management fees from other funds.

Incentive income was $13.2 million for the year ended December 31, 2013, a net increase of $2.2 million, compared to $11.0 million of incentive income recognized for the year ended December 31, 2012. Incentive income increased by $2.2 million due to a $2.2 million increase in the amount of incentive income earned from realization events that occurred in Fund I for the year ended December 31, 2013 as compared to the prior period.

Expenses

Expenses were $51.8 million for the year ended December 31, 2013, a net increase of $9.8 million, compared to $42.0 million for the year ended December 31, 2012. The net increase of $9.8 million in expenses was primarily attributable to a net increase of $8.8 million in compensation and benefits expense due to increased headcount, as well as a net increase of $0.8 million in profit sharing compensation expense (primarily related to the Fund I realization events mentioned above).

Net Investment Income

Net investment income was $13.5 million for the year ended December 31, 2013, a net increase of $12.5 million, compared to $1.0 million for the year ended December 31, 2012. Net investment income increased by $12.5 million primarily due to (i) a $11.3 million increase in realized gains on investments due to a partial sale of our GAGFAH common stock and (ii) a $1.6 million increase in distributions from realization events in our private equity funds. These increases were partially offset by a $0.4 million increase in realized losses in foreign currency hedges.

Permanent Capital Vehicles

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

	Year Ended December 31,			Variance	
	2014	2013	2012	2014/2013	2013/2012
Segment revenues					
Management Fees	$69,360	$61,200	$56,757	$8,160	$4,443
Incentive Income	65,448	18,101	242	47,347	17,859
Segment revenues - total	$134,808	$79,301	$56,999	$55,507	$22,302
Pre-tax distributable earnings	$40,976	$31,319	$27,310	$9,657	$4,009

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Pre-tax distributable earnings increased by $9.7 million primarily due to:

Revenues

Management fees were $69.4 million for the year ended December 31, 2014, a net increase of $8.2 million, compared to $61.2 million for the year ended December 31, 2013. Management fees increased by $8.2 million primarily as a result of (i) a $8.4 million increase in management fees primarily due to an increase in average AUM for New Residential which was spun off by Newcastle in May 2013, (ii) a $5.6 million increase in management fees due to a new management agreement with New Media which was spun off by Newcastle in February 2014, as well as an increase in average AUM as a result of equity raised by New Media during the third quarter of 2014, (iii) an increase of $3.2 million in management fees primarily due to an increase in WWTAI average AUM as a result of net capital inflows, (iv) a $1.6 million increase in management fees generated by Blue Harbor due to an increase in properties managed compared to prior period and (v) an increase of $1.9 million in fees due to a new management agreement with New Senior which was spun off by Newcastle in November 2014. These increases were partially offset by (i) a $7.0 million decrease in Newcastle management fees primarily due to the distribution of common shares of New Residential, New Media and New Senior as described above resulting in a decrease in average AUM, and (ii) a $5.5 million decrease in Eurocastle management fees primarily due to a decrease in average AUM as a result of their restructuring process and amended management agreement in April 2013.

Incentive income was $65.4 million for the year ended December 31, 2014, an increase of $47.3 million, compared to $18.1 million of incentive income recognized for the year ended December 31, 2013. Incentive income increased by $47.3 million primarily as a result of (i) an increase of $40.6 million of incentive income related to New Residential for the year ended December 31, 2014 as compared to the prior period and (ii) an increase of $6.8 million due to the exercise of a portion of our publicly traded permanent capital vehicle options.

Expenses

Expenses were $95.8 million for the year ended December 31, 2014, a net increase of $46.3 million, compared to $49.5 million for the year ended December 31, 2013. The increase of $46.3 million in expenses was primarily attributable to (i) a $18.0 million increase in compensation and benefits expense primarily due to an increase in average headcount assigned to the permanent capital vehicles segment, (ii) a net increase of $8.3 million in general and administrative and corporate allocable expenses, (iii) an increase of $16.8 million in profit sharing expense related to the net operating results of certain permanent capital vehicles including the recognition of the incentive income discussed above (which includes a $6.8 million increase related to the exercise of a portion of our publicly traded permanent capital vehicle options allocated to employees) and (iv) an increase of $3.2 million in accruals for Principal Performance Payments as compared to the prior period.

Net Investment Income

Net investment income was $2.0 million for the year ended December 31, 2014, a net increase of $0.5 million, compared to $1.5 million for the year ended December 31, 2013. Net investment income increased by $0.5 million primarily due to (i) an increase of $0.2 million in dividend income primarily from our direct investments in New Residential, Eurocastle, New Media and New Senior common stock and (ii) an increase of $0.4 million in other investment income. These increases were offset by a decrease of $0.1 million in distribution of earnings from WWTAI.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Pre-tax distributable earnings increased by $4.0 million primarily due to:

Revenues

Management fees were $61.2 million for the year ended December 31, 2013, a net increase of $4.4 million, compared to $56.8 million for the year ended December 31, 2012. Management fees increased by $4.4 million primarily as a result of (i) a $15.6 million increase in management fees primarily due to an increase in Newcastle AUM resulting from their equity raises in the second and third quarters of 2012 and the first quarter of 2013, prior to the distribution of New Residential common shares, and the second and fourth quarters of 2013, (ii) a $2.7 million increase due to fees generated by our senior living property management business which launched in July 2012 and (iii) an increase of $1.7 million in management fees from WWTAI due to an increase in investor commitments and net capital inflows. These increases were partially offset by a $15.6 million decrease in Eurocastle management fees due to a decrease in AUM as a result of their restructuring process and amended management agreement in April 2013.

Incentive income was $18.1 million for the year ended December 31, 2013, a net increase of $17.9 million, compared to $0.2 million of incentive income recognized for the year ended December 31, 2012. Incentive income increased by $17.9 million primarily as a result of (i) the recognition of incentive income of $15.7 million for the year ended December 31, 2013, and (ii) an increase of $1.7 million in the exercise of our permanent capital vehicle options allocated to employees which resulted in an increase in incentive income for the year ended December 31, 2013 as compared to the prior period and (ii) a $0.5 million increase in the amount of incentive income earned from realization events that occurred in WWTAI for the year ended December 31, 2013 as compared to the prior period.

Expenses

Expenses were $49.5 million for the year ended December 31, 2013, a net increase of $18.7 million, compared to $30.8 million for the year ended December 31, 2012. The increase of $18.7 million in expenses was primarily attributable to (i) a $10.8 million increase in net compensation and benefits expense primarily due to higher headcount in Newcastle, New Residential, WWTAI and the senior living property management business, partially offset by decreased headcount in Eurocastle, (ii) an increase of $4.2 million in profit sharing compensation expense related to the exercise of certain permanent capital vehicle options allocated to employees and the recognition of incentive income mentioned above, (iii) a net increase of $2.4 million in general and administrative and allocable expenses, and

(iv) an increase of $1.2 million in accruals for Principal Performance Payments as compared to the prior period.

Net Investment Income

Net investment income was $1.5 million for the year ended December 31, 2013, a net increase of $0.4 million, compared to $1.1 million for the year ended December 31, 2012. Net investment income increased by $0.4 million mainly due to (i) a $0.3 million increase in dividend income from our direct investments in Newcastle and New Residential common stock, and (ii) a $0.1 million increase in distributions from a realization event in our private permanent capital vehicle.

Liquid Hedge Funds

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

	Year Ended December 31,			Variance	
	2014	2013	2012	2014/2013	2013/2012
Segment revenues					
Management Fees	$137,908	$110,622	$77,531	$27,286	$33,091
Incentive Income	16,067	150,700	67,645	(134,633)	83,055
Segment revenues - total	$153,975	$261,322	$145,176	$(107,347)	$116,146
Pre-tax distributable earnings	$22,371	$116,488	$48,533	$(94,117)	$67,955

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Pre-tax distributable earnings decreased by $94.1 million primarily due to:

Revenues

Management fees were $137.9 million for the year ended December 31, 2014, a net increase of $27.3 million, compared to $110.6 million for the year ended December 31, 2013. Management fees increased by $27.3 million primarily due to (i) a $31.7 million increase in management fees earned from the Fortress Asia Macro Funds (including related managed accounts) as a result of an increase in net capital inflows and (ii) a $5.5 million increase in management fees related to Fortress Redwood Fund (which launched in August 2013). These increases were partially offset by a $9.9 million net decrease in management fees from certain of our other liquid hedge funds and managed accounts primarily as a result of net capital outflows.

Incentive income, which is determined on a fund-by-fund basis, was $16.1 million for the year ended December 31, 2014, a net decrease of $134.6 million, compared to $150.7 million for the year ended December 31, 2013. Incentive income decreased by $134.6 million primarily due to decreases of $86.2 million, $36.4 million, $8.5 million, $2.8 million, and $2.2 million in the incentive income generated by the Fortress Macro Funds (including related managed accounts), the Fortress Asia Macro Funds (including related managed accounts), Fortress Macro MA I Fund, Fortress Redwood Fund and Drawbridge Global Macro Funds respectively, due to lower returns during the year ended December 31, 2014 as compared to the prior period. These decreases were partially offset by a $1.4 million increase in incentive income from Fortress Partners Fund for the twelve months ended December 31, 2014 as compared to the prior period.

Expenses

Expenses were $130.1 million for the year ended December 31, 2014, a net decrease of $18.3 million, compared to $148.4 million for the year ended December 31, 2013. The decrease of $18.3 million in expenses was primarily attributable to (i) a decrease of $22.5 million in profit sharing compensation expense related to the recognition of incentive income discussed above and (ii) a decrease of $11.0 million in accruals for Principal Performance Payments. These decreases were partially offset by an increase of $10.1 million in compensation and benefits expense primarily due to an increase in average headcount and by a net increase of $5.1 million in general and administrative expenses and corporate allocable expenses.

Net Investment Income

Net investment income (loss) was $(1.5) million for the year ended December 31, 2014, a change of $5.1 million, compared to net investment income of $3.6 million for the year ended December 31, 2013. Net investment income changed by $5.1 million primarily due to (i) a $5.8 million impairment on Fortress's holdings of digital currency, (ii) an increase of $1.3 million in losses attributable to investments in our liquid hedge funds and (iii) an increase of $1.7 million in recorded impairments with respect to our special investments in our liquid hedge funds as compared to the prior period. These increases in losses were partially offset by an increase of $3.7 million in distribution of earnings from realization events in special investments in liquid hedge funds for the year ended December 31, 2014 as compared to the prior period.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Pre-tax distributable earnings increased by $68.0 million primarily due to:

Revenues

Management fees were $110.6 million for the year ended December 31, 2013, a net increase of $33.1 million, compared to $77.5 million for the year ended December 31, 2012. Management fees increased by $33.1 million primarily due to $21.3 million, $13.0 million, $4.0 million and $0.9 million net increases in management fees earned from the Fortress Asia Macro Funds (including related managed accounts), Fortress Macro Funds (including related managed accounts and Fortress Redwood Fund which launched in August 2013), Fortress Macro MA I Fund and Fortress Convex Asia Funds, respectively, primarily as a result of an increase in net capital inflows. These increases were partially offset by a $3.1 million decrease in management fees due to the closing of the Fortress Commodities Funds (including related managed accounts) in the second quarter of 2012, and $1.6 million and $1.4 million in net decreases in management fees from the Fortress Partners Funds and Drawbridge Global Macro Funds, respectively, primarily as a result of net capital outflows.

Incentive income, which is determined on a fund-by-fund basis, was $150.7 million for the year ended December 31, 2013, a net increase of $83.1 million, compared to $67.6 million for the year ended December 31, 2012. Incentive income increased by $83.1 million primarily due to increases of $44.8 million, $30.7 million, $4.6 million, and $3.0 million in the incentive income generated by the Fortress Macro Funds (including related managed accounts and Fortress Redwood Fund), Fortress Asia Macro Funds (including related managed accounts), Fortress MA I Fund and Drawbridge Global Macro Funds, respectively, as a result of a higher proportion of capital being eligible for incentive income as substantially all capital met or exceeded its high water mark in 2013 and generated subsequent positive performance for the year ended December 31, 2013 as compared to the prior period.

Expenses

Expenses were $148.4 million for the year ended December 31, 2013, a net increase of $48.5 million, compared to $99.9 million for the year ended December 31, 2012. The increase of $48.5 million in expenses was primarily attributable to (i) an increase of $30.6 million in profit sharing compensation expense, (ii) an increase of $10.3 million in net compensation and benefits expense, and (iii) an increase of $7.5 million in accruals for Principal Performance Payments.

Net Investment Income

Net investment income was $3.6 million for the year ended December 31, 2013, a net increase of $0.3 million, compared to $3.3 million for the year ended December 31, 2012. Net investment income increased by $0.3 million mainly due to (i) a $3.2 million increase in distributions from realization events in special investments in our liquid hedge funds, and (ii) a $0.3 million decrease in recorded impairments with respect to our special investments in our liquid hedge funds for the year ended December 31, 2013 as compared to the prior period. These increases were partially offset by a $3.2 million decrease in earnings attributable to investments in our liquid hedge funds.

Credit Hedge Funds

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

	Year Ended December 31,			Variance	
	2014	2013	2012	2014/2013	2013/2012
Segment revenues					

Management Fees	$113,825	$101,890	$101,194	$11,935	$696
Incentive Income	121,768	190,846	130,305	(69,078)	60,541
Segment revenues - total	$235,593	$292,736	$231,499	$(57,143)	$61,237
Pre-tax distributable earnings	$85,988	$127,450	$97,525	$(41,462)	$29,925

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Pre-tax distributable earnings decreased by $41.5 million primarily due to:

Revenues

Management fees were $113.8 million for the year ended December 31, 2014, a net increase of $11.9 million, compared to $101.9 million for the year ended December 31, 2013. Management fee increased by $11.9 million primarily due to an increase of $11.4 million in management fees from the Drawbridge Special Opportunities Funds as a result of an increase in AUM.

Incentive income, which is determined on a fund-by-fund basis, was $121.8 million for year ended December 31, 2014, a net decrease of $69.1 million, compared to $190.8 million for the year ended December 31, 2013. Incentive income decreased by $69.1 million primarily due to (i) a decrease of $64.3 million in incentive income generated by the Drawbridge Special Opportunities Funds due to relatively lower returns and a decrease in crystallizations due to lower RCA distributions in 2014 and (ii) a decrease of $6.0 million in incentive income generated by the Worden Funds mainly due to lower returns for the year ended December 31, 2014 as compared to the prior period. These decreases were partially offset by a $1.2 million increase in incentive income from other investments for the year ended December 31, 2014 as compared to the prior period.

Expenses

Expenses were $148.3 million for the year ended December 31, 2014, a net decrease of $23.5 million, compared to $171.9 million for the year ended December 31, 2013. The decrease of $23.5 million in expenses was primarily attributable to (i) a decrease of $31.6 million in profit sharing compensation expense related to the decrease of incentive income discussed above and (ii) a net decrease of $4.4 million in general and administrative expenses and corporate allocable expenses for the year ended December 31, 2014 as compared to the prior period. These decreases were partially offset by (i) a $11.9 million increase in compensation and benefits expense and (ii) an increase of $0.6 million in accruals for Principal Performance Payments for the year ended December 31, 2014 as compared to the prior period.

Net Investment Income

Net investment income (loss) was $(1.3) million for the year ended December 31, 2014, a change of $7.8 million, compared to net investment income of $6.6 million for the year ended December 31, 2013. Net investment income changed by $7.8 million primarily due to (i) a $5.8 million impairment on Fortress's holdings of digital currency, (ii) a decrease of $2.0 million in earnings from our investments in our credit hedge funds and (iii) a decrease of $0.2 million in dividend income from a private investment for year ended December 31, 2013.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Pre-tax distributable earnings increased by $29.9 million primarily due to:

Revenues

Management fees were $101.9 million for the year ended December 31, 2013, a net increase of $0.7 million, compared to $101.2 million for the year ended December 31, 2012. Management fees increased by $0.7 million primarily due to (i) a $1.2 million increase in management fees from the Drawbridge Special Opportunities Funds as a result of an increase in average fee paying capital and (ii) a $0.2 million increase in management fees from the

Worden Funds as a result of an increase in average fee paying capital. These increases were partially offset by (i) a decrease of $0.5 million in management fees from the Value Recovery Funds and related assets primarily as a result of certain asset structures within the Value Recovery Funds terminating in the third quarter of 2012 and (ii) a decrease of $0.2 million in management fees from the Drawbridge Special Opportunities Managed Accounts.

Incentive income, which is determined on a fund-by-fund basis, was $190.8 million for the year ended December 31, 2013, a net increase of $60.5 million, compared to $130.3 million for the year ended December 31, 2012. Incentive income increased by $60.5 million primarily due to an increase of $62.1 million in incentive income generated by the Drawbridge Special Opportunities Funds, due to higher returns in the onshore fund and increased crystallization due to RCA distributions in 2013, and an increase of $1.7 million in incentive income generated by the Worden Funds. These increases were partially offset by a $3.3 million decrease in incentive income from other investments.

Expenses

Expenses were $171.9 million for the year ended December 31, 2013, a net increase of $32.9 million, compared to $139.0 million for the year ended December 31, 2012. The increase of $32.9 million in expenses was primarily attributable to (i) an increase of $27.8 million in profit sharing compensation expense, (ii) an increase of $5.0 million in accruals for Principal Performance Payments, and (iii) an increase of $0.4 million in compensation and benefits expense. These increases in expenses were partially offset by a $0.3 million decrease in general and administrative expenses and allocable expenses.

Net Investment Income

Net investment income was $6.6 million for the year ended December 31, 2013, a net increase of $1.6 million, compared to $5.0 million for the year ended December 31, 2012. Net investment income increased by $1.6 million mainly due to (i) a $1.5 million increase in earnings attributable to our investments in our credit hedge funds for the year ended December 31, 2013 as compared to the prior period, and (ii) a $0.2 million increase in dividend income from a private investment for the year ended December 31, 2013.

Credit PE Funds

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

	Year Ended December 31,			Variance	
	2014	2013	2012	2014/2013	2013/2012
Segment revenues					
Management Fees	$96,715	$95,925	$98,393	$790	$(2,468)
Incentive Income	254,461	120,137	68,568	134,324	51,569
Segment revenues - total	$351,176	$216,062	$166,961	$135,114	$49,101
Pre-tax distributable earnings	$121,669	$63,766	$38,394	$57,903	$25,372

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Pre-tax distributable earnings increased by $57.9 million primarily due to:

Revenues

Management fees were $96.7 million for the year ended December 31, 2014, a net increase of $0.8 million, compared to $95.9 million for the year ended December 31, 2013. Management fees increased by $0.8 million primarily due to an increase of $14.2 million related to Credit Opportunities Fund III and its managed accounts and Real Estate Opportunities Funds attributable to net capital raised after the third quarter of 2013. This increase in management fees was partially offset by decreases of $3.8 million, $4.1 million, $2.0 million, $1.1 million, $0.9 million, $0.7 million and $0.6 million in management fees related to Credit Opportunities Fund and its managed account, Credit Opportunities Fund II and its managed accounts, Japan Opportunity Funds I and II, Life Settlement Fund and its managed account, Net Lease Fund, Long Dated Value Funds and Global Opportunities Fund, respectively, primarily due to net capital distributions made after the third quarter of 2013.

Incentive income was $254.5 million for the year ended December 31, 2014, a net increase of $134.3 million, compared to $120.1 million for the year ended December 31, 2013. Incentive income increased by $134.3 million primarily due to (i) an increase of $66.1 million in incentive income generated by the Japan Opportunity Funds I and II during the year ended December 31, 2014 as compared to the prior period, (ii) a net increase of $65.4 million in incentive income generated primarily by the Credit Opportunities Funds and FCO Managed Accounts as a result of an increase in distributions generated by realization events, (iii) a net increase of $2.0 million in incentive income generated primarily by Net Lease Fund and (iv) an increase of $2.0 million in incentive income generated by the Real Estate Opportunities Funds. These increases were partially offset by a decrease of $1.6 million in incentive income generated by the Real Assets Fund.

Expenses

Expenses were $242.4 million for the year ended December 31, 2014, a net increase of $82.5 million, compared to $159.9 million for the year ended December 31, 2013. The increase of $82.5 million in expenses was primarily attributable to (i) a $65.9 million increase in profit sharing compensation expense associated with the increase in incentive income described above, (ii) a $15.1 million net increase in general and administrative expenses and corporate allocable expenses and (iii) a $1.5 million increase in accruals for Principal Performance Payments during the year ended December 31, 2014 as compared to the prior period.

Net Investment Income

Net investment income was $12.9 million for the year ended December 31, 2014, a net increase of $5.2 million, compared to $7.7 million for the year ended December 31, 2013. Net investment income increased by $5.2 million primarily due to an increase in distribution of earnings from realization events in credit PE funds for the year ended December 31, 2014.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Pre-tax distributable earnings increased by $25.4 million primarily due to:

Revenues

Management fees were $95.9 million for the year ended December 31, 2013, a net decrease of $2.5 million, compared to $98.4 million for the year ended December 31, 2012. Management fees decreased by $2.5 million primarily due to (i) a $8.2 million decrease in management fees in Fortress Credit Opportunities Fund I and Fortress Credit Opportunities Fund II primarily attributable to net capital distributions, (ii) a $4.6 million decrease in management fees in Japan Opportunity Fund due to the expiration of its capital commitment period in June 2012, and (iii) a $1.2 million decrease in management fees in the Long Dated Value Funds and Real Assets Funds, for the year ended December 31, 2013, as compared to the prior period. These decreases in management fees were partially offset by an $11.5 million increase in management fees primarily due to net capital calls or additional commitments made after the first quarter of 2012, most notably in Japan Opportunity Fund II, Credit Opportunities Fund III and FCO Managed Accounts.

Incentive income was $120.1 million for the year ended December 31, 2013, a net increase of $51.5 million, compared to $68.6 million for the year ended December 31, 2012. Incentive income increased by $51.5 million primarily due to (i) a net increase of $48.7 million in incentive income generated primarily by the Credit Opportunities Funds and FCO Managed Accounts, (ii) a net increase of $5.8 million in incentive income generated by Japan Opportunities Fund II, (iii) a net increase of $3.3 million in incentive income generated by the Net Lease Fund, and (iv) a net increase of $3.5 million in incentive income generated from other funds, primarily by the Global Opportunities Fund and the Long Dated Value Funds. All of the increases noted were a result of an increase in distributions generated by realization events. These increases in incentive income were partially offset by a decrease of $9.8 million in incentive income earned from other funds, primarily Japan Opportunity Fund I due to a decrease in distributions as compared to the prior period.

Expenses

Expenses were $159.9 million for the year ended December 31, 2013, a net increase of $27.0 million, compared to $132.9 million for the year ended December 31, 2012. The increase of $27.0 million in expenses was primarily attributable to (i) an increase of $28.7 million in profit sharing compensation expense, (ii) a net increase of $0.6 million in compensation and benefits expense, and (iii) an increase of $0.6 million in accruals for Principal Performance Payments. These increases in expenses were partially offset by a $2.9 million decrease in general and administrative expenses and allocable expenses.

Net Investment Income

Net investment income was $7.7 million for the year ended December 31, 2013, a net increase of $3.3 million, compared to $4.4 million for the year ended December 31, 2012. Net investment income increased by $3.3 million mainly due to a $4.4 million increase in distributions from realization events in our credit PE funds, which was partially offset by a $1.1 million decrease in other investment income for the year ended December 31, 2013 as compared to the prior period.

Logan Circle

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

	Year Ended December 31,			Variance	
	2014	2013	2012	2014/2013	2013/2012
Segment revenues					
Management Fees	$46,996	$35,833	$26,796	$11,163	$9,037
Incentive Income	106	—	—	106	—
Segment revenues - total	$47,102	$35,833	$26,796	$11,269	$9,037
Pre-tax distributable earnings (loss)	$(5,267)	$(8,542)	$(9,793)	$3,275	$1,251

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Pre-tax distributable loss decreased by $3.3 million primarily due to:

Revenues

Management fees were $47.0 million for the year ended December 31, 2014, a net increase of $11.2 million, compared to $35.8 million for the year ended December 31, 2013. Management fees increased $11.2 million due to an increase in average AUM as a result of net client inflows.

Incentive income was $0.1 million for the year ended December 31, 2014, a net increase of $0.1 million, compared to no incentive income for the year ended December 31, 2013. Incentive income increased by $0.1 million primarily as a result of returns exceeding performance thresholds for a certain managed account during the year ended December 31, 2014 as compared to the prior period.

Expenses

Expenses were $53.7 million for the year ended December 31, 2014, a net increase of $6.0 million, compared to $47.7 million for the year ended December 31, 2013. The increase of $6.0 million in expenses was primarily attributable to (i) an increase of $2.3 million in compensation and benefits expense as a result of an increase in average headcount within Logan Circle during the year ended December 31, 2014 as compared to the prior period and (ii) an increase of $3.7 million in general and administrative expenses and corporate allocable expenses.

Net Investment Income

Net investment income was $1.3 million for the year ended December 31, 2014, a net decrease of $1.9 million, compared to $3.2 million for the year ended December 31, 2013. Net investment income decreased by $1.9 million primarily due to decrease in net realized and unrealized gains on equity securities managed by Logan Circle's startup growth equities investment strategy.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Pre-tax distributable loss decreased by $1.3 million primarily due to:

Revenues

Management fees were $35.8 million for the year ended December 31, 2013, a net increase of $9.0 million, compared to $26.8 million for the year ended December 31, 2012. Management fees increased $9.0 million due to an increase in average AUM primarily as a result of net client inflows and positive performance.

Expenses

Expenses were $47.7 million for the year ended December 31, 2013, a net increase of $11.1 million, compared to $36.6 million for the year ended December 31, 2012. The increase of $11.1 million in expenses was primarily attributable to an increase of $6.6 million in net compensation and benefits expense, as well as an increase of $4.5 million in general and administrative expenses and corporate allocable expenses as a result of an increase in average headcount within Logan Circle during the year ended December 31, 2013 as compared to the prior period.

Net Investment Income

Net investment income was $3.2 million for the year ended December 31, 2013, due to an increase in net investment income from net realized and unrealized gains on our equity securities.

Unallocated

	Year Ended December 31,			Variance	
	2014	2013	2012	2014/2013	2013/2012
Pre-tax distributable earnings (loss)	$(2,757)	$(5,184)	$(13,420)	$2,427	$8,236

The amounts not allocated to a segment consist primarily of interest expense, foreign currency translation and interest income.

Year Ended December 31, 2014 compared to the Year Ended December 31, 2013

Pre-tax distributable loss decreased by $2.4 million, primarily as a result of (i) a decrease of $2.0 million in interest expense due to a decrease in the average debt balance and average interest rate for the year ended December 31, 2014 as compared to the prior period, (ii) an increase of $0.4 million in foreign currency translation gains for the year ended December 31, 2014 as compared to the prior period.

Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Pre-tax distributable loss decreased by $8.2 million, primarily as a result of a $10.3 million decrease in interest expense due to a decrease in the average debt balance and average interest rate for the year ended December 31, 2013 as compared to the prior period. This decrease was partially offset by a $1.4 million change in foreign currency translation, from a $1.1 million gain for the year ended December 31, 2012 to a $0.3 million loss for the year ended December 31, 2013.

Embedded Gains (Losses)

The following table reflects all of our investments which are not marked to market through distributable earnings for segment reporting purposes as of December 31, 2014:

Fund	Fortress Share of NAV (A)	Fortress Segment Cost Basis (B)	Excess (C)	(Deficit) (C)
Main Funds				
Fund II	$ 21	$ —	$21	$ N/A
Fund III and Fund III Coinvestment	8,372	—	8,372	N/A
Fund IV and Fund IV Coinvestment	98,478	30,878	67,600	N/A
Fund V and Fund V Coinvestment	178,009	16,794	161,215	N/A
Long Dated Value Funds	20,115	10,389	9,726	N/A
Real Assets Funds	14,444	1,393	13,051	N/A
Credit Opportunities Funds	104,988	58,872	46,126	(10)
Asia Funds (Japan Opportunity Funds, Global Opportunities Fund)	24,150	14,730	9,420	N/A
Real Estate Opportunities Funds	11,385	10,141	1,244	N/A
MSR Opportunities Funds	1,049	846	203	N/A
Italian NPL Opportunities	361	368	N/A	(7)
Other Funds (combined)				
Private investment #1	283,463	207,348	76,115	N/A
Private investment #2	90,730	20,503	70,227	N/A
Permanent capital vehicles				
Eurocastle (EURONEXT: ECT)	2,162	78	2,084	N/A
Newcastle (NYSE: NCT)	776	60	716	N/A
New Residential (NYSE: NRZ)	6,622	413	6,209	N/A
New Media (NYSE: NEWM)	1,769	54	1,715	N/A
New Senior (NYSE: SNR)	2,843	229	2,614	N/A
WWTAI	5,284	4,736	548	N/A
Other				
	79,358	37,772	42,791	(1,205)

Hedge fund side pocket investments				
Direct investments- Other	70,000	35,241	41,185	(6,426)
Total	$ 1,004,379	$ 450,845	$561,182	$(7,648)

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

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

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

Sensitivity

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

Liquidity and Capital Resources

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

The receipt of management fees generally occurs on a fixed and fairly predictable schedule, subject to changes in the NAV of the Fortress Funds (due to performance or capital transactions). From time to time, we may elect, in our discretion, to defer the receipt of management or other fees or reimbursements, to which we are legally entitled, in order to optimize the operations of the underlying funds. As of December 31, 2014, the aggregate amount of management fees that various of our managed funds owed but had not yet paid was approximately $33.6 million, excluding $12.2 million which has been fully reserved by us, and the ultimate timing of their payment is currently uncertain. In addition, $11.3 million of private equity general and administrative expenses had been advanced on behalf of certain funds, excluding $6.6 million which has been fully reserved by Fortress. The amount of deferred management fees and reimbursements may increase in the future. Also, while we still believe that we will receive these amounts, if these deferrals continue or increase, they could meaningfully constrain our liquidity in the future.

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

We expect that our cash on hand and our cash flows from operating activities, capital receipts from balance sheet investments and available financing will be sufficient to satisfy our liquidity needs with respect to expected current commitments relating to investments and with respect to our debt obligations over the next twelve months. We estimate that our expected management fee receipts over the next twelve months, a portion of which may be deferred, will be sufficient (along with our cash on hand of $391.1 million at December 31, 2014, our available draws under our credit facility of $72.3 million as of December 31, 2014, and capital receipts from our balance sheet investments) to meet our operating expenses (including compensation and lease obligations), required debt payments, tax distribution requirements, incentive income clawback obligations (if any), and fund capital commitments, in each case to be funded during the next twelve months (see obligation tables below). From time to time, we evaluate alternative uses for excess cash resources, including debt prepayments, payment of recurring or special dividends, funding investments or share repurchases, which may be subject to approval by our board of directors and will depend on various factors. These uses of cash would not (barring changes in other relevant variables, such as EBITDA and Consolidated EBITDA, as defined in our credit agreement) cause us to violate any of our financial covenants under our credit agreement. We believe that the compensation we will be able to pay from these available sources will be sufficient to retain key employees and maintain an effective workforce. We may elect, if we deem it appropriate, to defer certain payments due to our principals and affiliates or raise capital to enable us to make payments required under our credit agreement or for other working capital needs.

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

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

As of December 31, 2014, our material cash commitments and contractual cash requirements were related to our capital commitments to our funds, lease obligations and debt obligations. Our potential liability for the contingent repayment of incentive income is discussed under “— Contractual Obligations” below.

Fortress has no obligation to satisfy the liabilities of New Media, New Senior or the Investment Company. Similarly, Fortress does not have the right to make use of New Media, New Senior or the Investment Company's assets to satisfy its obligations. Therefore, we do not believe New Media, New Senior or the Investment Company's liquidity, including cash requirements for working capital, debt obligations and capital expenditures, are material to our Class A Shareholders.

Capital Commitments

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

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

Our outstanding capital commitments as of December 31, 2014 consisted of the following.

	Outstanding Commitment
Private Equity Funds	
Fund III Coinvestment	$2
Fund IV	4,053
Fund IV Coinvestment	3
Fund V	6,143
Fund V Coinvestment	2
FHIF (Holiday)	8,089
FECI (Florida East Coast Railway/ Florida East Coast Industries)	1,551
MSR Opportunities Fund I A	5
MSR Opportunities Fund I B	5
MSR Opportunities Fund II A	11,940
MSR Opportunities Fund II B	94
MSR Opportunities MA I	2,861
Italian NPL Opportunities Fund	10,630
A&K Global Health	152
Private Permanent Capital Vehicle	
WWTAI	3,264
Credit PE Funds	
Credit Opportunities Fund	6,046
Credit Opportunities Fund II	3,336
Credit Opportunities Fund III	7,095
FCO Managed Accounts	28,710
Long Dated Value Fund I	460
Long Dated Value Fund II	1,640
Long Dated Value Fund III	160
LDVF Patent Fund	85
Real Assets Fund	11,068
Japan Opportunity Fund	3,848
Japan Opportunity Fund II	9,124
Japan Opportunity Fund III	10,968
Net Lease Fund I	161
Global Opportunities Fund	711
Life Settlements Fund	60
Life Settlements Fund MA	39
Real Estate Opportunities Fund	900
Real Estate Opportunities Fund II	6,579
Real Estate Opportunities REOC Fund	65
Karols Development Co	6,818
Other	282
Total	$146,949

Lease Obligations

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

	Investment Manager	Non-Investment Manager
Year Ending December 31,		
2015	$25,483	$6,800
2016	23,253	4,985
2017	12,462	4,801
2018	20,234	3,671
2019	19,612	1,450
Thereafter	279,382	3,449
Total (A)	$380,426	$25,156

(A) Subsequent to December 31, 2014, we entered into new lease agreements which relate to our primary office space in New York and extends through October 2032.

Debt Obligations

Investment Manager

As of December 31, 2014, our debt obligations consisted of our credit agreement, as described below.

In February 2013, we entered into a $150.0 million revolving credit facility (the "Credit Agreement") with a $15.0 million letter of credit subfacility. The Credit Agreement generally bears interest at an annual rate equal to LIBOR plus an applicable rate that fluctuates depending upon our credit rating, and a commitment fee on undrawn amounts that fluctuates depending upon our credit rating, as well as other customary fees. In connection with the closing of the Credit Agreement, approximately $2.4 million of fees and expenses were incurred. In January 2014, in connection with the launch of the affiliated manager platform with the Fortress Asia Macro Funds, we entered into an amendment, consent, and waiver to the Credit Agreement. Pursuant to the amendment, the required lenders under the Credit Agreement consented to the Fortress Asia Macro Funds transaction and conforming amendments, primarily certain definitions relating to the financial covenants in order to account for the portion of the business in which we will retain an economic interest.

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

The following table presents information regarding our debt obligations:

Debt Obligation	Face Amount and Carrying Value December 31, 2014	Face Amount and Carrying Value December 31, 2013	Contractual Interest Rate	Final Stated Maturity	December 31, 2014 Amount Available for Draws
Revolving credit agreement (A) (B)	$75,000	$—	LIBOR+2.50% (C)	Feb 2016	$72,332
Total	$75,000	$—			

(A) 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, other than fees from Fortress's senior living property manager.

(B) The $150.0 million revolving debt facility includes a $15.0 million letter of credit subfacility of which $2.7 million was utilized as of December 31, 2014.

(C) Subject to unused commitment fees of 0.4% per annum.

During the year ended December 31, 2014, the average face amount of our outstanding debt was approximately $69.4 million and the highest face amount outstanding at one time during this period was $125.0 million.

On December 21, 2012, one of our Principals retired and we agreed to purchase all of his 2,082,684 Class A shares and his 49,189,480 Fortress Operating Group units at $3.50 per share, or an aggregate of $179.5 million. In connection with this purchase, we paid $30.0 million of cash and issued a $149.5 million promissory note to the former Principal, which bore interest at 5%. In July 2013, Fortress repaid the promissory note in full, plus accrued interest. As such, this note is no longer outstanding.

As a result of our initial public offering and related transactions, secondary public offerings, and other transactions, FIG Asset Co. LLC lent aggregate excess proceeds of approximately $756.6 million to FIG Corp., pursuant to a demand note, as amended. As of December 31, 2014, the outstanding balance was approximately $663.4 million, including unpaid interest. This intercompany debt is eliminated in consolidation.

Covenants

Fortress Operating Group is required to prepay any amounts outstanding under the Credit Agreement upon the occurrence of certain events.

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

The Credit Agreement contains customary representations and warranties and affirmative and negative covenants that, among other things, restrict the ability of Fortress to create or incur certain liens, incur or guarantee additional indebtedness, merge or consolidate with other companies or transfer all or substantially all of their respective assets, transfer or sell assets, make restricted payments, engage in transactions with affiliates and insiders, and incur restrictions on the payment of dividends or other distributions and certain other contractual restrictions. These covenants are subject to a number of limitations and exceptions set forth in the Credit Agreement. In addition, Fortress Operating Group must not:

- Permit AUM (as defined as Management Fee Earning Assets in the Credit Agreement) to be less than $25.0 billion as of the end of any calendar month;
- Permit the Consolidated Leverage Ratio (a measure of Adjusted Net Funded Indebtedness compared to Consolidated EBITDA, each such term as defined in the Credit Agreement) to be greater than 2.00 to 1.0 as of the end of any fiscal quarter for the four quarter period ending on such date; or
- Permit the Consolidated Interest Coverage Ratio (a measure of Consolidated EBITDA compared to Consolidated Interest Charges, each such term as defined in the Credit Agreement) to be less than 4.00 to 1.0 as of the end of any fiscal quarter for the four quarter period ending on such date.

The following table sets forth the financial covenant requirements under the Credit Agreement as of December 31, 2014.

	December 31, 2014 (dollars in millions)			
	Requirement		Actual	Notes
AUM, as defined	≥	$25,000	$45,964	(A)
Consolidated Leverage Ratio	≤	2.00	0.22	(B)
Consolidated Interest Coverage Ratio	≥	4.00	101.89	(B)

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

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

	December 31, 2014
	(in millions)
Outstanding debt	$75.0
Plus: Outstanding letters of credit	2.7
Less: Cash (up to $50 million)	—
Adjusted Net Funded Indebtedness	$77.7

	Year Ended December 31, 2014 (in millions)
Fortress Investment Group LLC net income	$100.0
Depreciation and amortization, interest expense and income taxes	30.2
Extraordinary or non-recurring gains and losses	(0.8)
Incentive Income Adjustment	93.7
Other Income Adjustment	(73.2)
Compensation expenses recorded in connection with the assignment of certain publicly traded permanent capital vehicle Options and Stock Based Compensation	31.4
Non-controlling interest and tax receivable agreement adjustments at FIG Corp.	167.1
(Income) loss of excluded entities (as defined in the Credit Agreement)	0.8
Consolidated Fortress Fund adjustment	1.4
Consolidated EBITDA	$350.6
Interest charges	$3.4

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

Non-Investment Manager

From time to time, our consolidated VIEs (New Media and New Senior) may incur debt or enter into other financing arrangements. Although such activities are reflected in the Non-Investment Manager section of our financial statements, they do not have any impact on Fortress's cash flows as reflected in the Investment Manager section of our consolidated financial statements included in Item 8, and Fortress, as the investment manager, have no obligation to satisfy any such liabilities and no right to make use of New Media's or New Senior's assets to satisfy any obligations reflected in the Investment Manager section of our financial statements.

The debt obligations of New Media and New Senior are not cross collateralized with the debt obligations of Fortress. The debt obligations of New Media and New Senior have no impact on the Fortress's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.

New Media

As of December 31, 2014, New Media had an aggregate outstanding amount of $222.0 million, net of $7.4 million of original issue discount, in term loans and an additional $20.0 million in revolving loans were undrawn. In addition, New Media may request one or more new commitments for term loans or revolving loans from time to time up to an aggregate total of $225.0 million, of which $25.0 million has been exercised to date, subject to certain conditions. The term loans mature on June 4, 2020 and the maturity date for the revolving credit facility is June 4, 2019. As of December 31, 2014, loans under New Media's credit agreement had a weighted average interest rate of 7.21%. As of December 31, 2014, New Media was in compliance with all of the applicable covenants under the New Media's credit agreement. See Note 5 to our consolidated financial statements, included in Item 8, for more information.

In January 2015, New Media completed the acquisition of substantially all of the assets from Halifax Media Group for an aggregate purchase price of $280.0 million. New Media incurred an incremental $152.0 million of additional term and revolving debt under its credit agreement to finance the Halifax acquisition. The term and revolving debt has an interest rate of LIBOR (with a minimum of 1%) plus 6.25% and original issue discount of $1.5 million. In addition, New Media assumed $18.0 million of term debt in connection with the Halifax acquisition, $10.0 million of which has a fixed interest rate of 5.25% and a maturity date of December 31, 2016, and $8.0 million of which has an interest rate of LIBOR plus 6.25% and a maturity date of March 31, 2019.

New Senior

As of December 31, 2014, New Senior had an aggregate outstanding amount of $1,259.4 million of mortgage notes related to certain senior housing properties. Mortgage notes related to certain senior housing properties contain various customary loan covenants, in some cases including a Debt Service Coverage Ratio and Project Yield, as defined in the agreements. New Senior was in compliance with all of the covenants as of December 31, 2014. See Note 5 to our consolidated financial statements, included in Item 8, for further information.

Dividends / Distributions

2014

On February 26, 2015 Fortress declared a base quarterly cash dividend of $0.08 per Class A share and a special cash dividend of $0.30 per share resulting in total dividends of $0.38 for the fourth quarter of 2014. This dividend is payable on March 17, 2015 to holders of record of our Class A shares on March 12, 2015. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, is approximately $86.4 million.

On October 30, 2014, Fortress declared a base quarterly cash dividend of $0.08 per Class A share. The dividend is payable on November 17, 2014 to holders of record of Class A shares on November 12, 2014. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, is approximately $17.2 million.

On July 30, 2014, Fortress declared a base quarterly cash dividend of $0.08 per Class A share and a special cash dividend of $0.18 per Class A share resulting in total dividends of $0.26 per Class A share for the second quarter of 2014. The dividend was payable on August 15, 2014 to holders of record of Class A shares on August 12, 2014. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was $56.0 million.

On April 30, 2014, Fortress declared a first quarter cash dividend of $0.08 per Class A share. The dividend was payable on May 16, 2014 to holders of record of Class A shares on May 13, 2014. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was $17.2 million.

During the year ended December 31, 2014, Fortress Operating Group declared distributions of $136.7 million to the principals and a former senior employee.

2013

On February 26, 2014 Fortress declared a fourth quarter cash dividend of $0.08 per Class A share. This dividend is payable on March 14, 2014 to holders of record of our Class A shares on March 11, 2014. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, is approximately $15.3 million.

On October 30, 2013, Fortress declared a third quarter cash dividend of $0.06 per Class A share. The dividend was payable on November 15, 2013 to holders of record of our Class A shares on November 12, 2013. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was approximately $14.8 million.

On July 31, 2013, we declared a second quarter cash dividend of $0.06 per Class A share. The dividend was payable on August 16, 2013 to shareholders of record of our Class A shares on August 13, 2013. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was approximately $14.7 million.

On May 1, 2013, we declared a first quarter cash dividend of $0.06 per Class A share. The dividend was payable on May 17, 2013 to holders of record of our Class A shares on May 14, 2013. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was approximately

$14.5 million.

During the year ended December 31, 2013, Fortress Operating Group declared distributions of $77.9 million to the principals and a former senior employee.

2012

On February 26, 2013, we declared a fourth quarter cash dividend of $0.06 per Class A share. The dividend was payable on March 15, 2013 to holders of record of our Class A shares on March 12, 2013. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was approximately $13.9 million.

On November 1, 2012, we declared a third quarter cash dividend of $0.05 per Class A share. The dividend was payable on November 19, 2012 to holders of record of our Class A shares on November 14, 2012. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was approximately $11.3 million.

On August 1, 2012, we declared a second quarter cash dividend of $0.05 per Class A share. The dividend was payable on August 20, 2012 to holders of record of our Class A shares on August 15, 2012. The aggregate amount of this dividend payment, including dividend equivalent payments paid to holders of restricted Class A share units, was approximately $11.3 million.

On May 2, 2012, we declared a first quarter cash dividend of $0.05 per Class A share. The dividend was payable on May 21, 2012 to holders of record of our Class A shares on May 16, 2012. The aggregate amount of this dividend payment was, including dividend equivalent payments paid to holders of restricted Class A share units, approximately $11.1 million.

During the year ended December 31, 2012, Fortress Operating Group declared distributions of $48.4 million to the principals and a former senior employee.

Cash Flows

Our primary cash flow activities are: (i) generating cash flow from operations, (ii) making investments in Fortress Funds, (iii) meeting financing needs through, and making required payments under, our credit agreement and other debt, and (iv) distributing cash flow to equity holders, as applicable. Fortress has no obligation to satisfy New Media, New Senior or the Investment Company's cash obligations and, similarly, does not have the right to make use of New Media, New Senior or the Investment Company's cash flows.

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

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

Operating Activities

Net cash flow provided by (used in) operating activities was $239.9 million, $432.9 million and $142.0 million during the years ended December 31, 2014, 2013 and 2012, respectively.

Operating Activities — Comparative — 2014 vs. 2013

Investment Manager

Our cash flow provided by operating activities was $341.9 million, $432.9 million and $142.0 million during the years ended December 31, 2014, 2013 and 2012, respectively.

Cash received for affiliate and non-affiliate management fees increased by $66.3 million from $527.2 million in 2013 to $593.5 million in 2014. Management fees are based on average fee paying AUM, which, based on a simple quarterly average, increased within our alternative and traditional investment businesses from 2013 to 2014 (private equity funds decreased by $0.5 billion, permanent capital vehicles increased by $0.6 billion, liquid hedge funds increased by $1.5 billion, credit hedge funds increased by $0.3 billion, credit PE funds decreased by $0.1 billion, and Logan Circle increased by $6.3 billion) as a result of capital raising, including new fund formation, and returns, offset by redemptions, capital distributions, and losses. The average management fee rate earned by Logan Circle is significantly lower than that earned by Fortress's alternative asset management businesses. In addition to changes in AUM, management fee receipts were impacted by the collection of approximately $4.4 million of previously past due fees.

Incentive income is calculated as a percentage of returns, or profits, earned by the Fortress Funds and non-affiliates or is based primarily on profitable realization events within private equity funds and credit PE funds. A $110.4 million increase in cash incentive income received was mainly due to the crystallization of incentive related to liquid hedge fund managed accounts in 2013 and paid in 2014.

Cash received as Distributions of Earnings from Equity Method Investments increased $26.4 million from 2013 as a result of realization events within certain funds.

Cash paid for compensation increased by $303.0 million from the twelve months ended December 31, 2013 to December 31, 2014. Bonuses and profit sharing payments are generally paid in the first quarter of the year following the year in which they are earned, so the amounts paid in 2014 and 2013 primarily related to bonuses and profit sharing earned in 2013 and 2012, respectively. However, a portion (approximately $176.2 million) of the bonuses and profit sharing earned in 2012 were also paid in 2012.

In addition, Fortress made a payment of $24.1 million under the tax receivable agreement, including interest, during the twelve months ended December 31, 2014, compared to $21.8 million during the twelve months ended December 31, 2013.

Cash flow provided by (used in) operating activities from the Investment Company - consolidated VIEs was $(149.3) million for the period from June 1, 2014 to December 31, 2014.

Non-Investment Manager:

Cash flow provided by (used in) operating activities from New Media was $42.8 million for the period from February 14, 2014 to December 31, 2014.

Cash flow provided by (used in) operating activities from New Senior was $4.5 million for the period from November 7, 2014 to December 31, 2014.

Operating Activities — Comparative - 2013 vs. 2012

Cash received for affiliate and non-affiliate management fees decreased by $14.1 million from $541.3 million in 2012 to $527.2 million in 2013. Management fees are based on average fee paying AUM, which, based on a simple quarterly average, increased within our alternative and traditional investment businesses from 2012 to 2013 (private equity funds increased by $0.9 billion, permanent capital vehicles decreased by $(9.6) million, liquid hedge funds increased by $1.4 billion, credit hedge funds decreased by $(0.1) billion, credit PE funds increased by $0.8 billion, and Logan Circle increased by $4.8 billion) as a result of capital raising, including new fund formation, and returns, offset by redemptions, capital distributions, and losses. The average management fee rate earned by Logan Circle is significantly lower than that earned by Fortress's alternative asset management businesses. In addition to changes in AUM, management fee receipts were impacted by approximately $38.0 million of management fees that were past due at December 31, 2013, as opposed to $31.5 million at December 31, 2012, as discussed in "— Liquidity and Capital Resources" above.

Incentive income is calculated as a percentage of returns, or profits, earned by the Fortress Funds and non-affiliates or is based on profitable realization events within private equity funds and credit PE funds and based on cash realizations in Value Recovery Funds. A $78.0 million increase in cash incentive income received was mainly due to increased realizations within the credit PE funds in 2013.

Cash received as Distributions of Earnings from Equity Method Investments increased $24.8 million from 2012 as a result of realization events within certain funds.

Cash paid for compensation decreased by $210.4 million from the twelve months ended December 31, 2012 to December 31, 2013. Bonuses and profit sharing payments are generally paid in the first quarter of the year following the year in which they are earned, so the amounts paid in 2013 and 2012 primarily related to bonuses and profit sharing earned in 2012 and 2011, respectively. However, a portion (approximately $176.2 million) of the bonuses and profit sharing earned in 2012 were also paid in 2012.

Cash paid for interest decreased $10.1 million primarily due to a lower average debt balance of $68.5 million in 2013 compared to $167.8 million in 2012.

The receipt in 2012 of prior period receivables for expense reimbursements resulted in a $65.2 million decrease in 2013 for cash received.

In addition, Fortress made a payment of $21.8 million under the tax receivable agreement during the twelve months ended December 31, 2013, compared to $34.4 million during the twelve months ended December 31, 2012.

Investing Activities

Investment Manager:

Our net cash flow provided by (used in) investing activities was $373.6 million, $211.7 million and $66.5 million during the years ended December 31, 2014, 2013 and 2012 respectively. Our investing activities primarily included: (i) contributions to equity method investees of $(36.1) million, $(37.1) million and $(63.8) million during the years ended December 31, 2014, 2013 and 2012 respectively, (ii) distributions of capital from equity method investees of $379.9 million, $281.5 million and $140.7 million during these periods, respectively, (iii) the purchase of $26.0 million of software and technology related assets during the year ended December 31, 2014, (iv) purchases of fixed assets of $(12.4) million, $(11.5) million and $(10.4) million during these periods, respectively, (v) the purchase of $(16.7) million of securities during the year ended December 31, 2014 as compared to the purchase of securities and digital currency of $(40.0) million during the year ended December 31, 2013 and (vi) proceeds of $84.9 million from the sale of securities during the year ended December 31, 2014 as compared to the purchase of securities of $18.9 million during the year ended December 31, 2013.

Net cash provided by (used in) investing activities from the Investment Company - consolidated VIEs was $(12.0) million for the period June 1, 2014 to December 31, 2014 due to the outflow of existing cash on the deconsolidation date.

Non-Investment Manager:

Net cash provided by (used in) investing activities from New Media was $(57.4) million for the period from February 14, 2014 to December 31, 2014. This activity included $23.8 million of cash on hand on the consolidation date which was primarily offset by $(77.6) million used for acquisitions, net of cash acquired.

Net cash provided by (used in) investing activities from New Senior was $223.1 million for the period from November 7, 2014 to December 31, 2014. This activity included $245.2 million of cash on hand on the consolidation date which was primarily offset by $(15.7) million used for acquisitions, net of cash acquired.

Financing Activities

Investment Manager:

Our net cash flow provided by (used in) financing activities was $(638.9) million, $(384.3) million and $(437.4) million during the years ended December 31, 2014, 2013 and 2012, respectively. Our financing activities primarily included (i) distributions made to principals and a former senior employee, including those classified within “principals’ and others’ interests in consolidated subsidiaries,” of $(141.9) million, $(104.7) million and $(45.8) million during these periods, respectively, (ii) distributions to employees and others related to their interests in consolidated subsidiaries of $(103.6) million, $(70.2) million and $(48.8) million during these periods, respectively, (iii) contributions from employees and others related to their interests in consolidated subsidiaries of $0.9 million, $0.4 million and $0.4 million during these periods, respectively, (iv) dividend and dividend equivalent payments of $(105.9) million, $(57.9) million and $(44.2) million, during these periods, respectively, and (v) our net borrowing and debt repayment, including payments for deferred financing costs, (vi) our purchase of 60,568,275 Class A shares from Nomura for $(363.4) million, (vii) the issuance of 23,202,859 Class A shares for $186.6 million all of which was used to purchase an equivalent number of Class B shares from the Principals, (viii) excess tax benefits from delivery of RSU's and (ix) withholding tax paid on behalf of employees with respect to the delivery of RSUs, effectively repurchasing Class A shares, of $(3.6) million, $0.0 million and $(7.8) million during the years ended December 31, 2014, 2013 and 2012, respectively. In addition, in 2012, Fortress paid $(30.0) million to a former Principal in exchange for all of his Class A shares, Class B shares and Fortress Operating Group units.

Net cash provided by (used-in) financing activities from the Investment Company - consolidated VIEs was $111.5 million for the period June 1, 2014 to December 31, 2014, due to cash contributions of $75.3 million in non-redeemable non-controlling interests in Investment Company contributions and $36.3 million in redeemable non-controlling interests.

Non-Investment Manager:

Net cash provided by (used in) financing activities from New Media was $138.4 million for the period from February 14, 2014 to December 31, 2014, due to net borrowing and debt repayment, including payments for debt issuance costs,

$115.9 million of proceeds from a public offering partially offset by dividends paid of $(18.2) million.

Net cash provided by (used in) financing activities from New Senior was $(1.3) million for the period from November 7, 2014 to December 31, 2014 primarily due to debt repayments of $(1.4) million partially offset by capital contributions of $0.1 million.

Critical Accounting Policies

General

Consolidation

For those entities in which it has a variable interest, Fortress first determines whether the entity is a VIE. This determination is made by considering whether the entity's equity investment at risk is sufficient and whether the entity's at-risk equity holders have the characteristics of a controlling financial interest. A VIE must be consolidated by its primary beneficiary. The primary beneficiary of a VIE is generally defined as the party who, considering the involvement of related parties and de facto agents, has (i) the power to direct the activities of the VIE that most significantly affect its economic performance, and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. This evaluation is updated continuously.

For investment companies and similar entities, the primary beneficiary of a VIE is the party who, considering the involvement of related parties and de facto agents, absorbs a majority of the VIE's expected losses or receives a majority of the expected residual returns, as a result of holding a variable interest. This evaluation is also updated continuously.

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

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

As of December 31, 2014, the investment vehicles in which Fortress held an interest were comprised of 61 VIEs and 142 voting interest entities. For a more detailed discussion about our VIEs and other unconsolidated entities please see Note 4 to Part II, Item 8, "Financial Statements and Supplementary Data — Investments and Fair Value."

Investment Manager

Revenue Recognition on Incentive Income

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

Profit Sharing Arrangements

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

For profit sharing plans related to hedge funds and permanent capital vehicles, where incentive income is received on a quarterly or annual basis, the related compensation expense is accrued during the period for which the related payment is made. In addition, certain of Fortress's employees are granted partial rights in options it holds in the publicly traded permanent capital vehicles (the "tandem awards"). The fair value of the tandem awards are recorded as profit sharing compensation expense at that time. The related liability, included in accrued compensation and benefits, is marked to fair value through compensation expense until such time as the rights are exercised or expire.

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

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

For further information on amounts paid and payable in the future under our profit sharing arrangements, please see Note 3 to Part II, Item 8, "Financial Statements and Supplementary Data — Management Agreements and Fortress Funds."

Valuation of Investments

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

With respect to valuation information provided by independent valuation agents, or pricing services, Fortress performs procedures to verify that such information is reasonable and determined in accordance with GAAP, and that the information is properly classified in the valuation hierarchy. Depending on the circumstances, these procedures generally include the following: (i) using established procedures to assess and approve agents, and their valuation methodologies, prior to their selection, (ii) obtaining a report from an independent auditing firm regarding the reliability of the internal controls of the pricing service providers (formerly known as a “SAS 70 review”), if available, (iii) performing due diligence on the agent's processes and controls, including developing an understanding of the agent's methodologies, (iv) obtaining broker quotations and/or performing an internal valuation in order to gauge the reasonableness of the information provided by the agent, (v) challenging the information provided, as appropriate, and (vi) performing back-testing of valuation information against actual prices received in transactions.

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

Private Equity Funds

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

1. Public market transactions of similar securities
2. Private market transactions of similar or identical securities
3. Analytical methods

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

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

If the fair value of private security investments held by our private equity funds cannot be valued by reference to a public or private market transaction, then the primary analytical methods used to estimate the fair value of such private securities are the discounted cash flow method, by reference to performance statistics of similar public companies (for example, EBITDA multiples) or the use of third party valuations. Sensitivity analysis is applied to the estimated future cash flows using various factors depending on the investment, including assumed growth rates (in cash flows), capitalization rates (for determining terminal values) and appropriate discount rates based on the investment to determine a range of reasonable values. The valuation based on the inputs determined to be the most probable is used as the fair value of the investment.

Liquid Hedge Funds

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

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

Credit Hedge Funds

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

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

If it is likely that a borrower will not be able to repay a loan in full, the loan may be valued by estimating how much the borrower will be able to repay based on obtaining refinancing from a new lender. Under this method, the borrower's business must be examined in detail, and then compared to known loans in the market to estimate how much the borrower will likely be able to borrow, and therefore repay under the existing loan. If the amount likely to be able to be refinanced is less than the total payments due under the loan, the fair value of the loan will be reduced.

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

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

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

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

Credit PE Funds

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

Traditional Asset Management Business

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

Sensitivity

Changes in the fair value of our funds’ investments would impact our results of operations as described in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk.”

As discussed above, the determination of investment fair values involves management's judgments and estimates. The degree of judgment involved is dependent upon the availability of quoted market prices or observable market parameters. The following table summarizes the investments held by the Fortress Funds by valuation methodology as of December 31, 2014. As of December 31, 2014, operations of our traditional asset management business are not material to our operations and are therefore not included in the analysis below.

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

Basis for Determining Fair Value	Private Equity Funds (B)	Liquid Hedge Funds (C) Fortress Partners Funds	Other Funds Long	Other Funds Short	Credit Hedge Funds	Credit PE Funds	Total Investment Company Holdings
1. Quoted market prices	2 %	4 %	80 %	63 %	3 %	4 %	30 %
2. Other observable market parameters	32 %	10 %	20 %	37 %	8 %	8 %	14 %
3. Significant unobservable market parameters (A)	66 %	86 %	— %	— %	89 %	88 %	56 %
Total	100 %	100 %	100 %	100 %	100 %	100 %	100 %

(A) A substantial portion of our funds' level 3 investment valuations are based on third party pricing services, broker quotes, or third party fund manager statements, in addition to internal models. In particular, approximately, 95% and 87% of our credit hedge funds' and credit PE funds', respectively, level 3 valuations were based on such sources.

(B) For the purposes of the table above, includes our private permanent capital vehicle.

(C) The level 3 investments within the "other funds" in the liquid hedge funds segment are primarily related to the illiquid SPV and sidepocket investments within the Drawbridge Global Macro Funds.

As of December 31, 2014, $8.9 billion of investments in our private equity funds and private permanent capital vehicle, $0.8 billion of investments in our liquid hedge funds, $9.3 billion of investments in our credit hedge funds, and $9.0 billion of investments in our credit PE funds are valued with significant unobservable market parameters. A 10% increase or decrease in the value of investments held by the Fortress Funds valued at level 3 would have had the following effects on our results of operations on an unconsolidated basis for the year ended December 31, 2014, consistent with the table above:

	Private Equity Funds (A)	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds
Management fees, per annum on a prospective basis	$2.3 million or ($2.9 million) (B)	$0.6 million or ($0.6 million)	$17.3 million or ($17.3 million)	$0.1 million or ($0.6 million) (B)
Incentive income	N/A (C)	$0.0 million or ($0.0 million)	$88.1 million or ($80.9 million)	N/A (C)
Earnings from equity method investees	$50.4 million or ($50.4 million)	$7.1 million or ($7.1 million)	$9.5 million or ($9.5 million)	$14.5 million or ($14.5 million)

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

(A) For the purposes of the table above, includes our private permanent capital vehicle.

(B) Private equity fund, private permanent capital vehicle and credit PE fund management fees would be generally unchanged as, for investments in non-publicly traded securities, they are generally not based on the value of the funds, but rather on the amount of capital invested in the funds. However, if the NAV of a portfolio company of certain private equity funds, credit PE funds or of the private permanent capital vehicle is reduced below its invested capital, there would be a reduction in management fees. As of December 31, 2014, $2.9 billion of such portfolio companies valued at level 3 were carried at or below their invested capital. Management fees are generally calculated as of certain reset dates. The amounts disclosed show what the estimated effects would be to management fees over the next year assuming December 31, 2014 is the current reset date.

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

Income Taxes

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

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

We project that we will have sufficient future taxable ordinary income in the normal course of business without any projected significant change in circumstances to fully realize the portion of the deferred tax asset that would be realized in connection with future ordinary income. Our projections do not include material changes in AUM or incentive income from the current levels. However, the projections do contain an estimated marginal growth assumption. Based on our historical and projected taxable income, we have concluded that the realization of the portion of the deferred tax asset that would be realized in connection with future taxable ordinary income is more likely than not. If our estimates change in the future and it is determined that it is more likely than not that some portion, or all, of this portion of the deferred tax asset will not be realized, a valuation allowance would be recorded for that portion. However, in most cases, any tax expense recorded in connection with the establishment of a valuation allowance or the reversal of a deferred tax asset would be partially offset by other income recorded in connection with a corresponding reduction of a portion of the tax receivable agreement liability (see below). The following table sets forth our federal taxable income for historical periods before deductions relating to the establishment of the deferred tax assets, other than deferred tax assets arising from equity-based compensation, as well as the average of ordinary income needed over the approximate period of the deductibility (approximately 15 years from the date of establishment, based on the amortization period of the tax basis intangible assets recorded) in order to fully realize the portion of the deferred tax asset that would be realized in connection with future ordinary income (in millions):

2010	$77.6
2011	53.5
2012	80.9
2013	90.7
2014: Estimated	127.4
2015 - 2022: Average Required	$91.7

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

For further information on our effective tax rate, and the tax receivable agreement, see Note 6 to our financial statements in Part II, Item 8, "Financial Statements and Supplementary Data — Income Taxes and Tax Related Payments." Our effective tax rate for GAAP reporting purposes may be subject to significant variation from period to period. In addition, legislation has been introduced in the United States, which, if enacted in its current or similar form, could cause us to incur a material increase in our tax liability. See Part I, Item 1A, "Risk Factors — Risks Related to Taxation — Several items of tax legislation are currently being considered which, if enacted, could materially affect us, including by preventing us from continuing to qualify as a partnership for U.S. federal income tax purposes. Our structure also is subject to potential judicial or administrative change and differing interpretations, possibly on a retroactive basis."

Equity-Based Compensation

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

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

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

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

Each of these elements, particularly the forfeiture factor and dividend growth rate used in valuing certain awards, are subject to significant judgment and variability and the impact of changes in such elements on equity-based compensation expense could be material. Increases in the assumed forfeiture factor would decrease compensation expense. Increases in the assumed risk-free rate would (i) decrease compensation expense related to RSUs which do not entitle recipients to dividend equivalents since the estimated value of the foregone dividends would have increased, thereby increasing the discount related to their non-receipt, and (ii) decrease compensation expense related to RSUs with no service conditions since the discount for delayed delivery would have increased. Except for the forfeiture factor, changes in these assumptions will only affect awards made in the future and awards whose accounting is impacted by changes in their fair value (generally those to non-employees, known as “liability awards”).

Non-Investment Manager

New Media

Purchase Accounting

The media assets and liabilities were recorded at fair value as of the date of consolidation. In determining the allocation of the purchase price between net tangible and identified intangible assets and liabilities, management made estimates of the fair value of the tangible and intangible assets and liabilities using information obtained as a result of preacquisition due diligence, marketing, leasing activities, and independent appraisals. Management allocated the purchase price to net tangible and identified intangible assets and liabilities based on their fair values as of the acquisition date. The determination of fair value involved the use of significant judgment and estimation.

Goodwill and Intangible Assets

We assess the potential impairment of goodwill and intangible assets with indefinite lives on an annual basis. We perform our impairment at the reporting level. The fair value of the applicable reporting unit is compared to its carrying value. Estimating the fair value of a reporting unit requires us to make significant judgments, estimates and assumptions. We estimate fair value by applying third-party market value indicators to projected cash flows and/or projected earnings before interest, taxes, depreciation, and amortization. In applying this methodology, we rely on a number of factors, including current operating results and cash flows, expected future operating results and cash flows, future business plans, and market data. If the carrying value of the reporting unit exceeds the estimate of fair value, we calculate the impairment as the excess of the carrying value of goodwill over its implied fair value. The sum of the fair values of the reporting units are reconciled to our current market capitalization (based upon the stock market price) plus an estimated control premium.

We assess the recoverability of our definite lived intangible assets, whenever events or changes in business circumstances indicate the carrying amount of the assets, or other appropriate grouping of assets, may not be fully recoverable. The assessment of recoverability is based on comparing management's estimates of the sum of the estimated undiscounted cash flows generated by the underlying asset, or other appropriate grouping of assets, to its carrying value to determine whether an impairment existed at its lowest level of identifiable cash flows. Factors leading to impairment include significant under-performance relative to historical or projected results, significant changes in the manner of use of the acquired assets or the strategy for our overall business and significant negative industry or economic trends.

Revenue Recognition

Advertising revenue is recognized upon publication of the advertisement. Circulation revenue from subscribers is billed to customers at the beginning of the subscription period and is recognized on a straight-line basis over the term of the related subscription. Circulation revenue from single copy sales is recognized at the time of sale. Revenue for commercial printing is recognized upon delivery. Directory revenue is recognized on a straight-line basis over the period in which the corresponding directory is distributed and in the market, typically twelve months.

Income Taxes

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using tax rates in effect for the year in which the differences are expected to affect taxable income. The assessment of the realizability of deferred tax assets involves a high degree of judgment and complexity. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are expected to be realized. When management determines that it is more likely than not that we will be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would be made and reflected either in income of as an adjustment to goodwill. This determination will be made by considering various factors, including our expected future results, that in our judgment will make it more likely than not that these deferred tax assets will be realized.

The financial statements reflect expected future tax consequences of uncertain tax positions that New Media has taken or expects to take on its tax returns presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values.

As of December 31, 2014, New Media had uncertain tax positions of $1.0 million which, if recognized, would impact its effective tax rate. New Media does not anticipate significant increases or decreases in its uncertain tax positions within the next twelve months. New Media did not record significant amounts of interest and penalties related to uncertain tax positions for the period from February 14, 2014 to December 31, 2014.

New Senior

Purchase Accounting

Property acquisitions subsequent to the consolidation of New Senior are accounted for as business combinations. The accounting for acquisitions requires the identification and measurement of all acquired tangible and intangibles assets and assumed liabilities at their respective fair values as of the respective transaction dates. Recognized intangible assets primarily include the fair value of in-place resident leases. In determining the allocation of acquisition consideration between net tangible and identified intangible assets acquired and liabilities assumed, management makes estimates as to the fair value of assets and liabilities using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and independent appraisals. In the case of real property, the fair value of the tangible assets acquired is determined by valuing the property as if it were vacant.

Impairment of Investments in Senior Housing Real Estate and Intangible Assets

New Senior periodically evaluates long-lived assets, including definite lived intangible assets, primarily consisting of New Senior’s senior housing real estate, for impairment indicators. If indicators of impairment are present, New Senior evaluates the carrying value of the related senior housing real estate in relation to the future undiscounted cash flows of the underlying operations. In performing this evaluation, market conditions and New Senior’s current intentions with respect to holding or disposing of the asset are considered. New Senior adjusts the net book value of leased properties and other long-lived assets to fair value if the sum of the expected future undiscounted cash flows, including sales proceeds, is less than book value. An impairment loss is recognized at the time any such determination is made. New Senior did not record any impairment charges related to its senior housing real estate assets and related intangibles during the period from November 7, 2014 to December 31, 2014.

Revenue Recognition

Resident fees and services include monthly rental income, care income and ancillary income recognized from New Senior's managed property segment. Resident fees and services are recognized monthly as services are provided. Lease agreements with residents are cancelable by the resident with thirty days’ notice. Ancillary income primarily relates to nonrefundable community fees. Non-refundable community fees are recognized on a straight-line basis over the average length of stay of residents, which is estimated to be approximately 24 months for AL/MC and CCRC properties, and approximately 33 months for IL-only properties.

Rental revenue from New Senior's triple net lease properties is recognized on a straight-line basis over the applicable term of the lease when collectability is reasonably assured. New Senior's triple net lease arrangements provide for periodic and determinable increases in base rent. Recognizing rental revenue on a straight-line basis typically results in recognizing revenue in excess of cash amounts contractually due from New Senior's tenants during the first half of the lease term, creating a straight-line receivable that is included in Non-Investment Manager other assets. As of December 31, 2014, straight-line rent receivable (net of allowances) was $4.3 million.

Income Taxes

New Senior intends to elect and qualify as a REIT under the requirements of the Internal Revenue Code of 1986, as amended (“Code”). Requirements for qualification as a REIT include various restrictions on ownership of stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. Distribution of the remaining balance may extend until timely filing of New Senior’s tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income.

Certain activities are conducted through a taxable REIT subsidiary (“TRS”) and therefore are subject to federal and state income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases upon the change in tax status. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

New Senior recognizes tax benefits for uncertain tax positions only if it is more likely than not that the position is sustainable based on its technical merits. As of December 31, 2014 New Senior had no uncertain tax positions.

Recent Accounting Pronouncements

In May 2014, the FASB issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. This standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The entity will recognize revenue to reflect the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The new standard is effective for Fortress beginning January 1, 2017 and early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. Fortress is currently evaluating the impact on its consolidated financial statements upon the adoption of this new standard.

In August 2014, the FASB issued an accounting standard update on measuring the financial assets and financial liabilities of a consolidated collateralized financing entity ("CFE"). The standard provides an entity with an election to measure the financial assets and financial liabilities of a consolidated CFE to be measured on the basis of either the fair value of the CFE’s financial assets or financial liabilities, whichever is more observable. The effective date of the consensus will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 for public companies and early adoption will be permitted. Fortress is currently evaluating the impact on its consolidated financial statements.

In February 2015, the FASB issued an accounting standard update on consolidation. The standard eliminates the deferral of FAS 167, per ASC 810-10-65-2. The standard amends the evaluation of whether (1) fees paid to a decision maker or service provider represent a variable interest, (2) a limited partnership or similar entity has the characteristics of a VIE and (3) a reporting entity is the primary beneficiary of a VIE. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 for public companies and early adoption is permitted. Fortress is currently assessing the impact of the standard and may elect to early adopt. Upon the adoption of the new standard, certain VIEs consolidated by Fortress may no longer be required to be consolidated.

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

Market Risks

Our predominant exposure to market risk is related to our role as investment manager for the Fortress Funds and the sensitivities to movements in the fair value of their investments on management fee and incentive income revenue, as well as on returns on our investments in such funds. For a discussion of the impact of market risk factors on our financial instruments refer to Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk" and “— Critical Accounting Policies — Valuation of Investments” above.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

See Note 10 to Part II, Item 8 “Financial Statements and Supplementary Data” for a discussion of our commitments and contingencies.

Contractual Obligations

Investment Manager

As of December 31, 2014, our material contractual obligations are our lease obligations, our debt obligations, our tax receivable agreement obligations, and our capital commitments to our funds as described above. Furthermore, we have potential clawback obligations with respect to our private equity deferred incentive income received to date. Fixed and determinable payments due in connection with these obligations are as follows:

	Payments due by period				
Contractual Obligations	Total	2015	2016 and 2017	2018 and 2019	Thereafter
Operating lease obligations (A)	$380,426	$25,483	$35,715	$39,846	$279,382
Debt obligations payable (B)	77,745	2,380	75,365	—	—
Deferred incentive income (C)	66,903	66,903	—	—	—
Service contracts	43,988	34,754	9,005	119	110
Tax receivable agreement obligations (D)	289,324	26,584	64,575	52,911	145,254
Capital commitments to Fortress Funds (E)	146,949	146,949	—	—	—
Total	$1,005,335	$303,053	$184,660	$92,876	$424,746

(A) Excludes escalation charges which per our lease agreements are not fixed and determinable payments. Subsequent to December 31, 2014, we entered into new lease agreements which relate to our primary office space in New York and extends through October 2032.

(B) Includes interest and commitment fees to be paid over the maturity of the debt obligation which has been calculated assuming no repayments are made and the debt is held until its contractual due date. The future interest payments are calculated using effective rates as of the reporting date.

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

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

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

In addition, we have entered into five-year employment agreements with our principals which were effective as of January 1, 2012. These agreements do not contain fixed and determinable payments, other than a base salary of $0.2 million per annum per principal, as all payments are performance based. Payments under these agreements may be material.

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Non-Investment Manager

The following table reflects a summary of New Media's and New Senior's contractual cash obligations, as of December 31, 2014:

	Payments due by period				
Contractual Obligations	Total	2015	2016 and 2017	2018 and 2019	Thereafter
Debt obligations (A)	$332,208	$18,987	$41,959	$49,393	$221,869
Mortgage notes payable (A)	1,570,877	68,837	347,808	425,970	728,262
Noncompete payments	850	250	400	200	—
Lease obligations	25,524	6,805	9,796	5,131	3,792
Letters of credit	5,182	5,182	—	—	—
Total	$1,934,641	$100,061	$399,963	$480,694	$953,923

(A) Includes interest based on rates existing as of December 31, 2014, including both variable and fixed rates pursuant to the applicable debt agreements and assuming no prepayments are made and debt is held until its contractual due date.

The table above excludes future cash requirements for pension and postretirement obligations of New Media. The periods in which these obligations will be settled in cash are not readily determinable and are subject to numerous future events and assumptions. New Media estimates cash requirements for these obligations in 2015 totaling approximately $1.6 million.

New Senior committed to making available $6.5 million immediately for capital improvements and other repairs in the properties under a certain lease agreement and also agreed to make available an additional $9.0 million at certain intervals during the lease period, under the same lease agreements, to be used for further capital improvements.

New Media's and New Senior's contractual obligations have no impact on Fortress's cash flows or ability to meet its contractual obligations described under Investment Manager above.

Inflation

Non-Investment Manager

New Senior's triple net leases provide for either fixed increases in base rents and/or indexed escalators, based on the Consumer Price Index. With respect to New Senior's managed properties, resident agreements are generally month to month agreements affording New Senior the opportunity to increase prices subject to market and other conditions. New Senior believes that inflationary increases in costs and expenses will be offset, at least in part, by contractual rent and resident fee increases.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Investment Manager

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

The fair value of the financial assets and liabilities of the Fortress Funds may fluctuate in response to changes in the value of securities, foreign exchange, commodities and interest rates. Fluctuations in the fair value of the Fortress Funds will continue to directly affect the carrying value of our investments in the Fortress Funds and thereby our earnings (losses) from equity method investees, as well as the management fees and incentive income we record, to the extent that they are earned based on fair value or NAV. As of December 31, 2014, operations of our traditional asset management business are not material to our operations and are therefore not included in the analysis below.

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

Although the Fortress Funds share many common themes, each segment within the Company runs its own investment and risk management process.

- the investment process of our private equity funds and a private permanent capital vehicle involves a detailed analysis of potential acquisitions, and asset management teams assigned to oversee the strategic development, financing and capital deployment decisions of each portfolio investment;
- our credit hedge funds, credit PE funds and publicly traded permanent capital vehicles perform credit and cash-flow analysis of borrowers, tenants and credit-based assets, and have asset management teams that monitor covenant compliance by, and relevant financial data of, borrowers, tenants and other obligors, asset pool performance statistics, tracking of cash payments relating to investments, and ongoing analysis of the credit status of investments; and
- our liquid hedge funds continuously monitor a variety of markets for attractive trading opportunities, applying various risk management techniques to analyze risk related to specific assets or portfolios, as well as fund-wide risks.

Each segment has an institutional risk management process and related infrastructure to address these risks. The following table summarizes our financial assets and liabilities that may be impacted by various market risks such as equity prices and exchange rates as of December 31, 2014 (in thousands):

Investment Manager	
Assets:	
Investments	$1,110,543
Investments in options	$45,734
Investment Company - consolidated VIEs	
Investments, at fair value	$91,125

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

Fortress Funds’ Market Risk Impact on GAAP Management Fees

Our management fees are generally based on either: (i) capital commitments to a Fortress Fund, (ii) capital invested in a Fortress Fund, or (iii) the NAV of a Fortress Fund, as described in our consolidated financial statements. Management fees will only be impacted by changes in market risk factors to the extent they are based on NAV. These management fees will be increased (or reduced) in direct proportion to the impact of changes in market risk factors on the investments in the related funds and would occur only in periods subsequent to the change, as opposed to having an immediate impact. The proportion of our management fees that are based on NAV is dependent on the number and types of Fortress Funds in existence and the current stage of each fund's life cycle. As of December 31, 2014, approximately 47% of the management fees earned from our alternative investment businesses (excluding fees based on senior living property revenues) were based on the NAV of the applicable funds.

- For private equity funds, a private permanent capital vehicle and certain credit PE funds, management fees are charged on committed capital during the investment period of a new fund, and then generally on invested capital after the investment or commitment period, with the exception of private equity funds formed after March 2006. For private equity funds formed after March 2006 that are no longer in the investment period, management fees are earned on NAV with respect to investments in publicly traded entities. Reductions in net asset value below invested capital for any fund investment will also cause reductions in management fees.

- For publicly traded permanent capital vehicles, management fees are not calculated based on NAV but instead a fee is charged based on the funds' contributed capital (or on revenues, for senior living property management).
- For hedge funds, other than the Value Recovery Funds, management fees are based on their NAV, which in turn is dependent on the estimated fair values of their investments, and on the non-investment assets and liabilities of the funds. For the Value Recovery Funds, management fees are based on realizations, which are not dependent on current estimated fair value.

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

Fortress Funds' Market Risk Impact on GAAP Incentive Income

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

- Incentive income from our private equity funds, private permanent capital vehicle and credit PE funds is not recorded as revenue but instead is deferred under GAAP until the related clawback contingency is resolved. Deferred incentive income, which is subject to contingencies, will be recognized as revenue to the extent it is received and all the associated contingencies are resolved. Assuming that the deferred incentive income earned to date would be equal to what would be recognized when all contingencies are resolved, a 10% increase or decrease in the fair values of investments held by all of the private equity funds, private permanent capital vehicle and credit PE funds where incentive income is subject to contingencies at December 31, 2014 would increase or decrease future incentive income by $218.5 million or $223.4 million, respectively; however, this would have no effect on our current reported financial condition or results of operations.
- Incentive income from our publicly traded permanent capital vehicles is generally not impacted by changes in the fair values of their investments, except to the extent they represent impairment, since these changes generally do not impact the measure of current operating results in excess of specified returns to the company's shareholders upon which the incentive income is calculated. Generally, operating results for purpose of computing incentive income excludes unrealized changes in the values of our publicly traded permanent capital vehicles' investments (primarily real estate, loans, securities and other financial instruments), except for certain items (for example, the unrealized gain or loss on excess mortgage servicing rights or non-hedge derivatives).
- Incentive income from our hedge funds is directly impacted by changes in the fair value of their investments. Incentive income from certain of our hedge funds is earned based on achieving annual performance criteria. For certain hedge funds, a 10% decrease in the NAV of the funds on December 31, 2014 would have resulted in a loss to investors for the quarter. In future periods, this loss could create, or cause a fund to fall further below, a "high water mark" (minimum future return to recover the loss to the investors) for our funds' performance which would need to be achieved prior to any incentive income being earned by us. The Value Recovery Funds only pay incentive income if aggregate distributions exceed an agreed threshold and, therefore, this potential incentive income is not directly

impacted by changes in fair value.

Fortress Funds’ Market Risk Impact on GAAP Investment Income

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

Market Risk — Quantitative Analysis

The following table presents information on the impact to Fortress of a 10% change in the net asset values of the Fortress Funds at December 31, 2014 (in millions).

	10% Positive Change GAAP Revenues				Segment Revenues (A)			
	Management Fees (B)	Incentive Income		Earnings from Equity Method Investees (C)	Management Fees (B)	Incentive Income		Investment Income
Private Equity Funds (D)	$5.9	$ N/A	(E)	$66.6	$5.9	$ N/A	(E)	$ N/A
Permanent capital vehicles (D)(G)	N/A	N/A	(E)	0.5	N/A	N/A	(E)	N/A
Liquid Hedge Funds	13.2	114.3	(H)	16.6	13.2	114.3	(H)	16.1
Credit								
Hedge Funds	11.8	101.2		5.7	11.8	101.2		3.3
PE Funds	0.2	N/A	(E)	17.7	0.2	N/A	(E)	N/A
Total	$31.1	$215.5		$107.1	$31.1	$215.5		$19.4

	10% Negative Change GAAP Revenues				Segment Revenues (A)				
	Management Fees (B)	Incentive Income		Earnings from Equity Method Investees (C)	Management Fees (B)	Incentive Income		Investment Income	
Private Equity Funds (D)	$(6.4)	$ N/A	(E)	$(66.6)	$(6.4)	$ N/A	(E)(F)	$ N/A	(F)
Permanent capital vehicles (D)(G)	N/A	N/A	(E)	(0.5)	N/A	N/A	(E)(F)	N/A	(F)
Liquid Hedge Funds	(13.2)	(13.0)	(H)	(16.6)	(13.2)	(13.0)	(H)	(16.1)	
Credit									
Hedge Funds	(11.8)	(92.1)		(5.7)	(11.8)	(92.1)		(3.3)	
PE Funds	(0.7)	N/A	(E)	(17.7)	(0.7)	N/A	(E)(F)	N/A	(F)
Total	$(32.1)	$(105.1)		$(107.1)	$(32.1)	$(105.1)		$(19.4)	

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

(B) Changes in management fees represent an annual change for the one year period following the measurement date assuming there is no change to the investments held by the funds during that period. For private equity funds and credit PE funds, it assumes that the management fees reset as of the reporting date. Private equity fund, private permanent capital vehicle and credit PE fund management fees would be generally unchanged as, for investments in non-publicly traded securities, they are not based on the value of the funds, but rather on the amount of capital invested in the funds. However, if the NAV of a portfolio company of certain private equity funds, private permanent capital vehicle or credit PE funds is reduced below its invested capital, there would be a reduction in management fees. As of the reporting date, $3.3 billion of such private equity fund, private permanent capital vehicle or credit PE fund portfolio companies were carried at or below their invested capital.

(C) For the private equity funds, the changes presented do not include any effect related to our direct investment in Penn or GLPI common stock.

(D)

The private equity Fortress Funds and private permanent capital vehicle held concentrated positions in certain industries as of December 31, 2014, as illustrated in the following table:

Industry	Percentage of Investments Based on Fair Value	
Transportation and Infrastructure	34	%
Financial Services and Assets	36	%
Senior Living	19	%
Real Estate	4	%
Other	7	%
	100	%

(E) For GAAP Revenues, incentive income for private equity funds, credit PE funds and the private permanent capital vehicle would be unchanged as it is not recognized until received and all contingencies are resolved. Furthermore, incentive income would be based on the actual price realized in a transaction, not based on a valuation. For Segment Revenues, private equity funds, credit PE funds and private permanent capital vehicle incentive income is based on realizations.

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

(G) Our investments in our publicly traded permanent capital vehicles are held at fair value, based on the market value of the shares we own. Gains (losses) on our shares in our publicly traded permanent capital vehicles and options granted to us by our publicly traded permanent capital vehicles are affected by movements in the equity price of the shares. A 10% increase (decrease) in the equity price of the shares would increase unrealized gains by $15.8 million or decrease unrealized gains by $13.8 million. Compensation and benefits expense would increase by $2.3 million or decrease by $2.0 million. Furthermore, our publicly traded permanent capital vehicles' management fees and incentive income are generally not directly impacted by changes in the fair value of their investments (unless the changes are deemed to be impairment, which could impact incentive income). All amounts included above exclude shares held and options granted to Fortress by New Media and New Senior which are eliminated in consolidation.

(H) Incentive income is generally not charged on amounts invested by liquid hedge funds in funds managed by external managers.

The changes presented in the table above do not include any effect related to our direct investment in equity securities. These investments are held at fair value. A 10% increase (decrease) in the value of the equity prices of the shares held by those accounts would affect our unrealized gains and losses by $1.8 million.

Interest Rate Risk

Fortress Operating Group has debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore impact the amount of interest payments, future earnings and cash flows. Based on debt obligations payable as of December 31, 2014, we estimate that interest expense relating to variable rate debt obligations payable would increase $0.8 million on an annual basis in the event interest rates were to increase by 100 basis points.

Exchange Rate Risk

Our investments in Eurocastle, Global Opportunities Fund, Japan Opportunity Funds, Italian NPL Opportunities Fund and Japanese investments are directly exposed to foreign exchange risk. As of December 31, 2014, we had a $3.9 million investment in Eurocastle (including options held), which is accounted for at fair value. We also had a $0.4 million investment in Italian NPL Opportunities Fund, and $14.3 million of investments in Japanese funds and entities. In the event of a 10% change in the applicable foreign exchange rate against the U.S. dollar on December 31, 2014, we estimate the gains and losses for the year ended December 31, 2014 on these investments would have an increase of approximately $1.9 million or a decrease of approximately $1.9 million. Also, the impact of a 10% change in the applicable foreign exchange rate on foreign exchange option contracts used to economically hedge future revenues would cause an increase of approximately $15.1 million or a decrease of approximately $17.7 million in our gains and losses. In addition, we held $22.0 million of foreign-denominated cash as of December 31, 2014.

Non-Investment Manager

Interest Rate Risk

New Media

As of December 31, 2014, New Media had $229.4 million of debt, before original issue discount, comprised of $224.4 million of term debt with a minimum variable rate plus a fixed margin and a $5.0 million revolving credit loan. The minimum variable rate on the term debt was 1.0% and the fixed margin was 6.25%. The revolving credit loan had a variable rate plus a fixed margin of 5.25%. New Media's primary exposure is to LIBOR. A 100 basis point change in LIBOR would change New Media's interest expense on an annualized basis by approximately $0.4 million based on average floating rate debt outstanding for the period February 14, 2014 to December 31, 2014 and after consideration of minimum variable rates.

New Senior

New Senior is exposed to market risk related to changes in interest rates on borrowings under our mortgage loans that are floating rate obligations. These market risks result primarily from changes in LIBOR or prime rates. New Senior continuously monitors its level of floating rate debt with respect to total debt and other factors, including our assessment of current and future economic conditions.

For fixed rate debt, interest rate fluctuations generally affect the fair value, but do not impact New Senior's earnings or cash flows. Therefore, interest rate risk does not have a significant impact on New Senior's fixed rate debt obligations until such obligations mature or until New Senior elects to prepay and refinance such obligations. If interest rates have risen at the time New Senior's fixed rate debt matures or is refinanced, New Senior's future earnings and cash flows could be adversely affected by additional borrowing costs. Conversely, lower interest rates at the time of maturity or refinancing may lower New Senior's overall borrowing costs.

For floating rate debt, interest rate fluctuations can affect the fair value, as well as earnings or cash flows. If market interest rates rise, New Senior's earnings and cash flows could be adversely affected by an increase in interest expense. In contrast, lower interest rates may reduce New Senior's borrowing costs and improve our operational results.

At December 31, 2014 New Senior had $393.4 million of floating rate debt, representing approximately 31.3% of total New Senior indebtedness, with a weighted average rate of 4.0%. A 100 basis point change in interest rates, excluding the impact of the 1% LIBOR floor that the floating rate debt is subject to, would change annual interest expense by $3.9 million on an annualized basis.

Credit Risk

New Senior derives a portion of its revenue from long-term triple net leases in which the minimum rental payments are fixed with scheduled periodic increases. New Senior also earns revenue from senior housing properties operated pursuant to property management agreements. For these properties, rental rates may fluctuate due to lease rollovers and renewals and economic or market conditions.

Tenants of our triple net lease properties account for a significant portion of New Senior's total revenues and net operating income, and such concentration creates credit risk. New Senior could be adversely affected if the tenants become unable or unwilling to satisfy their obligations to New Senior. There is no assurance that the tenants or the related guarantors will have sufficient assets, income and access to financing to enable them to satisfy their obligations to New Senior.

Furthermore, although New Senior's leases, financing arrangement and other agreements with tenants and operators generally provide the right under specified circumstances to terminate a lease, evict an operator or tenant, or demand immediate repayment of certain obligations to New Senior, the bankruptcy and insolvency laws afford certain rights to a party that has filed for bankruptcy or reorganization that may render certain of these remedies unenforceable, or delay New Senior's ability to pursue such remedies.

Commodities

Certain operating expenses for New Media can be impacted by commodity price changes, including distribution expenses which are partially impacted by gasoline prices and newsprint which is impacted by paper prices. New Media manages this risk through outsourcing distribution to independent contractors and third party distributors, via contracts and with annual fixed price agreements for newsprint.

A $10 per metric ton newsprint price change would result in a corresponding annualized change in New Media's operating costs of $0.5 million based on newsprint usage for the period from February 14, 2014 to December 31, 2014 of approximately 50,500 metric tons. As of December 31, 2014, 95% of New Media's newsprint is fixed through a pricing agreement, therefore only 5% of the usage would be impacted by a price increase.

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Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements:

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Fortress Investment Group LLC

We have audited the accompanying consolidated balance sheets of Fortress Investment Group LLC (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fortress Investment Group LLC at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Fortress Investment Group LLC and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York
February 26, 2015

Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders of Fortress Investment Group LLC

We have audited Fortress Investment Group LLC and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of New Media Investment Group Inc. (New Media) and New Senior Investment Group Inc. (New Senior), which are included in the 2014 consolidated financial statements of Fortress Investment Group LLC and constituted $3,384.4 million and $1,733.2 million of total and net assets, respectively, as of December 31, 2014 and $626.2 million and $2.0 million of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Fortress Investment Group LLC also did not include an evaluation of the internal control over financial reporting of New Media and New Senior.

In our opinion, Fortress Investment Group LLC and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Fortress Investment Group LLC as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of

the three years in the period ended December 31, 2014, of Fortress Investment Group LLC and our report dated February 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
New York, New York
February 26, 2015

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

	December 31, 2014	2013
Assets		
Investment Manager		
Cash and cash equivalents	$391,089	$364,583
Due from affiliates	320,318	407,124
Investments	1,110,543	1,253,266
Investments in options	45,734	104,338
Deferred tax asset, net	417,623	354,526
Other assets	173,476	190,595
Investment Company - consolidated VIEs		
Cash and cash equivalents	303	—
Investments, at fair value	91,125	—
Other assets	231	—
	2,550,442	2,674,432
Non-Investment Manager - consolidated VIEs		
Cash and cash equivalents	350,086	—
Investments in senior housing real estate, net	1,799,848	—
Fixed assets, net	283,786	—
Goodwill	370,375	—
Intangible assets, net	423,819	—
Other assets, net	156,530	—
	3,384,444	—
Total Assets	$5,934,886	$2,674,432
Liabilities and Equity		
Investment Manager		
Accrued compensation and benefits	$372,745	$417,309
Due to affiliates	375,424	344,832
Deferred incentive income	304,526	247,556
Debt obligations payable	75,000	—
Other liabilities	87,987	49,830
Investment Company - consolidated VIEs		
Other liabilities	103	—
	1,215,785	1,059,527
Non-Investment Manager - consolidated VIEs		
Mortgage notes payable	1,259,430	—
Debt obligations payable	222,052	—
Deferred revenue	35,933	—
Accrued expenses and other liabilities	133,851	—
	1,651,266	—
Total Liabilities	2,867,051	1,059,527

Continued on next page.

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

	December 31, 2014	2013
Commitments and Contingencies		
Redeemable Non-controlling Interests, Investment Company - consolidated VIEs	1,717	—
Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 208,535,157 and 240,741,920 shares issued and outstanding at December 31, 2014 and 2013, respectively	—	—
Class B shares, no par value, 750,000,000 shares authorized, 226,331,513 and 249,534,372 shares issued and outstanding at December 31, 2014 and 2013, respectively	—	—
Paid-in capital	1,996,137	2,112,720
Retained earnings (accumulated deficit)	(1,351,126)	(1,286,131)
Accumulated other comprehensive income (loss)	(2,426)	(1,522)
Total Fortress shareholders' equity	642,585	825,067
Principals' and others' interests in equity of consolidated subsidiaries	638,360	789,838
Non-controlling interests in equity of Investment Company - consolidated VIEs	85,001	—
Non-controlling interests in equity of Non-Investment Manager - consolidated VIEs	1,700,172	—
Total Equity	3,066,118	1,614,905
Total Liabilities, Redeemable Non-controlling Interests and Equity	$5,934,886	$2,674,432

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Revenues			
Investment Manager			
Management fees: affiliates	$527,922	$520,283	$456,090
Management fees: non-affiliates	68,948	62,795	45,617
Incentive income: affiliates	362,380	419,828	246,438
Incentive income: non-affiliates	1,734	44,383	26,162
Expense reimbursements: affiliates	205,045	206,452	186,592
Expense reimbursements: non-affiliates	13,429	7,209	4,580
Other revenues (affiliate portion disclosed in Note 7)	5,882	4,033	4,390
Investment Company - consolidated VIEs			
Interest and dividend income	281	—	—
	1,185,621	1,264,983	969,869
Non-Investment Manager - consolidated VIEs			
Advertising	346,613	—	—
Circulation	173,436	—	—
Commercial printing and other	64,062	—	—
Rental revenue, resident fees and services	42,085	—	—
	626,196	—	—
Total Revenues	1,811,817	1,264,983	969,869
Expenses			
Investment Manager			
Compensation and benefits	796,102	741,761	750,359
General, administrative and other	172,167	136,770	127,149
Depreciation and amortization	19,829	13,690	14,931
Interest expense	3,443	5,382	15,781
Investment Company - consolidated VIEs			
Other	1,011	—	—
	992,552	897,603	908,220
Non-Investment Manager - consolidated VIEs			
Media operating costs	327,130	—	—
General, administrative and other	188,901	—	—
Depreciation and amortization	61,395	—	—
Interest expense	23,718	—	—
Loss on extinguishment of debt	9,047	—	—
Property operating costs	11,067	—	—
	621,258	—	—
Total Expenses	1,613,810	897,603	908,220

Continued on next page.

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

	Year Ended December 31,		
	2014	2013	2012
Other Income (Loss)			
Investment Manager			
Gains (losses) (affiliate portion disclosed in Note 4)	(8,313)	53,933	48,921
Tax receivable agreement liability adjustment	(33,116)	(8,787)	(8,870)
Earnings (losses) from equity method investees	78,193	136,866	156,530
Investment Company - consolidated VIEs			
Gains (losses)	8,442	—	—
Total Other Income (Loss)	45,206	182,012	196,581
Income (Loss) Before Income Taxes	243,213	549,392	258,230
Income tax benefit (expense) - Investment Manager	(6,947)	(65,801)	(39,408)
Income tax benefit (expense) - Non-Investment Manager - consolidated VIEs	(2,909)	—	—
Total Income Tax Benefit (Expense)	(9,856)	(65,801)	(39,408)
Net Income (Loss)	$233,357	$483,591	$218,822
Allocation of Net Income (Loss):			
Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries	$138,960	$283,144	$140,538
Redeemable Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIEs	(709)	—	—
Non-controlling Interests in Income (Loss) of Investment Company - consolidated VIEs	9,737	—	—
Non-controlling Interests in Income (Loss) of Non-Investment Manager - consolidated VIEs	(14,593)	—	—
Net Income (Loss) Attributable to Class A Shareholders	99,962	200,447	78,284
	$233,357	$483,591	$218,822
Dividends declared per Class A share	$0.50	$0.24	$0.20
Earnings (Loss) Per Class A share			
Net income (loss) per Class A share, basic	$0.47	$0.83	$0.29
Net income (loss) per Class A share, diluted	$0.43	$0.79	$0.27
Weighted average number of Class A shares outstanding, basic	210,303,241	236,246,296	214,399,422
Weighted average number of Class A shares outstanding, diluted	455,154,136	500,631,423	524,900,132

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
Comprehensive income (loss) (net of tax)			
Net income (loss)	$233,357	$483,591	$218,822
Investment Manager			
Foreign currency translation	(2,467)	(772)	(1,447)
Comprehensive income (loss) from equity method investees	—	4,136	(778)
Non-Investment Manager - consolidated VIEs			
Actuarial gain (loss) and prior service cost, net	(4,926)	—	—
Total comprehensive income (loss)	$225,964	$486,955	$216,597
Allocation of Comprehensive Income (Loss):			
Comprehensive income (loss) attributable to principals' and others' interests	$137,418	$285,243	$139,089
Comprehensive income (loss) attributable to redeemable non-controlling interests of Investment Company - consolidated VIE	(709)	—	—
Comprehensive income (loss) attributable to non-controlling interests in Investment Company - consolidated VIEs	9,737	—	—
Comprehensive income (loss) attributable to non-controlling interests of Non-Investment Manager - consolidated VIEs	(19,509)	—	—
Comprehensive income (loss) attributable to Class A shareholders	99,027	201,712	77,508
	$225,964	$486,955	$216,597

See notes to consolidated financial statements.

FORTRESS INVESTMENT GROUP LLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders' Equity	Principals' and Others' Interests in Equity of Consolidated Subsidiaries	Total Equ
Equity - December 31, 2011	189,824,053	305,857,751	$1,972,711	$(1,484,120)	$—	$(1,160)	$487,431	$574,961	$1,062,39
Contributions from principals' and others' interests in equity	—	—	—	—	—	—	—	35,387	35,387
Distributions to principals' and others' interests in equity (net of tax)	—	—	(704)	—	—	—	(704)	(99,082)	(99,786
Dividends declared	—	—	(42,378)	—	—	—	(42,378)	—	(42,378
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(712)	—	—	—	(712)	(1,027)	(1,739
Conversion of Class B shares to Class A shares	17,467,232	(17,467,232)	22,362	—	—	(196)	22,166	(22,166)	—
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	25,908	—	—	—	25,908	1	25,909
Director restricted share grant	257,918	—	344	—	—	—	344	500	844

Capital increase related to equity-based compensation (net of tax)	12,819,823	10,333,333	82,058	—	—	—	82,058	116,819	198,877
Dilution impact of Class A share issuance	—	—	59,513	—	—	(502)	59,011	(59,011)	—
Repurchase of Class A shares (Note 9)	(2,082,684)	—	—	—	(3,419)	—	(3,419)	(3,870)	(7,289
Repurchase of Class B shares (Note 9)	—	(49,189,480)	—	(80,742)	—	—	(80,742)	(91,422)	(172,164
Comprehensive income (loss) (net of tax)									
Net income (loss)	—	—	—	78,284	—	—	78,284	140,538	218,822
Foreign currency translation	—	—	—	—	—	(660)	(660)	(787)	(1,447
Comprehensive income (loss) from equity method investees	—	—	—	—	—	(116)	(116)	(662)	(778
Total comprehensive income (loss)							77,508	139,089	216,597
Equity - December 31, 2012	218,286,342	249,534,372	$2,119,102	$(1,486,578)	$(3,419)	$(2,634)	$626,471	$590,179	$1,216,65

Continued on next page.

FORTRESS INVESTMENT GROUP LLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders' Equity	Principals' and Others' Interests in Equity of Consolidated Subsidiaries	Total Equit
Equity - December 31, 2012	218,286,342	249,534,372	$2,119,102	$(1,486,578)	$(3,419)	$(2,634)	$626,471	$590,179	$1,216,650
Contributions from principals' and others' interests in equity	—	—	—	—	—	—	—	70,272	70,272
Distributions to principals' and others' interests in equity (net of tax)	—	—	(112)	—	—	—	(112)	(149,420)	(149,532
Dividends declared	—	—	(56,340)	—	—	—	(56,340)	66	(56,274
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(531)	—	—	—	(531)	(845)	(1,376
Conversion of Class B shares to Class A shares	10,333,334	(10,333,334)	10,143	—	—	—	10,143	(10,143)	—
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	13,315	—	—	—	13,315	(30)	13,285
Director restricted share	127,533	—	372	—	—	—	372	398	770

grant									
Capital increase related to equity-based compensation (net of tax)	9,912,027	10,333,334	17,037	—	—	—	17,037	18,123	35,160
Dilution impact of Class A share issuance	—	—	14,173	—	(15)	(153)	14,005	(14,005)	—
Reissuance of treasury stock	2,082,684	—	(4,439)	—	3,434	—	(1,005)	—	(1,005
Comprehensive income (loss) (net of tax)									
Net income (loss)	—	—	—	200,447	—	—	200,447	283,144	483,591
Foreign currency translation	—	—	—	—	—	(232)	(232)	(540)	(772
Comprehensive income (loss) from equity method investees	—	—	—	—	—	1,497	1,497	2,639	4,136
Total comprehensive income (loss)							201,712	285,243	486,955
Equity - December 31, 2013	240,741,920	249,534,372	$2,112,720	$(1,286,131)	$—	$(1,522)	$825,067	$789,838	$1,614,905

Continued on next page.

FORTRESS INVESTMENT GROUP LLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Fortress Shareholders' Equity	Principals' and Others' Interests in Equity of Consolidated Subsidiaries	Non-Controlling Interest in Equity of Investment Company and Non-Investment Manager	Tot Eq
Equity - December 31, 2013	240,741,920	249,534,372	$2,112,720	$(1,286,131)	$—	$(1,522)	$825,067	$789,838	$—	$1,(
Contributions from principals' and others' interests in equity	—	—	—	—	—	—	—	125,497	—	125
Contributions for non-controlling interests in equity of Investment Company	—	—	—	—	—	—	—	—	75,265	75,(
Distributions to principals' and others' interests in equity (net of tax)	—	—	—	—	—	—	—	(248,932)	—	(24
Consolidation of New Media	—	—	—	—	—	—	—	—	383,040	383
Consolidation of New Senior	—	—	—	—	—	—	—	—	1,254,784	1,2
Issuance of New Media common stock (net of offering costs)	—	—	—	—	—	—	—	—	114,850	114
Dividends declared	—	—	(101,864)	—	—	—	(101,864)	—	(33,136)	(13
Dividend equivalents accrued in connection with equity-	—	—	(1,218)	—	—	—	(1,218)	(2,086)	—	(3,3

based compensation (net of tax)									
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	7,638	—	——	7,638	91	—	7,72
Director restricted share grant	89,390	—	312	—	——	312	348		660
Capital increase related to equity-based compensation (net of tax)	5,069,263	—	20,389	—	——	20,389	22,830	142	43,
Dilution impact of equity transactions (Note 7)	—	—	(41,840)	—	—31	(41,809)	41,809	—	—
Public offering of Class A shares	23,202,859	—	186,551	—	——	186,551	—	—	186
Repurchase of Class A shares (Note 9)	(60,568,275)	—	—	(164,957)	——	(164,957)	(228,453)	—	(39
Repurchase of Class B shares (Note 9)	—	(23,202,859)	(186,551)	—	——	(186,551)	—	—	(18
Comprehensive income (loss) (net of tax)									
Net income (loss) (excludes $(0.7) million loss allocated to redeemable non-controlling interests)	—	—	—	99,962	——	99,962	138,960	(4,856)	234
Foreign currency translation	—	—	—	—	—(925)	(925)	(1,542)	—	(2,4
Non-Investment Manager actuarial gain (loss) and prior service cost (net of tax)	—	—	—	—	—(10)	(10)	—	(4,916)	(4,9

Total comprehensive income (loss)							99,027	137,418	(9,772)	226
Equity - December 31, 2014	208,535,157	226,331,513	$1,996,137	$(1,351,126)	$—	$(2,426)	$642,585	$638,360	$1,785,173	$3,

See notes to consolidated financial statements.

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

	Year Ended December 31		
	2014	2013	2012
Cash Flows From Operating Activities			
Net income (loss)	$233,357	$483,591	$218,822
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Investment Manager			
Depreciation and amortization	19,829	13,690	14,931
Other amortization (included in interest expense)	781	900	2,942
(Earnings) losses from equity method investees	(78,193)	(136,866)	(156,530)
Distributions of earnings from equity method investees	110,967	84,548	59,785
(Gains) losses	8,313	(53,933)	(48,921)
Deferred incentive income	(171,387)	(107,276)	(77,993)
Deferred tax (benefit) expense	(18,044)	54,431	29,442
Options received from affiliates	(3,346)	(42,516)	(21,524)
Tax receivable agreement liability adjustment	33,116	8,787	8,870
Equity-based compensation	38,157	39,266	213,274
Options in affiliates granted to employees	1,442	8,190	10,134
Other	(537)	863	(895)
Investment Company - consolidated VIEs			
(Gains) losses	(8,442)	—	—
Non-Investment Manager - consolidated VIEs			
Depreciation and amortization	61,395	—	—
Loss on extinguishment of debt	5,949	—	—
Amortization (including deferred financing costs)	1,018	—	—
Deferred tax (benefit) expense	3,750	—	—
Deferred rental income	(4,348)	—	—
Other	1,047	—	—
Cash flows due to changes in			
Investment Manager			
Due from affiliates	(158,471)	(347,942)	(58,927)
Other assets	47,538	(18,082)	(20,398)
Accrued compensation and benefits	89,875	330,907	(75,390)
Due to affiliates	(34,138)	(2,667)	(18,241)
Deferred incentive income	216,493	118,765	65,361
Other liabilities	5,182	(1,765)	(2,792)
Investment Company - consolidated VIEs			
Purchases of investments and payments to cover securities sold not yet purchased	(718,013)	—	—
Proceeds from sale of investments and securities sold not yet purchased	608,228	—	—
Receivables from brokers and counterparties	(44,904)	—	—
Other assets	(8,487)	—	—
Due to brokers and counterparties	12,031	—	—
Other liabilities	2,875	—	—
Non-Investment Manager - consolidated VIEs			

Other assets	5,434	—	—
Due to affiliates	1,793	—	—
Deferred revenue	(426)	—	—
Accrued expenses and other liabilities	(19,969)	—	—
Net cash provided by (used in) operating activities	239,865	432,891	141,950

Continued on next page.

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

	Year Ended December 31		
	2014	2013	2012
Cash Flows From Investing Activities			
Investment Manager			
Contributions to equity method investees	(36,060)	(37,084)	(63,798)
Distributions of capital from equity method investees	379,940	281,481	140,712
Purchase of securities	(16,664)	(20,043)	—
Proceeds from sale of equity investments	84,852	18,849	—
Purchase of digital currency (Bitcoin)	—	(20,000)	—
Purchase of fixed assets	(12,445)	(11,471)	(10,375)
Purchase of software and technology-related assets	(25,976)	—	—
Investment Company - consolidated VIEs			
Existing cash on deconsolidation date	(12,024)	—	—
Non-Investment Manager - consolidated VIEs			
Existing cash on consolidation date	269,089	—	—
Purchase of fixed assets	(6,104)	—	—
Acquisitions, net of cash acquired	(77,618)	—	—
Acquisitions of real estate	(15,691)	—	—
Deposits paid for investments	(4,855)	—	—
Other	888	—	—
Net cash provided by (used in) investing activities	527,332	211,732	66,539
Cash Flows From Financing Activities			
Investment Manager			
Repayments of debt obligations	(50,000)	(149,453)	(261,250)
Borrowing under debt obligations	125,000	—	—
Payment of deferred financing costs	—	(2,367)	—
Proceeds from public offering (Note 9)	186,551	—	—
Repurchase of Class B shares (Note 9)	(186,551)	—	—
Repurchase of Class A shares (Note 9)	(363,410)	—	—
Repurchase of shares and RSUs (Note 9)	(3,611)	—	(37,776)
Dividends and dividend equivalents paid	(105,860)	(57,926)	(44,170)
Principals’ and others’ interests in equity of consolidated subsidiaries - contributions	876	401	431
Principals’ and others’ interests in equity of consolidated subsidiaries - distributions	(245,461)	(174,937)	(94,648)
Excess tax benefits from delivery of RSUs	3,538	—	—
Investment Company - consolidated VIEs			
Redeemable non-controlling interests - contributions	36,252	—	—
Non-redeemable non-controlling interests in Investment Company - contributions	75,265	—	—
Non-Investment Manager - consolidated VIEs			
Repayments of debt obligations	(199,969)	—	—
Borrowings under debt obligations	241,843	—	—
Payment of debt issuance costs	(2,569)	—	—
Proceeds from public offering (net of offering costs)	115,874	—	—

Capital contributions	142	—	—
Dividends and dividend equivalents paid	(18,212)	—	—
Net cash provided by (used in) financing activities	(390,302)	(384,282)	(437,413)
Net Increase (Decrease) in Cash and Cash Equivalents	376,895	260,341	(228,924)

Continued on next page.

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

	Year Ended December 31		
	2014	2013	2012
Cash and Cash Equivalents, Beginning of Period	364,583	104,242	333,166
Cash and Cash Equivalents, End of Period	$741,478	$364,583	$104,242
Cash and Cash Equivalents - Investment Manager, End of Period	$391,089	$364,583	$104,242
Cash and Cash Equivalents - Investment Company - consolidated VIEs, End of Period	$303	$—	$—
Cash and Cash Equivalents - Non-Investment Manager - consolidated VIEs, End of Period	$350,086	$—	$—
Supplemental Disclosure of Cash Flow Information			
Investment Manager			
Cash paid during the period for interest	$1,789	$3,586	$13,689
Cash paid during the period for income taxes	$4,953	$6,468	$7,932
Investment Company - consolidated VIEs			
Cash paid during the period for interest	$317	$—	$—
Non-Investment Manager - consolidated VIEs:			
Cash paid during the period for interest	$18,051	$—	$—
Supplemental Schedule of Non-cash Investing and Financing Activities			
Investment Manager			
Employee compensation invested directly in subsidiaries	$124,442	$66,779	$34,806
Investments of incentive receivable amounts into Fortress Funds	$258,023	$227,091	$80,523
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	$—	$5,160	$31,997
Investment Company - consolidated VIEs			
Non-cash redeemable non-controlling interests - contributions	$20,519	$—	$—
Non-cash redeemable non-controlling interests - distributions - deconsolidation of Investment Company	$56,524	$—	$—
Exchange of promissory note for shares (Note 9)	$—	$—	$149,453

See notes to consolidated financial statements.

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014
(dollars in tables in thousands, except share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

Investment Manager

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

Fortress has three primary sources of income from the Fortress Funds: management fees, incentive income, and investment income on its investments in the funds. In the third quarter of 2014, Fortress reorganized its segments (see Note 11). The Fortress Funds fall into the following business segments in which Fortress operates:

1) Private equity:
a) General buyout and sector-specific funds focused on control-oriented investments in cash flow generating assets and asset-based businesses in North America and Western Europe; and
b) Entities which Fortress collectively refers to as "permanent capital vehicles" which includes (i) Newcastle Investment Corp. ("Newcastle"), New Residential Investment Corp. ("New Residential"), Eurocastle Investment Limited ("Eurocastle"), New Media Investment Group Inc. ("New Media") and New Senior Investment Group Inc. ("New Senior"), which are publicly traded companies that are externally managed by Fortress pursuant to management agreements (collectively referred to as the "publicly traded permanent capital vehicles") and (ii) Worldwide Transportation and Infrastructure Investors, currently a private fund (the "private permanent capital vehicle") and FHC Property Management LLC, (together with its subsidiaries, referred to as "Blue Harbor"), a senior living property management business. The publicly traded permanent capital vehicles invest in a wide variety of real estate related assets, including securities, loans, real estate properties and mortgage servicing related assets and media assets and the private permanent capital vehicle invests in transportation and infrastructure assets. Fortress expects the private permanent capital vehicle will become a publicly traded company externally managed by Fortress.

2) Liquid hedge funds that invest globally in fixed income, currency, equity and commodity markets, and related derivatives to capitalize on imbalances in the financial markets. In addition, this segment includes an endowment style fund, which invests in Fortress Funds, funds managed by external managers, and direct investments; a fund that primarily focuses on an international "event driven" investment strategy, particularly in Europe, Asia-Pacific and Latin America; and a fund that seeks to generate returns by executing a positively convex investment strategy.

In 2014, Fortress announced that it was launching an affiliated manager platform. On January 5, 2015, Fortress Asia Macro Funds and related managed accounts became the first funds to join the new platform as they transitioned to an autonomous asset management business named Graticule Asset Management Asia, L.P. ("Graticule Asset Management"). Fortress retained a perpetual minority interest in Graticule Asset Management amounting to 30% of earnings during 2015 and declining to approximately 27% of earnings over time. Fortress also receives additional fees for providing infrastructure services (technology, back office, and related services) to Graticule Asset Management. Fortress will record the results of this transaction at fair value. In the first quarter of 2015, Fortress expects to record a non-cash gain of approximately $135.0 million, non-cash expense of approximately $101.0 million related to the portion of our interest that transferred and approximately $34.0 million from its resulting retained interest as an equity method investment.

In January 2014, Fortress acquired software and technology-related assets which were accounted for as a business combination. These assets facilitate trading within Fortress's liquid hedge funds segment. The purchase price was $26.0 million and has all been allocated to the acquired software and technology related assets which have an expected useful life of five years.

3) Credit funds:

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

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FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014
(dollars in tables in thousands, except share data)

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

4) Logan Circle Partners, L.P. (“Logan Circle”), which represents Fortress's traditional asset management business providing institutional clients actively managed investment solutions across a broad spectrum of fixed income and growth equity strategies. Logan Circle's core fixed income products cover the breadth of the maturity and risk spectrums, including short, intermediate and long duration, core/core plus, investment grade credit, high yield and emerging market debt. In January 2015, Fortress's traditional asset management business concluded its growth equities investment strategies.

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

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

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

Investment Company - Consolidated VIEs

In 2014, Fortress formed a new liquid hedge fund and a new private equity fund and a reconsideration event occurred at a fund of the traditional asset management business. Fortress determined that these funds qualify as variable interest entities and that it was the primary beneficiary and therefore consolidated these funds. The new liquid hedge fund and the fund of the traditional asset management business allow investors to redeem their interests on a periodic basis at their net asset value. During December 2014, a reconsideration event occurred at the liquid hedge fund whereby the liquid hedge fund no longer qualified as a variable interest entity. The liquid hedge fund was deemed to be a voting interest entity and Fortress does not have control over the fund since the unrelated limited partners or members have the substantive ability to liquidate the fund or otherwise remove Fortress as general partner or managing member without cause based on a simple unaffiliated majority vote. As such, Fortress deconsolidated the liquid hedge fund in December 2014. The deconsolidation of the liquid hedge fund resulted in a non-cash investing activity of $56.5 million in the statement of cash flows. Fortress retained a $48.5 million equity method investment in the liquid hedge fund. No gain or loss was recognized by Fortress in connection with the deconsolidation and the retained investment is included within the Investment Manager — Investments on the Consolidated Balance Sheet.

During the second quarter of 2014, certain credit hedge funds formed new investment vehicles. Fortress is the sub-advisor to the new entities but does not have a direct interest in the entities. Fortress determined that these investment vehicles qualify as variable interest entities and that it was the primary beneficiary and therefore consolidated the entities. The investment vehicles entered into a warehouse financing agreement with a third party lender which has agreed to lend the investment vehicles up to €300.0 million. As of December 31, 2014, the investment vehicles did not hold any assets or have any debt outstanding. Any debt obligations of the investment vehicles would not be cross collateralized with the debt obligations of Fortress. Fortress has no obligation to satisfy the liabilities of the investment vehicles. Similarly, Fortress does not have the right to make use of the assets of the investment vehicles to satisfy its obligations. Any debt obligations of the investment vehicles would not have an impact on the Fortress's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(dollars in tables in thousands, except share data)

Under U.S. generally accepted accounting principles ("GAAP"), the funds and investment vehicles referred to above are investment companies and, as required, Fortress has retained the specialized accounting of these entities. Consequently, Fortress's financial statements include the assets, liabilities, related operations and cash flows of these consolidated entities (collectively, the "Investment Company"). The ownership interests in the Investment Company which are not owned by Fortress and which are redeemable by an investor are reflected as Redeemable Non-controlling Interests in the accompanying consolidated financial statements and recorded at fair value.

The following table represents the activity in Redeemable Non-controlling Interests as presented in the consolidated balance sheets:

	Year ended December 31, 2014
Beginning balance	$—
Capital contributions	56,771
Consolidation of Redeemable Non-Controlling interest of Investment Company	2,179
Redeemable Non-controlling Interests in income (loss) of Investment Company	(709)
Deconsolidation of Redeemable Non-Controlling interests in income (loss) of Investment Company	(56,524)
	$1,717

The assets, liabilities, related operations and cash flows of Fortress's asset management business and the Investment Company (as described above) are disclosed under the Investment Manager caption in the consolidated financial statements and accompanying footnotes; the consolidated Investment Company's related amounts are included under the Investment Company caption. Fortress also consolidates New Media and New Senior (as described below) whose assets, liabilities, related operations and cash flows are disclosed under the Non-Investment Manager caption in the consolidated financial statements and accompanying footnotes. The management fees and incentive income earned by Fortress from the Non-Investment Manager and the Investment Company are eliminated in consolidation; however, Fortress's allocated share of the net income from the Non-Investment Manager and the Investment Company are increased by the amount of these eliminated fees. Accordingly, the consolidation of the Non-Investment Manager and the Investment Company have no material effect on Fortress's earnings from the Non-Investment Manager and the Investment Company. For a reconciliation between the financial statements and the segment-based financial data that management uses for making operating decisions and assessing performance, see Note 11.

Fortress has no obligation to satisfy the liabilities of the Non-Investment Manager or the Investment Company. Similarly, Fortress does not have the right to make use of the Non-Investment Manager or the Investment Company's assets to satisfy its obligations.

Non-Investment Manager

Consolidation of New Media

On February 14, 2014, Newcastle Investment Corp. ("Newcastle") (NYSE: NCT) completed the distribution of all of the common shares it held of New Media Investment Group Inc. ("New Media") (NYSE: NEWM), publishers of locally based print and online media in the United States, to its stockholders. Fortress entered into a management agreement with New Media and under the terms of the management agreement, Fortress manages the operations of New Media and in return receives a management fee of 1.5% per annum of New Media's Total Equity (as defined in the management agreement) and incentive income. In addition to these fees, in order to compensate Fortress for its successful efforts in raising capital for New Media, Fortress receives options to purchase shares of New Media's common stock in connection with each common stock offering. Fortress determined that New Media qualifies as a variable interest entity and, upon completion of Newcastle's distribution of New Media's common shares, that it was the primary beneficiary and therefore consolidates New Media. The operations of New Media consist of the consolidated operations of GateHouse Media, LLC ("GateHouse") and Local Media Group Holdings LLC ("Local Media"). Although New Media’s operating results impact net income, they do not have a material impact on the net income (loss) attributable to Fortress’s Class A shareholders, Class A basic and diluted earnings per share, or total Fortress’s shareholders’ equity, as substantially all of the operating results of New Media are attributable to non-controlling interests. As of December 31, 2014, Fortress owned approximately 0.20% of New Media’s outstanding common stock.

The fiscal year of New Media ends on the Sunday closest to December 31. Fiscal year 2014 includes 52 weeks. New Media's fourth fiscal quarter ended on December 28, 2014, as such, all references to December 31, 2014 reflect New Media's interim

FORTRESS INVESTMENT GROUP LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014
(dollars in tables in thousands, except share data)

consolidated financial statements as of December 28, 2014, for the three months ended December 28, 2014 or for the period from February 14, 2014 to December 28, 2014, as applicable.

New Media is one of the largest publishers of locally based print and online media in the United States as measured by the number of daily publications. New Media operates in 379 markets across 27 states. New Media's portfolio of products includes 452 community publications, 379 websites, 360 mobile sites, and six yellow page directories. New Media reaches over 14 million people per week and serves over 140,000 business customers.

For accounting purposes, the consolidation of New Media was treated as a business combination. The New Media assets and liabilities were recorded at their estimated fair values as of the date of consolidation. Any excess estimated over the New Media fair value was allocated to goodwill.

Significant assumptions used in estimating fair values included the following:

- Intangible assets - The estimated fair values of the acquired subscriber relationships, advertiser relationships and customer relationships were determined based on an excess earnings approach, a form of the income approach, which values assets based upon associated estimated discounted cash flows.

Masthead, which is a publication's designed title or nameplate as it appears on its front page, fair values were determined based on a relief from royalty method, an income approach.

- Fixed assets - The estimated fair values for fixed assets were determined under three approaches: the cost approach (used for equipment where an active secondary market is not available and building improvements), the direct sales comparison (market) approach (used for land and equipment where an active market is available), and the income approach (used for intangibles). These approaches are based on the cost to reproduce assets, market exchanges for comparable assets and the capitalization of income.

The following table summarizes the allocation of the estimated New Media fair value to identifiable assets and liabilities as of the date of consolidation:

	As of February 14, 2014
Cash and cash equivalents	$23,845
Fixed assets	266,385
Goodwill	118,847
Intangibles assets	144,664
Other assets	108,072
Total assets	661,813
Less:	
Debt obligations payable	(177,955)
Accrued expenses and other liabilities	(99,858)
Net assets	$384,000
Non-controlling interests in equity of New Media	$383,040

During the period from February 14, 2014 to December 31, 2014, New Media completed five acquisitions of regional media assets (which include publications and newspapers) for a total purchase price of $77.8 million. The related assets and liabilities were recorded at their estimated fair values as of the date of each acquisition. In January 2015, New Media completed the acquisition of substantially all of the assets from Halifax Media Group ("Halifax") for an aggregate purchase price of $280.0 million. New Media incurred an incremental $152.0 million of additional term and revolving debt under the New Media Credit Agreement that will mature on June 4, 2020 and June 4, 2019, respectively, to finance the Halifax acquisition. The term and revolving debt has an interest rate of LIBOR (with a minimum of 1%) plus 6.25% and original issue discount of $1.5 million was assumed related to this debt. In addition, New Media assumed $18.0 million of term debt in connection with the Halifax acquisition, $10.0 million of which has a fixed interest rate of 5.25% and a maturity date of December 31, 2016, and $8.0 million of which has an interest rate of LIBOR plus 6.25% and a maturity date of March 31, 2019.

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Consolidation of New Senior

On November 7, 2014, Newcastle distributed the common shares of New Senior Investment Group Inc. ("New Senior", NYSE: SNR) to its shareholders. The Company entered into a management agreement as of the distribution date with New Senior in which it receives a management fee of 1.5% per annum of New Senior's Total Equity (as defined in the management agreement) and incentive income. The Company determined that New Senior qualifies as a variable interest entity and, upon completion of Newcastle's distribution of New Senior's common shares, that it is the primary beneficiary. As a result, the Company consolidated New Senior as of November 7, 2014. The Company has property management agreements to manage certain senior living properties owned by New Senior for which it receives property management fees ranging from 6% to 7% of revenues (as defined in the agreements) and reimbursements of certain expenses, including the compensation expense of all on-site employees.

New Senior invests in a diversified portfolio of senior housing properties across 27 states in the continental United States. New Senior was formed as Newcastle Senior Living Holdings LLC, a Delaware limited liability company in 2012 and was a wholly owned subsidiary of Newcastle. New Senior converted to a Delaware corporation on May 30, 2014 and changed its name to New
Senior Investment Group Inc. effective June 16, 2014. New Senior is currently headquartered in New York, NY.

New Senior owns 100 senior housing properties as of December 31, 2014. New Senior leases 57 of these properties to two tenants (the tenant for the "Holiday Portfolios" and the tenant for the "LCS Portfolio") under triple net lease agreements and engages three
property managers — Holiday Acquisitions Holdings LLC (‘‘Holiday’’), a portfolio company that is majority owned by private equity funds managed by FIG LLC, FHC Property Management LLC (together with its subsidiaries, ‘‘Blue Harbor’’), and Jerry Erwin Associates, Inc. ("JEA") to manage 43 properties on a day-to-day basis (these properties are referred to herein as "Managed Properties"). The properties leased to the tenant for the Holiday Portfolios and the tenant for the LCS Portfolio consist of 52 dedicated independent living ("IL-only") properties, four continuing care retirement community ("CCRC") properties and one property with a combination of assisted living/memory care ("AL/MC"). New Senior's Managed Properties consist of four IL-only properties and 39 AL/MC properties.

For accounting purposes, the consolidation of New Senior was treated as a business combination. New Senior's assets and liabilities were recorded at their estimated fair values as of the date of consolidation. Any excess estimated over New Senior's fair value was allocated to goodwill.

Significant assumptions used in estimating fair values included the following:

- Investments in senior housing real estate — The fair value of each senior housing property was determined using an income approach that required an estimation of net operating income for each property. Estimated net operating income for each property was based on information such as projected revenue, average occupancy, and average rental rates, and was converted to a value via the use of a discounted cash flow analysis. The fair value of each property was further allocated to (i) buildings, site improvements, and furniture fixtures and equipment via a cost approach, (ii) land via a market approach, and (iii) intangibles, as described below.

- Intangible assets — Management estimated the fair value of in-place leases for each property by comparing the net present value of cash flows using as-is projections to the net present value of cash flows using lease-up projections. Lease-up projections were based on assumptions of gross income, expenses, and unit lease-up rates per month. Above or below market lease intangibles were valued using a discounted cash flow analysis that compared contract rent and market rent over the remaining lease term for each leased property.

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The following table summarizes the allocation of the estimated New Senior fair value to identifiable assets and liabilities as of the date of consolidation:

	As of November 7, 2014
Cash and cash equivalents	$245,244
Investments in senior housing real estate	1,792,166
Goodwill	243,402
Intangibles assets	282,059
Other assets	35,932
Total assets	2,598,803
Less:	
Mortgage notes payable	1,260,633
Accrued expenses and other liabilities	56,653
Net assets	$1,281,517
Non-controlling interests in equity of New Senior	$1,254,784

During the period from November 7, 2014 to December 31, 2014, New Senior completed one acquisition of an AL/MC property for a total purchase price of $15.7 million. The related assets and liabilities were recorded at their estimated fair values as of the date of acquisition. In January 2015, New Senior completed the acquisition of one portfolio containing four IL-only properties for a total purchase price of $36.3 million.

If New Media, New Senior and related completed acquisitions had been consolidated as of January 1, 2013, total revenue would have increased by approximately $789.4 million and $1,367.7 million for the twelve months ended December 31, 2014 and 2013, respectively. In addition, net income would have increased (decreased) by $(75.3) million and $697.5 million (including net gain on reorganization and bankruptcy plan adjustments of $844.1 million and impairment charges of $159.3 million) for the twelve months ended December 31, 2014 and 2013, respectively.

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Selected Financial Statement Captions	Note Reference	Explanation
Balance Sheet		
Due from Affiliates	7	Generally, management fees, expense reimbursements and incentive income due from Fortress Funds.
Investments and Investments in Options	4	Primarily the carrying value of Fortress's investments in the Fortress Funds.
Deferred Tax Asset	6	Relates to potential future tax benefits.
Due to Affiliates	7	Generally, amounts due to the Principals related to their interests in Fortress Operating Group and the tax receivable agreement.
Deferred Incentive Income	3	Incentive income already received from certain Fortress Funds based on past performance, which is subject to contingent repayment based on future performance.
Debt Obligations and Mortgage Notes Payable	5	The balance outstanding on the Investment Manager's and New Media's credit agreement and New Senior's mortgage notes payable.
		The debt obligations of New Media, New Senior and the Investment Company are not cross collateralized with the debt obligations of Fortress. Fortress has no obligation to satisfy the liabilities of New Media, New Senior or the Investment Company. Similarly, Fortress does not have the right to make use of New Media, New Senior or the Investment Company's assets to satisfy its obligations.
		New Media, New Senior and the Investment Company's debt obligations have no impact on Fortress's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.
Principals' and Others' Interests in Equity of Consolidated Subsidiaries	7	The GAAP basis of the Principals' and a former senior employee's ownership interests in Fortress Operating Group as well as employees' ownership interests in certain subsidiaries.
Statement of Operations		

Management Fees: Affiliates	3	Fees earned for managing Fortress Funds, generally determined based on the size of such funds.
Management Fees: Non-Affiliates	3	Fees earned from managed accounts and our traditional fixed income asset management business, generally determined based on the amount managed.
Incentive Income: Affiliates	3	Income earned from Fortress Funds, based on the performance of such funds.
Incentive Income: Non- Affiliates	3	Income earned from managed accounts, based on the performance of such accounts.
Compensation and Benefits	8	Includes equity-based, profit-sharing and other compensation to employees.

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Selected Financial Statement Captions	Note Reference	Explanation
Gains (Losses)	4	The result of asset dispositions or changes in the fair value of investments or other financial instruments which are marked to market (including the publicly traded permanent capital vehicles and publicly traded portfolio company).
Tax Receivable Agreement Liability Adjustment	6	Represents a change in the amount due to the Principals under the tax receivable agreement.
Earnings (Losses) from Equity Method Investees	4	Fortress's share of the net earnings (losses) of the Fortress Funds resulting from its investments in these funds.
Income Tax Benefit (Expense)	6	The net tax result related to the current period. Certain of Fortress's revenues are not subject to taxes because they do not flow through taxable entities. Furthermore, Fortress has significant permanent differences between its GAAP and tax basis earnings.
		Income tax benefit (expense) for the Investment Manager and Non-Investment Manager are calculated separately and the taxable income (loss) of the Non-Investment Manager does not impact the amount of income tax benefit (expense) for the Investment Manager (and vice versa).
Principals' and Others' Interests in (Income) Loss of Consolidated Subsidiaries	7	Primarily the Principals' and employees' share of Fortress's earnings based on their ownership interests in subsidiaries, including Fortress Operating Group.
Earnings Per Share	9	GAAP earnings per Class A share based on Fortress's capital structure, which is comprised of outstanding and unvested equity interests, including interests which participate in Fortress's earnings, at both the Fortress and subsidiary levels.
Other		
Distributions	9	A summary of dividends and distributions, and the related outstanding shares and units, is provided.
Distributable Earnings	11	A presentation of Fortress's financial performance by segment (fund type) is provided, on the basis of the operating performance measure used by Fortress's management committee.

In May 2014, the FASB issued a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. This standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The entity will recognize revenue to reflect the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The new standard is effective for Fortress beginning January 1, 2017 and early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. Fortress is currently evaluating the impact on its consolidated financial statements upon the adoption of this new standard.

In August 2014, the FASB issued an accounting standard update on measuring the financial assets and financial liabilities of a consolidated collateralized financing entity ("CFE"). The standard provides an entity with an election to measure the financial assets and financial liabilities of a consolidated CFE to be measured on the basis of either the fair value of the CFE’s financial assets or financial liabilities, whichever is more observable. The effective date of the consensus will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 for public companies and early adoption will be permitted. Fortress is currently evaluating the impact on its consolidated financial statements.

In February 2015, the FASB issued an accounting standard update on consolidation. The standard eliminates the deferral of FAS 167, per ASC 810-10-65-2. The standard amends the evaluation of whether (1) fees paid to a decision maker or service provider represent a variable interest, (2) a limited partnership or similar entity has the characteristics of a VIE and (3) a reporting entity is the primary beneficiary of a VIE. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 for public companies and early adoption is permitted. Fortress is currently assessing the impact of the standard and may elect to early adopt. Upon the adoption of the new standard, certain VIEs consolidated by Fortress may no longer be required to be consolidated.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

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

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

For investment companies and similar entities, the primary beneficiary of a VIE is the party who, considering the involvement of related parties and de facto agents, absorbs a majority of the VIE's expected losses or receives a majority of the expected residual returns, as a result of holding a variable interest. This evaluation is also updated continuously.

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

Redeemable Non-controlling Interests represent the ownership interests in the Investment Company which are redeemable by an investor and not owned by Fortress.

Non-controlling interests in equity of Investment Company represents the ownership interests in the Investment Company which are not redeemable and are held by entities or persons other than Fortress.

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

Non-controlling interests in equity of Non-Investment Manager represent the interests in New Media and New Senior that are not owned by Fortress.

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For entities over which Fortress exercises significant influence but which do not meet the requirements for consolidation, Fortress uses the equity method of accounting whereby it records its share of the underlying income of these entities. These entities include the Fortress Funds. Virtually all of the Fortress Funds are, for GAAP purposes, investment companies. As required, Fortress has retained the specialized accounting of these funds. The Fortress Funds record realized and unrealized gains (losses) resulting from changes in the fair value of their investments as a component of current income. Additionally, these funds generally do not consolidate their majority-owned and controlled investments (the “Portfolio Companies”).

Distributions by Fortress and its subsidiaries are recognized when declared.

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

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

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

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

Revenue Recognition

Investment Manager

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

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

Incentive Income - Incentive income is calculated as a percentage of the profits earned by the Fortress Funds subject, in certain cases, to the achievement of performance criteria. Incentive income from certain funds is subject to contingent repayment based on the applicable Fortress Fund achieving earnings in excess of a specified minimum return. Incentive income that is not subject to contingent repayment is recognized as contractually earned. Incentive income subject to contingent repayment may be paid to

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Fortress as particular investments made by the funds are realized. However, if upon liquidation of each fund the aggregate amount paid to Fortress as incentive income exceeds the amount actually due to Fortress based upon the aggregate performance of each fund, the excess is required to be repaid by Fortress (i.e. “clawed back”) to that fund. Fortress has elected to adopt the preferred method of recording incentive income subject to contingencies, whereby it does not recognize incentive income subject to contingent repayment until the termination of the related fund, or when and to the extent distributions from the fund exceed the point at which a clawback of a portion or all of the historic incentive income distributions could no longer occur due to the related contingencies being resolved. Recognition of incentive income allocated or paid to Fortress prior to that date is deferred and recorded as deferred incentive income liability.

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

Non-Investment Manager

Media Revenues - Advertising income from the publication of newspapers is recognized when advertisements are published in newspapers or placed on digital platforms or, with respect to certain digital advertising, each time a user either clicks on or views certain ads, net of commissions and provisions for estimated sales incentives including rebates, rate adjustments, and discounts.

Circulation revenue includes single-copy and subscription revenues. Circulation income is based on the number of copies of the printed newspaper (through home-delivery subscriptions and single-copy sales) and digital subscriptions sold and the rates charged to the respective customers. Single-copy income is recognized based on date of publication, net of provisions for related returns. Proceeds from subscription income are deferred at the time of sale and are recognized in earnings on a pro rata basis over the terms of the subscriptions.

Other revenue is recognized when the related service or product has been delivered.

Billings to clients and payments received in advance of the performance of services or delivery of products are recorded as deferred revenue in the consolidated balance sheets until the services are performed or the product is delivered.

Resident Fees and Services - Resident fees and services include monthly rental revenue, care income and ancillary income earned by New Senior. Resident fees and services are recognized monthly as services are provided. Lease agreements with residents are cancelable by the resident with thirty days’ notice. Ancillary income primarily relates to non-refundable community fees. Non-refundable community fees are recognized on a straight-line basis over the average length of stay of residents, which New Senior estimates to be approximately 24 months for AL/MC and CCRC properties, and approximately 33 months for IL-only properties.

Rental Revenue - Rental revenue from New Senior's triple net lease properties is recognized on a straight-line basis over the applicable term of the lease when collectability is reasonably assured. New Senior's triple net lease arrangements provide for periodic and determinable increases in base rent. Recognizing rental revenue on straight-line basis typically results in recognizing revenue in excess of cash amounts contractually due from New Senior's tenants during the first half of the lease term, creating a straight line receivable that is included in Non-Investment Manager other assets. As of December 31, 2014, straight-line rent receivable was $4.3 million.

Balance Sheet Measurement

Investment Manager

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

Cash and Cash Equivalents, Investment Company - Cash held at the Investment Company that is not available to fund the general liquidity needs of Fortress as Investment Manager.

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

Other Assets and Other Liabilities:

Other assets and liabilities are comprised of the following. Other assets are presented net of allowances for uncollectable amounts of $2.3 million and $3.3 million as of December 31, 2014 and 2013, respectively, and changes thereto were recorded as General and Administrative expense.

	Other Assets			Other Liabilities	
	December 31,			December 31,	
	2014	2013		2014	2013
Fixed assets	$154,525	$115,392	Current taxes payable (Note 6)	$4,204	$1,941
Accumulated depreciation	(99,412)	(81,548)	Accrued expenses and accounts payable	25,634	16,790
Receivables	24,997	65,545	Deferred rent	7,459	7,531
Equity securities	17,627	23,005	Unearned income	10,694	10,811
Digital currency (Bitcoin)	6,828	16,298	Derivatives	932	1,820
Prepaid compensation, net	13,091	16,626	Accrued fee liability (Note 9)	30,000	—
Prepaid expense	17,418	14,486	Miscellaneous liabilities	9,064	10,937
Goodwill and intangibles	10,417	9,421		$87,987	$49,830
Accumulated amortization	(8,345)	(8,264)			
Derivatives	27,105	9,749			
Miscellaneous assets, net	9,225	9,885			
	$173,476	$190,595			

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

- Equity Securities - Equity securities consist primarily of investments in unaffiliated publicly traded companies which are valued based on quoted market prices.

- Digital Currency (Bitcoin) - Represents Fortress's holdings of digital currency which is recorded at the lower of cost or fair value. If fair value is below cost, Fortress records an unrealized loss measured as the excess of cost over fair value of the digital currency. Subsequently, to the extent that fair value increases, Fortress records an unrealized gain but shall not report digital currency above cost. Fortress determines fair value based on estimated exit value using significant observable inputs as of the balance sheet date. During the year ended December 31, 2014, Fortress recognized an impairment charge of $11.5 million. Fortress recorded a $1.7 million unrealized loss in the fourth quarter of 2014.

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

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

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

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Derivatives and Hedging Activities - All derivatives are recognized as either assets or liabilities on the consolidated balance sheets and measured at fair value.

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

In order to reduce interest rate risk, Fortress has and may enter into interest rate hedge agreements. To qualify for cash flow hedge accounting, interest rate swaps must meet certain criteria, including (1) the items to be hedged expose Fortress to interest rate risk, (2) the interest rate swaps or caps are highly effective in reducing Fortress's exposure to interest rate risk, and (3) with respect to an anticipated transaction, the transaction is probable. In addition, the hedging relationship must be properly documented. Effectiveness is periodically assessed based upon a comparison of the relative changes in the fair values or cash flows of the interest rate swaps and the items being hedged. Fortress did not enter into any interest rate swaps during 2014, 2013 and 2012.

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

The effective portion of any gain or loss, and of net payments received or made, is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction effects earnings. The ineffective portion of any gain or loss, and of net payments received or made, is recognized in current earnings.

Fortress did not have any derivatives designated as hedges for 2014, 2013 and 2012.

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

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

	December 31,	
	2014	2013
Direct - Investment Manager		
Net foreign currency translation adjustments	$(2,416)	$(1,522)
Direct - Non-Investment Manager - consolidated VIEs		
Other	(10)	—
Accumulated other comprehensive income (loss)	$(2,426)	$(1,522)

The amounts reclassified from accumulated other compensative income (loss) to components of net income (loss), if any, were immaterial for each period presented.

Foreign Currency - Assets and liabilities relating to foreign investments are translated using the exchange rates prevailing at the end of each reporting period. Results of foreign operations are translated at the weighted average exchange rate for each reporting period. Translation adjustments are included in current income to the extent that unrealized gains and losses on the related investment are included in income, otherwise they are included as a component of accumulated other comprehensive income until realized. Foreign currency gains or losses resulting from transactions outside of the functional currency of a consolidated entity are recorded in income as incurred and were not material during the years ended December 31, 2014, 2013 and 2012.

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Profit Sharing Arrangements - Pursuant to employment arrangements, certain of Fortress’s employees are granted profit sharing interests and are thereby entitled to a portion of the incentive income or other amounts realized from certain Fortress Funds, which is payable upon a realization event within the respective funds. Accordingly, incentive income resulting from a realization event within a fund gives rise to the incurrence of a profit sharing obligation. Amounts payable under these profit sharing plans are recorded as compensation expense when they become probable and reasonably estimable.

For profit sharing plans related to hedge funds and permanent capital vehicles, where incentive income is received on an annual basis, the related compensation expense is accrued during the period for which the related payment is made. In addition, certain of Fortress's employees are granted partial rights in options it holds in the publicly traded permanent capital vehicles (the "tandem options"). The fair value of these rights are recorded as profit sharing compensation expense at that time. The related liability, included in accrued compensation and benefits, is marked to fair value through compensation expense until such time as the rights are exercised or expire.

For profit sharing plans related to private equity funds, the private permanent capital vehicle and credit PE funds, where incentive income is received as investments are realized but is subject to clawback (see “Incentive Income” above), although Fortress defers the recognition of incentive income until all contingencies are resolved, accruing expense for employee profit sharing is based upon when it becomes probable and reasonably estimable that incentive income has been earned and therefore a profit sharing liability has been incurred. Based upon this policy, the recording of an accrual for profit sharing expense to employees generally precedes the recognition of the related incentive income revenue.

Fortress's determination of the point at which it becomes probable and reasonably estimable that incentive income will be earned and therefore a corresponding profit sharing expense should be recorded is based upon a number of factors, the most significant of which is the level of realized gains generated by the underlying funds which may ultimately give rise to incentive income payments. Accordingly, profit sharing expense is generally recorded upon realization events within the underlying funds. A realization event has occurred when an investment within a fund generates proceeds in excess of its related invested capital, such as when an investment is sold at a gain. In some cases, this accrual is subject to reversal based on a determination that the expense is no longer probable of being incurred (in other words, that a clawback is probable).

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

Equity-Based Compensation - Fortress currently has several categories of equity-based compensation, which are accounted for as described in Note 8. Generally, the grant date fair value of equity-based compensation granted to employees or directors is expensed ratably over the required service period (or immediately if there is no required service period). Equity-based compensation granted to non-employees, primarily to employees of certain Portfolio Companies, is expensed ratably over the required service period based on its fair value at each reporting date.

Income Taxes - FIG Corp., a subsidiary of the Registrant, is a corporation for tax purposes. As a result, a substantial portion of Fortress’s income earned by FIG Corp. is subject to U.S. federal and state income taxation, taxed at prevailing rates. The remainder of Fortress’s income is allocated directly to its shareholders and is not subject to a corporate level of taxation. Certain subsidiaries of Fortress are subject to the New York City unincorporated business tax (“UBT”) on their U.S. earnings based on a statutory rate of 4%. Certain subsidiaries of Fortress are subject to income tax of the foreign countries in which they conduct business. Interest and penalties, if any, are treated as additional taxes.

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

Fortress is party to a tax receivable agreement whereby the Principals will receive payments from Fortress related to tax savings realized by Fortress in connection with certain transactions entered into by the Principals.

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Non-Investment Manager

General

Purchase Accounting - In determining the allocation of the purchase price between net tangible and intangible assets and liabilities, management made estimates of the fair value of the tangible and intangible assets and liabilities using information obtained as a result of pre-acquisition due diligence and independent valuations and appraisals. Management allocates the purchase price to net tangible and identified intangible assets and liabilities based on their fair values. The determination of fair value involves the use of significant judgment and estimation. Acquisition costs in excess of the fair value of tangible and identifiable intangible net assets is recorded as goodwill.

Goodwill and Intangibles - Intangible assets related to New Media consist of advertiser, customer and subscriber relationships, mastheads and trade names. These intangible assets are recorded at fair value at the date of acquisition. New Media estimates the fair value of the advertiser, customer and subscriber relationships and the trade names using the multi-period excess earnings method under the income approach. This valuation method is based on first forecasting revenue for the existing customer base and then applying expected attrition rates. Mastheads are not amortized because it has been determined that the useful lives of such mastheads are indefinite.

Intangible assets related to New Senior consist of above or below market lease intangibles, in-place lease intangibles and other intangibles.

Above or below market lease intangibles related to the senior housing business primarily reflect the difference between contract rent and market rent over the remaining lease term for each leased property, on a discounted basis. Above/below market lease intangibles also include ground lease intangibles that are amortized over the contractual lives of the leases.

New Senior estimates the fair value of in-place leases as (i) the present value of the estimated rental revenue that would have been forgone, offset by variable costs that would have otherwise been incurred during a reasonable lease-up period, as if the acquired units were vacant, and (ii) the estimated absorption costs, such as additional marketing costs that would have been incurred during the lease-up period. The acquisition date fair value of in-place lease intangibles is amortized over the average length of stay of the residents at the senior housing properties on a straight-line basis, which is estimated to be 24 months for AL/MC and CCRC properties and 33 months for IL-only properties.

Other intangibles are primarily comprised of non-compete intangibles. Non-compete intangibles reflect the fair value of non-compete agreements at acquisition. New Senior estimates the fair value of non-compete intangibles as the sum of (i) the present value of the consulting services during the non-compete period and (ii) the difference between (a) the present value of the net operating income with the non-compete agreements in place and (b) the present value of the net operating income, as if the non-compete agreements were not in place. The acquisition date fair value of the non-compete intangibles is amortized over the non-compete period on a straight-line basis.

Amortization of intangible assets is included within depreciation and amortization on the consolidated statements of operations and is calculated using the straight-line method based on the following estimated useful lives:

New Media

Advertiser relationships	14 - 16 years
Customer relationships	14 - 16 years
Subscriber relationships	13 - 16 years
Trade names	10 years
Non-compete agreements	5 years
New Senior	
Above or below market lease	17 - 82 years
In-place lease intangibles	2 - 3 years
Other intangibles	5 - 13 years

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Goodwill and intangible assets consisted of the following:

	December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets, New Media:			
Advertiser relationships	$64,271	$(3,445)	$60,826
Customer relationships	7,763	(369)	7,394
Subscriber relationships	38,923	(2,084)	36,839
Trade name	262	(24)	238
Non-compete agreements	200	—	200
Total New Media	111,419	(5,922)	105,497
Amortized intangible assets, New Senior:			
Above or below market lease intangibles	32,950	(262)	32,688
In-place lease intangibles	245,675	(16,121)	229,554
Other intangibles	4,426	(91)	4,335
Total New Senior	283,051	(16,474)	266,577
Total	$394,470	$(22,396)	$372,074
Nonamortized intangible assets:			
Mastheads			51,245
Other			500
Total intangible assets, net			$423,819
Goodwill			$370,375

As of December 31, 2014, the weighted average amortization periods for amortizable intangible assets are 15.7 years for advertiser relationships, 15.9 years for customer relationships, 15.9 years for subscriber relationships, 10.0 years for trade names and 5.0 years for non-compete agreements. The weighted average amortization period in total for all amortizable intangible assets is 15.8 years.

As of December 31, 2014, the weighted average amortization periods for amortizable intangible assets are 23.5 years for above or below market lease intangibles, 2.0 years for in-place lease intangibles, and 8.5 years for other intangibles. The weighted average amortization period in total for all amortizable intangible assets is 4.9 years.

Amortization expense related to amortizable intangible assets for the period from February 14, 2014 to December 31, 2014 was $22.4 million. Estimated future amortization expense as of December 31, 2014, is as follows:

	New Media	New Senior
2015	$7,195	$112,217
2016	7,195	101,203
2017	7,195	23,283
2018	7,195	2,187
2019	7,195	2,069
Thereafter	69,522	25,618
Total	$105,497	$266,577

Goodwill and intangible assets with indefinite lives are tested for impairment annually or when events indicate that an impairment could exist which may include an economic downturn in a market, a change in the assessment of future operations or a decline in New Media’s or New Senior's stock price. An annual impairment assessment is performed on each of New Media's or New Senior's reporting units. The fair value of the applicable reporting unit is compared to its carrying value. Calculating the fair value of a reporting unit requires significant estimates and assumptions. Fair value is estimated by applying third-party market value indicators to projected cash flows and/or projected earnings before interest, taxes, depreciation, and amortization. In applying this methodology, the company relies on a number of factors, including current operating results and cash flows, expected future operating results and cash flows, future business plans, and market data. If the carrying value of the reporting unit exceeds the estimate of fair value, the amount of impairment is calculated as the excess of the carrying value of goodwill over its implied fair value. In June 2014, New Media performed an impairment assessment of its goodwill and intangible assets for each of its reporting units. Based on its assessment, no impairment was identified.

Impairment of Senior Housing Real Estate, Property, Plant and Equipment and Finite-lived Intangible Assets - The recoverability of long-lived assets, including fixed assets and definite lived intangible assets, is estimated whenever events or changes in business circumstances indicate the carrying amount of the assets, or related group of assets, may not be fully recoverable.

In the case of New Media, impairment indicators include significant under performance relative to historical or projected future operating losses, significant changes in the manner of use of the acquired assets or the strategy for New Media’s overall business, and significant negative industry or economic trends. The assessment of recoverability is based on management’s estimates by comparing the sum of the estimated undiscounted cash flows generated by the underlying asset, or other appropriate grouping of assets, to its carrying value to determine whether an impairment existed at its lowest level of identifiable cash flows. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment is recognized to the extent the carrying value of such asset exceeds its fair value.

New Senior periodically evaluates its long-lived assets, including definite lived intangible assets, primarily consisting of senior housing real estate, for impairment indicators. If indicators of impairment are present, New Senior evaluates the carrying value of the related senior housing real estate in relation to the future undiscounted cash flows of the underlying operations. In performing this evaluation, New Senior considers market conditions and its current intentions with respect to holding or disposing of the asset. New Senior adjusts the net book value of leased properties and other long-lived assets to fair value if the sum of the expected future undiscounted cash flows, including sales proceeds, is less than book value. New Senior recognizes an impairment loss at the time it makes any such determination.

New Media did not record any impairment charges related to its fixed assets and related intangibles for the period from February 14, 2014 to December 31, 2014.

New Senior did not record any impairment charges related to its real estate assets and related intangibles for the period from November 7, 2014 to December 31, 2014.

The newspaper industry and New Media have experienced declining same store revenue and profitability over the past several years. Should general economic, market or business conditions decline, and have a negative impact on estimates of future cash flow and market transaction multiples, this may require impairment charges to be recorded in the future.

Cash Equivalents - Cash equivalents represent certificates of deposit which have original maturities of three months or less.

Other Assets and Other Liabilities - Other assets are presented net of allowances for uncollectible amounts of $5.0 million as of December 31, 2014. Other assets and liabilities of the Non-Investment Manager are comprised of the following:

	Other Assets December 31, 2014		Other Liabilities December 31, 2014
Accounts receivable, net	$87,659	Accounts payable and accrued expenses	$59,617
Deferred financing costs	3,252	Security deposits payable	22,695
Prepaid expenses	12,346	Dividends payable	15,284
Escrows held by lender	10,768	Pension and other post retirement benefit obligations	13,794
Deposits	8,582	Miscellaneous liabilities	22,461
Inventory	9,824		$133,851
Miscellaneous assets, net	24,099		
	$156,530		

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Other Assets

- Accounts Receivable - Accounts receivable are stated at amounts due from customers and tenants, net of an allowance for uncollectible accounts. Allowance for uncollectible accounts is based upon several factors including the length of time the receivables are past due, historical payment trends and current economic factors. Collateral is generally not required.

- Deferred Financing Costs - New Media amortizes deferred financing costs as a component of interest expense over the terms of the related borrowings using the effective interest rate method.

- Prepaid Expenses - Prepaid expenses consists primarily of prepaid insurance and prepaid rent and are expensed over the useful lives of the goods or services.

- Escrows held by lender - Escrows held by lender represent amounts deposited in tax, insurance, and replacement reserve escrow accounts that are related to mortgage notes collateralized by New Senior's properties.

- Deposits - Deposits consist primarily of workers compensation premiums and health care insurance funds related to New Media.

- Inventory - Inventory consists principally of newsprint, which is valued at the lower of cost or market. Cost is determined using the first-in, first-out (“FIFO”) method. In 2014, New Media purchased approximately 95% of newsprint from one vendor.

Other Liabilities

- Accounts Payable and Accrued Liabilities - Accounts payable reflect expenses related to goods and services received that have not yet been paid and accrued liabilities reflect invoices that have not yet been received.

- Security Deposits Payable - Security deposits payable relate to deposits made by tenants for the triple net lease properties. Security deposits are due to the tenants at the end of the initial terms of the leases, which range from approximately 15 to 17 years.

- Dividends Payable - Dividends payable represent dividends declared and payable to New Senior common stockholders.

- Pension and Other Postretirement Benefit Obligations - Pension plan obligations and expense is based on a number of actuarial assumptions. Two critical assumptions are the expected long-term rate of return on plan assets and the discount rate applied to pension plan obligations. For other postretirement benefit plans, which provide for certain health care and life insurance benefits for qualifying retired employees and which are not funded, critical assumptions in determining other postretirement benefit obligations and expense are the discount rate and the assumed health care cost-trend rates.

New Media maintains a legacy pension plan and legacy postretirement medical and life insurance plans which cover qualifying employees of its subsidiaries. The pension plan and postretirement medical and life insurance plans are closed to new participants and the pension plan was frozen to all future benefit accruals. Also, medical and life insurance benefits for a select group of active employees are frozen and the plan limits future benefits.

The accrued benefit actuarial method is used and best estimate assumptions are used to determine pension costs, liabilities and other pension information for defined benefit plans.

The following provides information on the components of net periodic benefit cost (income) and other changes in plan assets and benefit obligations recognized in other comprehensive income for the pension plans and postretirement medical and life insurance plans for the period from February 14, 2014 to December 31, 2014:

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	Period from February 14, 2014 to December 31, 2014	
Components of net periodic benefit cost (income):	Pension	Postretirement
Service cost	$300	$21
Interest cost	1,191	245
Expected return on plan assets	(1,624)	—
Net periodic benefit cost (income)	$(133)	$266

Components of changes in plan assets and benefit obligations recognized in other comprehensive income:	Pension	Postretirement
Net actuarial (gain) loss	$4,549	$377

The following assumptions were used to calculate the net periodic benefit cost (income) for New Media's defined benefit pension and postretirement plans:

	Pension	Postretirement
Weighted average discount rate	5.0 %	4.5 %
Expected return on assets	8.0 %	N/A
Current year trend	N/A	7.8 %
Ultimate year trend	N/A	4.8 %
Year of ultimate trend	N/A	2025

Since the pension plan was frozen to all future benefit accruals and the medical and life insurance benefit plans limit future benefits, management assumed no rate of increase in future compensation levels.

New Media

Deferred Revenue - Billings to clients and payments received in advance of the performance of services or delivery of products are recorded as deferred revenue until services are performed or the product is delivered.

Fixed Assets - Fixed assets are recorded at cost. Routine maintenance and repairs are expensed as incurred. Depreciation is calculated under the straight-line method over the estimated useful lives, principally 21 to 38 years for buildings, 4 to 10 years for buildings improvements, 1 to 15 years for machinery and equipment, and 1 to 9 years for furniture, fixtures and computer software. Leasehold improvements are amortized under the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Fixed assets for New Media consisted of the following:

	December 31, 2014
Land	$25,813
Buildings and improvements	127,428
Machinery and equipment	144,203
Furniture, fixtures, and computer software	15,051
Construction in progress and other non-depreciating assets	2,063
	314,558
Less: accumulated depreciation	(30,772)
Total	$283,786

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Depreciation expense related to fixed assets of New Media for the period from February 14, 2014 to December 31, 2014, was $30.8 million.

Income taxes - Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

New Media has determined that it is more likely than not that its existing deferred tax assets will not be realized, and accordingly has provided a full valuation allowance. Any changes in the scheduled reversals of deferred taxes may require an additional valuation allowance against the remaining deferred tax assets. Any increase or decrease in the valuation allowance could result in an increase or decrease in income tax expense in the period of adjustment.

New Media accounts for uncertain tax positions under the provisions of ASC 740. New Media does not anticipate significant increases or decreases in our uncertain tax positions within the next twelve months. New Media recognizes penalties and interest relating to uncertain tax positions in tax expense.

New Senior

Investments in Senior Housing Real Estate, Net - Real estate investments are recorded at cost less accumulated depreciation. New Senior accounts for acquisitions using the acquisition method and allocate the consideration for the businesses acquired among tangible and recognized intangible assets and liabilities based upon their estimated fair values as of the acquisition date. Recognized intangible assets primarily include the value of in-place resident leases. Transaction costs are expensed as incurred and included within Non-Investment Manager - General, administrative and other expenses on the consolidated statements of operations. In allocating the acquisition consideration between net tangible and identified intangible assets acquired and liabilities assumed, New Senior makes estimates of the fair value of the tangible and intangible assets acquired and liabilities assumed using information obtained as a result of pre-acquisition due diligence, marketing, leasing activities and independent appraisals. The fair value of the buildings acquired is determined on an as-if-vacant basis.

Depreciation is calculated on a straight-line basis using estimated remaining useful lives not to exceed forty years for buildings, three to ten years for building improvements and three to five years for other fixed assets. Expenditures for repairs and maintenance are expensed as incurred.

Income Taxes - New Senior intends to elect and qualify as a REIT under the requirements of the Code. Requirements for qualification as a REIT include various restrictions on ownership of stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. Distribution of the remaining balance may extend until timely filing of New Senior’s tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income.

Certain of New Senior's activities are conducted through a taxable REIT subsidiary (“TRS”) and therefore are subject to federal and state income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases upon the change in tax status. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

New Senior recognizes tax benefits for uncertain tax positions only if it is more likely than not that the position is sustainable based on its technical merits. Interest and penalties on uncertain tax positions are included as a component of the provision for income taxes in the consolidated statements of operations. As of December 31, 2014, New Senior had no uncertain tax provisions.

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3. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

Investment Manager

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

Management fees, incentive income and Fortress's investments and options held in connection with Investment Company and Non-Investment Manager are eliminated in consolidation.

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

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Management Fees, Incentive Income and Related Profit Sharing Expense

Fortress recognized management fees and incentive income as follows:

	Year Ended December 31,		
	2014	2013	2012
Private Equity			
Private Equity Funds			
Management fees: affil.	$135,549	$133,725	$118,617
Management fees: non-affil.	364	493	394
Incentive income: affil.	22,094	27,790	2,612
Permanent capital vehicles			
Management fees: affil.	59,178	58,206	53,355
Management fees, options: affil.	3,346	42,516	21,524
Management fees: non-affil.	2,910	3,807	3,902
Incentive income: affil.	56,299	15,653	—
Liquid Hedge Funds			
Management fees: affil.	116,526	85,807	63,509
Management fees: non-affil.	21,365	24,815	14,023
Incentive income: affil.	15,835	107,463	43,089
Incentive income: non-affil.	232	43,238	24,556
Credit Funds			
Credit Hedge Funds			
Management fees: affil.	113,712	101,699	100,835
Management fees: non-affil.	146	191	359
Incentive income: affil.	120,255	190,581	126,832
Incentive income: non-affil.	—	—	130
Credit PE Funds			
Management fees: affil.	96,586	95,787	98,250
Management fees: non-affil.	129	138	143
Incentive income: affil.	147,897	78,341	73,905
Incentive income: non-affil.	1,396	1,145	1,476
Logan Circle			
Management fees: affil.	3,025	2,543	—
Management fees: non-affil.	44,034	33,351	26,796
Incentive income: non-affil.	106	—	—
Total			
Management fees: affil.	$527,922	$520,283	$456,090
Management fees: non-affil.	$68,948	$62,795	$45,617
Incentive income: affil. (A)	$362,380	$419,828	$246,438

Incentive income: non-affil.	$1,734	$44,383	$26,162

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

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Deferred Incentive Income

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

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue at year end (in the fourth quarter of each year) and is generally received subsequent to year end. Incentive income recognized as revenue during the fourth quarter from these funds was $108.7 million, $271.2 million and $184.4 million during the years ended December 31, 2014, 2013 and 2012, respectively.

During the years ended December 31, 2014, 2013 and 2012, Fortress recognized $147.9 million, $78.3 million and $72.6 million, respectively, of incentive income distributions from its credit PE funds which were non-clawbackable or represented “tax distributions.” Tax distributions are not subject to clawback and reflect a cash amount approximately equal to the amount expected to be paid out by Fortress for taxes or tax-related distributions on the allocated income from such funds.

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

	Distributed-Gross	Distributed-Recognized (A)	Distributed-Unrecognized (B)	Undistributed, net of intrinsic clawback (C) (D)
Deferred incentive income as of December 31, 2012	$ 894,278	$ (662,432)	$ 231,846	$527,432
Fortress Funds which matured (no longer subject to clawback)	(2,180)	2,180	N/A	N/A
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	293,663
Distribution of private equity funds and Credit PE funds incentive income	124,235	N/A	124,235	(124,235)
Distribution of private permanent capital vehicle incentive income	527	N/A	527	(527)
Recognition of previously deferred incentive income	N/A	(107,276)	(107,276)	N/A
	(1,776)	—	(1,776)	N/A

Changes in foreign exchange rates				
Deferred incentive income as of December 31, 2013	$ 1,015,084	$ (767,528)	$ 247,556	$ 696,333
Fortress Funds which matured (no longer subject to clawback)	—	—	N/A	N/A
Share of income (loss) of Fortress Funds	N/A	N/A	N/A	399,213
Distribution of private equity funds and Credit PE funds incentive income	226,780	N/A	226,780	(226,780)
Distribution of private permanent capital vehicle incentive income	217	N/A	217	(217)
Recognition of previously deferred incentive income	N/A	(171,387)	(171,387)	N/A
Changes in foreign exchange rates	1,360	—	1,360	N/A
Deferred incentive income as of December 31, 2014	$ 1,243,441 (E)	$ (938,915)	$ 304,526	$ 868,549 (E)
Deferred incentive income including Fortress Funds which matured	$ 1,297,097	$ (992,571)		

(A) All related contingencies have been resolved.

(B) Reflected on the consolidated balance sheet.

(C) At December 31, 2014, the net undistributed incentive income is comprised of $935.4 million of gross undistributed incentive income, net of $66.9 million of intrinsic clawback. The net undistributed incentive income represents the amount that would be received by Fortress from the related funds if such funds were liquidated on December 31, 2014 at their net asset values.

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(D) From inception to December 31, 2014, Fortress has paid $578.4 million of compensation expense under its employee profit sharing arrangements (Note 8) in connection with distributed incentive income, of which $21.5 million has not been expensed because management has determined that it is not probable of being incurred as an expense and will be recovered from the related individuals. As of December 31, 2014, Fortress has recovered $6.4 million from individuals relating to their clawback obligations. If the $935.4 million of gross undistributed incentive income were realized, Fortress would recognize and pay an additional $479.1 million of compensation expense.

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

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

	December 31, 2014
Distributed incentive income - Private Equity Funds	$846,671
Distributed incentive income - Private Equity Funds in Investment Period or Commitment Period	—
Distributed incentive income - Credit PE Funds	621,356
Distributed incentive income - Credit PE Funds in Investment Period or Commitment Period	103,855
Distributed incentive income - Private Permanent Capital Vehicle in Investment Period or Commitment Period	744
Less:	
Fortress Funds which are not subject to a clawback provision:	
— NIH	(94,513)
— GAGACQ Fund	(51,476)
Portion of Fund I distributed incentive income that Fortress is not entitled to (see footnote K of incentive income threshold tables)	(183,196)
Distributed-Gross	$1,243,441

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

	December 31, 2014
Undistributed incentive income - Private Equity Funds	$15,910
Undistributed incentive income - Private Equity Funds in Investment Period or Commitment Period	1,777
Undistributed incentive income - Credit PE Funds	574,448
Undistributed incentive income - Credit PE Funds in Investment Period or Commitment Period	249,945
Undistributed incentive income - Private Permanent Capital Vehicle in Investment Period or Commitment Period	6,266
Undistributed incentive income - Hedge Funds (total)	87,106
Undistributed incentive income - Logan Circle	—
Less: Gross intrinsic clawback per incentive income threshold tables - Private Equity Funds	(66,903)
Undistributed, net of intrinsic clawback	$868,549

Certain investments held by employees and affiliates of Fortress, as well as by Fortress itself, in the Fortress Funds are not subject to management fees or incentive income. During the years ended December 31, 2014, 2013 and 2012, management fees of $6.0 million, $4.7 million and $3.9 million, respectively, and incentive income, exclusive of tax distributions, of $4.0 million, $6.0 million and $4.9 million, respectively, were waived on such employees' investments.

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The following tables summarize information with respect to the Fortress Funds and their related incentive income thresholds a
December 31, 2014:

Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)	Gross Intrins Clawb (J)
Private Equity Funds											
NIH (1998)	In Liquidation	$415,574	$(823,588)	$—	$ N/A	$—	$ N/A	$—	$94,513	$ N/A	$ N/A
Fund I (1999) (K)	Closed May-13	1,015,943	(2,847,929)	—	N/A	N/A	N/A	N/A	344,939	N/A	N/A
Fund II (2002)	In Liquidation	1,974,298	(3,442,900)	2,875	1,471,477	—	N/A	566	288,840	—	—
Fund III (2004)	Jan-15	2,762,992	(2,138,525)	1,346,591	722,124	[illegible]	[illegible]	—	66,903	66,903	66,90
Fund III Coinvestment (2004)	Jan-15	273,649	(225,188)	71,586	23,125	[illegible]	[illegible]	—	—	—	—
Fund IV (2006)	Jan-17	3,639,561	(1,311,000)	2,767,275	438,714	[illegible]	[illegible]	—	—	—	—
Fund IV Coinvestment (2006)	Jan-17	762,696	(257,811)	459,208	(45,677)	[illegible]	[illegible]	—	—	—	—
Fund V (2007)	Feb-18	4,103,713	(1,354,986)	4,647,500	1,898,773	[illegible]	[illegible]	4,599	—	—	—
Fund V Coinvestment (2007)	Feb-18	990,480	(173,409)	491,723	(325,348)	[illegible]	[illegible]	—	—	—	—
GAGACQ Fund (2004) (GAGFAH)	Closed Nov-09	545,663	(595,401)	—	N/A	N/A	N/A	N/A	51,476	N/A	N/A
FRID (2005) (GAGFAH)	Closed Nov-14	1,220,229	(1,202,153)	—	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FRIC (2006) (Brookdale)	Closed Dec-14	328,754	(291,330)	—	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FICO (2006) (Intrawest)	Jan-17	724,525	(5)	(62,741)	[illegible]	[illegible]	[illegible]	—	—	—	—
FHIF (2006) (Holiday)	Jan-17	1,543,463	(541,152)	1,927,349	925,038	[illegible]	[illegible]	—	—	—	—
FECI (2007) (Florida East Coast/Flagler)	Feb-18	982,779	(344)	976,402	(6,033)	[illegible]	[illegible]	—	—	—	—
	Aug-22	332,966	(109,339)	312,781	89,154	—	N/A	8,606	—	—	—

MSR Opportunities Fund I A (2012)											
MSR Opportunities Fund I B (2012)	Aug-22	80,781	(26,479)	75,699	21,397	—	N/A	2,139	—	—	—
								$15,910	$846,671	$66,903	$66,9
Private Equity Funds in Investment or Commitment Period											
MSR Opportunities II A (2013)	Jul-23	$55,761	$(10,492)	$54,944	$9,675	$—	$ N/A	$1,430	$—	$—	$—
MSR Opportunities II B (2013)	Jul-23	797	(149)	778	130	—	N/A	19	—	—	—
MSR Opportunities II MA I (2013)	Jul-23	12,785	(2,409)	12,600	2,224	—	N/A	328	—	—	—
Italian NPL Opportunities (2013)	Sep-24	36,199	(3,417)	29,972	(2,810)	616	3,426	—	—	—	—
								$1,777	$—	$—	$—

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Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions (C)	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	D Inc Inc Su to Cl (I)
Credit PE Funds										
Long Dated Value Fund I (2005)	Apr-30	$267,325	$(89,887)	$310,314	$132,876	$146,299	$13,423	$—	$—	$-
Long Dated Value Fund II (2005)	Nov-30	274,280	(147,790)	202,378	75,888	114,886	38,998	—	412	—
Long Dated Value Fund III (2007)	Feb-32	343,156	(272,641)	201,352	130,837	—	N/A	17,835	6,473	—
LDVF Patent Fund (2007)	Nov-27	40,664	(37,913)	35,316	32,565	—	N/A	1,640	1,471	—
Real Assets Fund (2007)	Jun-17	359,024	(335,000)	131,430	107,406	—	N/A	11,439	5,285	—
Credit Opportunities Fund (2008)	Oct-20	5,548,858	(6,964,273)	1,259,585	2,675,000	—	N/A	183,519	342,110	14
Credit Opportunities Fund II (2009)	Jul-22	2,266,715	(2,348,963)	1,092,635	1,174,883	—	N/A	136,472	93,964	25
FCO Managed Account (2010)	Jun-22	576,608	(553,732)	338,493	315,617	—	N/A	47,585	12,347	—
SIP Managed Account (2010)	Sep-20	11,000	(35,747)	15,098	39,845	—	N/A	2,537	4,949	—
Japan Opportunity Fund (2009)	Jun-19	907,787	(1,313,907)	553,606	959,726	—	N/A	89,132	116,662	19
Net Lease Fund I (2010)	Feb-20	152,851	(225,489)	1,646	74,284	—	N/A	221	9,528	5,8
Real Estate Opportunities Fund (2011)	Sep-24	534,278	(243,376)	420,747	129,845	—	N/A	9,432	1,906	49
Global Opportunities Fund (2010)	Sep-20	327,399	(154,539)	244,829	71,969	—	N/A	12,053	1,979	1,9
Japan Opportunity Fund II (Yen) (2011)	Dec-21	651,640	(233,544)	623,193	205,097	—	N/A	32,556	9,811	—
Japan Opportunity Fund II (Dollar)	Dec-21	633,667	(215,901)	628,910	211,144	—	N/A	28,906	11,812	—

(2011)										
Real Estate Opportunities REOC Fund (2011)	Oct-23	56,692	(36,018)	39,612	18,938	—	N/A	1,121	2,647	1,2
								$574,448	$621,356	$2
Credit PE Funds in Investment Period or Commitment Period										
Credit Opportunities Fund III (2011)	Mar-24	$3,088,327	$(1,284,092)	$2,386,123	$581,888	$—	$ N/A	$93,056	$20,852	$–
FCO Managed Accounts (2008-2012)	Apr-22 to Mar-27	3,843,062	(2,679,311)	2,379,452	1,215,701	—	N/A	156,889	83,003	34
Life Settlements Fund (2010)	Dec-22	397,361	(299,330)	72,534	(25,497)	74,266	99,763	—	—	—
Life Settlements Fund MA (2010)	Dec-22	32,525	(24,482)	5,731	(2,312)	6,100	8,412	—	—	—
Real Estate Opportunities Fund II (2014)	May-27	147,138	—	147,190	52	4,021	3,969	—	—	—
								$249,945	$103,855	$3

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Fund (Vintage) (A)	Maturity Date (B)	Inception to Date Capital Invested	Inception to Date Distributions (C)	Net Asset Value ("NAV")	NAV Surplus (Deficit) (D)	Current Preferred Return Threshold (E)	Gain to Cross Incentive Income Threshold (F)	Undistributed Incentive Income (G)	Distributed Incentive Income (H)	Distributed Incentive Income Subject to Clawback (I)	Gross Intrinsic Clawback (J)	Net Intrinsic Clawback (J)
Private Permanent Capital Vehicle in Investment Period or Commitment Period												
WWTAI (2011)	Jan-25	$699,189	$(117,824)	$653,724	$72,360	$—	N/A	$6,266	$744	$744	$—	$—

	Equity Eligible for Incentive (L)	Gain to Cross Incentive Income Threshold (F)	Life-to-Date Incentive Income Crystallized (P)
Publicly Traded Permanent Capital Vehicles			
Newcastle	$839,147	$ (F)	$41,283
Eurocastle Investment Limited ("Eurocastle")	488,562	178,400	39,217
New Residential Investment Corp. ("New Residential")	1,372,498	—	71,952
New Media (W)	492,807	—	198
New Senior (W)	811,782	4,824	—

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	Incentive Income Eligible NAV (L)	Gain to Cross Incentive Income Threshold (M)	Percentage of Incentive Income Eligible NAV Above Incentive Income Threshold (N)		Undistributed Incentive Income (O)	Year to Date Incentive Income Crystallized (P)
Liquid Hedge Funds						
Macro Funds (Q) (T)						
Main fund investments	$1,501,833	$20,016	19.9	%	$—	$2,647
Single investor funds	991,070	17,998	16.4	%	—	1,142
Sidepocket investments (R)	10,545	8,053	N/A		147	334
Sidepocket investments - redeemers (S)	115,567	65,589	N/A		982	1,217
Managed accounts	543,196	19,393	0.4	%	—	17
Asia Macro Funds (T)						
Main fund investments	3,019,082	14,238	58.5	%	—	8,892
Managed accounts	289,840	2,280	40.6	%	—	172
Fortress Convex Asia Funds (T)						
Main fund investments	183,679	9,806	0.0	%	—	—
Fortress Partners Funds (T)						
Main fund investments	21,915	10,911	0.2	%	—	1,354
Sidepocket investments (R)	91,106	4,576	N/A		5,440	—
Fortress Centaurus Global Funds (T)						
Main fund investments	32,628	—	100.0	%	—	173
Credit Hedge Funds						
Special Opportunities Funds (T)						
Main fund investments	$4,711,782	$—	100.0	%	$—	$90,797
Sidepocket investments (R)	65,899	7	N/A		4,974	—
Sidepocket investments - redeemers (S)	193,687	49,014	N/A		5,679	1,217
Main fund investments (liquidating) (U)	511,918	—	100.0	%	69,884	24,833
Managed accounts	3,674	46,214	0.0	%	—	—
Worden Funds						
Main fund investments	259,111	590	91.7	%	—	3,445
Fortress Japan Income Fund						
Main fund investments	44,362	N/A	0.0	%	—	—

Value Recovery Funds (V)					
Managed accounts	8,523	8,199	0.0 %	—	—
Logan Circle					
Main fund investments	$68,088	$—	0.0 %	$—	$—
Managed accounts	277,986	3,347	20.4 %	—	106

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

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

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

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

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

(F) Represents the immediate increase in NAV needed for Fortress to begin earning incentive income, including the achievement of any relevant performance thresholds. It does not include the amount needed to earn back intrinsic clawback (see (J) below), if any. Incentive income is not recorded as revenue until it is received and any related contingencies are resolved (see (I) below). For the publicly traded permanent capital vehicles, represents the immediate increase of the company's applicable supplemental measure of operating performance needed for Fortress to begin earning incentive income. As of December 31, 2014, as a result of Newcastle not meeting the incentive income threshold, Fortress does not expect to earn incentive income from Newcastle for an indeterminate period of time.

(G) Represents the amount of additional incentive income Fortress would receive if the fund were liquidated at the end of the period at its NAV. The incentive income amounts presented in this table are based on the estimated results of investment vehicles for the current period. These estimates are subject to change based on the final results of such vehicles. As of December 31, 2014, a portion of Fund V's capital is above the incentive income threshold.

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

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

(J) Represents the amount of incentive income previously received from the fund that would be clawed back (i.e., returned by Fortress to the fund) if the fund were liquidated at the end of the period at its NAV, excluding the effect of any tax adjustments. Employees, former employees and affiliates of Fortress would be required to return a portion of this incentive income that was paid to them under profit sharing arrangements. "Gross" and "Net" refer to amounts that are gross and net, respectively, of this employee/affiliate portion of the intrinsic clawback. Fortress remains liable to the funds for these amounts even if it is unable to collect the amounts from employees/affiliates. Fortress withheld a portion of the amounts due to employees under these profit sharing arrangements as a reserve against future clawback; as of December 31, 2014, Fortress held $32.1 million of such amounts on behalf of employees related to all of the private equity funds.

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

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

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

(N)

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

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

(P) Represents the amount of incentive income Fortress has earned which is not subject to clawback. For the publicly traded permanent capital vehicles, represents the life-to-date incentive income amount that Fortress has earned and which is not subject to clawback.

(Q) The Drawbridge Global Macro SPV (the "SPV"), which was established in February 2009 to liquidate illiquid investments and distribute the proceeds to then existing investors, is not subject to incentive income and is therefore not presented in the table. However, realized gains or losses within the SPV can decrease or increase, respectively, the gain needed to cross the incentive income threshold for investors with a corresponding investment in the main fund. The unrealized gains and losses within the SPV at December 31, 2014, as if they became realized, would not materially impact the amounts presented in the table.

(R) Represents investments held in sidepockets (also known as special investment accounts), which generally have investment profiles similar to private equity funds. The performance of these investments may impact Fortress's ability to earn incentive income from main fund

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investments. For the credit hedge funds and Fortress Partners Funds, realized and unrealized losses from individual sidepockets below original cost may reduce the incentive income earned from main fund investments. For the Macro Funds, only realized losses from individual sidepockets reduce the incentive income earned from main fund investments. Based on current unrealized losses in Macro Fund sidepockets, if all of the Macro Fund sidepockets were liquidated at their NAV at December 31, 2014, the undistributed incentive income from the Macro main fund would not be impacted.

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

(T) Includes onshore and offshore funds. In January 2015, the Fortress Asia Macro Funds and related managed accounts transitioned to Graticule Asset Management on the affiliated manager platform.

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

(V) Excludes the Value Recovery Funds which had a NAV of $191.0 million at December 31, 2014. Fortress began managing the third party originated Value Recovery Funds in June 2009 and generally does not expect to earn any significant incentive income from the fund investments.

(W) Fortress has a management agreement with New Media and New Senior whereby it may earn incentive income. New Media and New Senior are VIEs consolidated by Fortress (see Note 1) and as a result any incentive income earned by Fortress is eliminated in consolidation. However, Fortress has included New Media and New Senior in the above tables solely for informational purposes.

Private Equity Funds

The following table presents certain information with respect to Fortress's management agreements with the private equity funds as of December 31, 2014, which included the private equity fund that was consolidated and included under the Investment Company caption.

Total Original Capital Commitments (A)	Fortress and Affiliates Original Capital Commitments (B)	Carrying Value of Fortress's Investments	Percent of Capital Commitments Drawn	Longest Capital Commitment Period Ends	Longest Fund Termination Date (C)	Annual Management Fee (D)	Incentive Income (E)	Incentive Income Threshold Return (E)
$20,059,994	$2,238,688	$677,365	88.4%	Sep-2016	Sep-2024	1.0% - 1.5%	10% - 20%	8% - 10%

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

(B) Affiliate commitments are comprised of the following. Fortress's remaining commitments as of December 31, 2014 are discussed in Note 10.

Employees, Former Employees and BOD Members	Principals	Other Fortress Funds	Total Affiliates	Fortress	Total

$165,637	$568,102	$819,106	$1,552,845	$685,843	$2,238,688

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

(D) Expressed as a percentage. This percent is generally applied to the capital commitment amount during the capital commitment periods and to invested capital (as defined, or NAV on an investment by investment basis, if lower) thereafter. In some funds, management fee rates vary depending on the size of commitments. Affiliate commitments are not charged management fees. For certain funds formed after March 2006 which are no longer in the capital commitment period, management fees are based on the value of publicly traded investments. The weighted average (by AUM) management fee rate as of December 31, 2014 was approximately 1.2%.

(E) Expressed as a percent of the total returns of the funds. The incentive income is subject to: (i) the achievement of a cumulative incentive income threshold return payable to the third party investors in the funds, which is the minimum return these investors must receive in order for incentive income to be paid, and (ii) a contingent repayment or clawback provision which requires amounts previously distributed as incentive income to be returned to each fund if, upon liquidation of such fund, such amounts exceeded the actual amount of incentive income due. Affiliate commitments are not subject to incentive income. The weighted average (by AUM) incentive income rate as of December 31, 2014 was approximately 19.7%, and the weighted average (by AUM) threshold rate was approximately 8.2%.

Pursuant to profit sharing arrangements, certain of Fortress's employees are entitled to a portion of the incentive income received from the private equity funds. As of December 31, 2014, for funds where Fortress is entitled to incentive income and profit sharing has been assigned, this portion was equal to approximately 26.5%, based on a weighted average by total capital commitments.

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During 2014, certain PE Funds (Fund II, FRID and FRIC) substantially liquidated their respective remaining investments. These funds distributed a majority of the sale of proceeds to their respective investors and final liquidation was completed in November and December 2014 for FRID and FRIC, respectively. During 2014, Fortress received additional net incentive income of $0.9 million from Fund II and returned $16.4 million to FRID representing prior net incentive income distributions received ($10.0 million net of employee amounts). No remaining clawback amount exists for these funds.

Permanent Capital Vehicles

The publicly traded permanent capital vehicles are comprised of Newcastle (NYSE: NCT), New Residential (NYSE: NRZ), New Media (NYSE: NEWM), New Senior (NYSE: SNR) and Eurocastle (NYSE Euronext, Amsterdam: ECT). Fortress also manages a private permanent capital vehicle, WWTAI. The table below includes New Media and New Senior which are eliminated in consolidation.

Annual Management Fee (A)	Incentive Income (B)	Incentive Income Threshold Return (B)	Carrying Value of Fortress's Investments (C)
1.25% - 1.5%	10% - 25%	8% - 10%	$19,456

(A) Expressed as a percent of gross equity, as defined, or fee paying assets under management.

(B) The incentive income from publicly traded capital vehicles is earned on a cumulative basis equal to the product of (1) the incentive income percent (shown above) multiplied by (2) the difference by which (i) a specified measure of earnings (as defined) exceeds (ii) the company's gross equity (as defined) multiplied by the incentive income threshold return (shown above). As a result of not meeting the incentive income threshold, the incentive income from Newcastle has been discontinued for an indeterminate period of time. The incentive income from the private permanent capital vehicle is expressed as a percentage of the total return of the fund. The incentive income is subject to: (i) the achievement of a cumulative incentive income threshold return payable to the third party investors in the private permanent capital vehicle and (ii) a contingent repayment or clawback provision which requires amounts previously distributed as incentive income to be returned to the private permanent capital vehicle if, upon liquidation, such amounts exceeded the actual amount of incentive income due.

(C) The carrying value of Fortress's Investments includes the equity value of New Media and New Senior shares held by Fortress of $4.6 million, which is eliminated in consolidation.

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

As of December 31, 2014, the private permanent capital vehicle had a total original capital commitment of $994.6 million, of which $8.0 million represented Fortress's original capital commitment. As of December 31, 2014, 59.9% of the capital commitments had been drawn and the fund's capital commitment period will end in January 2016.

Fortress owns a senior living property management subsidiary (Blue Harbor). As of December 31, 2014, this subsidiary had agreements to manage 24 senior living properties, including 22 which are owned by New Senior and two which are owned by a third party. Fortress generally receives management fees equal to 6.0% of revenues (as defined in the agreements) for the first two years of the agreements and 7.0% thereafter. In addition, Fortress receives reimbursement for certain expenses, including all of the compensation expense associated with the 1,674 on-site employees.

In addition, Fortress raised equity within Newcastle, New Residential, New Media and Eurocastle as described in Note 4.

In April 2013, Eurocastle (Note 4) completed a restructuring process that resulted in the conversion of its outstanding convertible debt. As part of that restructuring, Fortress entered into an amended management agreement with Eurocastle that reduced the AUM used to compute Eurocastle's management fees from €1.5 billion to €0.3 billion as of April 1, 2013, and in doing so also reduced the earnings threshold required for Fortress to earn incentive income from Eurocastle. Following the conversion of its outstanding convertible debt, Eurocastle effected a one for two hundred reverse split of its common stock.

Management fees, incentive income and expense reimbursements earned by Fortress from New Media and New Senior, as applicable, are eliminated in consolidation.

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Liquid Hedge Funds

The following table presents certain information with respect to the liquid hedge funds, including related managed accounts, as of December 31, 2014.

Assets Under Management (AUM) (A)	Carrying Value of Fortress's Investments (A)	Annual Management Fee (A) (B)	Incentive Income (A) (C)
$8,127,688	$167,630	1% - 2%	15% - 25%

(A) Includes certain information relating to the Fortress Asia Macro Funds, including related managed accounts which transitioned to a new asset management business on the affiliated manager platform in January 2015.

(B) Expressed as a percent of AUM (as defined). New investors are currently charged a management fee rate of between 1% and 2%. The weighted (by AUM) average management fee rate as of December 31, 2014 was approximately 1.8%.

(C) Expressed as a percent of the total returns of the funds. The incentive income is generally earned on a calendar year (annual) basis. The weighted (by AUM) average incentive income rate as of December 31, 2014 was approximately 20.0%.

Credit Hedge Funds

The following table presents certain information with respect to the credit hedge funds, including related managed accounts, as of December 31, 2014.

	Assets Under Management (AUM)	Carrying Value of Fortress's Investments	Annual Management Fee (A)	Incentive Income (B)
Fortress Originated	$5,973,116	$57,224	1% - 2.75%	10% - 20%
Non-Fortress Originated	200,285	—	1%	5%

(A) For Fortress originated AUM, expressed as a percent of AUM (as defined). The weighted (by AUM) average management fee rate as of December 31, 2014 was approximately 2%. For non-Fortress originated AUM, management fees are equal to 1% of realized proceeds.

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

Credit PE Funds

The following table presents certain information with respect to Fortress's management agreements with the credit PE funds, including related managed accounts, as of December 31, 2014.

Total Original Capital Commitments (A)	Fortress and Affiliates Original Capital Commitments (B)	Carrying Value of Fortress's Investments	Percent of Capital Commitments Drawn	Longest Capital Commitment Period Ends (C)	Longest Fund Termination Date (D)	Annual Management Fee (E)	Incentive Income (F)	Incentive Income Threshold Return (F)

$15,855,192	$933,002	$ 183,127	67.3 %	Nov-2027	Feb-2032	0.75% - 2.25%	10% - 20%	0% - 9%

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

(B) Affiliate commitments are comprised of the following. Fortress's remaining commitments as of December 31, 2014 are discussed in Note 10.

Employees, Former Employees and BOD Members	Principals	Other Fortress Funds	Total Affiliates	Fortress	Total
$97,164	$160,720	$405,404	$663,288	$269,714	$933,002

(C) Only $1.1 billion of the total capital commitments extend beyond December 2017.

(D) Including the assumed exercise of all available extensions, which in some cases require the approval of the applicable fund advisory board. $1.9 billion of the total commitments extend beyond December 2024.

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(E) Expressed as a percent. This percent is generally applied to the capital commitment amount during the capital commitment periods and to invested capital (as defined, or NAV on an investment by investment basis, if lower) thereafter. In some funds, management fee rates vary depending on the size of commitments. Affiliate commitments are not charged management fees. The weighted (by AUM) average management fee rate as of December 31, 2014 was approximately 1.4%.

(F) Expressed as a percent of the total returns of the funds. The incentive income is subject to: (i) the achievement of a cumulative incentive income threshold return payable to the third party investors in the funds, which is the minimum return these investors must receive in order for incentive income to be paid, and (ii) a contingent repayment or clawback provision which requires amounts previously distributed as incentive income to be returned to each fund if, upon liquidation of such fund, such amounts exceeded the actual amount of incentive income due. Affiliate commitments are not subject to incentive income. The weighted (by AUM) incentive income rate as of December 31, 2014 was approximately 19.9% and the weighted average threshold was approximately 7.6%.

Pursuant to profit sharing arrangements, certain of Fortress's employees are entitled to a portion of the incentive income received from the credit PE funds. As of December 31, 2014, for funds where profit sharing has been assigned, this portion was equal to approximately 51.4%, based on a weighted average by total capital commitments.

Traditional Asset Management Business

Logan Circle is an asset manager with approximately $32.3 billion in assets under management as of December 31, 2014, which Fortress acquired in April 2010. As of December 31, 2014, the Logan Circle AUM pays an average annual management fee of approximately 0.16%.

In connection with the acquisition of Logan Circle, Fortress established a compensation plan for former Logan Circle employees who became employees of Fortress (the "Logan Circle Comp Plan" — see Note 8).

During the year ended December 31, 2014, Logan Circle began managing two new fixed income funds which had a total net asset value of $110.5 million as of December 31, 2014.

4. INVESTMENTS AND FAIR VALUE

Investment Manager

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

Investments can be summarized as follows:

	December 31, 2014	December 31, 2013
Equity method investees	$1,099,948	$1,174,878
Equity method investees, held at fair value (A)	10,595	78,388
Total equity method investments	$1,110,543	$1,253,266
Options in equity method investees (B)	$45,734	$104,338

(A) Includes publicly traded private equity portfolio companies, primarily GAGFAH (the sale of which was completed in June 2014), as well as the publicly traded permanent capital vehicles (Newcastle, New Residential and Eurocastle). Does not include New Media and New Senior which are eliminated in consolidation.

(B) Does not include options held by Fortress in New Media and New Senior which are eliminated in consolidation.

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Gains (losses) can be summarized as follows:

	Year Ended December 31,				
	2014		2013	2012	
Net realized gains (losses)	$(939	)	$1,247	$1,101	
Net realized gains (losses) from affiliate investments	47,624	(A)	12,030	(80	)
Net unrealized gains (losses)	19,790		6,273	332	
Net unrealized gains (losses) from affiliate investments	(74,788	)(A)	34,383	47,568	
Total gains (losses)	$(8,313	)	$53,933	$48,921	

(A) Includes the impact of the sale of GAGFAH which was completed in June 2014.

These gains (losses) were generated as follows:

	Year Ended December 31,				
	2014		2013		2012
Mark to fair value on affiliate investments and options	$(26,768	)	$46,371		$47,506
Mark to fair value on derivatives	26,715		8,402		264
Mark to fair value on equity securities	1,395		2,962		—
Gains (losses) on digital currency (Bitcoin)	(9,470	)	(3,702	)	—
Other	(185	)	(100	)	1,151
Total gains (losses)	$(8,313	)	$53,933		$48,921

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

Since Fortress's investments in the various Fortress Funds are not equal, Fortress's concentrations from a management fee and incentive income perspective (which mirror the funds' investments) and its concentrations from an investment perspective are different. From an investment perspective, Fortress's most significant investment as of December 31, 2014, which comprised approximately 26% of its equity method investments, is in a fund with a single investment which focuses on the U.S. rail transportation and real estate sectors.

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Investments in Equity Method Investees

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

	Fortress's Investment		Fortress's Equity in Net Income (Loss)		
	December 31,	December 31,	Year Ended December 31,		
	2014	2013	2014	2013	2012
Private equity funds, excluding NIH	$677,309	$786,093	$36,407	$82,024	$104,562
NIH	—	—	—	(554)	230
Publicly traded portfolio companies (A)(B)	1,035	63,001	N/A	N/A	N/A
WWTAI	5,284	3,801	70	456	183
Newcastle (B)	776	5,953	N/A	N/A	N/A
New Residential (B)	6,622	6,928	N/A	N/A	N/A
Eurocastle (B)	2,162	2,506	N/A	N/A	N/A
Total private equity	693,188	868,282	36,477	81,926	104,975
Liquid hedge funds	167,630	158,920	3,844	13,124	17,505
Credit hedge funds	57,224	58,825	8,236	12,242	11,469
Credit PE funds	183,127	159,044	28,693	29,824	22,176
Other	9,374	8,195	943	(250)	405
	$1,110,543	$1,253,266	$78,193	$136,866	$156,530

(A) Represents Fortress's direct investments in the common stock of publicly traded private equity portfolio companies, primarily GAGFAH (the sale of which was completed in June 2014).
(B) Fortress elected to record these investments at fair value pursuant to the fair value option for financial instruments.

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

	Private Equity								
	NIH	Other Funds	Publicly Traded Portfolio Companies (A)	Permanent Capital Vehicles (A)	Liquid Hedge Funds	Credit Hedge Funds	Credit PE Funds	Other	Total
Investment - December 31, 2012	$1,177	$715,742	$67,312	$14,118	$180,664	$58,507	$166,482	$7,682	$1,211,684
Earnings from equity method investees	(554)	82,024	N/A	456	13,124	12,242	29,824	(250)	136,866
Other comprehensive income from equity method investees	12	—	N/A	—	—	—	—	—	12
Contributions to equity method investees (B)	—	18,242	320	(1,018)	61,084	166,457	40,251	910	286,246
Distributions of earnings from equity method investees	—	(27,721)	N/A	(560)	(22,159)	(12,365)	(21,731)	(12)	(84,548)
Distributions of capital from equity method investees (B)	(635)	(5,193)	N/A	(153)	(73,793)	(166,016)	(54,994)	(135)	(300,919)
Total distributions from equity method investees	(635)	(32,914)	N/A	(713)	(95,952)	(178,381)	(76,725)	(147)	(385,467)
Mark to fair value - during period (C)	N/A	802	11,561	6,150	N/A	N/A	N/A	N/A	18,513
Translation adjustment	—	—	2,633	195	—	—	(764)	—	2,064
Dispositions	—	—	(18,825)	—	—	—	(24)	—	(18,849)
Reclassification to Due to Affiliates (D)	—	2,197	—	—	—	—	—	—	2,197
Investment - December 31, 2013	—	786,093	63,001	19,188	158,920	58,825	159,044	8,195	1,253,266
Earnings from equity method	—	36,407	N/A	70	3,844	8,236	28,693	943	78,193

investees									
Other comprehensive income from equity method investees	—	—	N/A	—	—	—	—	—	—
Contributions to equity method investees (B)	—	2,944	—	5,640	89,324	168,699	43,331	596	310,534
Distributions of earnings from equity method investees	—	(70,409)	N/A	(79)	(4,487)	(7,483)	(28,477)	(32)	(110,967)
Distributions of capital from equity method investees (B)	—	(78,155)	N/A	(4,148)	(128,505)	(171,053)	(17,124)	(118)	(399,103)
Total distributions from equity method investees	—	(148,564)	N/A	(4,227)	(132,992)	(178,536)	(45,601)	(150)	(510,070)
Mark to fair value - during period (C)	N/A	(1,795)	5,200	(1,268)	N/A	N/A	N/A	N/A	2,137
Translation adjustment	—	(8)	(742)	(279)	—	—	(2,338)	—	(3,367)
Dispositions	—	—	(66,424)		—	—	(2)	(210)	(66,636)
Reclassification to Due to Affiliates (D)	—	2,232	—	—	—	—	—	—	2,232
Consolidation of Non-Investment Manager (E)	—	—	—	(4,280)	—	—	—	—	(4,280)
Deconsolidation of Investment Company (F)	—	—	—	—	48,534	—	—	—	48,534
Investment - December 31, 2014	$—	$677,309	$1,035	$14,844	$167,630	$57,224	$183,127	$9,374	$1,110,543
Undistributed earnings - December 31, 2014	$—	$51,882	$—	$—	$1,110	$2,739	$9,440	$2,885	$68,056

(A) Fortress elected to record its investments in publicly traded private equity portfolio companies and the publicly traded permanent capital vehicles at fair value pursuant to the fair value option for financial instruments. The amounts in the table do not include New Media and New Senior which are eliminated in consolidation.

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

	Year Ended December 31,			
	2014		2013	
	Contributions	Distributions of Capital	Contributions	Distributions of Capital
Per Consolidated Statements of Cash Flows	$36,060	$ (379,940)	$37,084	$ (281,481)
Investments of incentive receivable amounts into Fortress Funds	258,023	—	227,091	—
Change in distributions payable out of Fortress Funds	—	172	—	(184)
Net funded*	16,451	(16,451)	18,714	(18,714)
Consolidation of private equity liquidating entity	—	—	2,553	—
Other	—	(2,884)	804	(540)
Per Above	$310,534	$ (399,103)	$286,246	$ (300,919)

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

(C) Recorded to Gains (Losses).
(D) Represents a portion of the general partner liability discussed in Note 10.
(E) Represents the elimination of Fortress's direct investment in New Media and New Senior, consolidated VIEs, as of the dates of consolidation.
(F) In December 2014, Fortress deconsolidated a liquid hedge fund (see Note 1) and the amount disclosed represents Fortress's investment in the fund as of the date of deconsolidation.

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

	Private Equity Funds excluding NIH (B)		
	December 31, (or year then ended)		
	2014	2013	2012
Assets	$13,399,280	$16,982,954	
Debt	(3,251)	(1,626)	
Other liabilities	(143,328)	(185,144)	
Equity	$13,252,701	$16,796,184	
Fortress's Investment	$677,309	$786,093	
Ownership (A)	5.1%	4.7%	

Revenues and gains (losses) on investments	$721,512	$2,335,934	$3,382,194
Expenses	(194,189)	(208,301)	(187,580)
Net Income (Loss)	$527,323	$2,127,633	$3,194,614
Fortress’s equity in net income (loss)	$36,407	$82,024	$104,562

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	Liquid Hedge Funds			Credit Hedge Funds		
	December 31, (or year then ended)					
	2014	2013	2012	2014	2013	2012
Assets	$13,132,531	$13,167,316		$11,349,879	$10,226,023	
Debt	—	—		(4,621,360)	(3,918,692)	
Other liabilities	(5,733,970)	(6,735,989)		(283,818)	(332,510)	
Non-controlling interest	—	—		(14,406)	(6,470)	
Equity	$7,398,561	$6,431,327		$6,430,295	$5,968,351	
Fortress's Investment	$167,630	$158,920		$57,224	$58,825	
Ownership (A)	2.3%	2.5%		0.9%	1.0%	
Revenues and gains (losses) on investments	$220,958	$838,506	$579,050	$1,011,969	$1,295,945	$1,244,449
Expenses	(219,303)	(159,892)	(130,466)	(340,373)	(255,222)	(271,565)
Net Income (Loss)	$1,655	$678,614	$448,584	$671,596	$1,040,723	$972,884
Fortress's equity in net income (loss)	$3,844	$13,124	$17,505	$8,236	$12,242	$11,469

	Credit PE Funds (B) (C)		
	December 31, (or year then ended)		
	2014	2013	2012
Assets	$11,992,369	$10,544,754	
Debt	(67,618)	(161,225)	
Other liabilities	(824,837)	(311,538)	
Non-controlling interest	(4,852)	(3,461)	
Equity	$11,095,062	$10,068,530	
Fortress's Investment	$183,127	$159,044	
Ownership (A)	1.7%	1.6%	
Revenues and gains (losses) on investments	$2,381,032	$1,835,118	$2,011,139
Expenses	(369,653)	(325,436)	(312,549)
Net Income (Loss)	$2,011,379	$1,509,682	$1,698,590
Fortress's equity in net income (loss)	$28,693	$29,824	$22,176

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

(B) For Private Equity Funds, includes four entities which are recorded on a one quarter lag (i.e. current year balances reflected for these entities are for the periods ended September 30, 2014, 2013 and 2012, respectively). For Credit PE Funds, includes one entity which is recorded on a one quarter lag and several entities which are recorded on a one month lag. They are recorded on a lag because they are foreign entities, or they have substantial operations in foreign countries, and do not provide financial reports under GAAP within the reporting time frame necessary for U.S. public entities.

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

Investments in Variable Interest Entities and other Unconsolidated Entities

All of Fortress's interests in unconsolidated entities relate to (i) entities in which Fortress has an investment, which are included in Investments on the consolidated balance sheet and described in Note 4, and/or (ii) entities from which Fortress earns fees, which are included in revenues and described in Note 3.

As of December 31, 2014, Fortress had interests in 203 entities, 142 of which were entities, primarily Fortress Funds, classified as voting interest entities. These entities generally provide their limited partners or members unrelated to Fortress with the substantive ability to liquidate the Fortress Fund or otherwise remove Fortress as the general partner.

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A significant majority of the 61 entities classified as VIEs were investing vehicles set up on behalf of the Fortress Funds to make investments. A Fortress Fund will generally have a majority ownership and a majority economic interest in the investing vehicles that are VIEs. Most of the remaining VIEs are entities that are majority-owned and controlled by third parties and are insignificant in size.

A Fortress Fund is generally the primary beneficiary of each of these investing vehicles because it is the entity most closely associated with the VIE based on the applicable consolidation guidance. Fortress is not considered the primary beneficiary of, and, therefore, does not consolidate, any of the VIEs in which it holds an interest, except as described below. No reconsideration events occurred during the years ended December 31, 2014, 2013 or 2012 which caused a change in Fortress's accounting, except as described in Note 1.

The following tables set forth certain information regarding VIEs in which Fortress holds a variable interest as of December 31, 2014 and 2013, respectively. The amounts presented below are included in, and not in addition to, the equity method investment tables above.

	Fortress is not Primary Beneficiary December 31, 2014				
Business Segment	Number of VIEs	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Notes (I)
Private Equity Funds	1	$460	$—	$—	(C)
Permanent Capital Vehicles	3	11,711,522	8,854,725	117,329	(C)
Liquid Hedge Funds	2	3,070,203	432,580	7,094	(D)
Credit Hedge Funds	9	2,132,650	152,806	25,474	(D) (E)
Credit PE Funds	33	801,877	143,743	5,985	(D) (E)
Logan Circle	5	441,905	—	384	(C)

	Fortress is not Primary Beneficiary December 31, 2013				
Business Segment	Number of VIEs	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Notes (I)
Private Equity Funds	1	$789	$—	$155	(C)
Permanent Capital Vehicles	3	13,950,294	9,804,741	145,472	(C)
Liquid Hedge Funds	2	4,897,650	2,343,406	40,816	(D)
Credit Hedge Funds	6	1,966,802	370,607	50,945	(D) (E)
Credit PE Funds	33	1,229,250	362,642	5,350	(D) (E)
Logan Circle	1	244,828	—	144	(D)

	Fortress is Primary Beneficiary December 31, 2014				
Business Segment	Number of VIEs	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Notes (I)
Private Equity Funds	2	$131,393	$—	$10,380	(F) (H)
Permanent Capital Vehicles	2	3,384,444	1,481,482	36,977	(G)

Credit Hedge Funds	3	—	—	—	(G)
Logan Circle	1	6,566	—	4,783	(G)

	Fortress is Primary Beneficiary December 31, 2013				
Business Segment	Number of VIEs	Gross Assets	Financial Obligations (A)	Fortress Investment (B)	Notes (I)
Private Equity Funds	1	$52,976	$—	$15,868	(H)

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

Of the financial obligations represented herein as of December 31, 2014, for VIEs where Fortress is not the primary beneficiary, $8,430.0 million, $151.7 million, and $143.7 million represent financial borrowings which have weighted average maturities of 1.2 years, 7.6 years, and 2.3 years for the permanent capital vehicles, credit hedge funds, and credit PE funds, respectively. Of the financial obligations represented herein as of December 31, 2013, $9,381.9 million, $289.4 million, and $362.6 million represent financial borrowings which have weighted average maturities of 1.7 years, 6.6 years, and 1.4 years for the permanent capital vehicles, credit hedge funds, and credit PE funds, respectively.

Of the financial obligations represented herein as of December 31, 2014, for VIEs where Fortress is the primary beneficiary, $1,481.5 million represent financial borrowings which have weighted average maturities of 5.5 years for the permanent capital vehicles.

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

(C) Includes Fortress Funds that are a VIE because the fund's at-risk equity holders as a group lack the characteristics of a controlling financial interest because (i) the decision making is through a management contract that is not an at-risk equity investment and/or (ii) the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity's activities either involve or are conducted on behalf of that investor and its related parties. Fortress is the investment manager of these funds. Fortress is not the primary beneficiary of these funds because it and its related parties do not absorb a majority of the funds' expected losses or residual returns based on a quantitative analysis.

(D) Includes entities (including investing vehicles and master funds) that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because either (i) the group of at-risk equity holders does not have the ability to make decisions or have power over the activities that most significantly affect the success of the entity or impact the entity's economic performance and/or (ii) the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity's activities either involve or are conducted on behalf of that investor and its related parties. Among the related party group, a Fortress Fund is determined to be most closely associated with, and thus is the primary beneficiary of, these VIEs because the VIE was designed to act on behalf of the Fortress Fund to make investments. In addition, the activities of the VIE are more significant to the Fortress Fund, and in evaluating exposure to the expected losses or variability associated with the economic performance of the VIEs, in most cases the Fortress Fund holds both a majority ownership and majority economic interest in the VIE.

(E) Includes entities that are VIEs because the entity's equity investment at-risk is determined to be insufficient. Fortress is not the general partner, managing member or investment manager of these entities. The primary beneficiary of these entities is the third party investor who either is the general partner or has a majority ownership interest and a majority economic interest and power over the entity. These entities represent an insignificant portion of the amounts presented in the table.

(F) Includes entities that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity's activities either involve or are conducted on behalf of that investor and its related parties. Fortress is determined to be most closely associated with, and thus is the primary beneficiary of, these VIEs. As of December 31, 2014, includes $85.1 million of gross assets of a consolidated private equity fund, which is disclosed under Investment Company-consolidated VIEs in the consolidated financial statements.

(G) Includes entities that are a VIE because (i) the entity's equity investment at-risk is determined to be insufficient and/or (ii) the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because the decision making is through a management contract that is not an at-risk equity investment. Fortress is the investment manager of these entities. Fortress is determined to be the primary beneficiary of these entities since it has both power over the activities that most significantly affect the success of the entity or impact the entity's economic performance and has the right to receive benefits from the VIE that potentially could be significant to the entity. Included in credit hedge funds are investment vehicles formed during the second quarter of 2014. As of December 31, 2014, the credit hedge fund investment vehicles did not hold any assets or have any debt outstanding. As of December 31, 2014, includes $6.6 million of gross assets of a consolidated fund of the traditional asset management business, which is disclosed under Investment Company - consolidated VIEs in the consolidated financial statements.

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

(I) As of December 31, 2014, for VIEs where Fortress is not the primary beneficiary, Fortress's investment included: (i) management fees receivable of $4.7 million which is comprised of $3.3 million, $0.5 million, $0.5 million and $0.4 million from the permanent capital vehicles, credit hedge funds, credit PE funds and Logan Circle, respectively, (ii) incentive income receivable of $79.6 million which is comprised of $55.1 million, $2.6 million and $21.9 million from the permanent capital vehicles, liquid hedge funds and credit hedge

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funds, respectively and (iii) expense reimbursements, dividends and other receivables of $8.7 million which is comprised of $3.7 million, $3.8 million, $1.1 million and $0.1 million from the permanent capital vehicles, liquid hedge funds, credit hedge funds and credit PE funds, respectively.

As of December 31, 2013, for VIEs where Fortress is not the primary beneficiary, Fortress's investment included: (i) management fees receivable of $5.6 million which is comprised of $4.8 million, $0.7 million, less than $0.1 million and $0.1 million from the permanent capital vehicles, credit hedge funds, credit PE funds and Logan Circle, respectively, (ii) incentive income receivable of $100.9 million which is comprised of $15.7 million, $37.6 million and $47.6 million from the permanent capital vehicles, liquid hedge funds and credit hedge funds, respectively and (iii) expense reimbursements, dividends and other receivables of $9.5 million which is comprised of $5.3 million, $2.6 million, $0.9 million and $0.7 million from the permanent capital vehicles, liquid hedge funds, credit hedge funds and credit PE funds, respectively.

As of December 31, 2014, for VIEs where Fortress is the primary beneficiary, Fortress's investment included: (i) management fees receivable of $2.9 million which is comprised of $2.8 million and less than $0.1 million from the permanent capital vehicles and Logan Circle, respectively, (ii) incentive income receivable of $0.2 million from one of the permanent capital vehicles and (iii) expense reimbursements, advances and other receivables of $13.5 million which is comprised of $10.3 million and $3.2 million from an operating subsidiary of one of the private equity funds and permanent capital vehicles, respectively. These receivables and advances are eliminated in consolidation but still represent Fortress’s economic exposure to the VIEs.

As of December 31, 2013, for a VIE where Fortress was the primary beneficiary, Fortress's investment included advances of $15.9 million to an operating subsidiary of one of the private equity funds. These advances are eliminated in consolidation but still represent Fortress's economic exposure to the VIE.

Fair Value of Financial Instruments

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

	Fair Value		Valuation Method
	December 31, 2014	December 31, 2013	
Assets (within Investments)			
Newcastle, New Residential and Eurocastle common shares (A)	$9,560	$15,387	Level 1 - Quoted prices in active markets for identical assets
Common stock of publicly traded private equity portfolio companies	1,035	63,001	Level 1 - Quoted prices in active markets for identical assets
Total equity method investments carried at fair value	$10,595	$78,388	
Newcastle, New Residential and Eurocastle options (A)	$45,734	$104,338	Level 2 - Option valuation models using significant observable inputs
Assets (within Other Assets)			
Derivatives	27,105	9,749	Level 2 - See below
Equity Securities (B)	17,627	23,005	Level 1 - Quoted prices in active markets for identical assets
Liabilities (within Accrued Compensation and Benefits)			
	(6,393)	(16,390)	

Options in affiliates granted to employees (A)			Level 2 - Option valuation models using significant observable inputs
Liabilities (within Other Liabilities)			
Derivatives	(932)	(1,820)	Level 2 - See below

(A) Does not include common shares or options held in New Media and New Senior which are eliminated in consolidation.
(B) The equity investments are held at fair value and classified as trading.

In July 2013, Fortress sold 862,383 shares of GAGFAH (Note 4) and realized a gain of $5.5 million. From inception through June 30, 2013, Fortress had recorded a cumulative unrealized gain of $6.2 million in its investment income relating to these shares sold, resulting in a $0.7 million loss in the third quarter of 2013.

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In December 2013, Fortress sold 641,465 shares of GAGFAH (Note 4) and realized a gain of $5.4 million. From inception through September 30, 2013, Fortress recorded a cumulative unrealized gain of $4.7 million in its investment income relating to these shares sold, resulting in a $0.7 million gain in the fourth quarter of 2013.

During June 2014, Fortress sold 4,190,761 shares of GAGFAH (Note 4) and realized a gain of approximately $44.7 million. From inception through March 31, 2014, Fortress recorded a cumulative unrealized gain of approximately $41.0 million in its investment income, resulting approximately in a $3.7 million gain in June 2014.

Publicly Traded Permanent Capital Vehicle Options

During 2012, Fortress granted rights, which Fortress refers to as tandem options, in 0.5 million of the options it holds in Newcastle (Note 4) to certain of its employees. The value of these rights as of the grant date was $8.1 million and was recorded as accrued profit sharing compensation expense at that time. The related liability is marked to fair value through compensation expense until such time as the rights are exercised or expire.

In May 2013, Newcastle distributed all of the common shares of its subsidiary, New Residential to its shareholders. In connection with this transaction, Fortress's options, including tandem options held by employees, in Newcastle were exchanged for options in both Newcastle and New Residential; this resulted in no change to their aggregate strike price. As a result, Fortress owns an investment and options in New Residential, which it has elected to record at fair value. Fortress entered into a management agreement with New Residential on substantially the same terms as Newcastle.

In January 2014, Fortress granted tandem options in 0.3 million and 1.1 million of the options it holds in Newcastle and New Residential, respectively, to certain employees. The estimated value as of the grant date of these Newcastle and New Residential tandem options was $1.5 million and $2.6 million, respectively, and was recorded as accrued compensation expense in the first quarter of 2014. The related liability is marked to fair value through the compensation expense until such time as the rights are exercised or expire.

In November 2014, Newcastle distributed all of the common shares of its subsidiary, New Senior to its shareholders. In connection with this transaction, Fortress's options, including tandem options held by employees, in Newcastle were exchanged for options in both Newcastle and New Senior; this resulted in no change to their aggregate strike price. As a result, Fortress owns an investment and options in New Senior, which it has elected to record at fair value, and are eliminated in consolidation. Fortress entered into a management agreement with New Senior on substantially the same terms as Newcastle.

Options held by Fortress in New Media are recorded at fair value and are eliminated in consolidation.

The assumptions used in valuing the options at December 31, 2014 were:

	Risk-Free Rate	Dividend Yield (A)	Volatility
Newcastle	0.26% - 2.29%	9.17% - 15.85%	25.93% - 28.00%
New Residential	0.26% - 2.27%	0.00% - 15.88%	22.52% - 24.26%
New Media	2.30%	3.10%	34.17%
New Senior	0.26% - 2.29%	3.38% - 7.07%	19.85% - 25.24%
Eurocastle	0.16% - 0.67%	3.64% - 7.11%	25.30% - 27.78%

(A) Options which are due to expire prior to the expected payment of future dividends are valued using a 0.00% dividend yield.

All of the Newcastle, New Residential, New Media and New Senior options were fully vested on issuance and become exercisable over thirty months and have a ten-year term. With the exception of Eurocastle's May 2013 options grant, which became exercisable from October 2013, all of the Eurocastle options were fully vested and exercisable on issuance, and have a ten-year term. All of the options held by Fortress in the publicly traded permanent capital vehicles incorporate effects of reverse stock splits or spin-offs.

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The following table summarizes certain Newcastle options held by Fortress.

				As of December 31, 2014		
Grant Date	Options Issued at Grant Date	Public Offering Price/Option Strike Price	Fair Value of Options at Grant Date	Total	Tandem Options held by Employees	Available to Fortress
March 2011	287,500	$1.88	$ 657	182,527	—	182,527
September 2011	431,250	1.07	525	283,305	—	283,305
April 2012	316,250	2.00	525	306,991	56,330	250,661
May 2012	383,333	2.29	715	372,440	69,163	303,277
July 2012	421,667	2.27	777	411,589	74,495	337,094
January 2013	958,333	3.76	1,685	958,331	85,803	872,528
February 2013	383,333	4.39	784	383,331	34,320	349,011
June 2013	670,833	4.67	795	670,829	60,059	610,770
November 2013	965,849	5.01	1,249	965,847	86,475	879,372
August 2014	765,416	5.45	360	765,416	—	765,416

The following table summarizes certain New Residential options held by Fortress.

				As of December 31, 2014		
Grant Date	Options Issued at Grant Date	Public Offering Price/Option Strike Price	Fair Value of Options at Grant Date	Total	Tandem Options held by Employees	Available to Fortress
March 2011	838,417	$6.58	$ 3,843	547,583	—	547,583
September 2011	1,269,917	4.98	3,055	849,916	—	849,916
April 2012	948,750	6.82	3,070	920,983	169,000	751,983
May 2012	1,150,000	7.34	4,160	1,117,333	207,500	909,833
July 2012	1,265,000	7.34	4,538	1,234,783	223,500	1,011,283
January 2013	2,875,000	10.24	9,845	2,874,998	786,070	2,088,928
February 2013	1,150,000	11.48	4,583	1,149,998	314,427	835,571
April 2014	1,437,500	12.20	1,604	1,437,500	—	1,437,500

The following table summarizes certain New Senior options and held by Fortress. Fortress's investments in New Senior options are eliminated in consolidation.

				As of December 31, 2014		
Grant Date	Options Issued at Grant Date	Public Offering Price/Option Strike Price	Fair Value of Options at Grant Date	Total	Tandem Options held by Employees	Available to Fortress
March 2011	287,500	$7.18	$ 2,521	182,527	—	182,527
September 2011	431,250	4.09	2,014	283,305	—	283,305
April 2012	316,250	7.66	2,013	306,991	56,330	250,661
May 2012	383,333	8.75	2,743	372,440	69,163	303,277

July 2012	421,667	8.71	2,983	411,589	74,495	337,094
January 2013	958,333	14.42	6,468	958,331	85,803	872,528
February 2013	383,333	16.85	3,009	383,331	34,320	349,011
June 2013	670,833	17.89	3,054	670,829	60,059	610,770
November 2013	965,849	19.23	4,797	965,847	86,475	879,372
August 2014	765,416	20.89	1,383	765,416	—	765,416

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The following table summarizes New Media options held by Fortress. Fortress's investments in New Media options are eliminated in consolidation:

				As of December 31, 2014		
Grant Date	Options Issued at Grant Date	Public Offering Price/Option Strike Price	Fair Value of Options at Grant Date	Total	Tandem Options held by Employees	Available to Fortress
September 2014	745,062	$ 16.25	$ 2,963	745,062	—	745,062

The following table summarizes select Eurocastle options held by Fortress.

				As of December 31, 2014		
Grant Date	Options Issued at Grant Date	Public Offering Price/Option Strike Price	Fair Value of Options at Grant Date	Total	Tandem Options held by Employees	Available to Fortress
May 2013	1,500,000	€7.25	€ 4,807	1,500,000	—	1,500,000

The following table summarizes options in the permanent capital vehicles held as of December 31, 2014, which were issued prior to 2011:

Entity	Weighted Average Option Strike Price	Options held by Fortress
Newcastle	$ 14.69	157,791
New Senior	$ 14.69	157,791
New Residential	$ 31.49	473,377
Eurocastle	€5,833.59	21,407

In January 2015, Fortress granted tandem options in 0.3 million and 0.1 million of the options it holds in New Residential and New Media, respectively, to certain employees. The estimated value of these New Residential and New Media tandem options are $0.3 million and $0.6 million, respectively.

Derivatives

Fortress is exposed to certain risks relating to its ongoing business operations. The primary risk managed by Fortress using derivative instruments is foreign currency risk. Fortress enters into foreign exchange forward contracts and options to economically hedge the risk of fluctuations in foreign exchange rates with respect to certain foreign currency denominated assets and expected revenues. Gains and losses on these contracts are reported currently in Gains (Losses).

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

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

	Balance Sheet	December 31, 2014 (or year ended)			Maturity
	line item (A)	Fair Value	Notional Amount	Gains/(Losses) (B)	Date

Foreign exchange option contracts	Other Assets	$24,864	¥39,309,229	$21,283	Jun-15 - Nov-17
Foreign exchange option contracts	Other Liabilities	$(841)	¥1,223,582	$12	Dec-15
Foreign exchange forward contracts	Other Assets	$2,241	¥2,853,587	$2,241	Jun-15 - Jun-16
Foreign exchange forward contracts	Other Liabilities	$(91)	¥912,500	$(91)	Dec-17

(A) Fortress has a master netting agreement with its counterparty.

(B) Reflects unrealized gains (losses) related to contracts existing at period end. Total net foreign exchange gains (losses) from derivatives were $26.7 million, $8.4 million and $0.3 million during the years ended December 31, 2014, 2013 and 2012.

Fortress's quarterly average derivative trading volume, based on the underlying notional amounts was $362.5 million as of December 31, 2014.

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The following tables summarizes the fair value of Fortress's derivative contacts on a gross basis and any amount of offset as permitted by netting agreements as of December 31, 2014.

Offsetting of Derivative Assets	Gross Amounts of Recognized Assets as of December 31, 2014	Gross Amounts Offset in the Consolidated Balance Sheet as of December 31, 2014	Net Amounts of Assets Presented in the Consolidated Balance Sheet as of December 31, 2014
Foreign exchange option contracts	$27,795	$(2,931)	$24,864
Foreign exchange forward contracts	2,241	—	2,241
	$30,036	$(2,931)	$27,105

Offsetting of Derivative Liabilities	Gross Amounts of Recognized Liabilities as of December 31, 2014	Gross Amounts Offset in the Consolidated Balance Sheet as of December 31, 2014	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet as of December 31, 2014
Foreign exchange option contracts	$(870)	$29	$(841)
Foreign exchange forward contracts	(91)	—	(91)
	$(961)	$29	$(932)

The counterparty on the outstanding derivatives is Citibank N.A.

Investment Company

Investments, at fair value, consist primarily of financial instruments held by the Investment Company, and are comprised of the following:

	December 31, 2014		
	Cost	Fair Value	Percentage of Investment Company
Investments in affiliates (A)	74,730	84,792	93%
Investments in fixed income securities	6,758	6,333	7%

(A) Represents equity investments in private portfolio companies.

At December 31, 2014, investments, at fair value are predominantly concentrated in North America.

The following summarizes the assets held by the Investment Company measured at fair value, on a recurring basis within the fair value hierarchy as of December 31, 2014.

	Financial assets as of December 31, 2014			
	Level 1 (A)	Level 2 (B)	Level 3 (C)	Total
Investments in affiliates	—	—	84,792	84,792
Investments in fixed income	—	6,333	—	6,333

(A) Level 1 - Fair value is determined using quoted unadjusted prices in active markets for identical assets or liabilities.

(B) Level 2 - Fair value is determined using quotations received from dealers making a market for these assets or liabilities, valuations obtained from independent third-party pricing services, the use of models or other valuation methodologies based on pricing inputs that are either directly or indirectly market observable as of the measurement date.

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(C) Level 3 - Fair value is determined using pricing inputs that are unobservable in the market and includes situations where there is little, if any, market activity for the asset or liability. The fair value of assets and liabilities in this category may require significant judgment or estimation in determining fair value of the assets or liabilities. The fair value of these assets and liabilities may be estimated using a combination of observed transaction prices, independent pricing services, relevant broker quotes, models or other valuation methodologies based on pricing inputs that are neither directly or indirectly market observable.

Reconciliation of Fair Value Measurements Categorized within Level 3

The Investment Company assumes that any transfers between Level 1, Level 2 or Level 3, if any, occur at the beginning of the reporting period presented.

The following table summarizes the changes in the Investment Company's Level 3 assets and liabilities for the year ended December 31, 2014:

	Balance as of January 1, 2014	Transfers In	Transfers Out	Investment Purchases	Investment Sales	Net Realized and Unrealized Gains (Losses) of Investment Company	Balance as of December 31, 2014
Investments in affiliates	$—	$—	$—	$74,730	$—	$10,062	$84,792

There were no transfers between Levels 1 and 2 during the period presented above.

Information about Significant Inputs Used in Fair Value Measurements Categorized within Level 3

The table below summarizes information about the significant unobservable inputs used in determining the fair value of the Level 3 assets and liabilities held by the Investment Company as of December 31, 2014.

Type of Investment	Fair Value at December 31, 2014 (in thousands)	Valuation Technique	Unobservable Input	Range
Investments in affiliates	$25,772	Market approach	Last round of financing	N/A
	59,020	Discounted cash flow	Discount rate	22.5%
			Enterprise value/EBITDA Multiple or NOI exit multiple	9.6x - 10.0x

Gains (losses) can be summarized as follows:

Year Ended December 31,

	2014	2013
Net realized gains (losses)	$(7,492)	$—
Net unrealized gains (losses)	15,934	—
	$8,442	$—

These gains (losses) were generated as follows:

	Year Ended December 31,	
	2014	2013
Mark to fair value on investments and options	$9,633	$—
Mark to fair value on derivatives	(1,191)	—
	$8,442	$—

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Non-Investment Manager

New Senior

Investments in Senior Housing Real Estate, Net

Changes in gross carrying amount and accumulated depreciation for New Senior's real estate assets are as follows:

Gross carrying amount	
Balance as of November 7, 2014	$1,792,166
Acquisition of real estate investments	14,209
Additions to real estate investments	1,560
Balance as of December 31, 2014	$1,807,935
Accumulated depreciation	
Balance as of November 7, 2014	$—
Depreciation expense	8,087
Balance as of December 31, 2014	$8,087
Investments in senior housing real estate, net	$1,799,848

Depreciation expense for the period from November 7, 2014 to December 31, 2014 was $8.1 million.

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5. DEBT OBLIGATIONS AND MORTGAGE NOTES PAYABLE

Investment Manager

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

	Face Amount and Carrying Value		Contractual	Final	December 31, 2014
	December 31,		Interest	Stated	Amount
Debt Obligation	2014	2013	Rate	Maturity	Available for Draws
Revolving credit agreement (A) (B)	$75,000	$—	LIBOR+2.50% (C)	Feb 2016	$72,332
Total	$75,000	$—			

(A) 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, other than fees from Fortress's senior living property manager.
(B) The $150.0 million revolving debt facility includes a $15.0 million letter of credit subfacility of which $2.7 million was utilized.
(C) Subject to unused commitment fees of 0.4% per annum.

Management believes the fair value of its outstanding debt was approximately $75.1 million as of December 31, 2014 (classified as a level 3 valuation, which is based on internal models using discounted future contractual cash flows and market interest rates).

In February 2013, Fortress terminated its existing $60.0 million revolving credit facility and entered into a new $150.0 million revolving credit facility (the "Credit Agreement") with a $15.0 million letter of credit subfacility. The Credit Agreement generally bears interest at an annual rate equal to LIBOR plus an applicable rate that fluctuates depending upon Fortress's credit rating and a commitment fee on undrawn amounts that fluctuates depending upon Fortress's credit rating, as well as other customary fees.

In January 2014, in connection with the announcement of the Fortress Asia Macro Funds and related managed account joining the new affiliated Manager platform (the "Transaction"), Fortress entered into a First Amendment, Consent and Waiver (the "Amendment") to the Credit Agreement. Pursuant to the Amendment, among other things, the lenders consented to the consummation of the Transaction and certain amendments to the Credit Agreement, primarily the definition of AUM and Consolidated EBITDA, in order to account for its retained economic interests.

Covenants

Fortress Operating Group is required to prepay any amounts outstanding under the Credit Agreement upon the occurrence of certain events.

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

The Credit Agreement contains customary representations and warranties and affirmative and negative covenants that, among other things, restrict the ability of Fortress to create or incur certain liens, incur or guarantee additional indebtedness, merge or consolidate with other companies or transfer all or substantially all of their respective assets, transfer or sell assets, make restricted payments, engage in transactions with affiliates and insiders, and incur restrictions on the payment of dividends or other distributions and certain other contractual restrictions. These covenants are subject to a number of limitations and exceptions set forth in the Credit Agreement. In addition, Fortress Operating Group must not:

- Permit AUM (as defined as Management Fee Earning Assets in the Credit Agreement) to be less than $25.0 billion as of the end of any calendar month;
- Permit the Consolidated Leverage Ratio (a measure of Adjusted Net Funded Indebtedness compared to Consolidated EBITDA, each such term as defined in the Credit Agreement) to be greater than 2.00 to 1.0 as of the end of any fiscal quarter for the four quarter period ending on such date; or
- Permit the Consolidated Interest Coverage Ratio (a measure of Consolidated EBITDA compared to Consolidated Interest Charges, each such term as defined in the Credit Agreement) to be less than 4.00 to 1.0 as of the end of any fiscal quarter for the four quarter period ending on such date.

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Fortress was in compliance with all of its debt covenants as of December 31, 2014. The following table sets forth the financial covenant requirements as of December 31, 2014.

	December 31, 2014 (dollars in millions)			
	Requirement		Actual	Notes
AUM, as defined	≥	$25,000	$45,964	(A)
Consolidated Leverage Ratio	≤	2.00	0.22	(B)
Consolidated Interest Coverage Ratio	≥	4.00	101.89	(B)

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

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

Fortress's compliance with its debt covenants is not impacted by or dependent on the activities of New Media or New Senior or on the terms and conditions of the New Media Credit Agreement.

The debt obligations of New Media and New Senior are not cross collateralized with the debt obligations of Fortress. Fortress has no obligation to satisfy the liabilities of New Media or New Senior. Similarly, Fortress does not have the right to make use of the assets of New Media or New Senior to satisfy its obligations.

New Media's debt obligations have no impact on the Investment Manager's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement.

Intercompany Debt

As a result of Fortress's initial public offering and related transactions, secondary public offerings, and other transactions, FIG Asset Co. LLC lent aggregate excess proceeds of approximately $756.6 million to FIG Corp. pursuant to a demand note, as amended. As of December 31, 2014, the outstanding balance was approximately $663.4 million, including unpaid interest. This intercompany debt is eliminated in consolidation.

Non-Investment Manager

New Media

New Media Credit Agreement

On June 4, 2014, New Media Holdings II LLC (the "New Media Borrower"), a wholly owned subsidiary of New Media, entered into a credit agreement (the "New Media Credit Agreement") among the New Media Borrower, New Media Holdings I LLC ("Holdings I"), the lenders party thereto, RBS Citizens, N.A. and Credit Suisse Securities (USA) LLC as joint lead arrangers and joint bookrunners, Credit Suisse AG, Cayman Islands Branch as syndication agent and

Citizens Bank of Pennsylvania as administration agent which provides for (i) a $200.0 million senior secured term facility (the “Term Loan Facility”) and (ii) a $25.0 million senior secured revolving credit facility (of which $5.0 million was drawn as of December 31, 2014), with a $5.0 million sub-facility for letters of credit and a $5.0 million sub-facility for swing loans (the “Revolving Credit Facility” and together with the Term Loan Facility, the “Senior Secured Credit Facilities”). In addition, the New Media Borrower may request one or more new commitments for term loans or revolving loans from time to time up to an aggregate total of $75.0 million (the "Incremental Facility") subject to certain conditions. On June 4, 2014, the New Media Borrower borrowed $200.0 million under the Term Loan Facility (the “Term Loans”). The Term Loans mature on June 4, 2020 and the maturity date for the Revolving Credit Facility is June 4, 2019. On November 20, 2014, the New Media Credit Agreement was amended to increase the amount of the Incremental Facility that may be requested after the date of amendment to $225.0 million.

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The proceeds of the Term Loans, which included a $6.7 million original issue discount, were primarily used to repay in full all amounts outstanding under the GateHouse Credit Facilities and the Local Media Credit Facility.

Borrowings under the Term Loan Facility bear interest, at the New Media Borrower’s option, at a rate equal to either (i) the Eurodollar Rate (as defined in the New Media Credit Agreement), plus an applicable margin equal to 6.25% per annum (subject to a Eurodollar Rate floor of 1.00%) or (ii) the Base Rate (as defined in the New Media Credit Agreement), plus an applicable margin equal to 5.25% per annum (subject to a Base Rate floor of 2.00%).

Borrowings under the Revolving Credit Facility bear interest, at the New Media Borrower’s option, at a rate equal to either (i) the Eurodollar Rate, plus an applicable margin equal to 5.25% per annum or (ii) the Base Rate, plus an applicable margin equal to 4.25% per annum, with a step down based on achievement of a certain total leverage ratio.

If any borrowings under the Incremental Facility have an all-in yield more than 50 basis points greater than the Term Loans (the "Incremental Yield"), the all-in yield for the Term Loans shall be adjusted to be 50 basis points less than the Incremental Yield.

The Senior Secured Credit Facilities are unconditionally guaranteed by Holdings I and certain subsidiaries of the New Media Borrower (collectively, the “Guarantors”) and is required to be guaranteed by all future material wholly-owned domestic subsidiaries, subject to certain exceptions. All obligations under the New Media Credit Agreement are secured, subject to certain exceptions, by substantially all of the New Media Borrower’s assets and the assets of the Guarantors, including (a) a pledge of 100% of the equity interests of the New Media Borrower and the Guarantors (other than Holdings I), (b) a mortgage lien on the New Media Borrower’s material real property and that of the Guarantors and (c) all proceeds of the foregoing.

Repayments made under the Term Loans are equal to 1.0% annually of the original principal amount in equal quarterly installments for the life of the Term Loans, with the remainder due at maturity. The New Media Borrower is permitted to make voluntary prepayments at any time without premium or penalty, except in the case of prepayments made in connection with certain repricing transactions with respect to the Term Loans effected within six months of the closing date of the New Media Credit Agreement, to which a 1.00% prepayment premium applies. The New Media Borrower is required to repay borrowings under the Senior Secured Credit Facilities (without payment of a premium) with (i) net cash proceeds of certain debt obligations (except as otherwise permitted under the New Media Credit Agreement), (ii) net cash proceeds from non-ordinary course asset sales (subject to reinvestment rights and other exceptions), and (iii) commencing with New Media’s fiscal year started December 30, 2013, 100% of Excess Cash Flow (as defined in the New Media Credit Agreement), subject to step-downs to 50%, 25% and 0% of Excess Cash Flow based on achievement of a total leverage ratio of less than or equal to 3.0 to 1.0 but greater than 2.75 to 1.0; less than or equal to 2.75 to 1.0 but greater than 2.5 to 1.0; and less than or equal to 2.5 to 1.0, respectively.

The New Media Credit Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to Holdings I, the New Media Borrower and the New Media Borrower’s subsidiaries, including, among other things, restrictions on indebtedness, liens, investments, fundamental changes, dispositions, and dividends and other distributions. The New Media Credit Agreement contains a financial covenant that requires Holdings I, the New Media Borrower and the New Media Borrower’s subsidiaries to maintain a maximum total leverage ratio of 3.25 to 1.0. The New Media Credit Agreement contains customary events of default. The foregoing description of the Senior Secured Credit Facilities are qualified in their entirety by reference to the Senior Secured Credit Facilities. The New Media Credit Agreement was amended July 17, 2014 to cure an omission.

One lender under the New Media Credit Agreement was also a lender under the GateHouse Credit Facilities. This portion of the transaction was accounted for as a modification, as the difference between the present value of the cash flows under the New Media Credit Agreement and the present value of the cash flows under the GateHouse Credit Facilities was less than 10%. The unamortized deferred financing costs of $1.9 million and original issuance discount balance of $0.9 million as of the refinance date pertaining to this lender's portion of the GateHouse Credit Facilities will be amortized over the terms of the new facility. The remaining portion of the Gatehouse Credit Facilities and Local Media Facility debt refinancing constituted an extinguishment of debt, and was accounted for accordingly. In connection with this transaction, New Media incurred approximately $10.2 million of fees and expenses, of which $6.7 million were recognized as original issue discount and $1.7 million were recognized as deferred financing costs. These amounts were capitalized and will be amortized over the terms of the Senior Secured Credit Facilities. Additionally, New Media recorded a loss on early extinguishment of debt of $9.0 million associated with this transaction, which consisted of the write-off of unamortized deferred financing costs and other expenses not eligible for capitalization.

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During September 2014, the New Media Credit Agreement was amended to provide for additional term loans under the Incremental Facility in an aggregate principal amount of $25.0 million (such term loans, the "Incremental Term Loan," and such amendment, the "Incremental Amendment"). The Incremental Term Loan is on terms identical to the term loans that were extended pursuant to the New Media Credit Agreement and will mature on June 4, 2020. In addition, the New Media Borrower was required to pay an upfront fee of 2.00% of the aggregate amount of the Incremental Term Loan as of the effective date of the Incremental Amendment.

During the twelve months ended December 31, 2014, New Media paid $0.9 million of deferred financing costs related to the GateHouse Credit Facilities and Local Media Credit Facility and $1.7 million related to the New Media Credit Agreement.

GateHouse Credit Facilities

The Revolving Credit, Term Loan and Security Agreement (the “First Lien Credit Facility”) dated November 26, 2013 by and among GateHouse, GateHouse Media Intermediate Holdco, LLC formerly known as GateHouse Media Intermediate Holdco, Inc. (“GMIH”), certain wholly-owned subsidiaries of GMIH, all of which are wholly owned subsidiaries of New Media (collectively with GMIH and GateHouse, the “Loan Parties”), PNC Bank, National Association, as the administrative agent, Crystal Financial LLC, as term loan B agent, and each of the lenders party thereto provided for (i) a term loan A in the aggregate principal amount of $25.0 million, a term loan B in the aggregate principal amount of $50.0 million, and a revolving credit facility in an aggregate principal amount of up to $40.0 million.

The Term Loan and Security Agreement (the “Second Lien Credit Facility” and together with the First Lien Credit Facility, the “GateHouse Credit Facilities”) dated November 26, 2013 by and among the Loan Parties, Mutual Quest Fund and each of the lenders party thereto provided for a term loan in an aggregate principal amount of $50.0 million. The GateHouse Credit Facilities were secured by a first and second priority security interest in substantially all the assets of the Loan Parties.

The GateHouse Credit Facilities were paid in full on June 4, 2014.

Local Media Credit Facility

Certain of Local Media Parent’s subsidiaries (together, the “Borrowers”) and Local Media entered into a Credit Agreement, dated as of September 3, 2013, with a syndicate of financial institutions with Credit Suisse AG, Cayman Islands Branch, as administrative agent (the “Local Media Credit Facility”).

The Local Media Credit Facility provided for: (a) a $33.0 million term loan facility; and (b) a $10.0 million revolving credit facility, with a $3.0 million sub-facility for letters of credit and a $4.0 million sub-facility for swing loans. The Local Media Credit Facility was secured by a first priority security interest in substantially all assets of the Borrowers and Local Media Parent. In addition, the loans and other obligations of the Borrowers under the Local Media Credit Facility are guaranteed by Local Media Group Holdings LLC.

The Local Media Credit Facility was paid in full on June 4, 2014.

Fair Value

As of December 31, 2014, the estimated fair value of long-term debt under the New Media Credit Agreement was $229.4 million, based on discounted future contractual cash flows and a market interest rate adjusted for necessary risks, including New Media's credit risk as there are no rates currently observable in publicly traded debt markets of risk with similar terms and average maturities. Accordingly, New Media's long-term debt under the New Media Credit Agreement is classified within Level 3 of the fair value hierarchy.

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Payment Schedule

As of December 31, 2014, scheduled principal payments of New Media's outstanding debt are as follows:

	Amount
2015	$2,250
2016	2,250
2017	2,250
2018	2,250
Thereafter	220,437
	229,437
Less: Original issue discount	(7,385)
Total New Media debt obligations	$222,052

New Senior

The following table presents certain information regarding New Senior’s mortgage notes payable as of December 31, 2014:

	December 31, 2014				
Debt obligation	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Stated Interest Rate	Weighted Average Maturity (years)
Managed Properties					
Fixed rate (A)(B)	$156,763	$157,623	Aug 2018 - Mar 2020	1.60% to 4.93%	4.32
Floating rate (C)	278,424	278,424	Aug 2016 - Sep 2019	LIBOR+2.75% to LIBOR+3.75%	3.32
Triple Net Lease Properties					
Fixed rate (D)	708,383	708,383	Jan 2021 - Jan 2024	3.83% to 8.00%	7.05
Floating rate	115,000	115,000	Oct 2017	LIBOR+3.25%	2.80
Total	$1,258,570	$1,259,430			5.50

(A) Includes a loan with an outstanding face amount of $11.4 million, as of December 31, 2014, which has an interest rate is based on the applicable US Treasury Security rates for the first two years. The interest rate is 4.5%, 4.75% and 5.0% for years 3 through 5, respectively.

(B) Includes loans with an outstanding face amount of $40.6 million, as of December 31, 2014, for which the Company bought down the interest rate to 4.0% for the first two years. The interest rate will range from 5.99% to 6.76% thereafter.

(C) Includes floating rate mortgage loans with a total carrying value of $165.0 million, as of December 31, 2014, which have a LIBOR floor of 1%.

(D) Includes loans with an outstanding face amount of $356.8 million and $312.2 million, as of December 31, 2014, for which the Company bought down the interest rates to 4.00% and 3.83%, respectively, through January 2019.

The interest rates will increase to 4.99% and 4.56%, respectively, thereafter.

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The carrying value of the collateral relating to the fixed rate and floating rate mortgages was $1,382.0 million and $659.0 million as of December 31, 2014, respectively.

New Senior’s mortgage notes payable contain various customary financial and other covenants, in some cases including Debt Service Coverage Ratio and Projected Yield, as defined in the agreements. New Senior was in compliance with all of the covenants in its mortgage notes payable agreements as of December 31, 2014.

The fair value of mortgage notes payable as of December 31, 2014 is $1,283.1 million.

The disclosed fair value of mortgage notes payable, classified as level 3 within the fair value hierarchy, is based on a discounted cash flow valuation model. Significant inputs in the model include amount and timing of expected future cash flows and market yields which are constructed based on inputs implied from similar debt offerings.

Payment Schedule

As of December 31, 2014, scheduled principal payments of New Senior's outstanding debt are as follows:

	Amount
2015	$17,046
2016	42,302
2017	204,128
2018	206,774
2019	140,657
Thereafter	647,663
Total New Senior debt obligations	$1,258,570

6. INCOME TAXES AND TAX RELATED PAYMENTS

Investment Manager

Fortress was established as a publicly traded partnership and also established a wholly owned corporate subsidiary. Accordingly, a substantial portion of Fortress’s income is earned by the corporate subsidiary and subject to U.S. federal and state income taxation, taxed at prevailing rates. The remainder of Fortress’s income is allocated directly to its shareholders and is not subject to a corporate level of taxation.

Fortress recognizes compensation expense from the issuance of RSUs and RPUs (Note 8) over their vesting period. Consequently, Fortress records an estimated income tax benefit associated with RSUs and RPUs. However, Fortress is not entitled to an actual deduction on its income tax returns until a later date when the compensation is considered taxable to the employee. The actual income tax deduction can vary significantly from the amount recorded as an income tax benefit in earlier periods and is based on the value of the stock at the date the compensation is taxable to the employee.

The equity-based compensation resulted in $7.8 million, $26.0 million and $13.9 million of recognized current tax benefit for the years ended December 31, 2014, 2013 and 2012, respectively.

At each tax deduction date, Fortress is required to compare the amount of the actual income tax benefit to the estimated amount recognized earlier. Excess tax benefits associated with RSUs and RPUs are credited to stockholders' equity to the extent that the actual tax benefit is greater than what was previously estimated. If the actual tax benefit is less than that estimated, which will occur if the price of the stock has declined during the vesting period, Fortress has a “tax shortfall.” The tax shortfall must be charged to income tax expense to the extent Fortress does not have prior excess tax benefits (i.e., prior actual tax benefits associated with RSUs and RPUs that were greater than the estimated benefits).

For the year ended December 31, 2014, Fortress recorded $3.5 million, to paid in capital for excess tax benefits from RSUs delivered during these periods and as a financing activity on the consolidated statements of cash flows.

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Based on the value of the RSUs and RPUs which vested during the years ended December 31, 2013 and 2012, Fortress has tax shortfalls of $24.6 million and $32.1 million, respectively, which have been charged to income tax expense during these periods.

The provision for income taxes consists of the following:

	Year Ended December 31,		
	2014	2013	2012
Current			
Federal income tax expense (benefit)	$7,558	$1,185	$(223)
Foreign income tax expense (benefit)	12,258	8,875	9,550
State and local income tax expense (benefit)	5,175	1,310	639
	24,991	11,370	9,966
Deferred			
Federal income tax expense (benefit)	(1,051)	47,953	27,559
Foreign income tax expense (benefit)	1,115	65	1,718
State and local income tax expense (benefit)	(18,108)	6,413	165
	(18,044)	54,431	29,442
Total expense (benefit)	$6,947	$65,801	$39,408

For the years ended December 31, 2014, 2013 and 2012, deferred income taxes of $0.5 million, $(0.7) million and $0.2 million were credited (debited) to other comprehensive income, primarily related to foreign currency translation. Current income tax benefits of $0.7 million, $0.0 million and $0.6 million were credited to paid-in capital in those years, respectively, related to (i) dividend equivalent payments on RSUs (Note 9), as applicable, and (ii) distributions to Fortress Operating Group restricted partnership unit holders (Note 9), which are currently deductible for income tax purposes.

Fortress established deferred tax assets in connection with its initial public offering and related transactions in 2007, as well as in connection with its subsequent public offering of shares. These transactions resulted in increases to the tax basis of FIG Corp.'s ownership interests in the assets owned by Fortress Operating Group. Fortress established these deferred tax assets for the expected tax benefits associated with the difference between the financial reporting basis of net assets and the tax basis of net assets. The establishment of the deferred tax assets increased additional paid in capital. These deferred tax assets reflect the tax impact of payments expected to be made under the tax receivable agreement (described below), which further increase Fortress’s deferred tax benefits and the estimated payments due under the tax receivable agreement.

FIG Corp. decreased its ownership in the underlying Fortress Operating Group entities during the year ended December 31, 2014 as a result of the purchase of Class A shares from the Nomura. This decrease was offset by an increase from the delivery of vested RSUs (Note 8) and the offering of Class A shares and the repurchase of an equivalent number of outstanding Fortress Operating Group units and an equal number of Class B shares. FIG Corp. increased its ownership in the underlying Fortress Operating Group entities during 2013 and 2012 through (i) the exchanges by the Principals and a former senior employee of Fortress Operating Group units and Class B shares for Class A shares (as described in Note 9), (ii) the delivery of vested RSUs and RPUs (Note 8), and (iii) the repurchase of Fortress Operating Group units and Class B shares from a former Principal (Note 9). As a result of the changes in ownership, the deferred tax asset was increased (decreased) by $(8.0) million, $2.7 million and $16.0 million with offsetting increases (decreases) of $(3.5) million, $0.5 million and $0.8 million to the valuation allowance (described below), in 2014, 2013 and 2012, respectively. In addition, the deferred tax asset was increased by $48.5 million, $12.1 million and $11.7 million related to a step-up in tax basis due to the share exchanges which will result in additional tax deductions, with offsetting increases in the valuation allowance of $0.9 million, $0.9 million and $1.0 million, while the liability for the tax receivable agreement was increased by $39.1 million, $0.1 million and $0.1 million to represent 85% of the expected cash tax savings resulting from the increase in tax basis deductions, in 2014, 2013 and 2012 respectively. Furthermore, deferred income taxes of $1.0 million was debited to paid-in capital related to the tax gain on treasury shares issued to employees in connection with equity-based compensation deliveries in 2013. The establishment of these net deferred tax assets, net of the change in the tax receivable agreement liability, also increased additional paid in capital.

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

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Fortress projects that it will have sufficient future taxable ordinary income in the normal course of business without any projected significant change in circumstances to fully realize the portion of the deferred tax asset that would be realized in connection with future ordinary income. Such projections do not include material changes in AUM or incentive income from the current levels. However, the projections do contain an estimated marginal growth assumption. Based on Fortress's historical and projected taxable income, management has concluded that the realization of the portion of the deferred tax asset that would be realized in connection with future taxable ordinary income is more likely than not. If Fortress's estimates change in the future and it is determined that it is more likely than not that some portion, or all, of this portion of the deferred tax asset will not be realized, a valuation allowance would be recorded for that portion. However, in most cases, any tax expense recorded in connection with the establishment of a valuation allowance or the reversal of a deferred tax asset would be partially offset by other income recorded in connection with a corresponding reduction of a portion of the tax receivable agreement liability (see below). The following table sets forth Fortress's federal taxable income for historical periods before deductions relating to the establishment of the deferred tax assets, other than deferred tax assets arising from equity-based compensation, as well as the average ordinary income needed over the approximate period of the deductibility (approximately 15 years from the date of establishment, based on the amortization period of the tax basis intangible assets recorded) in order to fully realize the portion of the deferred tax asset that would be realized in connection with future ordinary income (in millions):

2010	$77.6
2011	53.5
2012	80.9
2013	90.7
2014: Estimated	127.4
2015 - 2022: Average Required	$91.7

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

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

	December 31, 2014	2013
Pre-IPO equity transaction - tax basis adjustment		
Tax basis goodwill and other intangible assets	$235,372	$239,910
Other assets	19,161	19,341
Principals' (and a former senior employee's) exchanges - tax basis adjustment		
Tax basis goodwill and other intangible assets	76,390	31,788
Other assets	2,417	1,558
Public offering basis difference	(922)	15,725
Compensation and benefits	11,017	8,557
Options in affiliates	3,558	6,975
Partnership basis differences (A)	77,158	70,581
Other	15,008	26,592
Gross deferred tax assets	439,159	421,027
Less:		
Valuation allowance	(13,072)	(49,805)
Deferred tax liabilities (B)	(8,464)	(16,696)
Deferred tax assets, net	$417,623	$354,526

(A) Difference in book and tax basis from underlying partnership investments.

(B) The deferred tax liabilities primarily relate to timing differences in the recognition of income from compensatory options received from certain Permanent Capital Vehicles (Note 4). Deferred tax assets are shown net of deferred tax liabilities since they are both primarily of similar tax character and tax jurisdiction.

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

Valuation Allowance at December 31, 2012	$83,025
Due to FIG Corp. ownership change	1,461
Net decreases (A)	(34,681)
Valuation Allowance at December 31, 2013	$49,805
Due to FIG Corp. ownership change	(2,575)
Net decreases (A)	(34,158)
Valuation Allowance at December 31, 2014	$13,072

(A) Primarily related to the write-off of certain fully reserved deferred tax assets associated with funds in the process of liquidation, and by the change in the portion of the deferred tax asset that would be realized in connection with future capital gains.

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Fortress's effective income tax expense rate is impacted by a variety of factors including, but not limited to, changes in the mix of businesses producing income or loss, which may be subject to tax at different rates, and related changes to Fortress's structure, as well as changes in the deferred tax asset which, in turn, may result from a variety of factors. A reconciliation of the U.S. federal statutory income tax expense rate to Fortress's effective income tax expense rate is as follows:

	Year Ended December 31,		
	2014	2013	2012
Statutory U.S. federal income tax rate	35.00 %	35.00 %	35.00 %
(Income) loss passed through to stockholders	(17.95)%	(13.30)%	(25.66)%
State and local income taxes	6.08 %	4.33 %	3.52 %
Change in tax rate on certain deferred tax benefits (A)	(16.08)%	(0.60)%	(2.06)%
Tax receivable agreement liability adjustment (B)	10.74 %	1.16 %	2.64 %
Foreign taxes	6.54 %	1.55 %	7.03 %
Deferred tax asset write-off (C)	14.00 %	8.41 %	24.29 %
Valuation allowance (D)	(31.65)%	(11.95)%	(9.02)%
Other	(0.24)%	0.11 %	(2.26)%
Effective income tax rate (E)	6.44 %	24.71 %	33.48 %

(A) Primarily related to enacted legislative changes to New York State corporate taxation, which increased the value of certain future tax benefits.

(B) Relates to the tax receivable agreement discussed below, which is not tax deductible and represents a significant permanent tax/GAAP difference.

(C) In 2014, write-off of deferred tax assets relating to public offering basis difference, fully offset by a reversal of the related valuation allowance. For the years 2013 and 2012, write-off of deferred tax assets relating to the tax shortfall created by the vesting of RSUs and RPUs.

(D) Primarily attributable to the reduction of the valuation allowance related to certain deferred tax assets associated with funds in the process of liquidation and by the change to the portion of the valuation allowance related to the deferred tax asset that is expected to be realized in connection with future capital gains.

(E) The Effective income tax rate is computed by dividing Income tax benefit (expense) for the period by the sum of (i) Income (Loss) Before Income Taxes less (ii) Principals' and Others' Interests in Income (Loss) of Consolidated Subsidiaries for the period.

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Tax Receivable Agreement

The Principals have the right to exchange each of their Fortress Operating Group units for one Class A share. Certain Fortress Operating Group entities have made an election under Section 754 of the Internal Revenue Code, as amended, which may result in an adjustment to the tax basis of the assets owned by Fortress Operating Group at the time of an exchange. The exchange may result in increases in tax deductions and tax basis that would reduce the amount of tax that the corporate taxpayers (i.e. FIG Corp., a wholly-owned Fortress subsidiary) would otherwise be required to pay in the future. Additionally, the further acquisition of Fortress Operating Group units from the Principals also may result in increases in tax deductions and tax basis that would reduce the amount of tax that the corporate taxpayers would otherwise be required to pay in the future.

The corporate taxpayers entered into a tax receivable agreement with each of the Principals that provides for the payment to an exchanging or selling Principal of 85% of the amount of cash savings, if any, in U.S. federal, state, local and foreign income tax that the corporate taxpayers actually realize (or are deemed to realize in the case of an early termination payment by the corporate taxpayers or a change of control, as defined) as a result of these increases in tax basis. Such payments are expected to occur over approximately the next 15 years. Although Fortress is not aware of any issue that would cause the IRS to challenge a tax basis increase, the Principals will not reimburse Fortress for any payments made under this agreement if tax savings claimed are later disallowed by the IRS. In connection with certain equity transactions that occurred prior to Fortress's initial public offering, and related tax effects, a $393.0 million capital decrease and offsetting liability to the Principals was recorded in Due to Affiliates with respect to the tax receivable agreement. Subsequently, this liability has been adjusted based on transactions of the nature described above and for payments under the agreement. In connection with the tax returns filed for the years ended December 31, 2013, 2012 and 2011, $23.9 million (paid in 2014), $21.6 million (paid in 2013) and $16.5 million (paid in 2012) was paid to the Principals under the tax receivable agreement, respectively. For the tax year ended December 31, 2014, the payment which is expected to become due pursuant to the tax receivable agreement is approximately $26.6 million subject to the finalization of Fortress's 2014 tax return. To the extent that a portion, or all, of this liability is not expected to be incurred (due to changes in expected taxable income), the liability is reduced. For the year ending December 31, 2014, an expense of $33.1 million was recognized as a result of an increase in the tax receivable agreement liability mainly attributable to (i) reversal of the valuation allowance associated with certain tax benefits expected to generate future payments under the tax receivable agreement and (ii) the change to the estimated effective tax rate applicable to future benefits as a result of enacted legislative changes to New York State corporate taxation.

Non-Investment Manager

New Media

Income tax expense (benefit) consists of the following:

	Period from February 14, 2014 to December 31, 2014	
Current		
Federal income expense (benefit)	$—	
State and local income expense (benefit)	(108	)
	(108	)

Deferred	
Federal income expense (benefit)	2,256
State and local income expense (benefit)	565
	2,821
Total New Media income tax expense (benefit)	$2,713

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The tax effects of temporary differences that give rise to significant portions of the net deferred tax liabilities, included in other liabilities, net on the consolidated balance sheets, as of December 31, 2014 are presented below:

	December 31, 2014
Definite and indefinite lived intangible assets	$65,729
Net operating losses	79,522
Other	27,696
Total deferred tax assets	172,947
Less:	
Valuation allowance	(138,316)
Deferred tax liabilities (A)	(37,452)
Deferred tax liabilities, net	$(2,821)

(A) The deferred tax liabilities primarily relate to timing differences in the recognition of depreciation expense related to fixed assets. Deferred tax assets are shown net of deferred tax liabilities since they are both primarily of similar tax character and tax jurisdiction.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

As of December 31, 2014, the valuation allowance was $138.3 million.

As of December 31, 2014, New Media had tax effected net operating loss carryforwards for federal and state income tax purposes of approximately $79.5 million, which are available to offset future taxable income, if any. These federal and state net operating loss carryforwards begin to expire on various dates from 2019 through 2033. The majority of the operating losses are subject to the limitations of Internal Revenue Code (the “Code”) Section 382. This section provides limitations on the availability of net operating losses to offset current taxable income if significant ownership changes have occurred for Federal tax purposes.

As of December 31, 2014, New Media had uncertain tax positions of $1.0 million which, if recognized, would impact its effective tax rate. New Media does not anticipate significant increases or decreases in its uncertain tax positions within the next twelve months. New Media did not record significant amounts of interest and penalties related to uncertain tax positions for the period from February 14, 2014 to December 31, 2014.

New Media files a U.S. federal consolidated income tax return for which the statute of limitations remains open for the 2011 tax year and beyond. U.S. state jurisdictions have statute of limitations generally ranging from 3 to 6 years.

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New Senior

Income tax expense (benefit) consists of the following:

	Period from November 7, 2014 to December 31, 2014
Current	
Federal income expense (benefit)	$(766)
State and local income expense (benefit)	33
	$(733)
Deferred	
Federal income expense (benefit)	$927
State and local income expense (benefit)	2
	$929
Total New Senior income tax expense (benefit)	$196

New Senior intends to elect and qualify as a REIT under the requirements of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. Requirements for qualification as a REIT include various restrictions on ownership of stock, requirements concerning distribution of taxable income and certain restrictions on the nature of assets and sources of income. A REIT must distribute at least 90% of its taxable income to its stockholders of which 85% plus any undistributed amounts from the prior year must be distributed within the taxable year in order to avoid the imposition of an excise tax. Distribution of the remaining balance may extend until timely filing of New Senior’s tax return in the subsequent taxable year. Qualifying distributions of taxable income are deductible by a REIT in computing taxable income.

Certain of New Senior's activities are conducted through a taxable REIT subsidiary (“TRS”) and therefore are subject to federal and state income taxes. Further, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases upon the change in tax status. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

New Senior recognizes tax benefits for uncertain tax positions only if it is more likely than not that the position is sustainable based on its technical merits. As of December 31, 2014, New Senior had no uncertain tax positions.

The tax effects of temporary differences that give rise to significant portions of New Senior's deferred tax assets as of December 31, 2014 are presented below:

	December 31, 2014
Deferred tax assets:	
Depreciation and amortization	$1,123
Prepaid fees and rent	1,170

Net operating loss	2,838
Other	22
Total deferred tax assets	$5,153
Less valuation allowance	—
Net deferred tax assets	$5,153

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On the consolidated balance sheets, deferred tax assets are recorded within Non-Investment Manager - Other assets, net.

In assessing the recoverability of deferred tax assets, New Senior considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. New Senior has not recorded a valuation allowance against its deferred tax assets as of December 31, 2014, as New Senior believes that it is more likely than not that its deferred tax assets will be realized.

7. RELATED PARTY TRANSACTIONS AND INTERESTS IN CONSOLIDATED SUBSIDIARIES

Investment Manager

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

	Private Equity		Liquid	Credit				
		Permanent	Hedge	Hedge	PE	Logan		
December 31, 2014	Funds	Capital Vehicles	Funds	Funds	Funds	Circle	Other	Total
Management fees and incentive income (A)	$35,970	$62,008	$15,634	$96,996	$18,393	1,089	$—	$230,090
Expense reimbursements (A)	1,335	3,202	12,940	9,264	10,077	164	—	36,982
Expense reimbursements - FCF (B)	34,660	49	—	—	—	—	—	34,709
Dividends and distributions	—	295	—	—	—	—	—	295
Other	—	1,346	—	—	—	—	16,896	18,242
Total	$71,965	$66,900	$28,574	$106,260	$28,470	$1,253	$16,896	$320,318

	Private Equity		Liquid	Credit				
		Permanent	Hedge	Hedge	PE	Logan		
December 31, 2013	Funds	Capital Vehicles	Funds	Funds	Funds	Circle	Other	Total
Management fees and incentive income (A)	$40,456	$21,701	$89,400	$144,749	$18,143	$689	$—	$315,138
Expense reimbursements (A)	2,599	4,905	6,437	7,118	14,656	64	—	35,779
Expense reimbursements - FCF (B)	42,872	100	—	—	—	—	—	42,972
Dividends and distributions	—	405	—	—	—	—	—	405
Other	—	698	—	—	4	—	12,128	12,830
Total	$85,927	$27,809	$95,837	$151,867	$32,803	$753	$12,128	$407,124

(A) Net of allowances for uncollectible management fees and expense reimbursements of $12.2 million and $6.6 million at December 31, 2014, respectively, and of $12.2 million and $6.3 million as of December 31, 2013, respectively. Allowances are recorded as General and Administrative expenses. As of December 31, 2014, excludes $3.0 million of management fees and incentive income due from New Media and New Senior and $3.2 million of expense reimbursements due from New Media and New Senior, which are eliminated in consolidation.

(B) Represents expense reimbursements due to FCF, a consolidated VIE.

As of December 31, 2014, amounts due from Fortress Funds recorded in due from affiliates on the consolidated balance sheets included $33.6 million of past due management fees, excluding $12.2 million which has been fully reserved by Fortress, and $11.3 million of private equity general and administrative expenses advanced on behalf of certain Fortress Funds, excluding $6.6 million which has been fully reserved by Fortress. Although such funds are currently experiencing liquidity issues, Fortress believes the unreserved portion of these fees and reimbursable expenses will ultimately be collectible. The unreserved amounts are primarily due from a fund and the amounts represent less than 5% of such fund's NAV.

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Due to affiliates was comprised of the following:

	December 31, 2014	December 31, 2013
Principals - tax receivable agreement - Note 6	$289,324	$241,006
Principals - Principal Performance Payments - Note 8	30,659	45,524
Distributions payable on Fortress Operating Group units	—	5,160
Other	11,411	11,345
General partner liability - Note 10	44,030	41,797
	$375,424	$344,832

Other Related Party Transactions

For the years ended December 31, 2014, 2013 and 2012, other revenues on the consolidated statements of operations included approximately $2.4 million, $1.7 million and $2.5 million, respectively, of revenues from affiliates, primarily interest and dividends.

Fortress has entered into cost sharing arrangements with certain Fortress Funds, including market data services and subleases of certain of its office space. Fortress pays these costs directly and recharges the related Fortress Funds.

Certain Portfolio Companies and Fortress Funds are co-owned by, have merged with, and/or have engaged in transactions (including loans) with, other Portfolio Companies and Fortress Funds. Generally, co-ownership arrangements are entered into due to transaction size limitations in individual funds and transactions between Portfolio Companies take advantage of relevant expertise possessed by these entities. In some instances, Portfolio Companies have entered into contracts with other Portfolio Companies or with certain of Fortress's equity method investees to provide services to, or receive services from, these entities, including asset management, consulting, loan servicing and others. These contracts were entered into because the entity providing the service possessed relevant expertise.

From time to time, Fortress may advance amounts on behalf of affiliates for limited periods. In such cases it generally charges interest to these affiliates. In 2014, 2013 and 2012, Fortress waived $1.5 million, $1.8 million and $3.8 million, respectively, of interest owed from its private equity funds related to management fees paid in arrears. One of Fortress's consolidated subsidiaries (not a Fortress Fund) acts as the loan origination platform for certain Fortress Funds. In this respect, it holds commercial lending licenses in various states and received fees for its loan origination duties of less than $0.1 million during 2014, and $0.1 million and $0.1 million during 2013 and 2012, respectively.

The principals and certain executive officers of Fortress may also serve as directors and/or officers of each of the publicly traded permanent capital vehicles and of certain Portfolio Companies and may have investments in these entities as well as in other Fortress Funds.

From time to time, employees of Fortress mutually agree with Fortress to terminate their employment in order to accept employment opportunities at the Fortress Funds, Portfolio Companies, or other affiliates. To the extent these former employees had been granted RSUs by Fortress, they are generally permitted to continue vesting in these RSUs pursuant to their original vesting terms as long as they remain employed by an affiliate.

From time to time, Fortress makes advances to senior employees (who are not officers). These advances may be due on a certain date, at termination or upon the maturity of a Fortress Fund (generally when the advances are to finance employee fund investments). Outstanding advances can be summarized as follows:

	December 31, 2014	2013
Amount outstanding	$4.7 million	$3.9 million
Range of interest rates	LIBOR +4% to LIBOR +4.25%	LIBOR +4% to LIBOR + 4.25%

Subsequent to December 31, 2014, Fortress made an advance of $1.8 million to a senior employee (who is not an officer) at an interest rate equal to LIBOR plus 4.0%.

In connection with its initial public offering, Fortress entered into a tax receivable agreement with the Principals, as described in Note 6, and the Principals entered into a forfeiture agreement with each other, as described in Note 8. The Principals, employees, directors and Fortress Funds have and continue to make investments in Fortress Funds and Portfolio Companies.

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The Principals have guaranteed payment on a several basis to certain Fortress private equity funds and credit PE funds of any contingent repayment (clawback) obligation with respect to such private equity fund or credit PE fund incentive income in the event that Fortress fails to fulfill its clawback obligation, if any, with respect to such fund.

In March 2012, as a result of the repeal of the exemption from registration under the Investment Advisers Act of 1940 for family offices, Fortress hired the personnel of the Principals' family offices and entered into investment management agreements with the family offices. Pursuant to these agreements, these individuals work solely on the Principals' personal financial matters, and the Principals reimburse Fortress for their compensation expense attributable to them. The total amount of such expenses was $3.5 million, $3.1 million and $2.7 million in 2014, 2013 and 2012, respectively.

Two of the Principals leased or indirectly owned aircraft that Fortress chartered from a third-party aircraft operator for business purposes in the course of operations. Fortress and/or the funds, depending on the purposes of the trip, paid market rates for the charters. With respect to one of the Principals, these amounts totaled $2.2 million, $1.8 million and $1.8 million in 2014, 2013 and 2012, respectively. With respect to the other Principal, these amounts totaled $0.6 million, $0.4 million and $0.3 million in 2014, 2013 and 2012, respectively. The operators remitted a portion of these amounts to the Principals.

In January 2012, Fortress subleased an aircraft from one of its Principals for approximately two months, primarily to ensure compliance with regulations of the Federal Aviation Administration. During the term of the lease, Fortress used the aircraft for business purposes. The amount due to the Principal for the sublease was $0.1 million.

In addition to the other transactions discussed above, the Principals receive limited benefits from Fortress in addition to their compensation, including the personal use of certain company assets and personnel for which they reimburse Fortress. The amounts subject to reimbursement aggregated $0.4 million, $0.0 million and $0.2 million in 2014, 2013 and 2012, respectively.

Principals' and Others' Interests in Consolidated Subsidiaries

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

This balance sheet caption was comprised of the following:

	December 31,	
	2014	2013
Fortress Operating Group units held by the principals and a former senior employee	$555,724	$725,424
Employee interests in majority owned and controlled fund advisor and general partner entities	80,333	62,381
Other	2,303	2,033
Total	$638,360	$789,838

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

	December 31,	
	2014	2013

Fortress Operating Group equity (Note 13)	$2,935,460	$1,489,701
Less: Others' interests in equity of consolidated subsidiaries (Note 13)	(82,636)	(64,414)
Non-controlling interests in equity of Investment Company - consolidated VIEs	(85,001)	—
Non-controlling interests in equity of Non-Investment Manager - consolidated VIEs	(1,700,172)	—
Total Fortress shareholders' equity in Fortress Operating Group	$1,067,651	$1,425,287
Fortress Operating Group units outstanding (A)	226,331,513	249,534,372
Class A shares outstanding	208,535,157	240,741,920
Total	434,866,670	490,276,292
Fortress Operating Group units as a percent of total (B)	52.0%	50.9%
Equity of Fortress Operating Group units held by the Principals and a former senior employee	$555,724	$725,424

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

(B) As a result, the Registrant owned 48.0% and 49.1% of Fortress Operating Group as of December 31, 2014 and 2013, respectively.

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

	Year Ended December 31,		
	2014	2013	2012
Fortress Operating Group units held by the Principals and a former senior employee	$134,033	$276,683	$132,950
Employee interests in majority owned and controlled fund advisor and general partner entities	4,657	6,456	7,402
Other	270	5	186
Total	$138,960	$283,144	$140,538

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

	Year Ended December 31,		
	2014	2013	2012
Fortress Operating Group net income (loss) (Note 13)	$256,174	$545,623	$255,770
Adjust:			
Others' interests in net (income) loss of consolidated subsidiaries (Note 13)	(4,927)	(6,461)	(7,588)
Redeemable Non-controlling interests in (income) loss of Investment Company - consolidated VIE	709	—	—
Non-controlling interests in (income) loss of Investment Company - consolidated VIEs	(9,737)	—	—
Non-controlling interests (income) loss of Non-Investment Manager - consolidated VIEs	14,593	—	—
Total Fortress shareholders' net income (loss) in Fortress Operating Group	$256,812	$539,162	$248,182
Fortress Operating Group as a percent of total (A)	52.2 %	51.3 %	53.6 %
Fortress Operating Group net income (loss) attributable to the Principals and a former senior employee	$134,033	$276,683	$132,950

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

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

	Year Ended December 31,		
	2014	2013	2012
Net Income (loss) attributable to Class A shareholders	$99,962	$200,447	$78,284
Transfers (to) from the Principals' and Others' Interests:			

Increase in Fortress's shareholders' equity for the conversion of Fortress Operating Group units by the Principals and a former senior employee	—	10,143	22,166
Increase in Fortress's shareholders' equity for the purchase of Fortress Operating Group units from one Principal	—	—	44,242
Increase in Fortress's shareholders' equity for the delivery of Class A shares primarily in connection with vested RSUs and RPUs	5,835	14,005	14,769
Increase in Fortress's shareholders' equity for the public offering of Class A shares and repurchase of Class B shares and FOGUs	53,510	—	—
Decrease in Fortress's shareholders' equity for the repurchase and cancellation of Class A shares and FOGUs	(101,156)	—	—
Change from net income (loss) attributable to Fortress and transfers (to) from Principals' and Others' Interests	$58,151	$224,595	$159,461

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8. EQUITY-BASED AND OTHER COMPENSATION

Investment Manager

Fortress’s total compensation and benefits expense, excluding Principals Agreement Compensation, but including Principal Performance Payments (described below), is comprised of the following:

	Year Ended December 31,		
	2014	2013	2012
Equity-based compensation, per below	$38,157	$39,266	