

Fortress Investment Group LLC
Form 10-Q
August 14, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007

or

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

Commission File Number: 001-33294

Fortress Investment Group LLC

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
1345 Avenue of the Americas, New York, NY
(Address of principal executive offices)
(212) 798-6100
(Registrant's telephone number, including area code)

20-5837959
(I.R.S. Employer
Identification No.)
10105
(Zip Code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

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

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

Class A Shares: 94,597,646 outstanding as of August 10, 2007.

Class B Shares: 312,071,550 outstanding as of August 10, 2007.

FORTRESS INVESTMENT GROUP LLC

FORM 10-Q

INDEX

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Consolidated Balance Sheet as of June 30, 2007 (unaudited) and Combined Balance Sheet as of December 31, 2006</u>	1
The following statements are presented on a combined basis prior to the date of Fortress's reorganization (Note 1) on January 17, 2007 and consolidated thereafter:	
<u>Income Statements (unaudited) for the three and six months ended June 30, 2007 and 2006</u>	2
<u>Statement of Members' and Shareholders' Equity (unaudited) for the six months ended June 30, 2007</u>	3
<u>Statements of Cash Flows (unaudited) for the six months ended June 30, 2007 and 2006</u>	4
<u>Notes to Consolidated and Combined Financial Statements (unaudited)</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	43
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	78
Item 4. <u>Controls and Procedures</u>	81
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	82
Item 1A. <u>Risk Factors</u>	83
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	109
Item 3. <u>Defaults upon Senior Securities</u>	109
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	109
Item 5. <u>Other Information</u>	109
Item 6. <u>Exhibits</u>	110

Table of Contents

DEFINED TERMS

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

“Assets Under Management,” or “AUM,” refers to the assets we manage, including 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 net asset value, or “NAV,” of our private equity funds and hedge funds plus the capital that we are entitled to call from investors pursuant to the terms of their capital commitments to those funds;
- (ii) the NAV of managed accounts; and
- (iii) the market capitalization of the common stock of each of our publicly traded alternative investment vehicles, which we refer to as our “Castles”.

We earn management fees pursuant to management agreements on a basis which varies from Fortress Fund to Fortress Fund (e.g., any of “net asset value”, “capital commitments”, “invested equity” or “gross equity,” each as defined in the applicable management agreement, may form the basis for a management fee calculation). 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 AUM measure includes, for instance, assets under management for which we charge either no or nominal fees, generally related to our principal investments in funds as well as investments in funds by our principals, directors and employees. Our definition of AUM is not based on any definition of assets under management contained in our operating agreement or in any of our Fortress Fund management agreements.

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

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

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

“principals” refers to Peter Briger, Wesley Edens, Robert Kauffman, Randal Nardone and Michael Novogratz, collectively, who prior to the completion of our initial public offering and the Nomura transaction directly owned 100% of the Fortress Operating Group units and following completion of our initial public offering and the Nomura transaction own a majority of the Fortress Operating Group units and all of the Class B shares, representing a majority

of the total combined voting power of all of our outstanding Class A and Class B shares. The principals' ownership percentage is subject to change based on, among other things, equity offerings by Fortress and dispositions by the principals.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORTRESS INVESTMENT GROUP LLC
(PRIOR TO JANUARY 17, 2007, FORTRESS OPERATING GROUP – NOTE 1)
CONSOLIDATED AND COMBINED BALANCE SHEETS
(dollars in thousands, except share data)

	June 30, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	\$ 321,445	\$ 61,120

Edgar Filing: Fortress Investment Group LLC - Form 10-Q

Cash held at consolidated subsidiaries and restricted cash	—	564,085
Due from affiliates	180,429	635,748
Receivables from brokers and counterparties	—	109,463
Investment company holdings, at fair value		
Loans and securities	—	6,874,748
Investments in affiliates	—	14,985,578
Derivatives	—	84,270
Other investments		
Loans and securities	—	317
Equity method investees	642,518	37,250
Options in affiliates	106,324	139,266
Deferred tax asset	475,091	2,808