

Fortress Investment Group LLC
Form 10-Q
May 15, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

or

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

For the transition period from _____ to _____

Commission File Number: 001-33294

Fortress Investment Group LLC

(Exact name of registrant as specified in its charter)

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

10105
(Zip Code)

(212) 798-6100

(Registrant's telephone number, including area code)

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

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

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

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

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

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

Class A Shares: 94,604,805 outstanding as of May 6, 2008.

Class B Shares: 312,071,550 outstanding as of May 6, 2008.

Table of Contents

FORTRESS INVESTMENT GROUP LLC

FORM 10-Q

INDEX

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of March 31, 2008 (unaudited) and December 31, 2007</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>Statements of Operations (unaudited) for the three months ended March 31, 2008 and 2007</u>	2
<u>Statement of Shareholders' Equity (unaudited) for the three months ended March 31, 2008</u>	3
<u>Statements of Cash Flows (unaudited) for the three months ended March 31, 2008 and 2007</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>	31
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	55
Item 4. <u>Controls and Procedures</u>	58
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	58
Item 1A. <u>Risk Factors</u>	59
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	83
Item 3. <u>Defaults upon Senior Securities</u>	83
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	83
Item 5. <u>Other Information</u>	83
Item 6. <u>Exhibits</u>	84
<u>SIGNATURES</u>	85

Table of Contents

DEFINED TERMS

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

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

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

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

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

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

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

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, Part I, Item 3, Quantitative and Qualitative Disclosures About Market Risk, Part II, Item 1A, Risk Factors, and elsewhere in this Quarterly Report on

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

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

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

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

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	March 31, 2008 (Unaudited)	December 31, 2007
Assets		
Cash and cash equivalents	\$ 372,678	\$ 100,409
Due from affiliates	52,088	198,669
Investments		
Equity method investees	1,006,438	1,091,918
Options in affiliates	3,804	16,001
Deferred tax asset	508,380	511,204
Other assets	68,318	71,580
	\$ 2,011,706	\$ 1,989,781
Liabilities and Shareholders' Equity		
Liabilities		
Accrued compensation and benefits	\$ 88,306	\$ 269,324
Due to affiliates	477,221	455,734
Dividends payable	21,285	21,285
Deferred incentive income	167,679	173,561
Debt obligations payable	800,000	535,000
Other liabilities	65,468	36,729
	1,619,959	1,491,633
Commitments and Contingencies		
Principals and Others' Interests in Equity of Consolidated Subsidiaries	226,820	308,023
Shareholders' Equity		
Class A shares, no par value, 1,000,000,000 shares authorized, 94,597,646 shares issued and outstanding		
Class B shares, no par value, 750,000,000 shares authorized, 312,071,550 shares issued and outstanding		
Paid-in capital	424,566	384,700
Retained earnings (accumulated deficit)	(260,008)	(193,200)
Accumulated other comprehensive income (loss)	369	(1,375)
	164,927	190,125

See notes to consolidated and combined financial statements

Table of Contents**FORTRESS INVESTMENT GROUP LLC**

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

CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS (Unaudited)

(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2008	2007
Revenues		
Management fees from affiliates	\$ 144,057	\$ 43,287
Incentive income from affiliates	37,144	44,229
Other revenues (affiliate portion disclosed in Note 6)	19,679	19,784
Interest and dividend income - investment company holdings		
Interest income		243,713
Interest income from controlled affiliate investments		4,707
Dividend income		7,436
Dividend income from controlled affiliate investments		53,174
	200,880	416,330
Expenses		
Interest expense		
Investment company holdings		132,620
Other	10,336	12,019
Compensation and benefits	127,019	217,517
Principals agreement compensation	237,367	138,274
General, administrative and other	16,570	39,305
Depreciation and amortization	2,436	2,009
	393,728	541,744
Other Income (Loss)		
Gains (losses) from investments		
Investment company holdings		
Net realized gains (losses)		86,264
Net realized gains (losses) from controlled affiliate investments		715,024
Net unrealized gains (losses)		(19,928)
Net unrealized gains (losses) from controlled affiliate investments		(1,428,837)
Other investments		
Net realized gains (losses)	1,613	1,789
Net realized gains (losses) from affiliate investments	247	136,041
Net unrealized gains (losses)		(280)
Net unrealized gains (losses) from affiliate investments	(29,817)	(130,828)
Earnings (losses) from equity method investees	(49,129)	195
	(77,086)	(640,560)
Income (Loss) Before Deferred Incentive Income, Principals and Others Interests in Income of Consolidated Subsidiaries and Income Taxes	(269,934)	(765,974)

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

Deferred incentive income		307,034
Principals and others interests in (income) loss of consolidated subsidiaries	208,269	535,530
Income (Loss) Before Income Taxes	(61,665)	76,590
Income tax benefit (expense)	(7,252)	(14,447)
Net Income (Loss)	\$ (68,917)	\$ 62,143
Dividends declared per Class A share	\$ 0.2250	\$ 0.1674
		January 1 through January 16
Earnings Per Unit - Fortress Operating Group		
Net income per Fortress Operating Group unit		\$ 0.36
Weighted average number of Fortress Operating Group units outstanding		367,143,000
		January 17 through March 31
Earnings Per Class A share - Fortress Investment Group		
Net income (loss) per Class A share, basic	\$ (0.74)	\$ (0.87)
Net income (loss) per Class A share, diluted	\$ (0.74)	\$ (0.87)
Weighted average number of Class A shares outstanding, basic	94,894,636	82,256,078
Weighted average number of Class A shares outstanding, diluted	406,966,186	82,256,078
See notes to consolidated and combined financial statements		

Table of Contents**FORTRESS INVESTMENT GROUP LLC**

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

CONSOLIDATED AND COMBINED STATEMENT OF SHAREHOLDERS EQUITY (Unaudited)

FOR THE THREE MONTHS ENDED MARCH 31, 2008

(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Shareholders Equity - December 31, 2007	94,597,646	312,071,550	\$ 384,700	\$ (193,200)	\$ (1,375)	\$ 190,125
Director restricted share grant			35			35
Dividends declared			(21,285)			(21,285)
Capital increase related to equity-based compensation			61,788			61,788
Dividend equivalents accrued in connection with equity-based compensation (net of tax)			(672)			(672)
Cumulative effect adjustment - adoption of SFAS 159 (Note 3)				2,109	1,212	3,321
Comprehensive income (loss) (net of tax)						
Net income (loss)				(68,917)		(68,917)
Foreign currency translation					395	395
Comprehensive income (loss) from equity method investees					(5)	(5)
Allocation to Principals and others interests in equity of consolidated subsidiaries					142	142
Total comprehensive income (loss)						(68,385)
Shareholders Equity - March 31, 2008	94,597,646	312,071,550	\$ 424,566	\$ (260,008)	\$ 369	\$ 164,927

See notes to consolidated and combined financial statements

Table of Contents

FORTRESS INVESTMENT GROUP LLC

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

CONSOLIDATED AND COMBINED STATEMENT OF CASH FLOWS (Unaudited)

(dollars in thousands)