

Drawbridge (UK) LLP

Report and Financial Statements

31 December 2017

THURSDAY



A15 *A7EWZRBW* 20/09/2018 #100
COMPANIES HOUSE

Drawbridge (UK) LLP

Registered No. OC322152

Corporate Member

Fortress Investment Group (UK) Ltd

Non-Corporate Member

N Fegan

Bankers

HSBC PLC
16 King Street
London WC2E 8JF

Auditors

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Registered office

7 Clarges Street
London W1J 8AE

Members' report (continued)

The members present their annual report and audited financial statements for the year 31 December 2017.

Results

Drawbridge (UK) LLP (the 'Partnership') made a profit for the year to 31 December 2017 of £13,935 (2016: £225,652).

Principal activity and review of the business

The principal activity of the Partnership is to provide investment services under sub advisory agreements to affiliates of Fortress Investment Group LLC.

On 14 February 2017, the ultimate parent entity (Fortress Investment Group LLC) announced that it had entered into a definitive merger agreement pursuant to which it will be acquired by SoftBank Group Corp. ("SoftBank") in an all-cash transaction. The transaction closed on 27 December 2017.

The Partnership's key financial and other performance indicators during the year are as follows:

	2017	2016
	£000	£000
Investment management income	75	1,479
Profit for the year available for discretionary division among members	14	226
Number of non-corporate members	1	3

The decrease in investment management income, and profit, is due to the fact the Partnership no longer has any employees, and did not carry out any investment services during the year.

On 2 January 2018, the Corporate Member resolved to liquidate the Partnership during 2018. In March 2018, the Financial Conduct Authority (the "FCA") approved the de-registration of the Partnership's FCA licence. The liquidation process for the Partnership will commence in May 2018.

Principal risks and uncertainties

The Partnership is dependent on, among other things, the identification of successful investment opportunities on behalf of affiliates of Fortress Investment Group LLC. The Partnership is also dependent upon the continued operations of its Corporate Member, Fortress Investment Group (UK) Ltd.

Pillar 3 disclosures

The Partnership is authorised and regulated by the Financial Conduct Authority ('FCA'). The FCA requires a disclosure in accordance with the Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU Chapter 11 - Disclosure (Pillar 3). This disclosure is publicly available at the website address, www.drawbridge-uk.co.uk. In 2018, the Partnership applied to the FCA to de-register its FCA licence. The application was granted, with an effective date of 9 March 2018.

Future developments

The Partnership has ceased carrying out its business activities and will carry out an orderly liquidation.

Members and their interests

The members who served during the year ended 31 December 2017 and up to the date of approval of the financial statements, except as noted below, are as follows:

Corporate member

- Fortress Investment Group (UK) Ltd

Non-corporate members

- N Fegan – appointed 27 January 2017

- S Pinkster – resigned 2 February 2017

Members' report (continued)

There were no members' interests requiring disclosure under the Companies Act 2006.

Going concern and future of the LLP

On 2 January 2018, the Corporate Member resolved that the company would cease business activities and commence the liquidation process during 2018.

The assets of the Partnership comprise of an intercompany receivable from FIG LLC, and a small amount of VAT receivable. Liabilities will be met as they fall due. Any costs relating to closure of the business will be recognised in the year ending 31 December 2018.

The accounts have been prepared on a non-going concern basis.

Events after the reporting period

On 2 January 2018, the Corporate Member resolved to liquidate the Partnership during 2018. In March 2018, the Financial Conduct Authority (the "FCA") approved the de-registration of the Partnership's FCA licence. The liquidation process for the Partnership will commence in May 2018.

Disclosure of information to auditors

So far as each person who was a member at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow members and the Partnership's auditor, each partner has taken all reasonable steps that he is obliged to take as member in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution for the reappointment of Ernst & Young LLP as auditors of the Partnership is to be proposed at the next members' meeting.

Signed on behalf of Drawbridge (UK) LLP



N Fegan

Director of Fortress Investment Group (UK) Ltd

Corporate member

Date: 23/04/18

Statement of members' responsibilities in respect of the financial statements

The members are responsible for preparing the Members' Report and the financial statements in accordance with applicable law and regulations.

The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 ("LLP Regulations") requires the members to prepare the financial statements for each financial year. Under that law, the members have elected to prepare the financial statements in accordance with Financial Reporting Standards ("FRS") 102 (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Partnership and of the profit or loss of the Partnership for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

For the reasons stated in the Members' report and note 1, the financial statements have not been prepared on a going concern basis.

Under the LLP Regulations, the Partners are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Limited liability partnership and to enable them to ensure that the financial statements comply with these regulations. They are also responsible for safeguarding the assets of the limited liability partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Drawbridge (UK) LLP

Opinion

We have audited the financial statements of Drawbridge (UK) LLP for the year ended 31 December 2017, which comprise Statement of Total Comprehensive Income, Statement of Financial Position, Statement of Changes in members' interests, and the related notes 1 to 13, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102, the Financial Reporting Standard applicable to the UK and Republic of Ireland. The financial statements have been prepared on a break up basis, as disclosed in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; including FRS 102, the Financial Reporting Standard applicable to the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to Limited Liability Partnerships. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the limited liability partnership and the limited liability partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.

Other information

The other information comprises the information included in the annual report set out on pages 2 and 3, other than the financial statements and our auditor's report thereon. The members are responsible for the other information

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Independent auditor's report (continued) to the members of Drawbridge (UK) LLP

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of members

As explained more fully in the Members' Responsibilities Statement set out on page 4, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the members either intend to liquidate the partnership or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Ernst & Young LLP

James Hitchings (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London
Date: 25 April 2018

Statement of total comprehensive income

For the year ended 31 December 2017

	Notes	2017 £	2016 £
Investment management income	2	75,063	1,478,629
Bank interest income		-	747
Administrative expenses		(61,128)	(108,398)
Total comprehensive income for the year before members' remuneration and profit shares	3	13,935	1,370,978
Members' remuneration charged as an expense	5	-	(1,145,326)
Profit and total comprehensive income for the financial year available for discretionary division among Members		13,935	225,652

All the above activities result from discontinued operations.

The notes on pages 10 to 15 form an integral part of the financial statements.

Statement of financial position

At 31 December 2017

	Notes	2017 £	2016 £
Fixed assets			
Tangible assets	7	-	207
		-	207
Current assets			
Debtors: amounts falling due within the year	8	890,780	827,125
Cash at bank		489,210	567,839
		1,379,990	1,394,964
Creditors: amounts falling due within one year	9	(40,870)	(55,986)
Net current assets		1,339,120	1,338,978
Net assets attributable to members		1,339,120	1,339,185
Represented by:			
Members' capital	10	1,300,000	1,314,000
Profit and loss account		39,120	25,185
Total members' interest		1,339,120	1,339,185

The notes on pages 10 to 15 form an integral part of these financial statements.

The financial statements were approved for issue by the Members on 23/04/18 and signed on behalf of Drawbridge (UK) LLP by:



N Fegan

Director of Fortress Investment Group (UK) Ltd

Corporate member

Date: 23/04/18

Statement of changes in members' interests

For the year ended 31 December 2017

	<i>Members' Capital</i> £	<i>Profit and loss account</i> £	<i>Total members' interests</i> £
At 1 January 2017	1,314,000	25,185	1,339,185
Return of Members' capital contribution	(14,000)	-	(14,000)
Profit for the financial year available for discretionary division among Members	-	13,935	13,935
Share based payments (RSUs) (Note 6)	-	-	-
At 31 December 2017	<u>1,300,000</u>	<u>39,120</u>	<u>1,339,120</u>

	<i>Members' Capital</i> £	<i>Profit and loss account</i> £	<i>Total members' interests</i> £
At 1 January 2016	1,321,000	5,229	1,326,229
Return of Members' capital contribution	(7,000)	-	(7,000)
Profit for the financial year available for discretionary division among Members	-	225,652	225,652
Share based payments (RSUs) (Note 6)	-	(205,696)	(205,696)
At 31 December 2016	<u>1,314,000</u>	<u>25,185</u>	<u>1,339,185</u>

Notes to the financial statements

at 31 December 2017

1. Accounting policies

Statement of compliance

Drawbridge (UK) LLP is a Limited Liability Partnership incorporated in England. The Registered Office is 7 Clarges Street, London W1J 8AE.

The financial statements have been prepared in compliance with FRS 102 and the requirements of the Statement of Recommended Practice "Accounting of Limited Liability Partnerships".

Basis of preparation and change in accounting policy

The financial statements have been prepared in accordance with applicable accounting standards, and on a non-going concern basis. The financial statements are prepared in sterling, which is the functional currency of the Partnership.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Partnership's financial statements.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Statement of cash flows

Under FRS 102, the Partnership is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking includes the Partnership in its own consolidated financial statements. The Partnership has enclosed a copy of the consolidated financial statements with its own financial statements with Companies House.

Revenue recognition

Revenue is recognised on an accrual basis.

Fixed assets and depreciation

Fixed assets are initially recorded at cost. Depreciation is then provided on all tangible fixed assets, calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Computer equipment	-	over 3 years
Leasehold improvement	-	over 10 years or the lease term (whichever is shorter)
Furniture, fixtures and equipment	-	over 7 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Taxation

Tax payable on profits is the personal liability of the members.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Pounds Sterling at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of total comprehensive income.

Pension

The Partnership does not currently operate a pension scheme.

Share based payments restricted stock units

Certain partners have received remuneration in the form of equity-settled share based payments- Restricted Stock Units ("RSUs") issued by the Partnership's ultimate parent without any consideration paid to the ultimate Parent company.

Notes to the financial statements

at 31 December 2017

1. Accounting policies (continued)

The cost of equity-settled transactions with partners is measured by reference to the fair value at the date at which they are granted. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions other than conditions linked to the price of the shares of the company (market conditions). At each statement of financial position date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous statement of financial position date is recognised in the statement of total comprehensive income, with a corresponding entry in equity. Forfeitures are recorded in the statement of total comprehensive income as a reversal of the expense previously recognised, with a corresponding entry in equity.

Impairment of receivables

The Partnership shall assess at each reporting date whether there is an indication that a receivable may be impaired. If any such indication exists, the Partnership estimates the recoverable amount of the receivable. If there is no indication of impairment, it is not necessary to estimate the recoverable amount. If the recoverable amount is less than its carrying amount, the carrying amount of the receivable is impaired and it is reduced to its recoverable amount through impairment in the statement of total comprehensive income.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank.

Allocation of partnership profits and losses

Profits and losses are distributed to the members pursuant to the Partnership Agreement. Monthly drawings amounts specified in Partnership offers and incentive fee are treated as members' remuneration charged as an expense in the statement of total comprehensive income.

Members' capital

The capital requirements of the partnership are determined by the Corporate Member. Each Member is required to subscribe a proportion of this capital. No interest is paid on capital. On leaving the partnership, a Members capital is repaid within a timescale set by the Corporate Member.

2. Investment management income

This includes management fees amounting to £75,063 (2016: £1,478,629) from FIG LLC and wholly owned affiliates of FIG LLC.

All turnover is received from the United States of America. Turnover is calculated at cost plus 10% (for day to day operating expenses), in accordance with the sub advisory agreement and on a cost basis (Partners' remuneration) and is recognised on an accrual basis.

3. Total comprehensive income for the year before members' remuneration and profit shares

This is stated after charging:

	Notes	2017 £	2016 £
Auditors' remuneration – audit services: audit of the Partnership's financial statements		22,710	20,248
Auditors' remuneration – non-audit services		2,047	1,987
Rent and utilities		-	62,091
Staff costs	4	2,853	79,615
Share based payments - RSUs	6	-	(205,696)
Depreciation	7	207	2,686
Travel expenses		-	33,854

Prior year comparative for Auditors' remuneration has been changed to comply with current year presentation.

Notes to the financial statements

at 31 December 2017

4. Staff costs

	2017 £	2016 £
Wages and salaries	2,115	73,211
Payroll taxes	738	(31,106)
Severance	-	37,510
	<u>2,853</u>	<u>79,615</u>

Included in payroll taxes is an amount of nil (2016: £41,375 credit) related to bonus payments. The 2016 credit relates to the reversal of a 2015 accrual, where payroll tax was no longer required to be paid.

The average monthly number of employees (including Members) during the year was as follows:

	2017 No.	2016 No.
Members	1	3
Professional staff	0	1
	<u>1</u>	<u>4</u>

The number of employees (including Members) at year end was 1 (2016: 2).

5. Members' remuneration charged as an expense

	2017 £	2016 £
Corporate member	-	751,671
Non-corporate members	-	393,655
	<u>-</u>	<u>1,145,326</u>

6. Share based payments - Restricted Stock Units

Certain partners were remunerated in 2007 and 2008 by grants of RSUs without any consideration paid, in Fortress Investment Group LLC, by Fortress Investment Group LLC.

The RSUs were awarded at nil consideration and vested at yearly intervals from 1 January 2010 to 1 January 2013. Those RSUs became fully vested on 1 January 2013. RSUs were awarded subsequently on similar terms

The fair value of the RSUs (which represent the value at the grant date spread over the vesting period) amounting to £nil (2016: £205,696 credit) is booked to the statement of total comprehensive income. Given these RSUs are without consideration these are treated as a gift from Fortress Investment Group LLC and recorded at fair value in the statement of total comprehensive income with a corresponding entry in equity.

Notes to the financial statements

at 31 December 2017

6. Share based payments - Restricted Stock Units (continued)

Details of the RSUs outstanding during the year are as follows:

	<i>Units</i>	<i>Number of persons granted RSUs</i>
RSUs as at 1 January 2017	-	-
RSUs granted	-	-
RSUs forfeited	-	-
RSUs as at 31 December 2017	-	-
	<i>Units</i>	<i>Number of persons granted RSUs</i>
RSUs as at 1 January 2016	141,423	1
RSUs granted	-	-
RSUs forfeited	(141,243)	(1)
RSUs as at 31 December 2016	-	-

7. Tangible fixed assets

	<i>Computers</i>	<i>Leasehold Improvements</i>	<i>Total</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Cost:			
At 1 January 2017	4,598	1,127	5,725
Disposals in the year	(4,598)	(1,127)	(5,725)
At 31 December 2017	-	-	-
Depreciation:			
At 1 January 2017	4,598	920	5,518
Charge for the year	-	207	207
Disposals in the year	(4,598)	((1,127)	(5,725)
At 31 December 2017	-	-	-
Net book value:			
At 31 December 2017	-	-	-
Net book value:			
At 31 December 2016	-	207	207

Notes to the financial statements

at 31 December 2017

8. Debtors: amounts falling due within one year

	2017 £	2016 £
Amounts due from fellow group undertakings	889,700	823,671
Prepayments	-	2,184
Other debtors	1,080	1,270
	<u>890,780</u>	<u>827,125</u>

Amounts due from fellow group undertakings are interest free and repayable on demand.

9. Creditors: amounts falling due within one year

	2017 £	2016 £
Amounts due to FIG UK (member)	-	416
Social security costs	-	3,974
Accruals	40,870	51,596
	<u>40,870</u>	<u>55,986</u>

Amounts due to FIG UK are interest free and repayable on demand.

10. Members' capital

	2017 £	2016 £
Capital subscribed by corporate member	1,300,000	1,300,000
Capital subscribed by non-corporate members	-	14,000
	<u>1,300,000</u>	<u>1,314,000</u>

The highest paid Partnership member received £nil of member's remuneration in 2017 (2016: £751,671). Other members received £nil of member's remuneration (2016: £393,655).

In the event of a winding up, members' contributed capital account and current account rank after unsecured creditors of the Partnership.

During 2016, T Haugen resigned as a non-corporate member. T Haugen's members' contribution amounting to £7,000 was returned in February 2017.

During the year, S Pinkster resigned as a non-corporate member. S Pinkster's members' contribution amounting to £7,000 was returned in February 2017.

Notes to the financial statements

at 31 December 2017

11. Related party transactions

During the year, the Partnership received revenue from FIG LLC, a related party undertaking, of £75,063 (2016: £1,479,774) in accordance with the sub advisory agreement in place between the Partnership and FIG LLC. At the statement of financial position date, the amount due from FIG LLC was £889,700 (2016: £824,816).

During the year, the Partnership was charged certain expenses by Fortress Investment Group (UK) Ltd. At the statement of financial position date, the amount due to Fortress Investment Group (UK) Ltd was £nil (2016: £416).

12. Ultimate parent undertaking

The Partnership's Corporate Member's ultimate parent undertaking and controlling party is Softbank Group Corp., a company incorporated in Japan.

Foundation HoldCo LP, a 100% owned subsidiary of Softbank Group Corp., has included the Company in its group financial statements.

Consolidated financial statements of Foundation HoldCo LP are enclosed with the Company financial statements.

13. Events after the reporting period

On 2 January 2018, the Corporate Member of the Partnership resolved to liquidate the Partnership. In March 2018, the Financial Conduct Authority (the "FCA") approved the de-registration of the Partnership's FCA licence. The liquidation process for the Partnership will commence in May 2018.

There are no other significant events occurring after the statement of financial position date, up to the date of approval of the financial statements, that would meet the criteria to be disclosed or adjusted in the financial statements as at 31 December 2017 and for the year then ended.

Foundation Holdco LP (DBA Fortress Investment Group) (Successor)

(Prior to December 28, 2017, Fortress Investment Group LLC (Predecessor) - Note 1)

Consolidated Financial Statements for the Period from December 28, 2017 to December 31, 2017 (Successor), Period from January 1, 2017 to December 27, 2017 (Predecessor) and for the Year Ended December 31, 2016 (Predecessor)

THESE ACCOUNTS
FORM PART OF THE
GROUP ACCOUNTS
OF COMPANY
No. .. OC 322152 .

THU

A15

A7EWZRB4

20/09/2018

#97

COMPANIES HOUSE

FOUNDATION HOLDCO LP

(DBA Fortress Investment Group)

INDEX

	<u>PAGE</u>
Report of Independent Auditors	
Consolidated Balance Sheets as of December 31, 2017 (Successor) and December 31, 2016 (Predecessor)	1
Consolidated Statements of Operations for the Period from December 28, 2017 to December 31, 2017 (Successor), the Period from January 1, 2017 to December 27, 2017 (Predecessor) and for the Year Ended December 31, 2016 (Predecessor)	2
Consolidated Statements of Comprehensive Income for the Period from December 28, 2017 to December 31, 2017 (Successor), the Period from January 1, 2017 to December 27, 2017 (Predecessor) and for the Year Ended December 31, 2016 (Predecessor)	3
Consolidated Statements of Changes in Partners' Capital for the Period from December 28, 2017 to December 31, 2017 (Successor), the Period from January 1, 2017 to December 27, 2017 (Predecessor) and for the Year Ended December 31, 2016 (Predecessor)	4
Consolidated Statements of Cash Flows for the Period from December 28, 2017 to December 31, 2017 (Successor), the Period from January 1, 2017 to December 27, 2017 (Predecessor) and for the Year Ended December 31, 2016 (Predecessor)	6
Notes to Consolidated Financial Statements	8



Ernst & Young LLP
5 Times Square
New York, New York
10036-6530

Tel: +212 773 3000
ey.com

Report of Independent Auditors

The Partners of Foundation Holdco LP

We have audited the accompanying consolidated financial statements of Foundation Holdco LP (DBA Fortress Investment Group, the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 (Successor) and 2016 (Predecessor), and the related consolidated statements of operations, comprehensive income, changes in partners' capital and cash flows for the periods from January 1, 2017 to December 27, 2017 (Predecessor) and from December 28, 2017 to December 31, 2017 (Successor), and the year ended December 31, 2016 (Predecessor), and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Foundation Holdco LP (DBA Fortress Investment Group) at December 31, 2017 (Successor) and 2016 (Predecessor), and the consolidated results of its operations and its cash flows for the periods from January 1, 2017 to December 27, 2017 (Predecessor) and from December 28, 2017 to December 31, 2017 (Successor), and the year ended December 31, 2016 (Predecessor) in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 13, 2018

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	Successor	Predecessor
	December 31,	December 31,
	2017	2016
Assets		
Cash and cash equivalents	\$ 295,534	\$ 397,125
Due from affiliates	425,517	320,633
Investments	1,054,747	880,001
Investments in options and warrants	93,083	53,206
Deferred tax asset, net	—	424,244
Founders escrow	477,764	—
Finite-lived intangible assets, net	1,174,513	1,784
Digital currency	364,096	5,653
Goodwill	125,870	—
Other assets	101,004	118,728
Total Assets	\$ 4,112,128	\$ 2,201,374
Liabilities and Partners' Capital		
Accrued compensation and benefits	\$ 514,255	\$ 407,111
Due to affiliates	73,836	79,746
Tax receivable agreement liability	148,866	244,325
Deferred incentive income	9,840	330,354
Debt obligations payable, net	1,376,785	182,838
Deferred tax liability, net	169,998	4,379
Other liabilities	83,700	64,876
Total Liabilities	2,377,280	1,313,629
Commitments and Contingencies		
Partners' Capital		
Predecessor Class A shares, no par value, 1,000,000,000 shares authorized, and 216,891,601 shares issued and outstanding at December 31, 2016	—	—
Predecessor Class B shares, no par value, 750,000,000 shares authorized, and 169,207,335 shares issued and outstanding at December 31, 2016	—	—
Paid-in capital	1,627,381	1,899,163
Retained earnings (accumulated deficit)	(23,464)	(1,333,828)
Accumulated other comprehensive income (loss)	—	(1,094)
Total Foundation Holdco partners' capital	1,603,917	564,241
Non-controlling interests in equity of consolidated subsidiaries	130,931	323,504
Total Partners' Capital	1,734,848	887,745
Total Liabilities and Partners' Capital	\$ 4,112,128	\$ 2,201,374

See notes to consolidated financial statements.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands)

	Successor	Predecessor	
	December 28, 2017 to December 31, 2017	January 1, 2017 to December 27, 2017	Year Ended December 31, 2016
Revenues			
Management fees: affiliates	\$ —	\$ 478,109	\$ 497,738
Management fees: non-affiliates	—	41,219	56,542
Incentive income: affiliates	—	403,816	310,860
Incentive income: non-affiliates	—	2,451	41,742
Expense reimbursements: affiliates	—	222,063	223,177
Expense reimbursements: non-affiliates	—	2,561	5,407
Other revenues (affiliate portion disclosed in Note 7)	—	28,188	28,340
Total Revenues	—	1,178,407	1,163,806
Expenses			
Compensation and benefits	35,806	820,846	773,670
General, administrative and other	31	198,780	143,468
Depreciation and amortization	1,987	16,856	22,729
Interest expense	891	7,712	10,694
Total Expenses	38,715	1,044,194	950,561
Other Income (Loss)			
Gains (losses) (affiliate portion disclosed in Note 4)	—	56,429	23,823
Tax receivable agreement liability adjustment	—	76,763	(7,223)
Earnings (losses) from equity method investees	—	30,355	(20,889)
Gain on sale of Logan Circle (see Note 1)	—	188,638	—
Total Other Income (Loss)	—	352,185	(4,289)
Income (Loss) Before Income Taxes	(38,715)	486,398	208,956
Income tax benefit (expense)	15,251	(220,274)	(28,314)
Net Income (Loss)	<u>\$ (23,464)</u>	<u>\$ 266,124</u>	<u>\$ 180,642</u>
Allocation of Net Income (Loss):			
Net income (loss) attributable to Foundation Holdco partners' capital	\$ (23,464)		
Non-controlling interests in income (loss) of consolidated subsidiaries	—	\$ 170,628	\$ 86,200
Net income (loss) attributable to Class A shareholders		95,496	94,442
	<u>\$ (23,464)</u>	<u>\$ 266,124</u>	<u>\$ 180,642</u>

See notes to consolidated financial statements.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	Successor	Predecessor	
	December 28, 2017 to December 31, 2017	January 1, 2017 to December 27, 2017	Year Ended December 31, 2016
Comprehensive income (loss) (net of tax)			
Net income (loss)	\$ (23,464)	\$ 266,124	\$ 180,642
Foreign currency translation income (loss)	—	(3,416)	4,381
Comprehensive income (loss) from equity method investees	—	1	(200)
Total comprehensive income (loss)	\$ (23,464)	\$ 262,709	\$ 184,823
Allocation of Comprehensive Income (Loss):			
Comprehensive income (loss) attributable to Foundation Holdco partners' capital	\$ (23,464)		
Comprehensive income (loss) attributable to non-controlling interests	—	\$ 168,902	\$ 88,558
Comprehensive income (loss) attributable to Class A shareholders		93,807	96,265
	\$ (23,464)	\$ 262,709	\$ 184,823

See notes to consolidated financial statements.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(dollars in thousands)

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Predecessor Shareholders' Equity	Founders' and Others' Interests in Equity of Consolidated Subsidiaries	Total Equity
Predecessor								
Equity - January 1, 2016	216,790,409	169,514,478	\$ 1,988,707	\$ (1,415,113)	\$ (2,909)	\$ 570,685	\$ 870,110	\$ 941,804
Contributions from non-controlling interests in equity	—	—	—	—	—	—	88,755	88,755
Distributions to non-controlling interests in equity (net of tax)	—	—	—	—	—	—	(222,596)	(222,596)
Class A Dividends declared	—	—	(99,602)	—	—	(99,602)	—	(99,602)
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(1,332)	—	—	(1,332)	(1,684)	(3,016)
Conversion of Class B shares to Class A shares	307,143	(307,143)	446	—	(12)	434	(434)	—
Net deferred tax effects resulting from acquisition and exchange of Fortress Operating Group units	—	—	(1,714)	—	—	(1,714)	(18)	(1,732)
Director restricted share grant	157,519	—	426	—	—	426	335	761
Capital increase related to equity-based compensation (net of tax)	4,435,393	—	12,348	—	—	12,348	9,664	22,012
Repurchase of Class A shares (Note 9)	(4,798,863)	—	—	(13,157)	—	(13,157)	(10,307)	(23,464)
Dilution impact of equity transactions	—	—	(116)	—	4	(112)	112	—
Comprehensive income (net of tax)	—	—	—	—	—	—	—	—
Net income (loss)	—	—	—	94,442	—	94,442	86,200	180,642
Foreign currency translation income (loss)	—	—	—	—	1,913	1,913	2,468	4,381
Comprehensive income (loss) from equity method investees	—	—	—	—	(90)	(90)	(110)	(200)
Total comprehensive income	—	—	—	—	—	96,265	88,558	184,823
Equity - December 31, 2016	216,891,601	169,207,335	\$ 1,899,163	\$ (1,333,828)	\$ (1,094)	\$ 564,241	\$ 323,504	\$ 887,745

Continued on next page.

**FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(dollars in thousands)**

	Class A Shares	Class B Shares	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Predecessor Shareholders' Equity	Founders' and Others' Interests in Equity of Consolidated Subsidiaries	Total Equity
Predecessor:								
Equity - December 31, 2016	216,891,601	169,207,335	\$ 1,899,163	\$ (1,333,828)	\$ (1,094)	\$ 564,241	\$ 323,504	\$ 887,745
Cumulative effect adjustment from adoption of ASU 2016-09	—	—	—	(602)	—	(602)	(468)	(1,070)
Contributions from non-controlling interests in equity	—	—	6,735	—	—	6,735	163,134	170,134
Distributions to non-controlling interests in equity	—	—	—	—	—	—	(143,874)	(143,874)
Class A dividends declared	—	—	(39,242)	—	—	(39,242)	—	(39,242)
Dividend equivalents accrued in connection with equity-based compensation (net of tax)	—	—	(1,016)	—	—	(1,016)	(786)	(1,802)
Net deferred tax effects resulting from changes in ownership of Fortress Operating Group units	—	—	(579)	—	—	(579)	—	(579)
Director restricted share grant	47,325	—	129	—	—	129	101	230
Capital increase related to equity-based compensation	2,465,705	—	7,958	—	—	7,958	6,153	14,111
Dilution impact of equity transactions	—	—	1,761	—	(13)	1,748	(1,748)	—
Comprehensive income (loss) (net of tax)	—	—	—	95,496	—	95,496	170,628	266,124
Net income (loss)	—	—	—	—	(1,680)	(1,680)	(1,736)	(3,416)
Foreign currency translation income (loss)	—	—	—	—	(9)	(9)	10	1
Comprehensive income (loss) from equity method investees	—	—	—	—	—	—	—	—
Total comprehensive income (loss)	—	—	—	95,496	(1,689)	93,807	168,902	262,709
Equity - December 27, 2017	219,404,631	169,207,335	\$ 1,874,909	\$ (1,238,934)	\$ (2,796)	\$ 633,179	\$ 515,183	\$ 1,148,362

	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Foundation Holdco Partners' Capital	Non-controlling Interests in Equity of Consolidated Subsidiaries	Total Partners' Capital
Successor:						
Partners' Capital December 28, 2017						
Initial investment by SoftBank	\$ 1,744,381	\$ —	\$ —	\$ 1,744,381	\$ 130,931	\$ 1,875,312
Distribution to SoftBank	(117,000)	—	—	(117,000)	—	(117,000)
Comprehensive income (loss) (net of tax)	—	(23,464)	—	(23,464)	—	(23,464)
Net income (loss)	—	(23,464)	—	(23,464)	—	(23,464)
Foreign currency translation income (loss)	—	—	—	—	—	—
Comprehensive income (loss) from equity method investees	—	—	—	—	—	—
Total comprehensive income (loss)	—	(23,464)	—	(23,464)	—	(23,464)
Partners' Capital - December 31, 2017	\$ 1,627,381	\$ (23,464)	\$ —	\$ 1,603,917	\$ 130,931	\$ 1,734,848

See notes to consolidated financial statements.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Successor	Predecessor	
	December 28, 2017 to December 31, 2017	January 1, 2017 to December 27, 2017	Year Ended December 31, 2016
Cash Flows From Operating Activities			
Net income (loss)	\$ (23,464)	\$ 266,124	\$ 180,642
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	1,987	16,856	22,729
Other amortization (included in interest expense)	51	686	788
(Earnings) losses from equity method investees	—	(30,355)	20,889
Distributions of earnings from equity method and other investees	—	71,969	27,357
(Gains) losses	—	(56,429)	(23,823)
Deferred incentive income	—	(153,896)	(169,474)
Deferred tax (benefit) expense	(9,604)	167,927	3,737
Options received from affiliates	—	(8,068)	(4,550)
Tax receivable agreement liability adjustment	—	(76,763)	7,223
Equity-based compensation	35,806	21,992	29,208
Options in affiliates granted to employees	—	9,878	5,691
Gain on sale of Logan Circle (see Note 1)	—	(188,638)	—
Other	—	126	350
Cash flows due to changes in			
Due from affiliates	10,700	(143,611)	(94,177)
Other assets	(5,647)	13,013	(1,446)
Accrued compensation and benefits	—	138,588	138,701
Due to affiliates	—	(13,499)	14,306
Tax receivable agreement liability	—	(27,771)	(27,522)
Deferred incentive income	—	133,892	153,171
Other liabilities	871	37,714	(1,210)
Purchase of investments by consolidated funds	—	(204,701)	(105,475)
Proceeds from sale of investments by consolidated funds	—	32,657	76,946
Receivables from brokers and counterparties	—	—	(154)
Due to brokers and counterparties	—	—	1,221
Net cash provided by (used in) operating activities	10,700	7,691	255,128
Cash Flows From Investing Activities			
Purchase of the Predecessor (including Founders escrow, RSUs and net of cash acquired)	(2,719,281)	—	—
Contributions to equity method investees	—	(34,433)	(18,639)
Distributions of capital from equity method and other investees	—	200,658	210,549
Funding of loan receivable	—	—	(25,000)
Proceeds from loan receivable	—	—	25,000
Proceeds from loan receivable from deconsolidated fund	—	—	25,863
Proceeds from sale of direct investments	—	—	1,198
Purchase of fixed assets	—	(15,821)	(17,363)
Proceeds from sale of Logan Circle (see Note 1)	—	195,000	—
Cash of fund on deconsolidation date	—	(20,956)	(7,573)
Net cash provided by (used in) investing activities	(2,719,281)	324,448	194,035

Continued on next page.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Successor	Predecessor	
	December 28, 2017 to December 31, 2017	January 1, 2017 to December 27, 2017	Year Ended December 31, 2016
Cash Flows From Financing Activities			
Capital contribution from SoftBank	1,744,381	—	—
Capital distribution to SoftBank	(117,000)	—	—
Repayments of debt obligations	—	(182,838)	(222,838)
Borrowings under debt obligations	1,396,500	—	175,000
Payment of deferred financing costs	(19,766)	—	(3,451)
Repurchase of Class A shares (Note 9)	—	(8,434)	(34,047)
Payments to settle RSU statutory withholding tax (Note 9)	—	(9,852)	(6,743)
Dividends and dividend equivalents paid	—	(41,238)	(103,380)
Non-controlling interests in equity of consolidated subsidiaries - contributions	—	129,497	14,704
Non-controlling interests in equity of consolidated subsidiaries - distributions	—	(133,961)	(211,125)
Net cash provided by (used in) financing activities	3,004,115	(246,826)	(391,880)
Net Increase (Decrease) in Cash and Cash Equivalents	295,534	85,313	57,283
Cash and Cash Equivalents, Beginning of Period	—	397,125	339,842
Cash and Cash Equivalents, End of Period	\$ 295,534	\$ 482,438	\$ 397,125
Supplemental Disclosure of Cash Flow Information			
Cash paid during the period for interest	\$ —	\$ 6,814	\$ 9,548
Cash paid during the period for income taxes	\$ —	\$ 40,394	\$ 19,934
Supplemental Schedule of Non-cash Investing and Financing Activities			
Employee compensation invested directly in subsidiaries	\$ —	\$ 28,397	\$ 88,399
Investments of incentive receivable amounts into Fortress Funds	\$ —	\$ 126,207	\$ 69,799
Dividends, dividend equivalents and Fortress Operating Group unit distributions declared but not yet paid	\$ —	\$ —	\$ 127
Non-cash redeemable non-controlling interests - distributions - deconsolidation of fund	\$ —	\$ 7,151	\$ 14,633
Contribution of interests in a Fortress Fund from certain founders to certain senior employees (Note 8)	\$ —	\$ 11,963	\$ —

See notes to consolidated financial statements.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

On December 27, 2017, Fortress Investment Group LLC, a Delaware limited liability company (the "Predecessor"), completed its previously announced merger (the "Merger") with Foundation Acquisition LLC, a Delaware limited liability company ("Merger Sub") and a wholly-owned subsidiary of SB Foundation Holdings LP, a Cayman Islands exempted limited partnership ("Parent"), pursuant to the terms of that certain Agreement and Plan of Merger, dated as of February 14, 2017, as amended by that certain Amendment No. 1, dated as of July 7, 2017 (as so amended, the "Merger Agreement"), by and among the Predecessor, Parent and Merger Sub, providing for, among other things, the Merger. Upon consummation of the Merger, the Predecessor became wholly-owned by Parent. Parent is a wholly-owned subsidiary of SoftBank Group Corp. ("SoftBank"). As a result of the Merger, Foundation Holdco LP (DBA Fortress Investment Group) ("Fortress", the "Successor", or the "Company"), a Cayman Islands exempted limited partnership, an indirect wholly-owned subsidiary of SoftBank, became the parent company of the Predecessor. The general partner of Foundation Holdco LP (DBA Fortress Investment Group) is SoftBank Foundation Holdings GP LLC, a Cayman Islands limited liability company.

Pursuant to the Merger Agreement each Class A Share of the Predecessor issued and outstanding (other than shares (i) held by the Predecessor as treasury stock or (ii) owned by Parent, Merger Sub or any subsidiary of the Predecessor) and each restricted stock unit (RSU) with respect to the Class A Shares outstanding were automatically canceled and converted into the right to receive \$8.08 in cash, without interest, less any applicable taxes required to be withheld. Each Class B Share of the Predecessor outstanding was canceled and retired in exchange for no consideration (although pursuant to the Founders Agreement (as defined below), holders of such shares received consideration in respect of each corresponding aggregate limited partner interest in each of Fortress Operating Entity I LP, FOE II (New) LP and Principal Holdings I LP (collectively "Fortress Operating Group"), the limited partnerships through which the Company conducts its business and holds its investments (the "FOG Units"), as described further below).

Concurrently with the Merger, FIG Corp., a Delaware corporation and a wholly-owned subsidiary of the Company, and FIG Asset Co. LLC, a Delaware limited liability company and a wholly-owned subsidiary of the Company (together, the "Buyers"), completed the transactions contemplated by that certain Founders Agreement, dated as of February 14, 2017 (as amended, the "Founders Agreement"), by and among Parent, the Predecessor, the Buyers, and each of Peter Briger, Founder and Co-Chairman of the Company, Wesley Edens, Founder and Co-Chairman of the Company, and Randal Nardone, Founder, Chief Executive Officer and Director of the Company (each, a "Founder"), and their related parties that owned FOG Units (collectively with the Founders, the "Sellers"). At the closing of the Merger, the Buyers purchased from the Sellers 100% of the FOG Units not already owned by the Company and its subsidiaries for \$7.79 per FOG Unit (representing the agreed \$8.08 purchase price per FOG Unit, as reduced pursuant to and in accordance with the Founders Agreement for excess tax distributions in the amount of \$0.29 per unit made to holders of FOG Units since the date of the Founders Agreement).

Pursuant to the Founders Agreement, each Seller placed 50% of the after-tax proceeds from the sale of its FOG Units into escrow at the date of the Merger. Eighty percent (80%) of the escrowed amount will be released to the applicable Seller upon the fourth anniversary of the Merger date, and the remaining escrowed amount will be released to the applicable Seller upon the fifth anniversary of the Merger date. If, prior to the applicable release date, (i) the Founder's employment is terminated by the Company for any reason, (ii) the Founder resigns for "good reason" (as defined in the Founders Agreement) or (iii) the Founder's employment is terminated due to death or disability (each, an "Early Release Event"), the escrowed proceeds will be released to the applicable Seller. If, prior to the applicable release date, the applicable Founder's employment is terminated by the Founder for any reason other than due to a resignation with "good reason" or the Founder's death or disability, the escrowed proceeds will be forfeited to the Parent. Each Seller is also required to retain investments in the Company's investment vehicles and certain other agreed investments equal to 90% of its existing investments until the earlier of the fourth anniversary of the Merger date or upon an Early Release Event. These escrowed proceeds and retained investments will be invested in funds and investment vehicles of the Company or SoftBank, or in stock of SoftBank and are recorded as Founders escrow on the consolidated balance sheet.

In connection with the change of control, as a result of the Merger, the Predecessor's assets and liabilities were adjusted to fair value on the closing date of the Merger. The consolidated financial statements distinguish between the period prior to the Merger date relating to the Predecessor and the period after the Merger date relating to the Successor. The Successor financial information includes the activity and accounts of the Company as of and for the period from December 28, 2017 to December 31, 2017. The Predecessor financial information represents the historical basis of presentation of the Predecessor for all periods prior to the Merger. As a result of the preliminary valuation of assets acquired and liabilities assumed at fair value at the time of the Merger,

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

the financial statements as of December 27, 2017 are presented on a measurement basis different than the prior periods and are, therefore, not comparable.

The Merger was accounted for using acquisition method of accounting in accordance with the Financial Accounting Standards Board ("FASB") accounting guidance. The acquisition method of accounting requires, among other things, that assets acquired and liabilities assumed be recognized on the balance sheet at their fair values as of the acquisition date.

Net cash paid for the Predecessor is summarized as follows:

Total purchase price of the Predecessor to be allocated	\$ 2,608,568
Cash paid to Founders escrow accounts	479,022
Cash paid to restricted stock unitholders	33,525
Total cash consideration	<u>3,121,115</u>
Less cash of the Predecessor (A)	<u>(401,834)</u>
Net cash paid for the Predecessor (including Founders escrow, RSUs and net of cash acquired)	<u>\$ 2,719,281</u>

(A) In connection with the Merger, \$80.6 million of the Predecessor's cash was used by the Parent.

Merger-related costs (included in general, administrative and other in the results of operations) for the Merger totaled approximately \$61.8 million which were recognized in the Predecessor period from January 1, 2017 to December 27, 2017.

Preliminary Purchase Price Allocation

The consideration transferred has been preliminarily allocated to assets acquired and liabilities assumed based on their estimated fair values as of the date of the Merger. The allocation of consideration transferred was based on management's judgment after evaluating several factors, including assumptions with respect to performance of underlying assets, future cash inflows and outflows and discount rates. Additional analysis, including, but not limited to, the value of intangible assets, and any associated tax impacts, could result in a change in the total amount of goodwill. The preliminary allocation represents management's current best estimate of fair value, but these amounts could change as additional information is obtained and evaluated. Determining the fair value of assets acquired and liabilities assumed requires judgment and involves the use of significant estimates and assumptions. The use of different estimates and judgment could yield materially different results.

Preliminary Purchase Price Allocation:

Cash and cash equivalents	\$ 401,834
Due from affiliates	436,217
Investments	1,054,747
Investments in options and warrants	93,083
Finite-lived intangible assets	1,176,500
Digital currency	364,096
Other assets	95,355
Accrued compensation and benefits	(513,232)
Due to affiliates	(73,836)
Tax receivable agreement liability	(148,866)
Deferred incentive income	(9,840)
Deferred tax liability, net	(179,601)
Off-market lease liability	(43,083)
Other liabilities	(39,745)
Non-controlling interests in equity of consolidated subsidiaries	<u>(130,931)</u>
Net assets acquired	<u>\$ 2,482,698</u>
Total purchase price of the Predecessor to be allocated	<u>2,608,568</u>
Goodwill	<u>\$ 125,870</u>

The excess of the consideration transferred over the estimated fair values of assets acquired and liabilities assumed was recorded as goodwill. Goodwill includes the assembled workforce. For purposes of goodwill impairment testing, goodwill resulting from the Merger is allocated to all operating segments and is expected to be deductible for income tax purposes.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

Identifiable finite-lived intangible assets acquired in the Merger include the following:

	<u>Estimated Fair Value</u>	<u>Estimated Useful Life</u>
Intangible assets subject to amortization:		
Investment management contracts	\$ 546,000	3 years - 10 years
Rights of general partner to GP incentive income	585,500	1.5 years - 10 years
Trade name	45,000	10 years
	<u>\$ 1,176,500</u>	

Logan Circle Sale

In September 2017, the Predecessor completed the sale of its interests in the Logan Circle business to MetLife, Inc.. The aggregate purchase price was \$250.0 million, subject to certain customary adjustments and an allocation of \$55.0 million of the purchase price to an employee long-term incentive plan. The Predecessor's carrying amount of assets and liabilities in the Logan Circle business was \$0.8 million, which resulted in a gain on sale of \$188.6 million, net of selling expenses, for the period from January 1, 2017 to December 27, 2017.

Business Overview

Fortress receives from the Fortress Funds (as defined below) management fees, incentive income, and certain expense reimbursements pursuant to its management agreements. In addition, Fortress earns investment income on its investments in the funds. The Fortress Funds fall into the following business segments in which Fortress operates. "Fortress Funds" refers to the private investment funds, permanent capital vehicles and related managed accounts that Fortress manages or co-manages.

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

In December 2017, Drive Shack entered into definitive agreements with Fortress to internalize its management function effective January 1, 2018. In connection with the termination of the existing management agreement between the Predecessor and Drive Shack, Drive Shack made a one-time cash payment of \$10.7 million to the Predecessor in December 2017, which is included within Other revenues on the consolidated statements of operations. As part of the transaction, certain members of Drive Shack's executive team and other professionals entered into separation agreements with Fortress and became employees of Drive Shack. For a transition period, Fortress will continue to provide Drive Shack with certain services and personnel and will be reimbursed at cost for providing these transition services.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

2) Credit funds:

- a) Credit hedge funds, which make highly diversified investments in direct lending, corporate debt and securities, portfolios and orphaned assets, real estate and structured finance, on a global basis and throughout the capital structure, with a value orientation, as well as non-Fortress originated funds for which Fortress has been retained as manager or co-manager as part of an advisory business; and
 - b) Credit private equity ("PE") funds which are comprised of a family of "credit opportunities" funds focused on investing in distressed and undervalued assets, a family of "long dated value" funds focused on investing in undervalued assets with limited current cash flows and long investment horizons, a family of "real assets" funds focused on investing in tangible and intangible assets in the following principal categories (real estate, capital assets, natural resources and intellectual property), a family of Asia funds, including Japan real estate funds and an Asian investor based global opportunities fund, and a family of real estate opportunities funds, as well as certain sector-specific funds with narrower investment mandates tailored for the applicable sector.
- 3) Liquid hedge funds include (i) funds managed by an autonomous asset management business named Graticule Asset Management Asia ("Affiliated Manager" or "Graticule"), an external manager in which Fortress has a minority interest and accounts for using the equity method and (ii) funds which invest in Fortress Funds and direct investments.

Recent Accounting Pronouncements

Effective January 1, 2017, the Predecessor adopted Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 permits a policy election to account for forfeitures as they occur or to continue to estimate the number of awards expected to be forfeited over the requisite service period. Upon adoption of ASU 2016-09, the Predecessor elected to change its accounting policy to account for forfeitures as they occur, rather than estimating expected forfeitures. The change was applied on a modified retrospective basis with a cumulative-effect adjustment as of January 1, 2017 to (i) decrease total equity by \$1.1 million included as a cumulative effect adjustment from adoption of ASU 2016-09 in the Predecessor's consolidated statement of changes in partners' capital and (ii) increase total equity by \$1.1 million included as a capital increase related to equity-based compensation (net of tax) in the Predecessor's consolidated statement of changes in partners' capital, resulting in no net impact on total equity. No prior periods were adjusted.

Upon adoption of ASU 2016-09, the Predecessor adopted on a prospective basis, as required, that excess tax benefits ("windfalls") and tax deficiencies ("shortfalls") related to equity-based compensation be recognized as an income tax benefit or income tax expense, respectively, whereas these items previously were recognized in equity (see Note 6). The guidance also requires that excess tax benefits be reported as cash flows from operating activities, as opposed to financing activities, and the Predecessor elected to apply this classification amendment prospectively. As such, no prior periods were adjusted.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02") which supersedes Topic 840, Leases. The new standard will require lessees to recognize operating leases on their balance sheet as a right-of-use asset with an offsetting lease liability based on the present value of future lease payments. Currently, only finance leases are recognized on the balance sheet. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either an operating lease or finance lease. Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit thresholds. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard under ASU 2014-09 (see below). ASU 2016-02 is required to be adopted by Fortress beginning January 1, 2020. However, Fortress expects to early adopt ASU 2016-02 beginning January 1, 2019. ASU 2016-02 requires a modified retrospective approach which includes a number of optional practical expedients an entity may elect to apply. Fortress is currently evaluating the potential impact of adoption of ASU 2016-02 and expects it will result in an increase in Fortress's total assets and total liabilities.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) ("ASU 2016-01"). ASU 2016-01 will require measuring equity investments (excluding those accounted for under the equity method, those that result in consolidation and certain other investments) at fair value and recognize the changes in fair value in net income. The new standard is effective for Fortress beginning January 1, 2019. However, Fortress early adopted ASU 2016-01 beginning January 1, 2018. The standard requires a cumulative effect adjustment to the balance sheet as of the beginning of the period of adoption, with the exception of the amendments related to equity securities without readily determinable fair values (including disclosure

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

requirements) which should be applied prospectively. The adoption of ASU 2016-01 did not have a material impact on Fortress's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") which is a comprehensive new revenue recognition standard for contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The entity will recognize revenue to reflect the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. Fortress currently recognizes incentive income subject to contingent repayment once all contingencies have been resolved. Whereas ASU 2014-09 requires an entity to recognize such revenue when it concludes that it is probable that a significant reversal in the cumulative amount of revenue recognized will not occur when the uncertainty is resolved. As such, the adoption of ASU 2014-09 will require Fortress to recognize incentive income earlier than as prescribed under current guidance. The new standard is required to be adopted by Fortress beginning January 1, 2019 using the modified retrospective method, as permitted, with a cumulative effect adjustment to the balance sheet as of the beginning of the period of adoption. The Company will elect to early adopt the new standard as of January 1, 2018 and is continuing to evaluate the impact of the new standard. Upon adoption, the Company expects to recognize the impact of the adoption through partners' capital with the largest impact coming from incentive income related to certain of its private equity style funds.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Basis of Accounting and Consolidation — The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The accompanying consolidated financial statements include the accounts of Fortress and its consolidated subsidiaries, which are comprised of variable interest entities ("VIE"s) in which it is the primary beneficiary as described below and voting interest entities ("VOEs") in which it is determined to have a controlling financial interest under Accounting Standards Codification ("ASC") 810, as amended by Accounting Standards Update ("ASU") 2015-02, Consolidation (Topic 810) — Amendments to the Consolidation Analysis.

For legal entities evaluated for consolidation, Fortress must determine whether the interests that it holds and fees paid to it qualify as a variable interest in the entity. This includes an evaluation of fees paid to Fortress where Fortress acts as a decision maker or service provider to the entity being evaluated. Fees received by Fortress are not variable interests if (i) the fees are compensation for services provided and are commensurate with the level of effort required to provide those services, (ii) the service arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm's length and (iii) Fortress's other economic interests in the VIE held directly and indirectly through its related parties, as well as economic interests held by related parties under common control, where applicable, would not absorb more than an insignificant amount of the entity's losses or receive more than an insignificant amount of the entity's benefits.

For those entities in which it has a variable interest, Fortress performs an analysis to first determine whether the entity is a VIE. This determination includes considering whether the entity's equity investment at risk is sufficient, whether 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 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. Performance of such analysis requires the exercise of judgment.

The primary beneficiary of a VIE is generally defined as the party who has a controlling financial interest in the VIE. Fortress is generally deemed to have a controlling financial interest in a VIE if it has (i) the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. For purposes of evaluating (ii) above, fees paid to Fortress are excluded if the fees are compensation for services provided commensurate with the level of effort required to be performed

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

and the arrangement includes only customary terms, conditions or amounts present in arrangements for similar services negotiated at arm's length. Fortress also evaluates its economic interests in the VIE held directly by it and indirectly through its related parties, as well as economic interests held by related parties under common control, where applicable. The primary beneficiary evaluation is generally performed qualitatively on the basis of all facts and circumstances. However, quantitative information may also be considered in the analysis, as appropriate. These analyses require judgment. Changes in the economic interests (either by Fortress, related parties of Fortress or third parties) or amendments to the governing documents of the VIE could affect an entity's status as a VIE or the determination of the primary beneficiary. The primary beneficiary evaluation is updated continuously.

For VOE's, Fortress shall consolidate the entity if it has a controlling financial interest. Fortress has a controlling financial interest in a VOE if (i) for legal entities other than limited partnerships, Fortress owns a majority voting interest in the VOE or, for limited partnerships and similar entities, Fortress owns a majority of the entity's kick-out rights through voting limited partnership interests and (ii) non-controlling shareholders or partners do not hold substantive participating rights and no other conditions exist that would indicate that Fortress does not control the entity.

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. The evaluation of whether Fortress exerts control or significant influence over the financial and operational policies of an entity requires judgment based on the facts and circumstances surrounding each individual entity.

Virtually all of the Fortress Funds, excluding the permanent capital vehicles, are, for GAAP purposes, investment companies. Investment companies record realized and unrealized gains (losses) resulting from changes in the fair value of their investments as a component of current income. Additionally, investment companies generally do not consolidate their majority-owned and controlled investments (the "Portfolio Companies").

Non-controlling interests in equity of consolidated subsidiaries represent the ownership interests in certain consolidated subsidiaries held by entities or persons other than Fortress. Non-controlling interests in equity of consolidated subsidiaries is primarily related to the Fortress Funds' interests in consolidated entities which hold investments in subordinated notes issued by collateralized loan obligation (CLO) vehicles, and to a lesser extent, other equity interests held by the Founders, employees and others in certain consolidated, but not wholly-owned subsidiaries.

All significant intercompany transactions have been eliminated.

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

Risks and Uncertainties — In the normal course of business, Fortress encounters various types of economic risk: credit, market and interest. 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. Additionally, Fortress has a portion of its debt obligations payable that accrue interest at variable rates. Interest rate changes may therefore impact the amount of future interest payments, future earnings and cash flows. 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.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

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

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 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 subsequent changes in fair value recognized in income as Gains (losses).

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 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 and foreign exchange transactions. 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.

Balance Sheet Measurement

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.

Due from/to Affiliates — For purposes of classifying amounts, Fortress considers its founders, employees, directors, all of the Fortress Funds, the Portfolio Companies and Affiliated Manager to be 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.

Investments in Collateralized Loan Obligations (CLOs) (Included within Investments) — Investments in CLOs, which consist of subordinated notes issued by CLO vehicles, are generally valued using market quotations sourced from pricing services, brokers or dealers, where available. It is Fortress's practice to make efforts to obtain two or more prices for each investment. In circumstances where quotations or pricing services are not available, Fortress may determine a value supported through the preparation of a discounted cash flow analysis using discount rates based upon publicly available information on credit spreads for issues of similar term and credit quality where available, or implied discount rates based on assumptions regarding the amount and timing of recovery on investments. Quoted prices in active markets for similar securities, or in inactive markets for identical securities, to the extent

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

that they are based upon observable market inputs with the appropriate level and volume of activity, are classified within Level 2; otherwise a Level 3 fair value classification is appropriate.

Other Assets and Other Liabilities:

Other assets and liabilities are comprised of the following:

	Other Assets			Other Liabilities	
	December 31,			December 31,	
	2017	2016		2017	2016
Fixed assets, net	\$ 44,330	\$ 44,795	Accrued expenses and accounts payable	\$ 24,396	\$ 21,206
Receivables	6,323	19,806	Current foreign taxes payable	7,926	5,171
Income tax receivable	22,679	12,985	Deferred rent	—	17,480
Prepaid expense	12,074	12,138	Off-market lease liability	43,083	—
Derivatives	9,643	19,087	Unearned income	399	4,641
Miscellaneous assets, net	5,955	9,917	Derivatives	917	632
	<u>\$ 101,004</u>	<u>\$ 118,728</u>	Accrued fee liability	—	8,725
			Miscellaneous liabilities	6,979	7,021
				<u>\$ 83,700</u>	<u>\$ 64,876</u>

- **Fixed Assets, Net and 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. As a result of the remeasurement of the Predecessor's assets and liabilities to fair value as of the Merger date (see Note 1), accumulated depreciation was reduced to zero at the time of the Merger. Accumulated depreciation was \$120.8 million as of December 31, 2016.
- **Derivatives** — Derivatives are recognized as either assets or liabilities on the consolidated balance sheets and measured at fair value. The Predecessor and Fortress did not have any derivatives designated as hedges for 2017 and 2016. As such, any unrealized gains or losses on derivatives are recorded in Gains (losses) in the consolidated statement of operations. Net payments under these derivatives are similarly recorded, but as realized.
- **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 the cash paid to date. As a result of the remeasurement of the Predecessor's assets and liabilities to fair value at the time of the Merger (see Note 1), deferred rent was reduced to zero as of the Merger date.
- **Off-market Lease Liability** — As a result of the remeasurement of the Predecessor's assets and liabilities to fair value as of the Merger date (see Note 1), Fortress recognized an off-market lease liability of \$43.1 million as existing lease terms were unfavorable relative to the market as of the Merger date. The off-market lease liability will be amortized as a reduction of rent expense over the remaining term of the corresponding lease agreements.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

(dollars in tables in thousands, except share and per share data)

Finite-Lived Intangible Assets — Fortress's intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from 1.5 - 10 years. Amortization expense is included within Depreciation and amortization expense in the consolidated statement of operations. As of December 31, 2017, the Predecessor's intangible assets consist of:

	December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Investment management contracts	\$ 546,000	\$ (686)	\$ 545,314
Rights of general partner to GP incentive income	585,500	(1,257)	584,243
Trade name	45,000	(44)	44,956
Intangible assets, net	<u>\$ 1,176,500</u>	<u>\$ (1,987)</u>	<u>\$ 1,174,513</u>

Estimated future amortization expense as of December 31, 2017, is as follows:

2018	\$	183,466
2019		174,897
2020		162,669
2021		143,668
2022		122,360
2023 and thereafter		387,453
Total	<u>\$</u>	<u>1,174,513</u>

Goodwill — Goodwill is recorded when the consideration paid for a business acquisition exceeds the fair value of net tangible and identifiable intangible assets acquired. Goodwill is recorded as an indefinite-lived asset and is not amortized. As required by ASC 350 - *Intangibles - Goodwill and Other* ("ASC 350"), Fortress performs its impairment analysis at the reporting unit level annually, or more frequently if indicators of impairment or other changes in circumstances exist. Fortress has the option to qualitatively assess whether it is more likely that not that the fair value of a reporting unit is less than its carrying value. If Fortress elects to perform a qualitative assessment and concludes it is not more likely than not that the fair value of the reporting unit is less than its carrying value, no further assessment of that reporting unit's goodwill is necessary; otherwise, 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 by Fortress. Fortress may consider 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 estimate of fair value of the reporting unit exceeds the carrying value, goodwill is not impaired and no further testing is performed. If goodwill is impaired, Fortress calculates the impairment as the excess of the carrying value of goodwill over its implied fair value. For 2017 and 2016, no impairment of goodwill was recognized.

Digital Currency — Fortress's holdings of digital currency is an indefinite-lived intangible asset which is not subject to amortization. In accordance with ASC 350, goodwill and intangible assets with indefinite lives are tested for impairment annually or when events indicate that an impairment could exist. In the event that circumstances indicate that it is more likely than not that the asset is impaired, Fortress calculates the amount of impairment as the excess carrying value of the asset over its implied fair value. Fortress determines fair value based on estimated exit value using significant observable inputs from multiple digital currency indices as of the testing date. During 2017 and 2016, the Predecessor recognized no impairment charge. As a result of the remeasurement of the Predecessor's assets and liabilities to fair value as of the Merger date (see Note 1), the carrying value of Fortress's holdings of digital currency was \$364.1 million. As of December 31, 2017 and 2016, the carrying value of holdings in digital currency was \$364.1 million (Successor) and \$5.7 million (Predecessor) with an estimated fair value of \$335.1 million (Successor) and \$20.9 million (Predecessor), respectively. Additionally, during 2017, the Predecessor recognized \$12.0 million of realized gains from sales of its digital currencies. These realized gains are included within Gains (losses) on the consolidated statement of operations.

Subsequent to December 31, 2017, Fortress sold all of its holdings of digital currency for net cash proceeds of \$190.6 million which will result in a realized loss of \$173.5 million for 2018.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

Comprehensive Income (Loss) — Comprehensive income (loss) is defined as the change in partners' capital 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, if any, and on derivatives designated as cash flow hedges, if any, as well as net foreign currency translation adjustments, including Fortress's relative share of these items from its equity method investees.

As of December 31, 2017 and 2016, Fortress's accumulated other comprehensive loss was comprised of net foreign currency translation gain (loss) and Fortress's share of comprehensive income (loss) from equity method investees. The amounts reclassified from accumulated other comprehensive income (loss) to components of net income, 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 2017 and 2016.

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. Accordingly, incentive income resulting from a realization event within a fund gives rise to the incurrence of a profit sharing obligation and 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 publicly traded permanent capital vehicles, where incentive income is generally earned on an annual basis, the related compensation expense is accrued during the period for which the incentive income is related. In addition, certain of Fortress's employees are granted 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 the grant date. Subsequent to the grant date, 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 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 will be received 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, including the level of realized gains generated by the underlying funds which ultimately give rise to incentive income payments. 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 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.

Founders Escrow and Employee Consideration — Founders escrow consists of cash paid to the Founders in connection with the Merger which is subject to escrow. Subject to the completion of certain service conditions, eighty percent (80%) of the escrow amount will be released upon the fourth anniversary of the Merger and the remaining amount will be released upon the fifth anniversary of the Merger date (see Note 1). In connection with Founders escrow, Fortress will recognize compensation expense over the required service period.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

Certain senior employees also have received cash consideration from the Merger subject to escrow which will be released upon completion of certain service conditions. These escrow amounts will be recognized as compensation expense ratably over the required service period generally between two and five years.

Income Taxes — FIG Parent, LLC and FIG Corp., subsidiaries of Fortress, are corporations for tax purposes. A substantial portion of Fortress's income is earned by these subsidiaries and is subject to U.S. federal and state income taxation, taxed at prevailing rates. The majority of Fortress's remaining income is allocated directly to SoftBank, as Fortress's sole owner, 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 apportioned 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 recognized within income 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 Founders and two former founders are entitled to receive payments from Fortress related to tax savings realized by Fortress in connection with certain transactions entered into by the Founders and two former founders. In connection with the Merger, Fortress entered into a waiver agreement with the Founders which generally limits the payments to which the Founders would otherwise be entitled (see Note 6). The two former founders did not enter into the waiver agreement.

On December 22, 2017, the "Tax Cuts and Jobs Act" (the "Tax Act") was signed into law, making significant changes to the U.S. Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial tax system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. During 2017, the period in which the legislation was enacted, the Predecessor recorded income tax expense of \$163.2 million for the remeasurement of deferred tax assets and liabilities using the 21% federal tax rate at which they are expected to reverse. Additionally, the Predecessor remeasured the tax receivable agreement liability using the 21% federal tax rate resulting in a \$75.6 million reduction of the liability. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, Fortress made reasonable estimates of the effects and recorded certain provisional amounts. As Fortress collects and prepares necessary data, and interprets the Tax Act and any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, Fortress may make adjustments to the provisional amounts. Those adjustments may materially impact our provision for income taxes and effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the Tax Act will be completed in 2018.

As a result of the remeasurement of the Predecessor's assets and liabilities to fair value as of the Merger date (see Note 1), Fortress recorded net deferred tax liabilities of \$179.6 million primarily related to the excess of financial statement carrying amounts over tax basis in intangibles assets and goodwill.

3. MANAGEMENT AGREEMENTS AND FORTRESS FUNDS

Fortress has two principal sources of fee income from its agreements with the Fortress Funds: contractual management fees, which are generally based on a percentage of fee paying assets under management ("AUM"), and related incentive income, which is generally based on a percentage of returns, or profits, subject to the achievement of performance criteria. The terms of agreements between Fortress and the Fortress Funds are generally determined in connection with third party fund investors. In addition, Fortress receives certain expense reimbursements pursuant to its management agreements.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

The Fortress Funds are divided into segments and Fortress's agreements with each are detailed below.

Management Fees and Incentive Income

Fortress recognized management fees and incentive income as follows:

	2017 (A)	2016 (A)
Private Equity		
Private Equity Funds		
Management fees: affil.	\$ 79,522	\$ 93,816
Incentive income: affil.	13,661	—
Permanent Capital Vehicles (B)		
Management fees: affil.	123,486	109,550
Management fees, options: affil.	8,068	4,550
Management fees: non-affil.	746	1,689
Incentive income: affil.	131,246	61,149
Credit Funds		
Credit Hedge Funds		
Management fees: affil.	147,840	147,807
Management fees: non-affil.	31	72
Incentive income: affil.	119,568	120,407
Incentive income: non-affil.	95	—
Credit PE Funds		
Management fees: affil.	116,781	125,612
Management fees: non-affil.	—	36
Incentive income: affil.	138,415	127,732
Incentive income: non-affil.	1,820	41,742
Liquid Hedge Funds		
Management fees: affil.	570	14,007
Incentive income: affil.	561	1,035
Logan Circle		
Management fees: affil.	1,842	2,396
Management fees: non-affil.	40,442	54,745
Incentive income: affil.	365	537
Incentive income: non-affil.	536	—
Total		
Management fees: affil. (including options)	\$ 478,109	\$ 497,738
Management fees: non-affil.	\$ 41,219	\$ 56,542
Incentive income: affil. (C)	\$ 403,816	\$ 310,860
Incentive income: non-affil.	\$ 2,451	\$ 41,742

(A) For 2017 and 2016, all amounts relate to the Predecessor.

(B) Effective January 1, 2018, the management agreement between Fortress and Drive Shack has been terminated (see Note 1).

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

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

Deferred Incentive Income

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

Incentive income from certain Fortress Funds is earned based on achieving annual performance criteria. Accordingly, this incentive income is recorded as revenue during the fourth quarter and is generally received subsequent to year end. Incentive income recognized as revenue during the fourth quarter of 2017 and 2016 from these funds was \$135.5 million and \$110.1 million, respectively.

During 2017 and 2016, the Predecessor recognized \$153.9 million and \$169.5 million, respectively, of incentive income distributions from its private equity and 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.

As a result of the remeasurement of the Predecessor's liabilities to fair value at the time of the Merger (see Note 1), deferred incentive income was reduced by \$400.6 million to \$9.8 million as of the Merger date. Distributed incentive income amounts in the table below do not include incentive income which is not subject to clawback when received from the Fortress Funds. This also does not include any amounts related to third party funds, receipts from which are reflected as Other Liabilities until all contingencies are resolved.

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

	Distributed-Gross	Distributed-Recognized	Distributed-Unrecognized	
Deferred incentive income as of December 31, 2016	\$ 1,657,775	\$ (1,327,421)	\$ 330,354	(A)
Distribution of private equity funds and credit PE funds incentive income	230,511	N/A	230,511	
Recognition of previously deferred incentive income	N/A	(153,896)	(153,896)	
Adjustment to fair value as of Merger date (B)	837	(401,417)	(400,580)	
Changes in foreign exchange rates	3,451	—	3,451	
Deferred incentive income as of December 31, 2017 (C)	<u>\$ 1,892,574</u>	<u>\$ (1,882,734)</u>	<u>\$ 9,840</u>	(A)
Deferred incentive income including Fortress Funds which matured	<u>\$ 2,040,743</u>	<u>\$ (2,030,903)</u>		

- (A) Deferred incentive income subject to clawback as of December 31, 2017 and 2016 was \$9.8 million and \$330.4 million, respectively, and reflected on Fortress's consolidated balance sheet. Furthermore, there is an additional \$326.7 million of incentive income that is subject to clawback as of December 31, 2017 until all contingencies are resolved.
- (B) The adjustment to fair value as of the Merger date of \$400.6 million will never be recognized as revenue and relates to Fortress Funds with contractual maturity dates, including the assumed exercise of all extension options, between June 2019 and February 2028.
- (C) Deferred incentive income (unrecognized) as of December 31, 2017 of \$9.8 million relates to Fortress Funds with contractual maturity dates, including the assumed exercise of all extension options, between June 2019 and July 2022.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

(dollars in tables in thousands, except share and per share data)

4. INVESTMENTS AND FAIR VALUE

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

Investments can be summarized as follows:

	December 31,	
	2017	2016
Equity method and other investees	\$ 880,347	\$ 856,512
Equity method investees, held at fair value (A)	37,453	23,489
Other investments held at fair value (B)	136,947	—
Total investments	\$ 1,054,747	\$ 880,001
Investments in options and warrants	\$ 93,083	\$ 53,206

(A) Represents common shares in the publicly traded permanent capital vehicles and restricted common shares in a publicly traded company.

(B) Represents investments in CLOs.

Gains (losses) are summarized as follows:

	2017 (A)	2016 (A)
Net realized gains (losses)	\$ 18,733	\$ 3,696
Net realized gains (losses) from affiliate investments (B)	(1,358)	(28,503)
Net unrealized gains (losses)	(9,365)	(2,016)
Net unrealized gains (losses) from affiliate investments (B)	48,419	50,646
Total gains (losses)	\$ 56,429	\$ 23,823

(A) For 2017 and 2016, all amounts relate to the Predecessor.

(B) Includes the impact of the expiration of out of the money options in certain publicly traded permanent capital vehicles in 2017 and 2016, the exercise of options held in Eurocastle in August 2017 (see Fair Value of Financial Instruments) and New Residential in August 2016.

These gains (losses) were generated as follows:

	2017 (A)	2016 (A)
Mark to fair value on affiliate investments, options and warrants	\$ 43,490	\$ 26,782
Mark to fair value on derivatives	(2,458)	(4,687)
Gains (losses) on digital currency (B)	12,002	—
Other	3,395	1,728
Total gains (losses)	\$ 56,429	\$ 23,823

(A) For 2017 and 2016, all amounts relate to the Predecessor.

(B) Subsequent to December 31, 2017, Fortress sold all of its holdings of digital currency (see Note 2).

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

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. The investments are largely in the United States, with investments also in the Caribbean, Western Europe and Asia. There are some concentrations, mainly in the private equity funds and permanent capital vehicles, in financial services (particularly loan-servicing and consumer finance), transportation and infrastructure, real estate 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 and its concentrations from an investment perspective are different. From an investment perspective, Fortress's most significant investment as of December 31, 2017, which comprised approximately 30% of its equity method investments, is in a fund with a single investment which focuses on the rail transportation and real estate sectors in Florida.

Investments

Fortress holds investments in certain Fortress Funds which are primarily recorded based on the equity method of accounting. Fortress's maximum exposure to loss with respect to these entities is generally equal to its investment plus its basis in any options received from such entities, plus any receivables from such entities as described in Note 7. In addition, unconsolidated affiliates also hold ownership interests in certain of these entities. As a result of the remeasurement of the Predecessor's assets to fair value at the time of the Merger (see Note 1), investments were recorded to fair value which resulted in adjustments for certain investments.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

(dollars in tables in thousands, except share and per share data)

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

	Private Equity			Credit				
	Funds	Publicly Traded Portfolio Companies (A)	Permanent Capital Vehicles (A)	Hedge Funds (A)	PE Funds	Liquid Hedge Funds (B)	Other	Total
Investment - January 1, 2016	\$ 608,728	\$ 1,082	\$ 20,518	\$ 44,804	\$ 187,664	\$ 170,169	\$ 22,824	\$ 1,055,789
Earnings (losses) from equity method and other investees	(41,572)	N/A	N/A	6,181	22,825	(8,137)	(186)	(20,889)
Other comprehensive income from equity method investees	(1)	N/A	N/A	—	—	(256)	—	(257)
Contributions to equity method and other investees	368	92	—	68,019	25,822	1,861	110	96,272
Distributions of earnings from equity method and other investees	(382)	N/A	N/A	(1,750)	(24,813)	(412)	—	(27,357)
Distributions of capital from equity method and other investees	(38,685)	N/A	N/A	(57,929)	(28,878)	(95,098)	(1,652)	(222,242)
Total distributions from equity method and other investees	(39,067)	N/A	—	(59,679)	(53,691)	(95,510)	(1,652)	(249,599)
Mark to fair value - during period (C)	(193)	24	3,021	N/A	478	N/A	(42)	3,288
Net purchases of investments by consolidated funds	—	N/A	N/A	—	32,974	—	(5,512)	27,462
Translation adjustment	11	—	(50)	—	147	—	—	108
Dispositions	—	(1,198)	—	—	—	—	—	(1,198)
Deconsolidation of Fund (D)	—	N/A	N/A	—	(33,202)	—	—	(33,202)
Reclassification to Due to Affiliates (E)	2,227	N/A	N/A	—	—	—	—	2,227
Investment - December 31, 2016	530,501	—	23,489	59,325	183,017	68,127	15,542	880,001
Earnings (losses) from equity method and other investees	(6,525)	N/A	N/A	7,332	24,956	4,411	181	30,355
Other comprehensive income from equity method investees	—	N/A	N/A	—	—	23	—	23
Contributions to equity method and other investees	1,647	—	7,810	134,725	31,048	11,568	87	186,885
Distributions of earnings from equity method and other investees	(16,877)	N/A	N/A	(6,707)	(26,540)	(21,841)	(4)	(71,969)
Distributions of capital from equity method and other investees (D)	(37,134)	N/A	N/A	(114,002)	(28,287)	(33,559)	(11,145)	(224,127)
Total distributions from equity method and other investees	(54,011)	N/A	N/A	(120,709)	(54,827)	(55,400)	(11,149)	(296,096)
Mark to fair value - during period (C)	(32)	—	5,293	1,767	—	N/A	250	7,278
Net purchases (sales) of investments by consolidated funds and subsidiaries	—	N/A	N/A	171,468	—	—	576	172,044
Translation adjustment	666	—	483	—	691	—	—	1,840
Deconsolidation of Fund (D)	—	N/A	N/A	(14,868)	—	—	(229)	(15,097)
Reclassification to Due to Affiliates (E)	2,235	N/A	N/A	—	—	—	—	2,235
Accretion of discount on debt investments	—	—	—	34	—	—	—	34
Adjustment to fair value as of the Merger date	4,265	—	—	—	18,647	62,333	—	85,245
Investment - December 31, 2017	\$ 478,746	\$ —	\$ 37,075	\$ 239,074	\$ 203,532	\$ 91,062	\$ 5,258	\$ 1,054,747
Undistributed earnings - December 31, 2017	\$ —	N/A	N/A	\$ —	\$ —	\$ —	\$ —	\$ —
Fortress Ownership - December 31, 2017 (F)	4.5%	N/A	0.4%	1.5%	1.6%	16.1%	(F)	N/A

(A) Fortress elected to record its common shares of a publicly traded company, common shares held in the permanent capital vehicles and investments in CLOs at fair value pursuant to the fair value option for financial instruments.

(B) Includes Fortress's investment in the Affiliated Manager.

(C) Recorded to Gains (losses).

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

- (D) In December 2016, the Predecessor deconsolidated a credit PE fund and retained a \$0.1 million equity method investment in the Fund. In August 2017, the Predecessor deconsolidated a credit hedge fund and retained a \$21.5 million equity method investment in the fund. See Consolidation and Deconsolidation of a Certain Fortress Fund. In September 2017, the Predecessor deconsolidated a Logan Circle fund (included in Other) and subsequently received a \$10.8 million capital distribution from the fund.
- (E) Represents a portion of the general partner liability (Note 10).
- (F) The ownership percentages presented in the table above are reflective of Fortress ownership interests held as of December 31, 2017 and excludes ownership interests held by other Fortress Funds, the Founders, employees, directors and other affiliates of Fortress. Fortress's ownership varies on a fund by fund basis. The ownership percentages are based on the total of Fortress's investment divided by the total equity of the funds within each segment as of period end. The ownership percentage for Other is not presented as it is insignificant to Fortress's investments. For the publicly traded permanent capital vehicles, ownership percentages are based on equity shares held by Fortress divided by total equity shares outstanding for each permanent capital vehicle and then weighted based on total equity of the permanent capital vehicles within the segment. Fortress's ownership would be 4.8% as of December 31, 2017 if Fortress had exercised all of its options held in the publicly traded permanent capital vehicles and retained the resulting shares.
- For private equity funds, includes five entities which are recorded on a one quarter lag (i.e. current year balances reflected for these entities are for the twelve months ended September 30, 2017). For credit PE funds, includes one entity which is recorded on a one quarter lag and several entities which are recorded on a one month lag. They are recorded on a lag, as permitted, because they are foreign entities, or they have substantial operations in foreign countries, and do not provide financial reports under GAAP within the reporting time frame.

Investments in Variable Interest Entities and Other Unconsolidated Entities

All of Fortress's interests in unconsolidated entities relate to (i) entities in which Fortress has an investment, which are included on the consolidated balance sheet and described herein, and/or (ii) entities from which Fortress earns fees, which are included in revenues and described in Note 3. These entities are primarily Fortress Funds which are VOEs and provide their limited partners or members unrelated to Fortress with the substantive ability to liquidate the Fortress Fund or otherwise remove Fortress as the general partner and/or manager or co-manager.

Consolidation and Deconsolidation of Certain Fortress Funds

In June 2017, the Predecessor formed a new credit hedge fund. The Predecessor determined that the fund qualified as a variable interest entity and that it was the primary beneficiary and therefore consolidated the fund. During August 2017, a reconsideration event occurred at the credit hedge fund whereby the credit hedge fund no longer qualified as a variable interest entity. The credit hedge fund is deemed to be a voting interest entity and the Predecessor does not have control over the fund since the unrelated limited partners have the substantive ability to liquidate the fund or otherwise remove the Predecessor as investment manager, without cause based on a simple unaffiliated majority vote. As such, the Predecessor deconsolidated the credit hedge fund in August 2017 and retained an equity method investment of \$21.5 million as of the date of deconsolidation, which is included within Investments on the consolidated balance sheet.

In October 2016, the Predecessor formed and made loans totaling \$25.9 million to a new credit PE fund. The Predecessor determined that the fund qualified as a variable interest entity and that it was the primary beneficiary and therefore consolidated the fund. During December 2016, a reconsideration event occurred at the credit PE fund whereby the credit PE fund no longer qualified as a variable interest entity. The credit PE fund is deemed to be a voting interest entity and the Predecessor does not have control over the fund since the unrelated limited partners have the substantive ability to liquidate the fund or otherwise remove the Predecessor as general partner without cause based on a simple unaffiliated majority vote. As such, the Predecessor deconsolidated the credit PE fund in December 2016 and retained an equity method investment of \$0.1 million as of the date of deconsolidation, which is included within Investments on the consolidated balance sheet. In addition, subsequent to deconsolidation of the fund, the Predecessor's loan receivable was repaid in full by the fund and is reported as part of Investing activities in the consolidated statement of cash flows.

Consolidation of New Entities

In the fourth quarter of 2017, Fortress formed three entities to hold investments in subordinated notes issued by CLOs. Fortress determined that each entity qualified as a variable interest entity and that it was the primary beneficiary and therefore consolidates the entities. Under GAAP, each entity is an operating company and Fortress's financial statements reflect the assets, liabilities, related operations and cash flows of the entities. The ownership interest in the entities which are not owned by Fortress are reflected as Non-controlling interests in equity of consolidated subsidiaries in the accompanying consolidated financial statements.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

The following tables set forth certain information regarding VIEs in which Fortress held a variable interest as of December 31, 2017 and 2016, respectively.

Fortress is not Primary Beneficiary					
December 31, 2017					
Business	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Notes (H)
Private Equity Funds	1	\$ 1,722,842	\$ —	\$ 6,145	(D)
Permanent Capital Vehicles	6	29,174,166	18,885,598	243,653	(C)
Credit Hedge Funds	7	4,624,468	2,456,231	37,387	(D) (E)
Credit PE Funds	38	1,535,076	524,288	14,607	(D) (E)
Liquid Hedge Funds	3	210,832	—	90,062	(D) (E)

Fortress is not Primary Beneficiary					
December 31, 2016					
Business	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Notes (H)
Private Equity Funds	1	\$ 1,129,646	\$ —	\$ 334	(D)
Permanent Capital Vehicles	6	25,865,217	16,758,464	146,934	(C)
Credit Hedge Funds	4	1,891,053	432,078	20,894	(D) (E)
Credit PE Funds	35	995,592	236,105	12,265	(D) (E)
Liquid Hedge Funds	3	253,646	—	32,836	(D) (E)

Fortress is Primary Beneficiary					
December 31, 2017					
Business	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Notes (H)
Private Equity Funds	2	\$ 32,848	\$ —	\$ 10,931	(F) (G)
Credit Hedge Funds	3	137,000	—	13,832	(F)
Liquid Hedge Funds	1	4,180	—	1,939	(F)

Fortress is Primary Beneficiary					
December 31, 2016					
Business	Number of VIEs	Gross Assets (A)	Financial Obligations (A)	Fortress Investment (B)	Notes (H)
Private Equity Funds	2	\$ 34,118	\$ —	\$ 10,694	(F) (G)
Credit PE Funds	1	400	—	20	(F)
Liquid Hedge Funds	1	4,328	—	2,009	(F)

- (A) Represents financial obligations of the VIEs which are not recourse to Fortress and assets of the VIEs which Fortress does not have the right to make use of to satisfy its obligations. Financial obligations include financial borrowings, derivative liabilities and short securities. In many cases, these VIEs have additional debt within unconsolidated subsidiaries. The debt obligations of the VIEs are not cross collateralized with the debt obligations of Fortress. Fortress has no obligation to satisfy the liabilities of the VIEs. The VIE's debt obligations have no impact on Fortress's cash flows and its ability to borrow or comply with its debt covenants under its revolving credit agreement. Of the financial obligations represented herein as of December 31, 2017, for VIEs where Fortress is not the primary beneficiary, \$18,834.4 million, \$2,448.1 million and \$522.5 million represent financial borrowings which have weighted average maturities of 1.8 years, 13.0 years and 7.1 years for the permanent capital vehicles, credit hedge funds and credit PE funds, respectively. Of the financial obligations represented herein as of December 31, 2016, \$16,755.4 million, \$421.0 million and \$235.2 million represent financial borrowings which have weighted average maturities of 2.8 years, 8.4 years and 1.7 years for the permanent capital vehicles, credit hedge funds and credit PE funds, respectively.
- (B) Represents Fortress's maximum exposure to loss with respect to these entities, which includes investments in these entities, plus any receivables due from these entities. In addition to the table above, Fortress is exposed to potential changes in cash flow and revenues attributable to the management fees and/or incentive income Fortress earns from those entities. For VIEs where Fortress is deemed to be

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

the primary beneficiary, these investments and receivables are eliminated in consolidation but still represent Fortress's economic exposure to the VIEs.

- (C) Includes permanent capital vehicles that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because the group of at-risk equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance. Fortress is not the primary beneficiary of these entities. Fortress and its related parties under common control as a group, where applicable, do not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to these entities.
- (D) Includes entities, primarily investing vehicles set up on behalf of the Fortress Funds to make investments, that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because either (i) the group of at-risk equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance and/or (ii) the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity's activities either involve or are conducted on behalf of that investor and its related parties. Fortress is not the primary beneficiary of these entities. Fortress and its related parties under common control as a group, where applicable, do not have the obligation to absorb losses or the right to receive benefits that could potentially be significant to these entities. During 2017, three new credit hedge fund VIEs and four new credit PE fund VIEs were created and Fortress was deemed not to be the primary beneficiary of these entities. In addition, during 2017, (i) a credit PE fund VIE was liquidated, (ii) a reconsideration event occurred at a credit PE fund VIE which resulted in Fortress no longer having a variable interest in the entity and (iii) Fortress is no longer the primary beneficiary of a third credit PE fund VIE.
- (E) Includes entities that are a VIE because the entity's equity investment at-risk is determined to be insufficient. Fortress is not the primary beneficiary of these entities because Fortress does not have the power to direct the activities that most significantly impact the economic performance of these entities.
- (F) Includes entities that are a VIE because the entity's at-risk equity holders as a group lack the characteristics of a controlling financial interest because either (i) the group of at-risk equity holders does not have the power, through voting rights or similar rights, to direct the activities that most significantly affect the success of the entity or impact the entity's economic performance and/or (ii) the voting rights of an investor are not proportional to its obligation to absorb the income or loss of the entity and substantially all of the entity's activities either involve or are conducted on behalf of that investor and its related parties. Fortress is the investment manager of these entities. Fortress is determined to be the primary beneficiary of these entities since it has both power over the activities that most significantly affect the success of the entity or impact the entity's economic performance and has the right to receive benefits or the obligation to absorb losses from the VIE that potentially could be significant to the entity. In June 2017, the Predecessor formed a new credit hedge fund. The Predecessor determined that the fund qualified as a variable interest entity and that it was the primary beneficiary and therefore consolidates the fund. During August 2017, a reconsideration event occurred at the credit hedge fund whereby the credit hedge fund no longer qualified as a variable interest entity. The credit hedge fund is deemed to be a voting interest entity and the Predecessor does not have control over the fund. As such, the Predecessor deconsolidated the credit hedge fund in August 2017. Additionally, during the fourth quarter of 2017, Fortress formed three entities to hold investments in subordinated notes issued by CLOs which it determined qualify as variable interest entities and that it was the primary beneficiary and therefore consolidated the entities. Finally, during 2017 a reconsideration event occurred at a credit PE fund VIE whereby Fortress is no longer the primary beneficiary, see Note D.
- (G) Includes an entity that is a VIE because the entity's equity investment at risk is determined to be insufficient. Fortress, as a result of directing the operations of the entity through its management contracts with certain funds, and providing financial support to the entity, was deemed to be its primary beneficiary.
- (H) As of December 31, 2017, for VIEs where Fortress is not the primary beneficiary, Fortress's investment included: (i) management fees receivable of \$18.1 million which is comprised of \$14.8 million, \$2.7 million, \$0.6 million and less than \$0.1 million from the permanent capital vehicles, credit PE funds, credit hedge funds and private equity funds, respectively, (ii) incentive income receivable of \$111.4 million which is comprised of \$90.8 million and \$20.6 million from the permanent capital vehicles and credit hedge funds, respectively, and (iii) expense reimbursements, dividends and other receivables of \$17.5 million which is comprised of \$11.6 million, \$5.7 million, \$0.1 million and less than \$0.1 million from the permanent capital vehicles, private equity funds, credit PE funds and credit hedge funds, respectively.

As of December 31, 2016, for VIEs where Fortress is not the primary beneficiary, Fortress's investment included: (i) management fees receivable of \$10.2 million which is comprised of less than \$0.1 million, \$8.6 million, \$0.2 million and \$1.3 million from the private equity funds, permanent capital vehicles, credit hedge funds and credit PE funds, respectively, (ii) incentive income receivable of \$68.1 million which is comprised of \$50.4 million and \$17.7 million from the permanent capital vehicles and credit hedge funds, respectively, and (iii) expense reimbursements, dividends and other receivables of \$12.8 million which is comprised of \$11.2 million, \$0.9 million, \$0.1 million and \$0.6 million from the permanent capital vehicles, credit hedge funds, credit PE funds and liquid hedge funds, respectively.

As of December 31, 2017, for VIEs where Fortress is the primary beneficiary, Fortress's investment included advances of \$10.1 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 VIEs.

As of December 31, 2016, for VIEs where Fortress is the primary beneficiary, Fortress's investment included advances of \$10.1 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 VIEs.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

Fair Value of Financial Instruments

The following table presents information regarding Fortress's financial instruments that are recorded at fair value by level within the fair value hierarchy. 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, 2017	December 31, 2016	
Assets (within Investments)			
Common shares of publicly traded permanent capital vehicles	\$ 37,075	\$ 23,489	Level 1 - Quoted prices in active markets for identical assets
Restricted common shares of a publicly traded company	378	—	Level 2 - Quoted prices for similar assets in active markets
Investments in CLOs	136,947	—	Level 2 - Valuations obtained from independent third-party pricing services, or other valuation methodologies with pricing inputs that are either directly or indirectly observable in active markets
Investments in options and warrants	93,083	53,206	Level 2 - Option valuation models using significant observable inputs or quoted prices for similar assets in active markets
Assets (within Other assets and Due from affiliates)			
Derivatives	9,857	19,087	Level 2 - See below
Liabilities (within Accrued compensation and benefits)			
Options in affiliates granted to employees	(10,729)	(4,310)	Level 2 - Option valuation models using significant observable inputs
Liabilities (within Other liabilities and Due to affiliates)			
Derivatives	(4,201)	(5,018)	Level 2 - See below

Investments in CLOs

Fortress has elected to measure its investments in subordinated notes issued by CLO vehicles at fair value. Changes in fair value of these investments are included within Gains (losses) in the consolidated statement of operations. Fortress accrues interest on its investments in subordinated notes issued by CLO vehicles using the effective interest method.

Investments in subordinated notes issued by CLO vehicles are valued based on a combination of observed transaction prices, independent third party pricing services, relevant broker quotes, models or other valuation methodologies based on pricing inputs that are either directly or indirectly market observable. The valuation methodology may differ for different investments in subordinated notes issued by CLO vehicles depending upon the best information available.

Publicly Traded Permanent Capital Vehicle Options

Fully vested options are issued to Fortress by the publicly traded permanent capital vehicles as compensation for services performed in raising capital for these entities. These options are accounted for at fair value with subsequent changes in fair value recognized in income as Gains (losses).

All of the Drive Shack, 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. All of the options held by Fortress in the publicly traded permanent capital vehicles incorporate effects of reverse stock splits or spin-offs.

Fortress has granted rights, which Fortress refers to as tandem options, in the options it holds in certain publicly traded permanent capital vehicles it manages to certain of its employees. The value of these rights is recorded as accrued profit sharing compensation expense and the related liability is marked to fair value as compensation expense until such time as the rights are exercised or expire.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

(dollars in tables in thousands, except share and per share data)

The following table summarizes options held by Fortress in the publicly traded permanent capital vehicles at December 31, 2017.

			As of December 31, 2017		
	Year of Grant	Strike Price	Options held by Fortress	Tandem Options held by Employees	Available to Fortress
<i>Drive Shack</i>					
	2011	\$1.00	583,149	167,213	415,936
	2012	\$1.00	949,997	236,531	713,466
	2013	\$2.32 - \$3.57	2,711,681	595,668	2,116,013
	2014	\$4.01	765,416	153,083	612,333
<i>New Residential</i>					
	2012	\$6.82 - \$7.34	25,000	—	25,000
	2013	\$11.48	835,571	—	835,571
	2014	\$12.20	1,437,500	—	1,437,500
	2015	\$15.25 - \$15.88	8,543,539	1,708,708	6,834,831
	2016	\$14.20	2,000,000	400,000	1,600,000
	2017	\$15.00	5,654,578	—	5,654,578
<i>New Senior</i>					
	2011	\$2.14 - \$5.23	465,832	—	465,832
	2012	\$5.71 - \$6.80	916,029	—	916,029
	2013	\$12.47 - \$17.28	2,978,338	—	2,978,338
	2014	\$18.94	765,416	—	765,416
	2015	\$11.80	2,011,409	402,282	1,609,127
<i>New Media</i>					
	2014	\$14.37	652,311	—	652,311
	2015	\$20.56	700,000	140,000	560,000
	2016	\$14.66	862,500	172,500	690,000

During 2017, Fortress and certain Fortress employees exercised a total of 5.6 million options, which had a fair value of \$11.3 million as of the exercise date, and related tandem options, which had a fair value of \$3.5 million as of the exercise date, in Eurocastle and New Media. In connection with the exercise, Fortress retained 0.7 million of Eurocastle shares, which had a fair value of \$7.8 million as of the exercise date, as options were surrendered to satisfy payment of the option exercise price.

Subsequent to December 31, 2017, Fortress granted tandem options in 1.1 million of the options it holds in New Residential to certain employees, which have a fair value of \$3.3 million as of the grant date. Subsequent to December 31, 2017, Fortress granted tandem options in 1.2 million of the options it holds in Drive Shack to certain non-employees, which have a fair value of \$3.6 million as of the grant date.

Subsequent to December 31, 2017, New Residential issued 28.8 million shares of its common stock in an offering at a price to the public of \$17.10 per share. In connection with the offering, New Residential compensated Fortress for its successful efforts in raising capital for New Residential by granting options to Fortress to purchase 2.9 million shares of New Residential common stock at \$17.10 per share, which have a fair value of \$3.8 million as of the grant date. The options are fully vested upon issuance, become exercisable over thirty months and have a ten year term.

Subsequent to December 31, 2017, FTAI issued 7.0 million shares of its common stock in an offering at a price to the public of \$18.65 per share. In connection with the offering, FTAI compensated Fortress for its successful efforts in raising capital for FTAI by granting options to Fortress to purchase 0.7 million shares of FTAI common stock at \$18.65 per share, which have a fair value of \$1.9 million as of the grant date. The options are fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

Subsequent to December 31, 2017, New Media issued 6.9 million shares of its common stock in an offering at a price to the public of \$16.45 per share. In connection with the offering, New Media compensated Fortress for its successful efforts in raising capital for New Media by granting options to Fortress to purchase 0.7 million shares of New Media common stock at \$16.45 per share,

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

which have a fair value of \$1.5 million as of the grant date. These options are fully vested upon issuance, become exercisable over thirty months and have a ten-year term.

Publicly Traded Company Warrants

During 2017, the Predecessor purchased 3.0 million warrants to acquire shares in a publicly traded company for \$4.5 million. Each warrant will become exercisable on the later of (i) thirty (30) days after the public company's completion of a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or other similar business combination with one or more businesses (each a "Business Combination"), or (ii) twelve (12) months from the closing of the public company's initial public offering, and will expire unless exercised five (5) years after the public company has completed its initial business combination.

The following table summarizes warrants held by Fortress at December 31, 2017:

Expiration Date (A)	Strike Price	Warrants held by Fortress
December 2022	\$ 11.50	2,966,667

(A) Assumes initial Business Combination, as defined, of publicly traded company was completed as of December 31, 2017.

Derivatives

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

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

The following tables summarize the fair value of Fortress's derivative contracts on a gross basis and any amount of offset as permitted by netting agreements as of December 31, 2017.

	Gross Amounts of Recognized Assets as of December 31, 2017	Gross Amounts Offset in the Consolidated Balance Sheet as of December 31, 2017	Net Amounts of Assets Presented in the Consolidated Balance Sheet as of December 31, 2017	Cash Collateral Received as of December 31, 2017	Net Amount as of December 31, 2017
Offsetting of Derivative Assets					
Foreign exchange option contracts	\$ 590	\$ (245)	\$ 345	\$ —	\$ 345
Foreign exchange forward contracts	9,512	—	9,512	—	9,512
	<u>\$ 10,102</u>	<u>\$ (245)</u>	<u>\$ 9,857</u>	<u>\$ —</u>	<u>\$ 9,857</u>
			Net Amounts of Liabilities Presented in the Consolidated Balance Sheet as of December 31, 2017	Cash Collateral Pledged as of December 31, 2017	Net Amount as of December 31, 2017
Offsetting of Derivative Liabilities					
Foreign exchange option contracts	\$ (488)	\$ 64	\$ (424)	\$ —	\$ (424)
Foreign exchange forward contracts	(3,777)	—	(3,777)	—	(3,777)
	<u>\$ (4,265)</u>	<u>\$ 64</u>	<u>\$ (4,201)</u>	<u>\$ —</u>	<u>\$ (4,201)</u>

The counterparties on the outstanding derivatives are Citibank, N.A., Bank of America, N.A. and certain credit PE funds.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

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

	Balance Sheet Classification	December 31, 2017			Maturity Date
		Fair Value	Notional Amount	Gains/(Losses) (B)(C)	
Foreign exchange option contracts (JPY) (A)	Other assets	\$ 345	\$ 36,851	\$ (222)	Feb 18 - Feb 19
Foreign exchange option contracts (JPY) (A)	Other liabilities	\$ (424)	\$ 49,911	\$ (211)	Mar 18
Foreign exchange forward contracts (JPY) (A)	Other assets	\$ 6,014	\$ 134,667	\$ 1,171	Mar 18 - Dec 19
Foreign exchange forward contracts (JPY) (A)	Other liabilities	\$ (493)	\$ 127,447	\$ (493)	Jan 18 - Nov 18
Foreign exchange forward contracts (JPY)	Due from affiliates	\$ 214	\$ 61,151	\$ 214	Nov 18
Foreign exchange forward contracts (CAD) (A)	Other assets	\$ 3,284	\$ 115,585	\$ 3,284	Sep 18
Foreign exchange forward contracts (CAD)	Due to affiliates	\$ (3,284)	\$ 115,585	\$ (3,284)	Sep 18

- (A) Fortress has master netting agreements with its counterparties.
(B) Reflects cumulative unrealized gains (losses) related to contracts outstanding at period end.
(C) Amounts relate to the Predecessor.

Fortress's average gross notional amount outstanding during 2017 was \$761.5 million, of which \$274.0 million relates to foreign exchange (JPY) derivative contracts used to economically hedge future estimated incentive income.

Subsequent to December 31, 2017, Fortress entered into interest rate swap agreements to manage its interest rate risk associated with the Foundation Credit Agreement (see Note 5). The interest rate swaps have a total notional amount of \$700.0 million whereby the Company will pay a fixed interest rate of 2.25% and receive a floating 1-month London Interbank Offered Rate ("LIBOR") interest rate. The interest rate swaps became effective January 31, 2018 and mature in December 2022. The counterparties are Mizuho Capital Markets LLC, Credit Agricole Corporate and Investment Bank and J. Aron & Company LLC.

5. DEBT OBLIGATIONS

In connection with the Merger (see Note 1), Fortress entered into a new credit agreement with \$1,400.0 million in term loans and a \$90.0 million revolving loan facility (collectively, the "Foundation Credit Agreement"). The Foundation Credit Agreement generally bears interest at an annual rate equal to LIBOR plus an applicable rate (2.25% to 2.75%, with respect to the term loans and 2.25% to 2.50%, with respect to the revolving loan facility) that fluctuates depending upon Fortress's Consolidated Leverage Ratio (defined below) and a commitment fee on undrawn amounts that fluctuates (0.25% to 0.50%) depending upon such financial covenant, as well as other customary fees. As of December 31, 2017, Fortress had \$1,400.0 million in principal amount of term loans and \$1.9 million in letters of credit outstanding. The term loans have a final stated maturity of December 2022 and are subject to mandatory prepayments based on excess cash flow, as defined in the credit agreement. Fortress may also make voluntary prepayments, subject to certain prepayment fees.

The term loans had an original issue discount \$3.5 million, or 0.25%, and proceeds received by Fortress at closing of the Merger were net of \$19.8 million in debt issuance costs. The original issue discount and debt issuance costs are recognized in the consolidated balance sheet as a reduction of the carrying amount of the debt liability and are being amortized into interest expense over term of the debt.

In connection with the Merger (see Note 1), Fortress repaid in full the \$105.0 million in principal and \$0.2 million of accrued interest and other fees, outstanding under its then existing \$275.0 million senior unsecured revolving credit facility (the "2016 Credit Agreement") and terminated all commitments thereunder. The 2016 Credit Agreement had an annual interest rate equal to LIBOR plus an applicable rate and a commitment fee on undrawn amounts.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

The following table presents summarized information regarding Fortress's debt obligations:

Debt Obligation	Carrying Amount		December 31, 2017	Final	December 31, 2017
	December 31,		Contractual	Stated	Amount
	2017	2016	Interest Rate	Maturity	Available for Draws
Term loans, net (A)	\$ 1,376,785	\$ —	LIBOR+2.75%	Dec 2022	N/A
Revolving loan facility (A) (B)	—	—	LIBOR+2.50% (C)	Jun 2022	\$ 88,091
2016 Credit Agreement	—	105,000	N/A	N/A	N/A
Promissory note (D)	—	77,838	N/A	N/A	N/A
Total	\$ 1,376,785	\$ 182,838			

- (A) The term loans are presented net of original issue discount and debt issuance costs. The term loans are collateralized by substantially all of Fortress's assets, except for certain excluded subsidiaries and is guaranteed by certain affiliates of SoftBank. In January 2018, Fortress entered into \$700.0 million of interest rate swaps whereby Fortress will pay a fixed interest rate of 2.25% and receive one-month LIBOR (see Note 4).
- (B) The \$90.0 million revolving loan facility includes a \$20.0 million letter of credit subfacility, of which \$1.9 million was utilized as of December 31, 2017.
- (C) Subject to unused commitment fees of 0.50% per annum.
- (D) Issued to a former founder in exchange for his Fortress Operating Group units and Class B shares in the Predecessor. In September 2017, the Predecessor repaid the remaining principal amount and accrued interest due on the promissory note.

Covenants

The borrower and the guarantors under the Foundation Credit Agreement are required to prepay any amounts outstanding under the Foundation Credit Agreement upon the occurrence of certain events.

The events of default under the Foundation 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 Foundation Credit Agreement would likely have a material, adverse impact on Fortress's liquidity.

The Foundation Credit Agreement contains customary representations and warranties and affirmative and negative covenants that, among other things, restrict the ability of the borrower, the guarantors and certain of their subsidiaries 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, incur restrictions on the payment of dividends or other distributions, change the nature of business or enter into certain burdensome agreements. These covenants are subject to a number of limitations and exceptions set forth in the Foundation Credit Agreement. In addition, if borrowings under the \$90.0 million revolving loan facility exceed 40.0 percent of the total revolving commitment amount, the borrower must not permit the Consolidated Leverage Ratio to be greater than 5.60 to 1.0 as of the end of any fiscal quarter for the four-quarter period ending on such date.

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

The Company was in compliance with its debt covenants which were applicable as of December 31, 2017.

Intercompany Debt

As a result of the Predecessor's initial public offering and related transactions, secondary public offerings, and other transactions, FIG Asset Co. LLC lent aggregate excess proceeds of approximately \$811.2 million to FIG Corp. pursuant to a demand note, as amended. In connection with the Merger, the demand note was repaid in full. Additionally, Foundation Holdco LP lent FIG Parent, LLC \$500.0 million pursuant to a subordinated note matures in December 2025 and is outstanding as of December 31, 2017. The intercompany debt is eliminated in consolidation.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

(dollars in tables in thousands, except share and per share data)

6. INCOME TAXES AND TAX RELATED PAYMENTS

Fortress has wholly-owned corporate subsidiaries and a substantial portion of Fortress's income is earned by these subsidiaries and subject to U.S. federal and state income taxation, taxed at prevailing rates. The majority of Fortress's remaining income is allocated directly to SoftBank, its sole owner, and is not subject to a corporate level of taxation. Certain subsidiaries of Fortress are subject to the New York City UBT on their apportioned 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.

Fortress's effective income tax rate is impacted by a variety of factors including, but not limited to, the impact of the tax rate changes, changes in the valuation allowance, and changes in the mix and geographic locations of businesses producing income or loss, which may be subject to tax, if any, at different rates.

The provision for income taxes consists of the following:

	2017 (A)	2016 (A)
Current		
Federal income tax expense (benefit)	\$ 26,049	\$ 3,547
Foreign income tax expense (benefit)	18,929	15,280
State and local income tax expense (benefit)	7,369	5,750
	<u>52,347</u>	<u>24,577</u>
Deferred		
Federal income tax expense (benefit) (B)	160,588	8,243
Foreign income tax expense (benefit)	(648)	1,614
State and local income tax expense (benefit)	7,987	(6,120)
	<u>167,927</u>	<u>3,737</u>
Total expense (benefit)	<u><u>\$ 220,274</u></u>	<u><u>\$ 28,314</u></u>

(A) For 2017 and 2016, amounts relate to the Predecessor.

(B) In December 2017, the Federal government enacted corporate tax law changes. Fortress recorded income tax expense of \$163.2 million for the remeasurement of deferred tax assets and liabilities using the 21% federal tax rate at which they are expected to reverse.

For the period from December 28, 2017 to December 31, 2017, Fortress recorded current and deferred income tax benefits of \$5.7 million and \$9.6 million, respectively.

For the period from January 1, 2017 to December 27, 2017 and the year ended December 31, 2016, a net deferred income tax provision of \$0.5 million and \$(1.2) million, respectively, increased (decreased) other comprehensive income, primarily related to foreign currency translation. For the year ended December 31, 2016, current income tax benefits of \$0.8 million increased paid-in capital related to dividend equivalent payments on RSUs which were deductible for income tax purposes.

The Predecessor recognized compensation expense from the issuance of RSUs over their vesting period. Consequently, the Predecessor recorded an estimated income tax benefit associated with RSUs. However, the Predecessor is not entitled to an actual deduction on its income tax returns until a later date when the compensation is taxable to the employee. The actual income tax deduction may 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.

As a result of the adoption of ASU 2016-09 effective January 1, 2017 (see Note 1), excess tax benefits associated with RSUs are recorded as income tax benefits to the extent that the actual tax benefits are greater than the tax benefits attributable to cumulative compensation cost. Previously, excess tax benefits associated with equity-based compensation were recorded as an increase to equity. If the actual tax benefits are less than the tax benefits attributable to cumulative compensation cost, which will occur if the price of the stock has declined during the vesting period, Fortress and the Predecessor has a "tax shortfall." In accordance with ASU 2016-09, tax shortfalls are charged to income tax expense. Previously, the tax shortfalls were only charged to income tax expense to the extent the Predecessor did not have prior excess tax benefits (i.e., prior actual tax benefits associated with RSUs that were greater than the tax benefit of cumulative compensation cost).

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

Based on the value of the RSUs which vested and were delivered during 2017, the Predecessor recorded a \$16.5 million income tax benefit for excess tax benefits from RSUs delivered during the period and as an operating activity on the consolidated statement of cash flows. For the year ended December 31, 2016, the Predecessor had a tax shortfall of \$2.5 million which was recorded as a reduction to paid-in capital.

In connection with the Merger, all outstanding RSUs were canceled and converted into the right to receive \$8.08 in cash.

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

	December 31,	
	2017 (A)	2016 (B)
<u>Deferred tax assets</u>		
Goodwill and other intangible assets	\$ —	\$ 286,724
Digital currency	—	2,977
Compensation and benefits	—	11,441
Partnership investment basis differences	59,834	135,354
Other	17,419	24,358
Gross deferred tax assets	77,253	460,854
Valuation allowance	—	(27,819)
<u>Deferred tax liabilities</u>		
Goodwill and other intangible assets	(180,152)	—
Digital currency	(51,482)	—
Options in affiliates	(10,349)	(8,791)
Other	(5,268)	—
Gross deferred tax liabilities	(247,251)	(8,791)
Deferred tax assets (liabilities), net	\$ (169,998)	\$ 424,244

- (A) Fortress has recorded a deferred tax liability as of December 31, 2017 as a result of the Merger and related transactions (see Note 1). These transactions resulted in the book basis of Fortress's net assets exceeding their tax basis.
- (B) As of December 31, 2016, Fortress has a deferred tax liability of \$4.4 million related to certain foreign jurisdictions which is excluded from the table and presented separately within Deferred tax liabilities, net on the consolidated balance sheet.

As of December 31, 2017, Fortress has concluded that it is more likely than not that the benefit of its deferred tax assets will be realized. Accordingly, Fortress has no valuation allowance for deferred tax assets as of December 31, 2017. During 2017, the valuation allowance was reduced by the Predecessor to \$12.2 million primarily as a result of Federal corporate tax law changes. During 2016, the valuation allowance increased by \$0.8 million primarily related to the change in the portion of the deferred tax asset that would be realized only in connection with future capital gains and therefore required a full valuation allowance or reversal thereof.

As of December 31, 2017 and 2016, Fortress and the Predecessor did not have any unrecognized tax benefits. The Company files income tax returns in the United States and various states and certain subsidiaries file income tax returns in foreign jurisdictions. The federal and state income tax returns are generally subject to tax examinations for tax years ended December 31, 2014, and thereafter.

Tax Receivable Agreement

FIG Corp. has tax receivable agreements with each of the three Founders and two former founders that provide 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. Although Fortress is not aware of any issue that would cause the Internal Revenue Service to challenge a tax basis increase, the Founders and former founders are not required to reimburse Fortress for any payments made under this agreement if tax savings claimed are later disallowed by

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

the Internal Revenue Service. The tax receivable agreement liability has been adjusted based on transactions of the nature described above and for payments under the agreement.

In connection with entering into the Merger, FIG Corp. entered into a waiver agreement (the "TRA Waiver") with certain other subsidiaries of Fortress and the Founders pursuant to which, among other things, the Founders waived their rights to receive any payments under the tax receivable agreement arising out of the transactions associated with the Merger and other transactions occurring after February 2017 and capped the aggregate amount of future payments to the Founders to \$154.3 million. With respect to all previous exchanges for which a tax receivable agreement obligation is still outstanding, the waivers provided for in the TRA Waiver are expected to generally have the effect of limiting the payments to which these Founders would otherwise have been entitled under the tax receivable agreement. The two former founders did not enter into the TRA waiver.

In connection with the tax return filed for the year ended December 31, 2016, \$28.2 million (including interest) was paid in 2017 to the Founders and former founders under the tax receivable agreement. For the tax year ended December 31, 2017, the payment which is expected to become due pursuant to the tax receivable agreement is approximately \$29.0 million subject to the finalization of Fortress's 2017 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. During 2017, the liability was reduced by \$76.8 million by the Predecessor primarily due to the change in Federal tax rates. The tax receivable agreement liability is \$148.9 million and \$244.3 million as December 31, 2017 and 2016, respectively.

7. OTHER RELATED PARTY TRANSACTIONS AND NON-CONTROLLING INTERESTS IN CONSOLIDATED SUBSIDIARIES

Affiliate Receivables and Payables

Due from affiliates was comprised of the following:

	Private Equity		Credit		Liquid	Logan Circle	Other	Total
	Funds	Permanent Capital Vehicles	Hedge Funds	PE Funds	Hedge Funds			
December 31, 2017								
Management fees and incentive income (A)	\$ 26,675	\$ 105,575	\$ 102,963	\$ 90,997	\$ 119	\$ —	\$ —	\$ 326,329
Expense reimbursements (A)	34,682	9,538	10,777	19,047	585	—	—	74,629
Dividends and distributions	—	263	—	—	—	—	—	263
Employee loans and receivables	—	1,836	—	—	—	—	22,460	24,296
Total	<u>\$ 61,357</u>	<u>\$ 117,212</u>	<u>\$ 113,740</u>	<u>\$ 110,044</u>	<u>\$ 704</u>	<u>\$ —</u>	<u>\$ 22,460</u>	<u>\$ 425,517</u>

	Private Equity		Credit		Liquid	Logan Circle	Other	Total
	Funds	Permanent Capital Vehicles	Hedge Funds	PE Funds	Hedge Funds			
December 31, 2016								
Management fees and incentive income (A)	\$ 46,010	\$ 59,001	\$ 109,910	\$ 20,260	\$ 41	\$ 1,041	\$ —	\$ 236,263
Expense reimbursements (A)	30,306	8,417	13,013	14,668	849	108	—	67,361
Dividends and distributions	—	298	—	—	—	—	—	298
Employee loans and receivables	—	2,523	—	—	—	—	14,188	16,711
Total	<u>\$ 76,316</u>	<u>\$ 70,239</u>	<u>\$ 122,923</u>	<u>\$ 34,928</u>	<u>\$ 890</u>	<u>\$ 1,149</u>	<u>\$ 14,188</u>	<u>\$ 320,633</u>

(A) As a result of the remeasurement of the Predecessor's assets and liabilities to fair value at the time of the Merger (see Note 1), allowances were reduced to zero as of the Merger date. Amounts are presented net of allowances for uncollectible management fees and expense reimbursements of \$12.2 million and \$6.6 million as of December 31, 2016, respectively. Allowances are recorded as General and Administrative expenses.

As of December 31, 2017, amounts due from Fortress Funds recorded in Due from Affiliates included \$22.4 million of past due management fees and \$11.1 million of private equity general and administrative expenses advanced on behalf of a certain Fortress Fund. Although such fund is currently experiencing a liquidity issue, the past due amounts represent less than 4% of such fund's net asset value ("NAV") and Fortress believes these fees and reimbursable expenses will ultimately be collected.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

Due to affiliates was comprised of the following:

	December 31, 2017	December 31, 2016
General partner liability - Note 10	\$ 50,721	\$ 48,487
Other (A)	23,115	31,259
Total	<u>\$ 73,836</u>	<u>\$ 79,746</u>

(A) Includes \$3.5 million due to SoftBank.

Other

For 2017 and 2016, Other Revenues included \$17.5 million and \$5.5 million, respectively, of revenues from affiliates primarily related to interest and dividends and for 2017 also includes a one-time cash payment from Drive Shack in connection with the termination of the existing management agreement with the Predecessor.

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 is reimbursed by 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. 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 2017 and 2016, the Predecessor waived \$1.9 million in each year representing 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. The Predecessor received less than \$0.1 million loan origination fees during 2017 and 2016, respectively.

The Founders 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. All outstanding RSUs were canceled in connection with the Merger (see Note 8).

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 (including principal and accrued interest) are summarized as follows:

	December 31,	
	2017	2016
Amount outstanding	\$15.4 million	\$10.1 million
Range of interest rates	(A)	LIBOR +4.0% to LIBOR + 5.0%

(A) Advances of \$13.9 million are subject to interest rates ranging from LIBOR +4.0 % to LIBOR +5.0% and an advance of \$1.5 million is subject to a fixed interest rate of 8.0%.

During 2017, the Predecessor advanced \$5.5 million to senior employees who are not officers of the Predecessor. The advances bear interest rates up to 8%. All principal and interest is due and payable no later than February 2021. In addition, during 2017, the Predecessor received repayments of advances aggregating \$1.7 million.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

(dollars in tables in thousands, except share and per share data)

During 2016, the Predecessor advanced \$2.6 million to senior employees who are not officers of the Predecessor. The advances bear interest at rates up to LIBOR+4.5%. All principal and interest is due and payable no later than February 2020. In addition, six senior employees repaid advances aggregating \$3.4 million.

The Founders 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.

Certain employees work solely on the Founders' personal financial matters, and the Founders and one former founder reimburse Fortress for the expenses attributable to them. The total amount of such expenses was \$2.6 million and \$2.4 million in 2017 and 2016, respectively.

Certain Fortress subsidiaries may, from time to time, be required to pay taxes to various tax jurisdictions on behalf of its members, which include the Founders and other senior employees. These taxes are subject to reimbursement from the members and are collected periodically. The amounts subject to reimbursement aggregate \$3.4 million and \$0.9 million as of December 31, 2017 and 2016, respectively.

Two of the Founders leased or indirectly owned aircraft that the Predecessor chartered from a third-party aircraft operator for business purposes in the course of operations. The Predecessor and/or the funds, depending on the purposes of the trip, paid market rates for the charters. With respect to one of the Founders, these amounts totaled \$1.0 million and \$2.2 million in 2017 and 2016, respectively. With respect to the other Founder, these amounts totaled \$0.6 million and \$0.5 million in 2017 and 2016, respectively. The operators remitted a portion of these amounts to the Founders.

In February 2016, the Predecessor entered into a sale agreement with Graticule for the sale of certain software and technology related assets for \$1.7 million, with \$1.1 million received by Fortress at closing and an additional \$0.6 million received in 2017. This resulted in a \$1.7 million gain included in Gains (losses) on the consolidated statement of operations for the year ended December 31, 2016.

Non-controlling Interests in Equity of Consolidated Subsidiaries

In connection with the Merger, Fortress purchased all of the outstanding interests in FOG units that were not already owned by the Predecessor or its subsidiaries (see Note 1). For the Successor, non-controlling interests in equity of consolidated subsidiaries primarily relates to Fortress Funds' interests in consolidated entities which hold investments in CLOs (see Note 4) and to a lesser extent other equity interests held by the Founders, employees, and others in certain consolidated, but not wholly-owned, subsidiaries.

For the Predecessor, non-controlling interests in equity of consolidated subsidiaries primarily relates to FOG units held by the Founders and to a lesser extent other interests held by the Founders, employees and others in Fortress's consolidated, but not wholly-owned, subsidiaries. Changes in Fortress's ownership interests in Fortress Operating Group resulted in changes in Fortress's capital.

8. COMPENSATION

Fortress's total compensation and benefits expense for the Predecessor, including Founder Performance Payments (described below), is comprised of the following:

	2017	2016
Equity-based compensation, per below	\$ 21,992	\$ 29,208
Profit-sharing expense, per below	261,170	239,116
Discretionary bonuses	288,882	250,793
Other payroll, taxes and benefits (A)	248,802	254,553
	<u>\$ 820,846</u>	<u>\$ 773,670</u>

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

- (A) During the period from January 1, 2017 to December 27, 2017, certain Founders contributed to the Predecessor interests in a Fortress Fund which were then granted to certain senior employees. These interests were fully vested and valued at \$12.0 million as of the grant date and was included as other payroll, taxes and benefits during the period with a corresponding increase in Contributions from non-controlling interests in equity of consolidated subsidiaries in the Predecessor's consolidated statement of changes in equity.

During the period from December 28, 2017 to December 31, 2017, total compensation expense related to the Successor was \$35.8 million.

Equity-Based Compensation

In connection with the Merger (see Note 1), all outstanding RSUs were canceled and converted into the right to receive \$8.08 in cash. During the period from December 28, 2017 to December 31, 2017, Fortress recorded a non-recurring charge of \$33.5 million to equity-based compensation related to the accelerated vesting of RSUs. As of December 31, 2017, there were no outstanding RSUs.

Founders Escrow and Employee Consideration

In connection with the Merger, a portion of the cash paid to the Founders and to certain senior employees was required to be held subject to escrow. The amounts will be released upon completion of certain service conditions. Fortress recorded \$479.0 million as Founders escrow on its consolidated balance sheet related to cash paid to the Founders escrow accounts. In connection with Founders escrow, Fortress will recognize compensation expense over the required service period. Certain senior employees received \$24.6 million in cash consideration which is subject to escrow. The employee escrow amounts will be recorded as compensation expense ratably over the required service period generally between two and five years.

Founder Performance Payments

In connection with the Merger, Fortress's Founders extended their employment for a new five-year term effective upon closing. Pursuant to the new employment agreements, each Founder receives annual compensation of \$0.2 million as well as certain other customary benefits. The Founders' employment agreements contain customary post-employment non-competition and non-solicitation covenants.

The Founders will continue to receive annual payments ("Founder Performance Payments") based on their respective success in raising and investing new and existing funds during a given fiscal year and, for the credit hedge fund business, on performance of the existing AUM of Fortress's flagship hedge funds during a given year. Founder Performance Payments are payable in cash. Specifically, the payments are determined based on, for the private equity business: (i) 20% of the fund management distributable earnings above a threshold for permanent capital vehicles existing at January 1, 2012, as well as (ii) 20% of the fund management distributable earnings of new AUM in new businesses (formed after January 1, 2012); and for the credit business: (i) 20% if the incentive income earned from existing flagship hedge fund AUM at January 1, 2012, as well as (ii) 20% of fund management distributable earnings of new AUM in new businesses (formed after January 1, 2012).

The expense for Founder Performance Payments was comprised of the following:

	2017 (A)			2016 (A)		
	Equity-Based Compensation	Profit Sharing Expense	Total	Equity-Based Compensation	Profit Sharing Expense	Total
Private equity business	\$ 353	\$ 25,002	\$ 25,355	\$ 927	\$ 12,211	\$ 13,138
Credit business	1,436	30,661	32,097	3,215	23,581	26,796
Total	<u>\$ 1,789</u>	<u>\$ 55,663</u>	<u>\$ 57,452</u>	<u>\$ 4,142</u>	<u>\$ 35,792</u>	<u>\$ 39,934</u>

- (A) For 2017 and 2016, amounts relate to the Predecessor.

As of December 31, 2017 and 2016, Fortress had \$55.7 million and \$36.7 million, respectively, due to the Founders related to Founders Performance Payments which is included in Accrued compensation and benefits in the consolidated balance sheets.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

(dollars in tables in thousands, except share and per share data)

Profit Sharing Expense

Recognized profit sharing compensation expense is summarized as follows:

	2017 (A)	2016 (A)
Private equity funds	\$ 4,819	\$ —
Permanent capital vehicles (B)	10,207	18,078
Credit hedge funds	52,578	50,213
Credit PE funds	137,903	134,307
Liquid hedge funds	—	726
Founder Performance Payments	55,663	35,792
Total	<u>\$ 261,170</u>	<u>\$ 239,116</u>

(A) For 2017 and 2016, amounts relate to the Predecessor.

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

Subsequent to December 31, 2017, Fortress granted deferred cash bonuses of \$12.2 million to employees. These awards generally vest over a period of three years.

401(K) Plan

Fortress has established a tax qualified retirement plan (the "401(K) Plan") that provides employees with an opportunity to save for retirement on a tax advantaged basis. Employees participate in the 401(K) Plan on their first day of employment and are able to defer compensation up to the limits established by the Internal Revenue Service. Fortress matches a portion of the employees' contributions up to a maximum amount. Fortress expects to contribute approximately \$4.5 million to the 401(K) Plan in 2018 related to employee contributions made in 2017. Similarly, the Predecessor contributed \$4.8 million to the 401(K) Plan in 2017 related to employee contributions made in 2016.

9. PARTNERS' CAPITAL AND DISTRIBUTIONS

During the period from December 28, 2017 to December 31, 2017, Fortress distributed \$117.0 million to SoftBank.

During the period from January 1, 2017 to December 27, 2017, the Predecessor declared and paid aggregate dividends of \$41.2 million to Class A shareholders, including dividend equivalent payments paid to holders of restricted Class A share units. Additionally, during 2017, the Predecessor declared and paid distributions of \$80.0 million to Fortress Operating Group unitholders.

During the year ended December 31, 2016, the Predecessor declared and paid aggregate dividends of \$103.4 million to Class A shareholders, including dividend equivalent payments paid to holders of restricted Class A share units. Additionally, during 2016, the Predecessor declared and paid distributions of \$103.8 million to Fortress Operating Group unitholders and a former senior employee.

During 2017 and 2016, in connection with the delivery of vested RSUs, the Predecessor paid \$9.9 million and \$6.7 million, respectively, of statutory withholding tax on behalf of employees. As a result, the Predecessor only issued 1.4 million Class A shares in 2017 and 2.2 million Class A shares in 2016 in satisfaction of 2.6 million and 3.9 million, respectively, of RSUs originally granted. These payments are treated as a financing activity on the consolidated statement of cash flows.

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

In February 2014, the Predecessor entered into a purchase agreement with Nomura Investment Managers U.S.A. ("Nomura") to acquire 60,568,275 Class A shares for \$363.4 million. During 2017, the Predecessor made a final payment of \$8.4 million to Nomura related to the purchase agreement. During 2016 the Predecessor paid \$10.6 million to Nomura related to the agreement.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

10. COMMITMENTS AND CONTINGENCIES

Indemnifications – In the normal course of business, Fortress and its subsidiaries enter into operating contracts that contain a variety of representations and warranties and that provide general indemnifications. In addition, subsidiaries of Fortress that act as general partners (or in similar capacities) of Fortress Funds enter into guarantees of certain obligations of such funds in the case of fraud by Fortress employees or under similar circumstances. Fortress's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against Fortress that have not yet occurred. However, based on experience, Fortress expects the risk of material loss to be remote.

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

In March 2011, a private equity fund fell into a negative equity position, after considering all of Fortress's interests in such fund and its reserves related thereto. As described above, the amount of the negative equity was recorded, through earnings (losses) from equity method investees, by the general partner entity and is therefore included in the consolidated financial statements of Fortress. When the fund matures and is liquidated, Fortress will record a gain in the event and to the extent it does not fund this negative equity. The amount of negative equity recorded as of December 31, 2017 and 2016 was \$50.7 million and \$48.5 million, respectively.

Litigation — Fortress is, from time to time, a defendant in legal actions from transactions conducted in the ordinary course of business. Management, after consultation with legal counsel, believes the ultimate liability arising from such actions that existed as of December 31, 2017, individually and in the aggregate, will not materially affect Fortress's results of operations, liquidity or financial position.

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

Regulatory Matters — In the ordinary course of business, Fortress and its subsidiaries and equity method investees may be subject to regulatory examinations, information gathering requests, inquiries or investigations. Management, after consultation with legal counsel, does not believe these matters will ultimately have a material effect on Fortress.

Private Equity Fund, Credit PE Fund and Credit Hedge Fund Capital Commitments — Fortress has remaining capital commitments of \$180.3 million as of December 31, 2017, of which \$85.8 million is primarily related to Fortress Funds that are no longer in their investment or commitment period and \$94.5 million is related to Fortress Funds that are in their investment or commitment period. These commitments can be drawn by the funds on demand.

Incentive Income Contingent Repayment — Incentive income received from certain Fortress Funds, primarily the private equity funds and credit PE funds, is subject to contingent repayment and is therefore recorded as deferred incentive income, a liability, until all related contingencies have been resolved. The Founders guaranteed the contingent repayments to certain funds under certain conditions and Fortress has indemnified the Founders for any payments to be made under such guarantees. Fortress expects the risk of loss on each of these indemnifications and guarantees to be remote. Fortress's direct liability for such incentive income contingent repayment is discussed in Notes 2, 3 and 11.

Private Equity Fund Operating Expense Limit — Fortress is contingently liable, under an agreement with the operating subsidiary of its private equity funds, for any expenses of such subsidiary in excess of amounts approved by the private equity funds' advisory board (comprised of representatives of the funds' investors). Fortress monitors these expenses and does not expect to make any payments related thereto.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

(dollars in tables in thousands, except share and per share data)

Debt Covenants — Fortress's debt agreements contain various customary loan covenants (see Note 5). Fortress was in compliance with its debt covenants which were applicable as of December 31, 2017.

Minimum Future Rentals — Fortress is a lessee under operating leases for office space located in a number of locations worldwide. Lease agreements mature at various dates through 2032, typically have optional 5-year renewal periods and rent escalations based on a fixed percentage of the landlord's annual operating expenses and tax expense. Minimum future rental payments (excluding expense escalations) under these leases as of December 31, 2017 are as follows:

Year Ending December 31,

2018	\$	28,162
2019		28,114
2020		26,572
2021		25,457
2022		23,859
Thereafter		228,828
Total	\$	<u>360,992</u>

Rent expense, including operating expense escalations, during 2017 and 2016 was \$32.0 million and \$27.3 million respectively, and was included in General, administrative and other in the consolidated statements of operations.

11. SEGMENT REPORTING

Fortress conducts its management and investment business through the following primary segments: (i) private equity funds, (ii) permanent capital vehicles, (iii) credit hedge funds, (iv) credit PE funds, (v) liquid hedge funds and (vi) Logan Circle. The sale of Logan Circle was completed in September 2017.

For segment results of operations, the amounts not allocated to a segment consist primarily of expenses incurred by the Predecessor related to its acquisition by SoftBank for 2017, interest expense incurred with respect to corporate borrowings, foreign currency transactions and interest income. Assets not allocated to a segment consist primarily of cash and net deferred tax assets.

Management assesses its segment results on a pre-tax basis.

Management assesses the net performance of each segment based on its "distributable earnings" ("DE") and utilizes "fund management distributable earnings" or "fund management DE" as a supplemental measure of segment performance. Neither distributable earnings nor fund management DE is a measure of cash generated by operations which is available for distribution. Rather, they are supplemental measures of operating performance used by management in analyzing its segments and overall results. Neither distributable earnings nor fund management DE should be considered as an alternative to cash flow, in accordance with GAAP, as a measure of Fortress's liquidity, and they are not necessarily indicative of cash available to fund cash needs (including dividends and distributions).

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

"Distributable earnings" attributable to the Fortress businesses is equal to net income (loss) attributable to Foundation Holdco Partners' Capital (Successor) and Class A shareholders (Predecessor) adjusted as follows:

Incentive Income

- (i) a. for Fortress Funds which are private equity funds 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 as described below (net of the reversal of any prior such reserves that are no longer deemed necessary), less (b) incentive income recorded in accordance with GAAP,

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

- b. for other Fortress Funds, at interim periods, adding (a) incentive income on an accrual basis as if the incentive income from these funds were earned on a quarterly basis, less (b) incentive income recorded in accordance with GAAP,
- c. adding the receipt of cash or proceeds from the sale of shares received (a) as incentive income from the publicly traded permanent capital vehicles and (b) pursuant to the exercise of options in the publicly traded permanent capital vehicles, if any, in excess of their strike price,
- d. adding incentive income received from third parties which is subject to contingent repayment less incentive income from third parties that is no longer subject to contingent repayment.

Other Income

- (ii) with respect to income from certain investments in the Fortress Funds and certain other interests or assets that cannot be readily transferred or redeemed:
 - a. for equity method investments in the private equity funds and credit PE funds as well as indirect equity method investments in hedge fund special investment accounts (which generally have investment profiles similar to private equity funds), treating these investments as cost basis investments by adding (a) realizations of income, including dividends, from these funds, less (b) impairment with respect to these funds, if necessary, less (c) equity method earnings (or losses) recorded in accordance with GAAP,
 - b. subtracting gains (or adding losses) on options held in the publicly traded permanent capital vehicles and warrants held in a publicly traded company,
 - c. subtracting unrealized gains (or adding unrealized losses) on derivatives, direct investments in publicly traded portfolio companies and in the publicly traded permanent capital vehicles,
- (iii) subtracting management fee income recorded in accordance with GAAP in connection with the receipt of options from the publicly traded permanent capital vehicles, if any,
- (iv) for 2017, subtracting the adjustment to the gain on the sale of Logan Circle,

Expenses

- (v) adding or subtracting the employee profit sharing portion of (a) incentive income described in (i) above to match the timing of the expense with the revenue, (b) unrealized gains (losses) related to foreign exchange derivative contracts used to economically hedge future estimated incentive income and (c) intrinsic clawback, if any, which represents incentive income previously received from a fund that would be clawed back if the fund were liquidated at the end of the period at its NAV,
- (vi) adding back equity-based compensation expense (including grants to employees of tandem options in the publicly traded permanent capital vehicles, grants to employees of equity interests in Fortress Funds and portfolio company investments, RSUs (including the portion of related dividend and distribution equivalents recorded as compensation expense) and restricted shares),
- (vii) adding back the amortization of intangible assets and any impairment of goodwill or intangible assets recorded under GAAP,
- (viii) adding the income (or subtracting the loss) allocable to the interests in consolidated subsidiaries attributable to Fortress Operating Group units,
- (ix) adding back income tax benefit or expense and any income or expense recorded in connection with the tax receivable agreement (Note 6), and
- (x) adding back compensation expense recorded in regards to escrow amounts associated with the Founders and employees as part of the initial consideration transferred by SoftBank as of the Merger date.

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

Management believes only the incentive income related to realized fund income should be considered available for distribution, subject to a possible reserve, determined on a fund by fund basis, as necessary, for potential future clawbacks deemed to have more than a remote likelihood of occurring by Fortress's CODM as described below. As such, distributable earnings generally includes incentive income to the extent it relates to paid or declared distributions from Fortress Funds' investments that have been monetized through sale or financing. This type of incentive income is not recorded as revenue for GAAP purposes, under the

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

revenue recognition method Fortress has selected, until the possibility of a clawback is resolved. This GAAP method is not completely reflective of value created during the period which is available for distribution as it disregards the likelihood that any contingent repayment will in fact occur.

Distributable earnings is limited in its usefulness in measuring earnings because it recognizes as revenue amounts which are subject to contingent repayment, it ignores potentially significant unrealized gains and losses and it does not fully reflect the economic costs to Fortress by ignoring certain equity-based compensation expenses. Fund management DE is further limited due to its exclusion of the performance of Fortress's investments and related financing, which are material.

Management utilizes distributable earnings and fund management DE as well as net income in its analysis of the overall performance of Fortress and notes that the measures are each useful for different purposes.

Total segment assets are equal to total GAAP assets adjusted for:

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

Distributable Earnings Impairment

For purposes of this discussion, the term "private equity funds" includes hedge fund special investment accounts, which have investment profiles that are generally similar to private equity funds, permanent capital vehicles and credit PE funds.

Pursuant to the definition of Distributable Earnings ("DE") above, impairment is taken into account in the calculation in two ways: first, in section (i)(a) regarding private equity and credit PE incentive income, and, second, in section (ii)(a) regarding equity method investments in private equity funds and credit PE funds. Pursuant to section (ii)(a), distributable earnings does not include unrealized losses from investments in private equity funds and credit PE funds, unless an impairment is required to be recognized.

Investments in Private Equity Funds and Credit PE Funds

Unrealized changes in the value of investments in private equity funds and credit PE funds are not recorded through distributable earnings, subject to potential impairment. An analysis for potential impairment is performed whenever the reported NAV of a fund or the fair market value of the publicly traded permanent capital vehicle attributable to Fortress's investment is less than its cost basis in such investment. The NAV of a fund is equal to the fair value of its assets less its liabilities. Fortress analyzes these investments for impairment using the "other than temporary" impairment criteria in a manner similar to the one specified for accounting for certain debt and equity securities under GAAP. As a result, a fund investment is considered impaired for DE purposes whenever it is determined by the CODM that Fortress does not have the intent and ability to hold the investment to an anticipated recovery in value, if any, to or above Fortress's cost basis.

Private Equity and Credit PE Incentive Income

For DE purposes, incentive income is recognized from private equity funds and credit PE funds as it is realized, subject to a reserve for potential clawback if the likelihood of clawback is determined to be greater than remote by the CODM. Incentive income from the private equity funds and credit PE funds is paid to Fortress as particular investments are realized. However, it is subject to contingent repayment (or clawback) if the fund as a whole does not meet certain performance criteria.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

Fortress's CODM has defined "remote" in this context to mean that management does not believe there is a reasonable likelihood of a clawback and therefore its base case expectations of a fund's performance do not include a promote clawback. This is an easier threshold to meet than the "other than temporary" threshold used for estimating investment impairment. Management's base case expectations are generally not greatly impacted by short-term volatility in the value of a fund's portfolio companies, including the market prices of the shares of publicly traded portfolio companies, unless either (a) the operating performance of the underlying company, or the value of its assets, are expected to be impacted on a long-term basis (long-term being defined in relation to the remaining life of a given fund), or (b) the value has been depressed below a breakeven point (as described below) for a period in excess of 6-9 months (as circumstances and other factors dictate). These criteria reflect the CODM's belief that short term changes in the values of portfolio companies do not have a material impact on the likelihood of a clawback, absent deterioration in such companies' operating performance or in the value of their underlying assets.

Fortress conducts an analysis at each quarter end to determine whether a clawback reserve is required. The factors that enter into this analysis include: the amount of intrinsic unrealized gains or losses within each fund, the period of time until expected final realization, the diversification of the fund's investments, the expected future performance of the fund, the period of time the fund has been in an intrinsic clawback position (i.e. liquidation at NAV would indicate a clawback, if any), and others as determined by the CODM. The point at which a liquidation at NAV would indicate no clawback and no additional promote payment is referred to as the breakeven point.

Clawback Reserve on Incentive Income for DE Purposes

As of December 31, 2017, Fortress had an intrinsic clawback obligation of \$4.8 million for certain credit PE funds. Based on its analysis of the factors mentioned above, Fortress's CODM has determined no clawback DE reserve is necessary.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

Segment Results of Operations

Summary financial data on Fortress's segments is presented on the following pages, together with a reconciliation to revenues, assets and net income (loss) for Fortress as a whole. Fortress's investments in, and earnings (losses) from, its equity method investees by segment are presented in Note 4.

	Private Equity		Credit		Liquid Hedge Funds	Logan Circle	Unallocated	Total
	Funds	Permanent Capital Vehicles	Hedge Funds	PE Funds				
December 31, 2017 and the Year then Ended								
Segment revenues								
Management fees	\$ 79,522	\$ 123,232	\$ 148,778	\$ 116,781	\$ 2,912	\$ 43,273	\$ —	\$ 514,498
Incentive income	14,298	153,516	121,879	148,249	561	901	—	439,404
Segment revenues - total	<u>\$ 93,820</u>	<u>\$ 276,748</u>	<u>\$ 270,657</u>	<u>\$ 265,030</u>	<u>\$ 3,473</u>	<u>\$ 44,174</u>	<u>\$ —</u>	<u>\$ 953,902</u>
Fund management distributable earnings (loss) before earnings from Affiliated Manager and Founder Performance Payments (B)	<u>\$ 54,419</u>	<u>\$ 147,111</u>	<u>\$ 107,589</u>	<u>\$ 62,523</u>	<u>\$ (5,811)</u>	<u>\$ (688)</u>	<u>\$ (61,874)</u>	<u>\$ 303,269</u>
Fund management distributable earnings (loss) before Founder Performance Payments (B)	<u>\$ 54,419</u>	<u>\$ 147,111</u>	<u>\$ 107,589</u>	<u>\$ 62,523</u>	<u>\$ 6,616</u>	<u>\$ (688)</u>	<u>\$ (61,874)</u>	<u>\$ 315,696</u>
Fund management distributable earnings (loss)	<u>\$ 53,932</u>	<u>\$ 122,598</u>	<u>\$ 86,896</u>	<u>\$ 52,554</u>	<u>\$ 6,616</u>	<u>\$ (688)</u>	<u>\$ (61,874)</u>	<u>\$ 260,034</u>
Pre-tax distributable earnings (loss) before interest expense	<u>\$ 88,542</u>	<u>\$ 125,133</u>	<u>\$ 100,860</u>	<u>\$ 66,041</u>	<u>\$ 23,218</u>	<u>\$ 168,682</u>	<u>\$ (59,036)</u>	<u>\$ 513,440</u>
Pre-tax distributable earnings (loss)	<u>\$ 88,542</u>	<u>\$ 125,132</u>	<u>\$ 100,860</u>	<u>\$ 66,039</u>	<u>\$ 23,218</u>	<u>\$ 168,682</u>	<u>\$ (67,225)</u>	<u>\$ 505,248</u>
Total segment assets	<u>\$ 539,809</u>	<u>\$ 248,181</u>	<u>\$ 241,817</u>	<u>\$ 323,398</u>	<u>\$ 420,185</u>	<u>\$ 991</u>	<u>\$ 394,182 (A)</u>	<u>\$ 2,168,563</u>
December 31, 2016 and the Year then Ended								
Segment revenues								
Management fees	\$ 93,816	\$ 110,239	\$ 149,860	\$ 125,648	\$ 14,275	\$ 57,141	\$ —	\$ 550,979
Incentive income	—	67,338	131,224	240,938	1,035	537	—	441,072
Segment revenues - total	<u>\$ 93,816</u>	<u>\$ 177,577</u>	<u>\$ 281,084</u>	<u>\$ 366,586</u>	<u>\$ 15,310</u>	<u>\$ 57,678</u>	<u>\$ —</u>	<u>\$ 992,051</u>
Fund management distributable earnings (loss) before earnings from Affiliated Manager and Founder Performance Payments (B)	<u>\$ 58,419</u>	<u>\$ 82,513</u>	<u>\$ 124,423</u>	<u>\$ 111,386</u>	<u>\$ (14,067)</u>	<u>\$ 3,765</u>	<u>\$ —</u>	<u>\$ 366,439</u>
Fund management distributable earnings (loss) before Founder Performance Payments (B)	<u>\$ 58,419</u>	<u>\$ 82,513</u>	<u>\$ 124,423</u>	<u>\$ 111,386</u>	<u>\$ 591</u>	<u>\$ 3,765</u>	<u>\$ —</u>	<u>\$ 381,097</u>
Fund management distributable earnings (loss)	<u>\$ 58,394</u>	<u>\$ 70,328</u>	<u>\$ 104,929</u>	<u>\$ 107,299</u>	<u>\$ 591</u>	<u>\$ 3,765</u>	<u>\$ —</u>	<u>\$ 345,306</u>
Pre-tax distributable earnings (loss) before interest expense	<u>\$ 59,441</u>	<u>\$ 72,934</u>	<u>\$ 110,722</u>	<u>\$ 127,072</u>	<u>\$ (1,696)</u>	<u>\$ 4,033</u>	<u>\$ 210</u>	<u>\$ 372,716</u>
Pre-tax distributable earnings (loss)	<u>\$ 59,441</u>	<u>\$ 72,934</u>	<u>\$ 110,722</u>	<u>\$ 127,070</u>	<u>\$ (1,696)</u>	<u>\$ 4,033</u>	<u>\$ (10,167)</u>	<u>\$ 362,337</u>
Total segment assets	<u>\$ 610,953</u>	<u>\$ 157,458</u>	<u>\$ 188,551</u>	<u>\$ 253,038</u>	<u>\$ 77,189</u>	<u>\$ 48,487</u>	<u>\$ 900,765 (A)</u>	<u>\$ 2,236,441</u>

(A) As of December 31, 2017, unallocated assets included cash of \$291.4 million. As of December 31, 2016, unallocated assets included cash of \$387.5 million and net deferred tax assets of \$424.2 million.

(B) See Note 8. Fund management distributable earnings (loss) is only reduced for the profit sharing component of the Founder Performance Payments.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

Reconciling items between segment measures and GAAP measures:

	Year Ended December 31,	
	2017	2016
Fund management distributable earnings	\$ 260,034	\$ 345,306
Investment income (loss)	253,406	27,410
Pre-tax distributable earnings before interest expense	513,440	372,716
Interest expense	(8,192)	(10,379)
Pre-tax distributable earnings	505,248	362,337
Adjust incentive income		
Incentive income received from or declared by private equity funds and credit PE funds, subject to contingent repayment	(162,546)	(240,938)
Incentive income received from third parties, subject to contingent repayment	(1,620)	(7,371)
Incentive income from private equity funds and credit PE funds, not subject to contingent repayment	153,896	169,474
Incentive income from hedge funds, permanent capital vehicles and Logan Circle, subject to annual performance achievement	—	—
Incentive income from third parties, not subject to contingent repayment	5,793	13,793
Incentive income received related to the exercise of options	(9,810)	(4,391)
	(14,287)	(69,433)
Adjust other income (loss)		
Distributions of earnings from equity method investees (A)	(60,014)	(25,310)
Earnings (losses) from equity method investees (A)	10,037	(38,396)
Gains (losses) on options and warrants	38,629	22,621
Gains (losses) on other investments	2,750	1,792
Impairment of investments	775	3,682
Adjust income from the receipt of options	8,068	4,550
Adjust gain on sale of Logan Circle (Note 1)	19,732	—
	19,977	(31,061)
Adjust employee, Founder and director compensation		
Adjust employee, Founder and director equity-based and other compensation expense (including publicly traded permanent capital vehicle options assigned)	(75,947)	(30,907)
Adjust employee portion of incentive income from private equity funds and credit PE funds, accrued prior to the realization of incentive income	(62,638)	(12,678)
	(138,585)	(43,585)
Adjust amortization of intangible assets and impairment of goodwill and intangible assets	(3,596)	(2,636)
Adjust non-controlling interests related to Fortress Operating Group units	(168,007)	(85,793)
Adjust tax receivable agreement liability	76,763	(7,223)
Adjust income taxes and other tax related items	(205,481)	(28,164)
Total adjustments	(433,216)	(267,895)
Net income (loss) attributable to Foundation Holdco partners' capital (Successor) and Class A Shareholders (Predecessor)	72,032	94,442
Non-controlling Interests in Income of Consolidated Subsidiaries (Predecessor)	170,628	86,200
Net Income (GAAP) (Predecessor and Successor)	\$ 242,660	\$ 180,642

- (A) This adjustment relates to all of the private equity, credit PE Fortress Funds and hedge fund special investment accounts in which Fortress has an investment.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

Reconciling items between segment measures and GAAP measures:

	December 31,	
	2017	2016
Total segment assets	\$ 2,168,563	\$ 2,236,441
Adjust investments from segment carrying amount	41,082	(13,826)
Adjust investments gross of employees' and others' portion	129,902	5,492
Adjust intangible assets to cost	(4,605)	(26,733)
Adjustments related to Merger (A):		
Founders escrow	477,764	—
Finite-lived intangible assets, net	1,174,513	—
Goodwill	125,870	—
Other	(961)	—
Total assets (GAAP)	\$ 4,112,128	\$ 2,201,374

- (A) Determining the fair value of assets acquired requires judgment and involves the use of significant estimates and assumptions, including assumptions with respect to the volatility of underlying assets, future cash inflows and outflows and discount rates. The use of different estimates and judgment could yield materially different results.

	December 31,	
	2017	2016
Total segment revenues	\$ 953,902	\$ 992,051
Adjust management fees	(3,239)	(1,248)
Adjust incentive income (A)	(33,136)	(88,471)
Adjust income from the receipt of options	8,068	4,550
Adjust other revenues (including expense reimbursements) (B)	252,812	256,924
Total revenues (GAAP)	\$ 1,178,407	\$ 1,163,806

- (A) Includes (i) dividends received from publicly traded permanent capital vehicle shares received as incentive income and shares received from previously exercised permanent capital vehicle options and (ii) incentive income received not subject to contingent repayment, totaling \$18.8 million and \$19.0 million during the years ended December 31, 2017 and 2016, respectively, which are included in segment measures as part of incentive income, while included in GAAP as part of other revenues.
- (B) Segment revenues do not include GAAP other revenues, except to the extent they represent management fees or incentive income paid during the current period; such revenues are included elsewhere in the calculation of distributable earnings.

Fortress's total depreciation and amortization expense for the Predecessor is comprised of the following:

	Private Equity		Credit		Liquid Hedge Funds	Logan Circle	Corporate	Total
	Funds	Permanent Capital Vehicles	Hedge Funds	PE Funds				
2017								
Depreciation	\$ 791	\$ 3,407	\$ 4,186	\$ 2,373	\$ 2,502	\$ 247	\$ 1,741	\$ 15,247
Amortization	—	—	1,375	—	—	234	—	1,609
Total	\$ 791	\$ 3,407	\$ 5,561	\$ 2,373	\$ 2,502	\$ 481	\$ 1,741	\$ 16,856
2016								
Depreciation	\$ 1,171	\$ 3,861	\$ 6,001	\$ 2,712	\$ 3,098	\$ 330	\$ 2,920	\$ 20,093
Amortization	—	—	2,305	—	—	331	—	2,636
Total	\$ 1,171	\$ 3,861	\$ 8,306	\$ 2,712	\$ 3,098	\$ 661	\$ 2,920	\$ 22,729

During the period from December 28, 2017 to December 31, 2017, total depreciation and amortization expense related to the Successor was \$2.0 million.

FOUNDATION HOLDCO LP (DBA FORTRESS INVESTMENT GROUP)
(Prior to December 28, 2017, FORTRESS INVESTMENT GROUP LLC - NOTE 1)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
(dollars in tables in thousands, except share and per share data)

12. SUBSEQUENT EVENTS

These financial statements include a discussion of material events, if any, which have occurred subsequent to December 31, 2017 (referred to as "subsequent events") through the date these consolidated financial statements were available for issuance on April 13, 2018. Management has evaluated the subsequent events through this date and has concluded that no other material subsequent events have occurred that require additional adjustment or disclosure in the consolidated financial statements.

End of Document
