FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning. My name is Brooke and I will be your conference operator today. At this time, I would like to welcome everyone to the Fortress fourth quarter year-end earnings conference call. All lines have been placed on mute to prevent in I background noise. After the speakers remarks there will be a question-and-answer session. (Operator Instructions) Ms. Lilly Donohue, you may begin your conference.

Lilly Donohue - *Fortress Investment Group LLC - Director, IR*

Thanks, Brooke. Good morning, everyone. I would like to with welcome you all this morning, February 25, for our fourth quarter and year-end 2009 earnings conference call. Joining me today is Dan Mudd our CEO, Dan Bass our CFO, we also have with us today Wes Edens, Pete Briger, and Mike Novogratz

I would like to point out statements today which are not historical fact may be forward-looking statements. Our actual results may differ materially from the estimates or expectations in any forward-looking statements. These statements represent the Company's beliefs regarding events that by their nature are uncertain and out side of the Company's control. I would encourage you to review the forward-looking statements disclaimer in our quarterly earnings release including the recommendation to review the risk factors that are contained in our quarterly reports that are filed with the SEC. Now with that I would like to turn it over to Dan Mudd.

Dan Mudd - *Fortress Investment Group LLC - CEO*

Thanks, Lilly. Good morning, everybody, and thanks for joining us. Let me give you my views on the quarter and the year. I think the year '09 at Fortress was really a reflection of the global economy and the markets we invest in. There was progress, there was positive momentum, and there were a few bumps along the way. Let's start with the three key indicators that we focus on--assets, distributable earnings and performance.

AUM is at $31.8 billion at year-end which is up 8%. Pretax DE was $126 million for the full year versus a loss of $162 in 2008. Q4 DE was $1 million, a result of $67 million in noncash items, which had already been marked down on the balance sheet that we took through earnings. Even so that fourth quarter reversed a loss from a year ago. And importantly, fund performance continued to improve across all of our businesses. The macro and credit funds recovered from negative returns in '08 ending '09 with strong positive returns including reaching some high water marks. As of year-end, $1.3 billion of assets in the liquid hedge funds were at their respective high water marks and thus eligible to earn performance fees.

I will spend a few minutes providing detail and perspective and then Dan Bass will go through the results in detail. We will spend the bulk of the time on your questions. First the market in the fourth quarter, the markets played out 2009, which is a recovery slow, shallow, bumps along the way if you think about Dubai, Greece and beyond.

We are thinking about the arc of this market in three phases, the first phase really transpired in 2008 and 2009. As you all know, the system basically ceased to function, panic set in in places, stop-gaps were rushed into place. We witnessed that through the dislocation in our private equity business and our macro fund although we found some opportunities to bottom fish distressed securities in our hybrid business. In response to all of that we cut costs, we rebalanced our portfolios, we addressed our capital structure, and helped our investors manage their portfolio issues. We made adjustments of our own, regained initiative and I think that's evidence by the capital raising and acquisition, and strong investment performance since mid year '09.

The second phase began in late '09 and it continues today. We think the extraordinary Government intervention has created broad directionality in terms of central bank policy, liquidity, deleveraging, in other words the system is functioning, but the timing is still uncertain, and highly subject to volatility. In Phase II, the world is going to change. Over 1,000 banks could fail, companies will sell or liquidate entire lines of business and deleveraging and restructuring will proliferate. Having made the adjustments at Fortress, we think this environment sets up well for our macro business, which can benefit from the volatility, and our distressed credit business which is all about restructuring and managing complexity.

Finally, we think we will enter a third phase over the course of the next couple of years. For some it will be a new normal but we think that companies will not actually be able to participate in the new normal economy until they have come through the necessary deleveraging, restructuring, consolidation, or other painful adjustments. And that we think of course is the classic environment for control private equity. So in short I think having survived the turmoil of the past two years we have are three, and soon to be four businesses, that position us well to invest across the cycles.

The Company, now let's go through the Company and review the three levers that build value performance, capital formation, and business development. On the performance side, assets under management, as you know refers to the amount on which we earn management fees was at $31.8 billion, up 8% on the year. That number was essentially flat to Q3, as capital inflows and positive performance offset capital distributions actually paid out and redemptions actually paid out in the quarter.

Our fund management business produced solid results of $60 million in distributable earnings for the quarter, $208 million for the year, which I think is a reiteration of our stable long-term fee income stream. Pretax DE was $126 million for the full year, up significantly from a loss of $162 million in '08. In the fourth quarter of '09 as I said, pretax DE was $1 million, up from a loss of $258 million, Q4 '08. As we noted, our pretax DE results this quarter were impacted by $67 million of noncash impairments on the balance sheet, $63 million of total impairment is on our investment in Flagler, our Florida based real estate company. This investment has been marked below cost for a period of time, and this quarter, we took the charge for the unrealized loss through the P&L.

A few words about each of the three businesses. We have a total of $4.3 billion of capital in our liquid hedge funds. The Drawbridge Global Macro fund was up 24.2% on an annualized basis for '09. In the month of January, the fund was up approximately 2% net, though February so far has been a bit bumpier.

Here is a march through time to kind of make clear where we are with respect to high water marks in that business. Entering 2009, all of the capital in our macro funds was under the high water mark. By year-end '09, 19% was above the high water mark, and currently, we estimate that to have increased to 36%. Thus, in total we estimate that over 90% of the funds in macro are within 3% of the high water mark or better.

Moving on to our credit funds, we ended the quarter with $12.9 billion of assets under management, up significantly from $8.8 billion at the beginning of the year. That increase was primarily driven by new assets under management and improved performance. Our $5.2 billion credit focused hedge fund, Drawbridge Special Opportunities, also had a good quarter and was up 5.8% net. This brings the 2009 net return for the fund to 25% from a loss of 26% in 2008. On average, this fund is now within 8% plus or minus of its high water mark. And Pete's credit private equity funds, which totaled $3.3 billion of assets, have a multiple of about 1.3 times invested capital as of year-end.

Now, on to the private equity business, Wes' business saw continued progress in the quarter, our AUM was at $14.6 billion, up from $14.3 billion in Q3, and up $1.1 billion from the start of '09, as valuations improved pretty much across the board. Clearly we have a ways to go in term of generating the returns we expect and are used to in private equity. Importantly though, we note that the underlying performance of our portfolio companies has been flat to positive. In the aggregate for example, the cash flow in our private equity portfolios in aggregate was up about 12% in '09, and that year we extinguished approximately $3.7 billion of debt in the portfolio companies and refinanced approximately $4.2 billion. So, today over 72% of the portfolio companies' debt is extended out to 2013 or beyond.

Let me move on, and talk about capital formation for just a second. We are building a lot of momentum here behind new capital. We raised just under $700 million of new capital in the fourth quarter, which brings our total new capital for 2009 to approximately $1.4 billion. As a sign of that momentum, in first two months of this year alone, we have raised approximately $651 million, have rolled out a new fund and a number of single investor managed accounts. So as I have noted along the way, I think we are seeing investors put capital back to work. And we are working pretty hard to be the solution provider of choice to those clients and investors.

With respect to business development, on February 16, we announced the signing of an agreement to acquire Logan Circle which will expand Fortress capabilities into traditional asset management. As a little perspective, we will remain at our core in alternative asset manager in the bulk of our earnings will come from our three original businesses for the foreseeable future. That said, a broader array of businesses will diversify our income streams, increase our client conversations, and put us in a position to keep pace with long-term investor flows.

A little bit of background on Logan Circle Partners, this is a $12 billion loan only fixed institutional fixed income manager. Logan's founder, Jude Driscoll, and his team are well respected in the industry, and as important, are a very cohesive group who have operated together through this market cycle. Their fundamental credit focused approach to fixed income is very consistent with our investment philosophy and fills a hole in the credit spectrum where we don't currently invest. There's a debate, as you know, in the asset management industry, will investors become more conservative? Will they seek more liquidity? Will they be more focused on catching up returns? And I think the real answer is it depends upon the individual investor. So it makes sense for us to be positioned to serve investors needs which ever way they go.

So, with that, Logan is a building block investment, it will be funded with cash. It will be nondilutive. It represents a high quality platform that will enable us to take advantage of big trends in the asset management industry, the team came out of Delaware Asset Management which oversaw about $170 billion in assets. So this team can manage scale, and will be very helpful to us in looking at opportunities as with we go forward, and we expect to close that transaction during the second quarter.

So, to summarize, I think in '09, we continue to build positive momentum, performance improved across all of our businesses, we raised new capital, and looking ahead, the business is well positioned, the deal flow is good, and we have this new platform to expand into long only asset management. So let me stop there and turn it over to Dan Bass for a deeper dive into the financials. Dan?

Dan Bass - *Fortress Investment Group LLC - CFO*

Thanks, Dan. Good morning, everybody. Our financial results and performance for the quarter were solid. This is highlighted by a few specific items. First the stickiness of our AUM which ended the year at approximately $31.8 billion. 79% of these assets represent long-term committed capital which provides us with a stable source of management fees and the platform from which we can earn incentive fees. Second, performance was strong across the board and we are beginning to tap into the incentive fee earning potentials of our funds demonstrated by the incentive income we recognized in the quarter, and finally, we are continuing to diversify the products that we offer our investors through new alternative funds we are raising, such as our Japan and credit opportunities funds, liquid funds, and through acquisitions such as Logan Circle.

With those points in mind let review the results in more detail. Pretax DE, one of our primary measures of financial performance was $1 million for the quarter and $126 million for the year. This result was impacted by noncash impairment charges of $67 million for quarter and $101 million for the year, which brings our pretax DE per dividend paying share to $0.26 for the year, per share.

If I may I will take a moment to address our GAAP net income. Our GAAP net loss attributable Class A shareholders was $255 million for the year or $2.08 per share and this was an improvement over last year where we had a loss of $3.50 per share. And also, our GAAP net income excluding the, the $952 million of noncash charges due to the principles compensation accounting was $43 million for the year.

Drilling in on DE results more closely, the largest component of DE was is our fee-based operating results or fund management DE. For the quarter, fund management DE was $60 million and $208 million for year. This result was comprised of $157 million of segment revenues and $97 million of segment expenses, resulting in a DE operating margin for the quarter of 38%, but brought our full year operating margin to 42%. Segment management fees were $100 million for the quarter. This was $8 million less than the third quarter as we took an $11 million reserve on deferred management fees previously recorded on our Intrawest sidecar fund.

Incentive fees were $57 million for the quarter, an increase of $47 million from the third quarter. Some of our mature private equity funds sold a portion of their holdings in Brookdale in November realizing and distributing proceeds to investors and earning us $9 million in incentive fees. Related to that, we also released $27 million of our incentive fee claw back reserve which we took late last year, on our private equity fund II. This was reserve release was also due to the Brookdale sale, as the transaction reduced our claw back exposure to the fund. The remaining $21 million was primarily due to $15 million of incentive fees from our hybrid PE funds related to required GP distributions based on the funds taxable profits and $6 million from our liquid hedge funds.

Further influencing fund management DE was the positive performance of our funds. As noted in our press release, all performance measures for all of our funds are up, during the quarter, and for the year. As Dan mentioned, the Special Opportunities fund was up 5.8% for the quarter, 25% for the year, and the Drawbridge Global Macro fund was up 3.9% for the quarter and 24.2% for the year. All of our funds, entered '08 carrying losses to reach their respective high water marks. And the performance of all of these funds have allowed them to make up considerable portion of this, these losses.

To reiterate what Dan said, approximately 19% of our macro funds, fee paying capital was at the high water mark as of the year end. As a result we were able to generate $2 million of incentive income during the fourth quarter based on its return. Right now, assuming the SPV liquidates at current marks, we estimate the macro funds have approximately 36% to liquid fee paying capital above its high water mark and approximately another 57% bringing the total to approximately 93% of the capital is above or within 3% of reaching the high water mark. The commodities fund which has all of its capital above the high water mark earned $4 million of incentive income in the quarter and $10 million for the year.

Moving on to assets, AUM for the quarter was flat compared to the prior quarter ending at $31.8 billion. Included in this, during the quarter was $1.1 billion of pay outs to investors, $700 million pertained today the preplanned orderly liquidation of the macro SPV and our slow pay accounts on the credit hedge funds, and $400 million related to current period redemption. In addition, AUM went down by $200 million due to the positive performance which allowed us to return net capital to investors in our hybrid PE funds. These capital outflows were offset by $680 million of capital raised in the fourth quarter across all of our funds. Additionally, fund performance increased AUM by $500 million, $300 million from private equity and $200 million from our liquid hedge funds. So far, as also Dan mentioned, 2010 capital raising efforts are off to a good start, having raised approximately $650 million of new money in the first two months.

As I mentioned previously, the majority of our expenses are related to compensation. Our compensation structures are intended to retain talent but also provide us flexibility to align our expenses and our employees incentives with the performance of the firm. Our goal is to retain operating margins that are between 40% and 50% based on management fees and incentive income we are generating. While our margin for the fourth quarter was 38% due to year-end compensation, we did attain a full year margin of 42% which is within our annual targeted range. Further, we issued our first meaningful equity award since IPO is part of our annual performance bonuses. These awards granted in 2010 have three year vesting periods and further align the long-term relationship between performance and our employees' compensation.

Shifting to principle finance, the segment that reflects the performance results of our balance sheet investments, the quarterly DE for the segment was a $59 million loss. This loss included $67 million of noncash impairments of which $63 million related to our investment in Flagler. After taking this charge, our balance sheet no longer has any investments with unrecognized losses. In fact, we have unrealized gains for DE purposes of approximately $153 million. Our principle and asset portfolio ended the quarter $847 million, the value during the quarter was down 25%, or $25 million or 3%, $21 million of this decline related to the Flagler investments. On the other side of the balance sheet we paid down $14 million of our term loan during the quarter and subsequently after the, after year-end we paid down another $14 million, bringing our total of that outstanding to approximately $384 million. In addition, pursuant to our credit agreement, our debt to EBITDA leverage ratio ended the year at 1.71 times reflecting a healthy low leverage sustainable capital structure.

Additionally as you may have already seen yesterday, S&P and Fitch issued investment grade ratings for Fortress. Fitch gave us a BBB rating and S&P a BBB minus rating, and both with a stable outlook. These ratings provide us with more flexibility to optimize our capital structure as we have two plus years remaining to maturity on our existing credit facility. As it relates to taxes, our effective tax rate for 2009 was approximately 27%. This was on the higher end of our expected range of 24% to 27% as most of the impairments recorded in the fourth quarter and for the year, were on assets held in our principle holdings entity of our business. This entity does not incur any entity level tax and thus, no tax benefit can be recorded against this loss. This has the effect of unfortunately increasing our effective tax rate.

In closing, I want to be reiterate the highlights I opened with. We believe our 2009 fund management DE results are a reflection of the stability of our AUM and platform. Our 2009 performance enabled our funds to recover a significant portion of prior period losses and in some cases, earn incentive fees. This has positioned us well for 2010 and we expect to earn incentive fees across a greater portion of our funds. And finally, we continue to create funds, raise capital, and build businesses that contribute to our firms earning potential and further diversify our platform. Thank you for your time and now we'll open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Roger Freeman with Barclays Capital.

Roger Freeman - *Barclays Capital - Analyst*

Dan, Dan Bass, the credit rating you just got you issued, should we look at that as something you will issue debt near term to have available to either support existing investments or make new ones?

Dan Bass - *Fortress Investment Group LLC - CFO*

It is another spot in the continuum around us optimizing our capital structure. I think it just opens up avenues for opportunities for us to do many different things with respect to our capital structure. We just look at it as a validation for the rating agencies that we are investment grade and that our business is investment grade.

Roger Freeman - *Barclays Capital - Analyst*

Right. But just to, look at what you have got available right now, $100ish right in cash in the balance sheet and $60 of availability on the credit facility, is that about right?

Dan Bass - *Fortress Investment Group LLC - CFO*

Yes, that's about probably closer to $150 million on the balance sheet and $60 million of availability.

Roger Freeman - *Barclays Capital - Analyst*

Okay. So a couple hundred million right now. All right. I guess for Dan Mudd, can you just maybe talk a little more about the long only strategy longer term? This fixed income platform sounds very good. I guess the question is how do you plan to scale it? How much do you need to scale it because you kind of look at the fee, 20 basis points or less right on the AUM, and it is it looks like it is a neutral contributor right now when you back out the comp expenses.

Dan Mudd - *Fortress Investment Group LLC - CEO*

Yes. Roger, thanks, it is a platform that gets us into the business, our estimation is that the scope and the scale of the infrastructure and the team there could grow. That said, as I said in my remarks we are going to be focused on the businesses that we are in, alternative asset management, for some times to come. Those will be the big income generators, but I think over time, if you learned anything coming out of 2008 and 2009, it is that a diverse array of businesses is a sensible and prudent thing to have for the Company overall. We were able on account of the market conditions, I think we actually talked about this on the last conference call, there are businesses exactly like this, good team, good track record, scalable, but they're in a corporate situation or capital structure situation where they're going to move around. That's a lot of what drives consolidation in the asset management industry at large. We had an opportunity on a very prudent, very conservative cash only basis, to do that, and to enter this business. So we would expect them to grow prudently along with the market and as time goes by, there will be additional opportunities to do bolt-ons I think in the long only segment but the difference between then and now is perspectively having closed deal, that we will have a, a platform both to look at transactions, and also to kind of achieve that scale. But again, over time, just on a fee stream basis, we do have this strong stable stream of fees coming out of the base fees in the three businesses we have. You are absolutely right. The fees in this business are lower, but the assets tend to be much more durable over a period of time. So I think that blend is probably a good thing overall for Fortress.

Roger Freeman - *Barclays Capital - Analyst*

Would long only equities be a platform that you would look at as well?

Dan Mudd - *Fortress Investment Group LLC - CEO*

I don't want to speculate too specifically other than to say possibly. I think the way to think about it is that, within the investment management sector, there are businesses that are more similar to ours, they look at the big pictures, they determine the sectors they'd like to be in, they do intensive credit analysis, they invest and they monitor, they monitor their positions along the way. That is very much what Logan Circle, that is very much what long only managers do. It is a far cry away from advisory activities or some of the other more far flung activities in financial services. So we will be much closer to those type of businesses and processes that we already know, and yes, long only equity would certainly be in the spectrum of things we would consider.

Roger Freeman - *Barclays Capital - Analyst*

You bring up an interesting point there, what about a more sort of traditional, I don't know maybe like a 40 act macro fund to kind of leverage off of Mike's expertise, because you kind of listen to Eaton Vance yesterday, Waddell, they've got some traditional macro funds that are seeing some pretty strong inflows.

Dan Mudd - *Fortress Investment Group LLC - CEO*

Well as I said, I don't want to speculate on a specific business or a specific structure other than to reiterate that prudently, conservatively, using corporate resources to expand the scope of activities is one of the three main that I have talked to you and others about focusing on here.

Roger Freeman - *Barclays Capital - Analyst*

All right. Fair enough. I will hop back in the queue, but the capital raising (inaudible), can you just talk about it for the segments this year, I mean is it fair to say that probably the hybrid private equity is where we see the focus and how is that second special opportunities fund raising going?

Dan Mudd - *Fortress Investment Group LLC - CEO*

Let me start and then get both Pete Briger and Mike Novogratz to pitch in from their perspectives. Both of those business, hybrid credit and global macro, have seen some good inflows, some good conversations with investors. At a corporate level, we've worked pretty hard to build out our fund raising capabilities so that it is on one hand more focused on the sectors we like and on the other hand, more global. So we are covering where the money is going. So, maybe my two colleagues here could give a little bit of sense from color from out there in the world.

Mike Novogratz - *Fortress Investment Group LLC*

I will start with the liquid funds. Both in the macro fund and the commodity fund we are seeing healthy demand from the institutional investor base. We have taken approximately $200 million in a month, and that pipeline looks to continue. Nothing can be guaranteed, but we certainly see a strong demand. Investors broadly want transparency and liquidity, and both our funds provide that.

Pete Briger - *Fortress Investment Group LLC*

On the distressed debt side of things, the performance has been very good, particularly in the private equity distressed funds. In terms of fund raising, I think that with are a bit limited in what we can say on calls like this but I would say what's out there in the market after a significant run up in liquid credit securities over the last ten or eleven months, fits our sweet spot more. So now we are going into an illiquid phase. There's going to be lots of financial asset liquidation, there's going to be lots of litigation. So, I think that a lot of what's to come, fits what we do at Fortress extremely well.

Roger Freeman - *Barclays Capital - Analyst*

Okay. Thanks.

Dan Mudd - *Fortress Investment Group LLC - CEO*

Thanks, Roger.

Operator

Your next question comes from the Robert Lee with KBW.

Robert Lee - *KBW - Analyst*

Thanks. Good morning, everyone. Just some real quick questions, actually Dan Mudd I guess. I missed the earlier comments about where you were against high water marks in the hybrid hedge fund? Could you repeat that?

Pete Briger - *Fortress Investment Group LLC*

Just to put a fine point on that, we have two significant businesses, actually three significant businesses in hybrids. So we have the hedge fund, which is, as of year-end roughly 8% off the high water marks, and then we have our distressed private equity funds which have a capital paid on ultimate realizations, and I think that they are doing extremely well.

Robert Lee - *KBW - Analyst*

Okay. Great. Maybe you went through I guess, Dan Bass went through on the balance sheet a little bit. You've got the credit rating, you've got some cash, can you just update us on what your required debt repayments are on the current facility, and as you look out ahead, I mean is getting near high water marks, performance is better, hopefully the prospects for incentive fee generation picks up. What do you need to see, later this year, into next year, for you to start seriously considering about reinstating some type of distribution? Is there a certain level of debt you want to get down to or are comfortable with? How should we think of that?

Dan Bass - *Fortress Investment Group LLC - CFO*

I will take the first part and turn to Dan Mudd regarding the dividend and distributions. Right now, $384 million out on the credit facility, $42 million remaining for the balance of this year, another $42 in the beginning of 2011 and then $300 million at maturity in 2012. So it is $42 million for the balance of the year. We feel pretty good from a cash generation perspective that those are very easy for us to attain as it relates to the dividend.

Dan Mudd - *Fortress Investment Group LLC - CEO*

The dividend is the same answer that I think everyone would give you from a corporate perspective, it's something that we look at on a quarterly basis, it's on the agenda, and it is really a matter ultimately for the Board to decide. So I don't want to get too far ahead of that other than to say that for my taste, I would like to see a more stable overall external environment, I would like to see us back in promote land across a wider array of funds and to be certain that, as we go back toward a dividend, we are on a sustainable and growing basis, for that. So that's probably as much as I can say right now.

Robert Lee - *KBW - Analyst*

Okay. That was it. Thank you.

Operator

Your next question comes from Chris Kotowski with Oppenheimer.

Chris Kotowski - *Oppenheimer - Analyst*

Yes, good morning. If we look at your private equity business, base management fees went from $32 million last quarter to this $22 million this quarter. And that, as a percent of AUM, it dropped pretty substantially I think, like from I don't have it right in front of me but like from 130 basis points to just under 80. What happened there?

Dan Bass - *Fortress Investment Group LLC - CFO*

We took an $11 million one time reserve for Intrawest management fees which you have to really reinstate to get back to the $30 plus million dollars a quarter which would show you that the run rates is actually up X that reserve.

Chris Kotowski - *Oppenheimer - Analyst*

Okay. So but if there aren't ongoing management fees going forward do you expect management fees from that going forward?

Dan Bass - *Fortress Investment Group LLC - CFO*

We don't included in the $32 million run rate is $0 for the fund that we took the reserve against. So that has no impact on the run rate. It was a one-time reserve.

Chris Kotowski - *Oppenheimer - Analyst*

Okay. Then was there some kind of -- I think I know the answer then because for the nine months it showed $120 million in fees, but for the full year, $131 million, and you had $22 million in fees so the $11 million gets netted against $22 million.

Dan Bass - *Fortress Investment Group LLC - CFO*

Correct.

Chris Kotowski - *Oppenheimer - Analyst*

Okay. And then $1.5 billion in redemptions in the hybrid funds, is in the same $1.5 billion that was in September?

Dan Bass - *Fortress Investment Group LLC - CFO*

Yes, investors have once a year as of September 30 to make that election, so yes, it's the same number.

Chris Kotowski - *Oppenheimer - Analyst*

Okay. And then in your September 10-Q, your third quarter Q, it looked like Brookdale was valued below cost at that time, and if you monetized it this quarter, how did that generate performance fees?

Dan Bass - *Fortress Investment Group LLC - CFO*

No, above cost. If you look, it is reserved. Our value is about 2.5 times our cost. As I mentioned, it was our earlier funds from the standpoint of funds one and two, they bought Brookdale at a much earlier basis / time.

Chris Kotowski - *Oppenheimer - Analyst*

Okay. Can you just flush out a little bit on the $27 million claw back release, how did that come about?

Dan Bass - *Fortress Investment Group LLC - CFO*

At the end of 2008, we took approximately a $40 million gross or $38 million gross reserve for potential claw back against our fund two. With Brookdale recovering its value, it was down valued close to $3.00 or $4.00 at the end of 2008. It recovered to $16.00 plus, we sold the investment and returned the investors capital and effectively it eliminates a lot of the potential if not most of the potential or claw back on that fund. So we released the reserve.

Chris Kotowski - *Oppenheimer - Analyst*

Okay. Terrific. Thank you.

Dan Bass - *Fortress Investment Group LLC - CFO*

Thank, Chris.

Operator

Your next question comes from Craig Siegenthaler with Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thanks and good morning everyone. First just a question on Logan Circle because my others are already asked. I apologize if you mentioned on the prepared remarks. But when we think about Logan Circle, what quarter would actually hit the P&L and when you think about the fee rate and the earnings impact which seems quite small relative to your current earnings, how can we think about the timing of this and also the impact to the P&L and will you actually break this out as a separate AUM roll forward?

Dan Mudd - *Fortress Investment Group LLC - CEO*

Yes, it is a terrific question, for our purposes and your purposes I would think of it as neither accretive nor dilutive for 2010. Building gradually from 2011 and beyond, unless we were to announce something incremental along the way. I would say that when it gets to the point, which obviously we hope it will or we wouldn't have done the transaction, when it gets to the point of being material with comparison to the other businesses, then we would probably break it out in a segment but that's probably multiple quarters off right now. Dan, if you have a different perspective on this.

Dan Bass - *Fortress Investment Group LLC - CFO*

No. It is forecast to close in the second quarter.

Dan Mudd - *Fortress Investment Group LLC - CEO*

So it will be a mid year close.

Dan Bass - *Fortress Investment Group LLC - CFO*

There will not be anything reflected in our first quarter results.

Craig Siegenthaler - *Credit Suisse - Analyst*

Just one more question, when you look at the hybrid private equity business, was there anything unusual in the redemption in the fourth quarter and can you also comment on seasonality around flows through the segment?

Dan Bass - *Fortress Investment Group LLC - CFO*

The hybrid PE, there are no redemptions in that business, any outflows would be for realizations and return of capital to investors. So any outflows in that business are just returns to capital because we have sold the investment, there are no redemptions from that business.

Craig Siegenthaler - *Credit Suisse - Analyst*

There's also no seasonality impact; right, just the timing of the capital realization?

Dan Bass - *Fortress Investment Group LLC - CFO*

No seasonality.

Craig Siegenthaler - *Credit Suisse - Analyst*

Okay. Thanks for taking my questions.

Dan Mudd - *Fortress Investment Group LLC - CEO*

Thank you.

Operator

Your next question comes from Dan Fannon with Jefferies.

Dan Fannon - *Jefferies - Analyst*

Good morning. In terms of capital raising, as you guys are out talking to people today, are you looking to get capital for longer periods of time, or get longer lock ups or any discussion around fee changes from your current set of funds?

Dan Mudd - *Fortress Investment Group LLC - CEO*

Let me start and just by virtue of the nature of the question I will have to be a little bit generic about it. I think the structure really depends upon the type of business that we are in. So you see a continuation of a typical hedge fund structure in global macro and as you see Pete's team working their way through a longer revaluation, recovery, restructuring cycle, it would obviously be preferable to have a longer term capital structure, there has always been, well actually everybody else, my colleagues in the room have a longer perspective on it than I do, but there has always been a pretty healthy dynamic attention around fees and terms and investment parameters and so forth and that continues. I would say that, as a broad characterization, investors, allocators post 2008, have been much more detailed and much more attenuated in terms of their investment process and their diligence process, and all of us in the room are spending a lot of time on that. I think that's proven be a pretty good thing because generally speaking the more people know about who we are and what with we do and what our results and our investment philosophy is, and they have the additional transparency of calls like this and documents like this. They tend to get pretty comfortable.

Dan Fannon - *Jefferies - Analyst*

Okay. So is there anything through those dialogues you guys are looking to do to adapt to change the increased scrutiny they're looking for or more transparency, are you using third party administrators and things like that we are hearing more of the institutions consultants are looking at?

Dan Mudd - *Fortress Investment Group LLC - CEO*

Did you want to jump in.

Mike Novogratz - *Fortress Investment Group LLC*

Sure. Just two points on the liquid space, we are seeing more so than fee pressure is liquidity pressure. We have actually just launched a one monthly liquidity share class with a 2 and 25 fee structure. So premium fees to the normal share class, where there seems to be good investor demand. So they're more focused at least in the liquid portion on making sure they have got liquidity. Our funds already use third party administrators, we have since we started.

Dan Fannon - *Jefferies - Analyst*

Great. And then, Dan Bass, could you remind us, what is the determination to actually take a mark through the P&L after it has been written down? So the Flagler example from this quarter and then, it seem that is there's nothing else on the books, I think you said on the balance sheet that is written, that's being carried below cost; is that correct.

Dan Bass - *Fortress Investment Group LLC - CFO*

Yes. To answer your second question, the answer is yes, and in fact we have $150 million of embedded gain that is will only be reflected upon, when we realize those investments. But on the impairment side, pretty simple, we look at two things, time and magnitude. Magnitude, when value is less than cost and how sizable that is, and then, secondly, time is how many quarters that that relationship has existed. It is not really a bright line test, but when things start to push greater than 20% below our cost, and then there's a series of three, five, seven quarters when that exists, accounting rules sort of put you into recognizing impairment, and that's what occurred in our situation. And at this point has picked up everything that has the situation where value less than cost. This is also detailed in great color in our 10-K and Qs.

Dan Fannon - *Jefferies - Analyst*

Great. Thank you.

Operator

Your next question comes from Roger Smith with Macquarie.

Roger Smith - *Macquarie - Analyst*

Hi, thanks very much. My first question is on the reserves that were associated with Intrawest, on the management fee side, is investment also then on the AUM segment and how do we see that sort of in the roll forward of the assets?

Dan Bass - *Fortress Investment Group LLC - CFO*

Yes, the asset is written down for AUM purposes and it is a component of the private equity division segments performance every time you see that performance line, it is a component thereof. So the investment value reduces AUM.

Roger Smith - *Macquarie - Analyst*

Okay. I got it. And then, are there any other investments out there that you've waved fees on on the private equity side besides Intrawest?

Dan Bass - *Fortress Investment Group LLC - CFO*

We haven't waived fees, we have just reserved the collectibility of it, and no is the answer.

Roger Smith - *Macquarie - Analyst*

Okay. And on the I guess unrealized gains in the hybrid portfolio, the hybrid PE piece I guess, that was committed capital in the past. Is that now at invested capital? Or is there still unrealized gains on that portfolio? Can you tell us how big that would be?

Pete Briger - *Fortress Investment Group LLC*

First of all way the fund structure works is you have recallable capital so you can invest capital, you can realize capital and you can reinvest for a three year period.

Roger Smith - *Macquarie - Analyst*

Yes.

Pete Briger - *Fortress Investment Group LLC*

In funds. In terms of unrealized gains, I think that if we are a little bit restricted in terms of what information we can give out on a call like this, the funds have done well, they have continued to do well into this year, and we have a significant amount of dry powder to invest in a market that we know extremely well.

Roger Smith - *Macquarie - Analyst*

Great. Then on the liquid SPV, I just want to make sure I have my numbers right, does it sound like there's about $200 million left at this point in time?

Mike Novogratz - *Fortress Investment Group LLC*

Actually, $375 million left at this time.

Roger Smith - *Macquarie - Analyst*

Okay.

Mike Novogratz - *Fortress Investment Group LLC*

SPV starts $1.6 billion, we have given $1.755 billion back, so we have given 112% of the initial SPV back and there's another $375 million to go. It has an August 1 expiration date so that capital will be returned by then.

Roger Smith - *Macquarie - Analyst*

Okay. And then on the investment portfolio, when you write this stuff down, are you allowed to write this back up or once you write it down it has to then be written back only when you realize that gain?

Mike Novogratz - *Fortress Investment Group LLC*

Correct.

Roger Smith - *Macquarie - Analyst*

Okay. My last question on the hedge fund business right now, you guys being a larger fund out there, there's more due diligence questions going on, what sort of changing in the questions that you are getting from investors when they're looking to invest in this business, and when do you think that more of the activity will start to happen from that base?

Pete Briger - *Fortress Investment Group LLC*

I think that in a world of increased scrutiny, of more SEC presence, I think investors are appreciating that we are a public company, we are a SEC registered investment advisor, and so we see that as a positive. These calls, your advisability to ask your question, go through financial statements in a period like this is a big positive. We do see a lot more bottoms up due diligence from investors going on. So that I think is to our advantage.

Dan Mudd - *Fortress Investment Group LLC - CEO*

And it is Dan, one of the conversations that I have with folks is you do have this attenuated series of discussion and investors appropriately want to meet a broad array of the investors and understand the track record and all of that but two things, one is that we have the ability to say at the end of the day, you don't need to rely exclusively on this conversation and these representations. This is all really a matter of public record and as a public company, we talk about it, we sign for it, and we stand behind it. I think that that, in this environment, does give a little bit of trust and confidence. It takes some explanation to get there but net-net, it has been positive for us.

Roger Smith - *Macquarie - Analyst*

Great. Thanks very much.

Dan Bass - *Fortress Investment Group LLC - CFO*

Thank you.

Operator

Your next question comes from the line of Marc Irizarry with Goldman Sachs.

Alex Blostein - *Goldman Sachs - Analyst*

Hi. Good morning, guys. It is actually Alex Blostein filling in for Mark. Most of our questions have been answered. I wanted to drill down a little more on the margin on the fee-related side of the business. Can you give a little more color on the step down I guess in private equity management fees and also at the same time the tick up in expenses, looks like the margin in that business keeps sliding. So as we go on into next year, is this kind of like a good run rate to think about or should we see, moving either up or down?

Dan Bass - *Fortress Investment Group LLC - CFO*

Yes. I mean we target the 40% to 50% range, I think way to think about it is it is going to be in the lower end of this range if we are not recognizing incentive income and it is going to be in the higher end of that range if we recognize incentive income. So I think the 40% to 50%, you just think about it on that continuum in those drivers.

Alex Blostein - *Goldman Sachs - Analyst*

All right. Makes sense. Thanks.

Operator

Your next question comes from Roger Freeman with Barclays Capital.

Roger Freeman - *Barclays Capital - Analyst*

Hi. Just have a few follow ups. I guess first, in the hybrid private equity fund, he's going to go through the realizations there, it is actually a fair amount, is that all from the initial special opportunities, credit opportunities fund?

Dan Bass - *Fortress Investment Group LLC - CFO*

It is predominantly from the credit opportunities fund, yes.

Roger Freeman - *Barclays Capital - Analyst*

I mean let me ask you this. Is there much pressure from investors to return capital, you have marked these up nicely to show some returns, or is this just a function of the times right to sale some of these?

Pete Briger - *Fortress Investment Group LLC*

There's no pressure from investors to return capital. In all the funds that we've raised in hybrids, just denoted by the name hybrid, you have really, asset liability management that is perfect. So the investments that we invest in are illiquid, investors understand that we're making investments in illiquid assets and so the pressure to return capital to really muted. In terms of our taking advantage of the markets, in the late part of 2008 and 2009, most of those investments were done in very liquid securities because that is what made most sense to buy in that most securities were for sale at prices and durations that were favorable. And so from our perspective, the marks on those portfolios are extremely precise because a significant percentage of them are marked by numerous people in the broker/dealer community on a daily basis. As the market opportunity goes away, as it has for public market credit, and it becomes more interesting in the private market credit area, RTC-like transactions what we're calling the great liquidation and the great litigation, you will see us invest are in more illiquid investments. The marks will be less precise, they will be more valuation-oriented, but we will be buying in at a much bigger discount to intrinsic value than obviously what's available in the public markets. So, from our perspective in the distressed area, the opportunity in public market credit especially in the senior part of the capital structure where you are not making investments to control companies or control real estate or control other assets, that opportunity is for all practical purposes for a fund that wants to deliver the types of returns we want to over. So we are transitioning to the private markets opportunity, the more RTC-like opportunities or what we like to call "a dogs breakfast".

Roger Freeman - *Barclays Capital - Analyst*

Okay. So, that's helpful. It stands to reason then that there could be a lull here in realizations as that transition happens, because of these longer data investments, they could be?

Pete Briger - *Fortress Investment Group LLC*

Well, I would say that, obviously, realization and the creation of promote is an erratic process in a private equity business. We obviously haven't taken any promote from these businesses. What has been taken has been very small. And I would also say on future investments that we make in these RTC-like portfolio, they tend to have shorter dated realizations than a typical private equity investment. There's a lot of cash that comes back. So I am not sure that your last point of sort of longer term, there will be realizations but not shorter term is exactly correct.

Roger Freeman - *Barclays Capital - Analyst*

I just meant it over a couple of quarters opposed to you'd have windfalls in the next one to two quarters. The other thing is, I think that credit fund right was like a $3 billion fund you call it $2 billion dollars and now you are returning I guess $700 or so, round numbers but does that mean you still have sort of $1 billion in change, that is invested?

Pete Briger - *Fortress Investment Group LLC*

I don't think there's a lot of public information available with respect to the inflows and outflows of that capital, I will say that the way that the funds work are we could invest considerably more than 100% of the $3 billion because we would invest, it would come back be reinvested et cetera. So --

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Roger Freeman - *Barclays Capital - Analyst*

Right. That's helpful. Hey, Wes, you haven't talked to you this call yet. I guess, can I ask you a question just in terms of you are viewing the world right now? Where you see the opportunities you have be been talking about, insurance and banks, what do you think, I mean just in term of maybe capital raising, too, do you thing that anything you do will be a more targeted and what dry powder, can you remind us what dry powder you have from previously?

Wes Edens - *Fortress Investment Group LLC*

The opportunities the we see are pretty specific, the numbers the underlying businesses are doing well, as Dan said, when you look across the portfolio in the aggregate I think that the average net earnings across the entire portfolio last year during a pretty difficult period was up double digit numbers, up about 11% across the entire portfolio. And with really the exception of one of the 19 companies I can say that all bad performance for the most part happened early in the year, so not only were the aggregate numbers good but the trend line over the course of the year, has been very good. Notable sectors that I think have both great fundamentals as well as theres an availability of a lot of investment prospectively are the transportation businesses and health care businesses. So obviously our health care focus has been on the senior living side. There's lots of related and ancillary businesses we think are interesting and I think you will see us making some headway there this year, transportation-related stuff. We have a whole plethora of different businesses, be it containers or ships or railroads, airplanes, I think that one of the broad picture observations is that with the depth of the finance businesses, there's so finance companies that have restructured and gone out of business, I think the ability to make meaningful investments at really attractive levels in those sectors are there and that's something that you will see from us, both directly in terms of capital formation over the course of the year. So, it is still a process, of trying to optimize and do the best job with all of our existing investments. We've made lots and lots of headway. There's one or two things that we are still very focused on in the negative side but for the balance of it, but it is amazing what a difference a year makes.

Roger Freeman - *Barclays Capital - Analyst*

Right. What do you have for available capital that you could still call?

Wes Edens - *Fortress Investment Group LLC*

It is a handful of hundreds of millions of dollars depending on how we count it. So there's, depending on how much we reserve and different investments et cetera. It is probably like I said a handful of hundreds of millions of dollars, kind of net net.

Roger Freeman - *Barclays Capital - Analyst*

Got it. All right. Thanks.

Wes Edens - *Fortress Investment Group LLC*

Thank you.

Operator

At this time we have reached the end of the allotted time for questions and answers. I will now turn the conference back over to Dan Mudd.

Dan Mudd - *Fortress Investment Group LLC - CEO*

Very quickly, just thank very much for listening, summary is I think we came out of 2009 with positive momentum, it is continuing into early 2010. Performance as everybody discussed is up, but there's more to do there. Transaction flow is very good and very interesting, and we will continue to prudently look at opportunities to kind of build out the scope of our activities. So, thanks for the time, and we will look forward the talking to you next quarter.

Operator

Thank you, this concludes today's conference call. You may now disconnect.
