

Och-Ziff Capital Management Group LLC

Form 10-Q

May 03, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2011

OR

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

Commission File Number 1-33805

OCH-ZIFF CAPITAL MANAGEMENT
GROUP LLC

(Exact Name of Registrant as Specified in its Charter)

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Delaware **26-0354783**
(State of Incorporation) (I.R.S. Employer Identification Number)
9 West 57th Street, New York, New York 10019

(Address of Principal Executive Offices)

Registrant's telephone number: (212) 790-0041

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

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

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

Large accelerated filer Accelerated filer

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

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

As of April 30, 2011, there were 96,789,383 Class A Shares and 274,666,921 Class B Shares outstanding.

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In this quarterly report, references to Och-Ziff, our Company, the Company, we, us, or our refer, unless the context requires otherwise, to Och-Ziff Capital Management Group LLC, a Delaware limited liability company, and its consolidated subsidiaries, including the Och-Ziff Operating Group. References to the Och-Ziff Operating Group refer, collectively, to OZ Management LP, a Delaware limited partnership, which we refer to as OZ Management, OZ Advisors LP, a Delaware limited partnership, which we refer to as OZ Advisors, OZ Advisors II LP, a Delaware limited partnership, which we refer to as OZ Advisors II, and their consolidated subsidiaries. References to our intermediate holding companies refer, collectively, to Och-Ziff Holding Corporation, a Delaware corporation, which we refer to as Och-Ziff Corp, and Och-Ziff Holding LLC, a Delaware limited liability company, which we refer to as Och-Ziff Holding, both of which are wholly-owned subsidiaries of Och-Ziff Capital Management Group LLC.

References to our partners refer to the current limited partners of the Och-Ziff Operating Group entities other than the Ziffs and our intermediate holding companies, including our founder, Mr. Daniel S. Och, except where the context requires otherwise. References to the Ziffs refer collectively to Ziff Investors Partnership, L.P. II and certain of their affiliates and control persons.

References to Class A Shares refer to our Class A Shares, representing Class A limited liability company interests of Och-Ziff Capital Management Group LLC, which are publicly traded and listed on the New York Stock Exchange. References to Class B Shares refer to Class B Shares of Och-Ziff Capital Management Group LLC, which are not publicly traded, are currently held solely by our partners and have no economic rights but entitle the holders thereof to one vote per share together with the holders of our Class A Shares.

References to our IPO refer to our initial public offering of 36.0 million Class A Shares that occurred in November 2007. References to the Offerings refer collectively to our IPO and the concurrent private offering of approximately 38.1 million Class A Shares to DIC Sahir Limited, a wholly-owned subsidiary of Dubai International Capital LLC. References to DIC refer to Dubai International Capital LLC and its affiliates.

References to our funds or Och-Ziff funds refer to the hedge funds and other alternative investment vehicles for which we provide asset management services.

No statements herein, available on our website or in any of the materials we file with the SEC constitute or should be viewed as constituting an offer of any Och-Ziff fund.

Forward-Looking Statements

Some of the statements under Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Part II Item 1A. Risk Factors, Part I Item 3. Quantitative and Qualitative Disclosures About Market Risk and elsewhere in this quarterly report may contain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to as the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, that reflect our current views with respect to, among other things, future events and financial performance. We generally identify forward-looking statements by terminology such as outlook, believe, expect, potential, continue, may, will, should, could, seek, approximately, predict, intend, plan, estimate, anticipate, opportunity, remain, maintain, sustain, achieve, see, think, position or the negative version of those words or other comparable words.

Any forward-looking statements contained in herein are based upon historical information and on our current plans, estimates and expectations. The inclusion of this or other forward-looking information should not be regarded as representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. We caution that forward-looking statements are subject to numerous assumptions, estimates, risks and uncertainties, including but not limited to: global economic, business, market and geopolitical conditions; U.S. and foreign regulatory developments relating to, among other things, financial institutions and markets, government oversight and taxation; the conditions impacting the hedge fund industry; our ability to successfully compete for fund investors, professional talent and investment opportunities; our successful formulation and execution of our business and growth strategies; our ability to appropriately manage conflicts of interest; tax and other regulatory factors relevant to our business; as well as assumptions relating to our operations, investment performance, financial results, financial condition, business prospects, growth strategy and liquidity.

If one or more of these or other risks or uncertainties materialize, or if our assumptions or estimates prove to be incorrect, our actual results may vary materially from those indicated in these statements. These factors are not and should not be construed as exhaustive and should be read in conjunction with the other cautionary statements and risks that are

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included in our filings with the Securities and Exchange Commission, including but not limited to our Annual Report on Form 10-K for the year ended December 31, 2010 filed on February 28, 2011. Any forward-looking statements made by us speak only as of the date they are made, and we assume no duty and do not undertake to update any forward-looking statement.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC****CONSOLIDATED BALANCE SHEETS UNAUDITED**

	March 31, 2011	December 31, 2010
	(dollars in thousands)	
Assets		
Cash and cash equivalents	\$ 157,569	\$ 117,577
Income and fees receivable	23,194	462,820
Due from related parties	558	1,602
Deferred balances, at fair value	2,892	2,913
Deferred income tax assets	991,285	985,690
Other assets, net (includes investments in Och-Ziff funds of \$1,012 and \$1,552, respectively)	81,189	82,299
<i>Assets of consolidated Och-Ziff funds:</i>		
Investments, at fair value	522,717	419,366
Other assets of Och-Ziff funds	24,656	21,657
Total Assets	\$ 1,804,060	\$ 2,093,924
Liabilities and Shareholders' Equity		
Liabilities		
Due to related parties	\$ 799,625	\$ 788,779
Debt obligations	637,612	639,487
Compensation payable	8,455	148,673
Other liabilities	59,801	61,761
<i>Liabilities of consolidated Och-Ziff funds:</i>		
Securities sold under agreements to repurchase	66,837	23,480
Other liabilities of Och-Ziff funds	345	4,107
Total Liabilities	1,572,675	1,666,287
Commitments and Contingencies (Note 12)		
Shareholders' Equity		
Class A Shares, no par value, 1,000,000,000 shares authorized, 96,756,727 and 94,742,187 shares issued and outstanding as of March 31, 2011 and December 31, 2010, respectively		
Class B Shares, no par value, 750,000,000 shares authorized, 274,666,921 shares issued and outstanding as of March 31, 2011 and December 31, 2010		
Paid-in capital	2,009,950	1,899,025
Retained deficit	(2,417,293)	(2,250,530)
Accumulated other comprehensive loss	(46)	(50)
Shareholders' deficit attributable to Class A Shareholders	(407,389)	(351,555)
Partners' and others' interests in consolidated subsidiaries	638,774	779,192
Total Shareholders' Equity	231,385	427,637
Total Liabilities and Shareholders' Equity	\$ 1,804,060	\$ 2,093,924

See notes to consolidated financial statements.

Table of Contents**OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC****CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED**

	Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
Revenues		
Management fees	\$ 121,346	\$ 101,742
Incentive income	6,966	186
Other revenues	358	391
Income of consolidated Och-Ziff funds	9,738	7,116
Total Revenues	138,408	109,435
Expenses		
Compensation and benefits	59,205	53,192
Reorganization expenses	405,855	424,806
Interest expense	2,048	1,957
General, administrative and other	25,105	22,592
Expenses of consolidated Och-Ziff funds	1,450	1,082
Total Expenses	493,663	503,629
Other Income		
Net gains on investments in Och-Ziff funds and joint ventures	176	53
Change in deferred income of consolidated Och-Ziff funds	(2,326)	(1,887)
Net gains of consolidated Och-Ziff funds	8,287	6,191
Total Other Income	6,137	4,357
Loss Before Income Taxes	(349,118)	(389,837)
Income taxes	8,626	8,799
Consolidated Net Loss	\$ (357,744)	\$ (398,636)
Net Loss Allocated to Partners and Others Interests in Consolidated Subsidiaries	\$ (262,280)	\$ (309,997)
Net Loss Allocated to Class A Shareholders	\$ (95,464)	\$ (88,639)
Net Loss Per Class A Share		
Basic and Diluted	\$ (0.99)	\$ (1.07)
Weighted-Average Class A Shares Outstanding		
Basic and Diluted	96,812,723	82,708,885
Dividends Paid per Class A Share	\$ 0.71	\$ 0.58

See notes to consolidated financial statements.

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	Och-Ziff Capital Management Group LLC Shareholders						
					Accumulated Other Comprehensive Loss	Partners and Others Interests in Consolidated Subsidiaries	Total Shareholders Equity
	Number of Class A Shares	Number of Class B Shares	Paid-in Capital	Retained Deficit (dollars in thousands)	Foreign Currency Translation Adjustment		
As of December 31, 2010	94,742,187	274,666,921	\$ 1,899,025	\$ (2,250,530)	\$ (50)	\$ 779,192	\$ 427,637
Capital contributions						65,784	65,784
Capital distributions						(275,069)	(275,069)
Cash dividends declared on Class A Shares				(68,616)			(68,616)
Dividend equivalents on Class A restricted share units			2,683	(2,683)		(a)	
Equity-based compensation	459,042		7,601			24,019	31,620
Och-Ziff Operating Group A Unit transactions (See Note 3)	1,555,498		1,475			425	1,900
Impact of amortization of Reorganization charges to capital			99,166			306,689	405,855
<i>Comprehensive loss:</i>							
Consolidated net loss				(95,464)		(262,280)	(357,744)
Foreign currency translation adjustment					4	14	18
Total comprehensive loss							(357,726)
As of March 31, 2011	96,756,727	274,666,921	\$ 2,009,950	\$ (2,417,293)	\$ (46)	\$ 638,774	\$ 231,385

- (a) The dividend equivalents on Class A restricted share units impacted partners and others interests in consolidated subsidiaries by increasing the paid-in capital component and increasing the retained deficit component of partners and others interests in consolidated subsidiaries each by \$8.3 million.

See notes to consolidated financial statements.

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	Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
Cash Flows from Operating Activities		
Consolidated net loss	\$ (357,744)	\$ (398,636)
Adjustments to reconcile consolidated net loss to net cash provided by operating activities:		
Reorganization expenses	405,855	424,806
Amortization of equity-based compensation	33,498	30,835
Depreciation and amortization	2,474	2,285
Deferred income taxes	4,493	217
Operating cash flows due to changes in:		
Income and fees receivable	439,626	352,651
Due from related parties	1,044	1,403
Deferred balances, at fair value	21	219,657
Other assets, net	2,036	9,975
Assets of consolidated Och-Ziff funds	(106,350)	(33,018)
Due to related parties	87	(82,773)
Compensation payable	(140,218)	(140,112)
Other liabilities	680	9,948
Liabilities of consolidated Och-Ziff funds	39,595	(7)
Net Cash Provided by Operating Activities	325,097	397,231
Cash Flows from Investing Activities		
Investments in joint ventures	(541)	(1,188)
Return of investments in joint ventures		978
Loan to joint venture partners		(52)
Purchases of fixed assets	(2,834)	(1)
Net Cash Used in Investing Activities	(3,375)	(263)
Cash Flows from Financing Activities		
Partners and others interests in consolidated subsidiaries contributions	65,785	41,828
Partners and others interests in consolidated subsidiaries distributions	(275,069)	(218,646)
Distribution of deferred balances to Mr. Och		(121,957)
Dividends on Class A Shares	(68,616)	(47,458)
Withholding taxes paid on vested Class A restricted share units	(1,955)	(2,865)
Repayments of debt obligations	(1,875)	(1,875)
Net Cash Used in Financing Activities	(281,730)	(350,973)
Net Increase in Cash and Cash Equivalents	39,992	45,995
Cash and Cash Equivalents, Beginning of Period	117,577	73,732
Cash and Cash Equivalents, End of Period	\$ 157,569	\$ 119,727
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period:		
Interest	\$ 1,779	\$ 1,697

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Income taxes	\$	8,328	\$	2,733
Non-cash transactions:				
In-kind distribution of deferred balances	\$		\$	169,652

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

MARCH 31, 2011

1. BUSINESS

Och-Ziff Capital Management Group LLC (the Registrant), a Delaware limited liability company, together with its consolidated subsidiaries (collectively, the Company), is a global alternative asset management firm with offices in New York, London, Hong Kong, Mumbai and Beijing. The Company provides asset management services to its investment funds (the Och-Ziff funds or the funds), which pursue diverse investment opportunities globally. The Och-Ziff funds seek to generate consistent, positive, risk-adjusted returns across market cycles with low volatility and low correlation to the equity markets. The Company has always limited the use of leverage to generate investment performance in its funds and emphasizes preservation of fund investor capital.

The Company's primary sources of revenues are management fees, which are based on the amount of the Company's assets under management, and incentive income, which is based on the investment performance the Company generates for its fund investors. Accordingly, for any given period, the Company's revenues will be driven by the combination of assets under management and the investment performance of the Och-Ziff funds.

The Company conducts substantially all of its operations through its one reportable segment, the Och-Ziff Funds segment, which provides asset management services to the Company's funds. The Company's assets under management are generally invested on a multi-strategy basis, across multiple geographies, although certain funds are focused on specific sectors, strategies or geographies. The primary investment strategies the Company employs in its funds are: convertible and derivative arbitrage, credit, long/short equity special situations, merger arbitrage, private investments and structured credit.

The Company's Other Operations are currently comprised of its real estate business, which provides asset management services to its real estate funds, and investments in businesses established to expand the Company's private investment platforms. The businesses and investments included in the Company's Other Operations do not meet the thresholds of reportable business segments under U.S. generally accepted accounting principles (U.S. GAAP).

The Company generates substantially all of its revenues in the United States. The liability of the Company's Class A Shareholders is limited to the extent of their capital contributions.

References to the Company's partners refer to the current limited partners of OZ Management LP, OZ Advisors LP and OZ Advisors II LP (collectively, the Och-Ziff Operating Group), including the Company's founder, Mr. Daniel S. Och, but excludes Ziff Investors Partnership, L.P. II and certain of its affiliates and control persons (collectively, the Ziffs) and the Company's intermediate holding companies, except where the context requires otherwise. The Company conducts substantially all of its operations through the Och-Ziff Operating Group.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These unaudited, interim, consolidated financial statements are prepared in accordance with U.S. GAAP and should be read in conjunction with the audited financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2010. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's unaudited, interim, consolidated financial statements have been included and are of a normal and recurring nature. The results of operations presented for the interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year, primarily as a result of the majority of incentive income and discretionary cash bonuses being recorded in the fourth quarter each year. All significant intercompany transactions and balances have been eliminated in consolidation.

Recently Adopted Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends fair value disclosure requirements by requiring an entity to: (i) disclose

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separately the amounts of significant transfers in and out of Level I and Level II fair value measurements and describe the reasons for the transfers; and (ii) present separately information about purchases, sales, issuances and settlements in the roll forward of activity in Level III fair value measurements (i.e. gross presentation). Additionally, ASU 2010-06 clarifies

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

MARCH 31, 2011

existing disclosure requirements related to the level of disaggregation for each class of assets and liabilities and disclosures about inputs and valuation techniques for fair value measurements classified as either Level II or Level III. The new disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures requiring separate presentation of information about purchases, sales, issuances and settlements in the roll forward of activity in Level III fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of the new disclosure requirements in ASU 2010-06 did not have any impact on the Company's financial position or results of operations at the date of adoption, as these changes affected disclosure requirements and had no impact on the accounting for items at fair value.

Future Adoption of Accounting Pronouncements

As of March 31, 2011, none of the changes to U.S. GAAP issued by the FASB that are not yet effective were expected to have an impact on the Company's financial position or results of operations.

3. REORGANIZATION EXPENSES AND OCH-ZIFF OPERATING GROUP OWNERSHIP

On November 19, 2007, the Company completed its initial public offering (IPO) of 36.0 million Class A Shares and a private offering of approximately 38.1 million Class A Shares to DIC Sahir, a wholly-owned subsidiary of Dubai International Capital LLC (collectively, the Offerings). The Company used the net proceeds from the Offerings to acquire a 19.2% interest in the Och-Ziff Operating Group from the partners and the Ziffs, who collectively held all of the interests in the Och-Ziff Operating Group prior to the Offerings.

Prior to the Offerings, the Company completed a reorganization of its business (Reorganization). As part of the Reorganization, interests in the Och-Ziff Operating Group held by the partners and the Ziffs were reclassified as Och-Ziff Operating Group A Units and accounted for as a share-based payment. The Och-Ziff Operating Group A Units granted to the Ziffs and the units sold by the partners at the time of the Offerings were not subject to any substantive service or performance requirements; therefore, the fair value related to those units were recognized as a one-time charge at the time of the Offerings. The fair value of the Och-Ziff Operating Group A Units held by the partners after the Offerings is being amortized on a straight-line basis over the requisite five-year service period following the Offerings. Once vested, these units may be exchanged for Class A Shares of the Registrant on a one-for-one basis, subject to certain transfer restrictions for the five years following the Offerings.

As of March 31, 2011, the Company's interest in the Och-Ziff Operating Group had increased to approximately 24.4%. Increases in the Company's interest in the Och-Ziff Operating Group are driven by the exchange of Och-Ziff Operating Group A Units for an equal number of Class A Shares (Och-Ziff Operating Group A Unit Transactions). Additionally, the issuance of Class A Shares under the Company's Amended and Restated 2007 Equity Incentive Plan, primarily related to the vesting of Class A restricted share units (RSUs) also increases the Company's interest in the Och-Ziff Operating Group. The Company's interest in the Och-Ziff Operating Group is expected to continue to increase over time as additional Class A Shares are issued upon the vesting of RSUs or exchanges of Och-Ziff Operating Group A Units.

Och-Ziff Operating Group A Unit Transactions

In connection with the exchange of Och-Ziff Operating Group A Units for Class A Shares, the Company recorded the following changes to shareholders' equity in the three months ended March 31, 2011:

	Partners and Others' Interests in Consolidated Subsidiaries
Paid-in Capital	

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(dollars in thousands)

Deferred income tax assets and liabilities resulting from the exchange	\$ 1,900	\$
Deficit capital reallocated from partners and others interests in consolidated subsidiaries to the Company resulting from the exchange	(425)	425
	\$ 1,475	\$ 425

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Vesting of Class A Restricted Share Units

In connection with the issuance of Class A Shares related to the vesting of RSUs, the Company reallocated \$125 thousand of deficit capital from partners' and others' interests in consolidated subsidiaries to the Company's paid-in capital in the three months ended March 31, 2011.

4. FAIR VALUE DISCLOSURES

Fair value represents the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date (i.e., an exit price). Due to the inherent uncertainty of valuations of investments that are determined to be illiquid or do not have readily ascertainable fair values, the estimates of fair value may differ from the values ultimately realized, and those differences can be material.

U.S. GAAP prioritizes the level of market price observability used in measuring assets and liabilities at fair value. Market price observability is impacted by a number of factors, including the type of asset and liability and the specific characteristics of the assets and liabilities. Assets and liabilities with readily-available, actively-quoted prices or for which fair value can be measured from actively-quoted prices generally will have a higher degree of market price observability and lesser degree of judgment used in measuring fair value.

Assets and liabilities measured at fair value are classified into one of the following categories:

Level I Fair value is determined using quoted prices that are available in active markets for identical assets or liabilities as of the measurement date. Assets and liabilities that would generally be included in this category include certain listed equities and listed derivatives.

Level II Fair value is determined using quotations received from dealers making a market for these assets or liabilities (broker quotes), valuations obtained from independent third-party pricing vendors (independent pricing services), the use of models or other valuation methodologies based on pricing inputs that are either directly or indirectly market observable as of the measurement date. Consideration is given to the nature of the broker quotes (e.g., indicative or executable). Assets and liabilities for which executable broker quotes are significant inputs in determining the fair value of an asset or liability are included within Level II. Assets and liabilities that would generally be included in this category include certain corporate bonds, certain credit default swap contracts, certain bank debt securities, less liquid and restricted equity securities, forward contracts and certain over-the-counter (OTC) derivatives.

Level III Fair value is determined using pricing inputs that are unobservable in the market and includes situations where there is little, if any, market activity for the asset or liability. The fair value of assets and liabilities in this category may require significant judgment or estimation in determining fair value of the assets or liabilities. The fair value of such assets and liabilities may be estimated using a combination of observed transaction prices, independent pricing services, relevant broker quotes, models or other valuation methodologies based on pricing inputs that are neither directly or indirectly market observable as of the measurement date. Assets and liabilities for which indicative broker quotes are significant inputs in determining the fair value of an asset or liability are included within Level III. Assets and liabilities that would generally be included in this category include equity and debt securities issued by private entities, limited partnerships, certain corporate bonds, certain credit default swaps, certain bank debt securities, certain OTC derivatives and structured products.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the

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significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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MARCH 31, 2011

The following table summarizes the Company's assets and liabilities measured at fair value on a recurring basis within the fair value hierarchy:

	As of March 31, 2011			Total
	Level I	Level II	Level III	
	(dollars in thousands)			
Real estate investments	\$	\$	\$ 289,008	\$ 289,008
Structured products			147,732	147,732
Energy and natural resources limited partnerships			50,884	50,884
Other investments	4,193		31,009	35,202
Financial Assets, at Fair Value	4,193		518,633	522,826
Counterparty netting of derivative contracts	(109)			(109)
Fair Value Included Within Investments, at Fair Value	\$ 4,084	\$	\$ 518,633	\$ 522,717
Financial Liabilities, at Fair Value	\$ 109	\$ 32	\$ 12	\$ 153
Counterparty netting of derivative contracts	(109)			(109)
Fair Value Included Within Other Liabilities of Consolidated Och-Ziff Funds	\$	\$ 32	\$ 12	\$ 44
Deferred Balances, at Fair Value	\$	\$	\$ 2,892	\$ 2,892
	As of December 31, 2010			
	Level I	Level II	Level III	Total
	(dollars in thousands)			
Real estate investments	\$	\$	\$ 288,444	\$ 288,444
Structured products	5		66,716	66,721
Energy and natural resources limited partnerships			49,870	49,870
Other investments	337		13,994	14,331
Financial Assets, at Fair Value	\$ 342	\$	\$ 419,024	\$ 419,366
Deferred Balances, at Fair Value	\$	\$	\$ 2,913	\$ 2,913

As of December 31, 2010, the Company did not have any liabilities carried at fair value.

The Company assumes that any transfers between Level I, Level II or Level III during the period occur at the beginning of the period. For the three months ended March 31, 2011 and 2010, there were no significant transfers between Level I, Level II or Level III assets.

Real estate investments are investments held by the Company's consolidated real estate funds and include equity, preferred equity, mezzanine debt, and participating debt in entities domiciled primarily in the United States. The fair values of these investments are generally based upon

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discounting the expected cash flows from the investment or a multiple of earnings. In reaching the determination of fair value for investments, the Company considers many factors including, but not limited to, the operating cash flows and financial performance of the real estate investments relative to budgets or projections, property types, geographic locations, the physical condition of the asset, prevailing market capitalization rates, prevailing market discount rates, general economic conditions, economic conditions specific to the market in which the assets are located, the prevailing interest rate environment, the prevailing state of the debt markets, comparable public company trading multiples, independent third-party appraisals, available pricing data on comparable properties in the specific market in which the asset is located, expected exit timing and strategy and any specific rights or terms associated with the investment.

Structured products, which include investments in commercial and residential mortgage-backed securities and collateralized debt obligations, are valued using broker quotes. Generally, these quotations are indicative in nature. If broker quotes are not available or deemed unreliable, fair value may be determined using independent pricing services or cash flow

Table of Contents**OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED****MARCH 31, 2011**

models. The inputs used in these models would include the performance of underlying collateral, prepayment and liquidation rates, credit spreads and discount rates. Market data is used to the extent that it is observable and considered reliable.

All other Level III investments, including those in energy and natural resources limited partnerships, or for which exchange quotations are not readily available or deemed unreliable, are generally valued using broker quotes or as determined in good faith with third-party input or other observable market inputs, where available. The methods and procedures to value these investments may include, but are not limited to: (i) performing comparisons with prices of comparable or similar securities; (ii) obtaining valuation-related information from the issuers; (iii) calculating the present value of future cash flows; (iv) assessing other analytical data and information relating to the investment that is an indication of value; (v) obtaining information provided by third parties; (vi) reviewing of amounts invested in these investments; and (vii) evaluating financial information provided by the management of these investments. Inputs utilized to determine fair value when the above methods are used include, but are not limited to, the following: market prices for referenced securities; yield curves; spread analysis; discount rates; measures of volatility; net asset values published by third-party fund managers; analysis of qualitative and quantitative data in relation to the strength and condition of the issuer (including budgets, earnings projections and business plans); other information obtained from independent dealers and independent pricing services; market observations and correlations of these inputs.

Deferred balances are made up of deferred incentive income receivable from the Company's offshore funds. Deferred balances are valued based on net asset value information provided by the Och-Ziff funds. The investments within these funds are carried at fair value and are categorized as Level I, II, and III financial instruments, as appropriate.

The following table summarizes the changes in the Company's Level III assets and liabilities for the three months ended March 31, 2011:

	Balance as of December 31, 2010	Investment Purchases	Investment Sales and Collection of Deferred Balances (dollars in thousands)	Derivative Settlements	Net Gains (Losses) of Consolidated Och-Ziff Funds	Balance as of March 31, 2011
Real estate investments	\$ 288,444	\$ 5,259	\$ (8,100)	\$	\$ 3,405	\$ 289,008
Structured products	66,716	120,214	(44,291)		5,093	147,732
Energy and natural resources limited partnerships	49,870	2,102			(1,088)	50,884
Other investments (including derivatives, net)	13,994	16,475	(500)	(74)	1,102	30,997
Total, at Fair Value	\$ 419,024	\$ 144,050	\$ (52,891)	\$ (74)	\$ 8,512	\$ 518,621
Deferred Balances, at Fair Value	\$ 2,913	\$	\$ (21)	\$	\$	\$ 2,892

The following table summarizes the changes in the Company's Level III assets for the three months ended March 31, 2010:

	Balance as of December 31,	Investment Purchases	Investment Sales and Collection of	Net Gains of Consolidated Och-Ziff Funds	Balance as of March 31, 2010
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	2009		Deferred Balances (dollars in thousands)		
Real estate investments	\$ 295,626	\$ 39,549	\$ (15,452)	\$ 6,191	\$ 325,914
Energy and natural resources limited partnerships	4,605	2,823			7,428
Total, at Fair Value	\$ 300,231	\$ 42,372	\$ (15,452)	\$ 6,191	\$ 333,342
Deferred Balances, at Fair Value	\$ 404,666	\$	\$ (389,309)	\$	\$ 15,357

Table of Contents**OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED****MARCH 31, 2011**

The following table summarizes net gains (losses) for the three months ended March 31, 2011 and 2010 on the Company's Level III investments held as of such dates:

	Net Gains (Losses) on Investments Held as of March 31,	
	2011	2010
	(dollars in thousands)	
Real estate investments	\$ 6,726	\$ 3,529
Structured products	1,638	
Energy and natural resources limited partnerships	(1,088)	
Other investments (including derivatives, net)	1,009	
Total, at Fair Value	\$ 8,285	\$ 3,529

Fair Value of Other Financial Instruments

Management estimates that the fair value of its term loan is approximately 88% of its carrying value as of March 31, 2011 based on an analysis of comparable issuers. Management believes that the carrying values of all other financial instruments presented on the consolidated balance sheets approximate their fair values.

5. VARIABLE INTEREST ENTITIES

In the ordinary course of business, the Company sponsors the formation of various entities considered to be variable interest entities (VIEs). These VIEs are primarily funds in which the Company serves as the general partner or the investment manager with decision making rights. VIEs consolidated by the Company are primarily funds in which kick-out or liquidation rights, if any, were deemed not to be substantive.

The Company's involvement with funds that are VIEs and not consolidated is limited to providing asset management services. The Company's exposure to loss from these entities is limited to a decrease in the management fees and incentive income that may be earned in future periods. The net assets of these VIEs were \$25.8 billion and \$26.6 billion as of March 31, 2011 and December 31, 2010, respectively. The Company does not provide, nor is it required to provide, any type of financial or other support to these entities. The Company's variable interests related to these VIEs relate primarily to management fees and incentive income earned from the VIEs. As of March 31, 2011 and December 31, 2010, the only assets related to these variable interests amounted to \$14.5 million and \$313.9 million, respectively, and are included within income and fees receivable in the Company's consolidated balance sheets.

In addition, the Company holds variable interests in certain joint ventures determined to be VIEs. The Company's exposure to loss for these joint ventures is limited to its investments in these entities, which totaled \$2.4 million and \$1.7 million as of March 31, 2011 and December 31, 2010, respectively, and are recorded within other assets in the Company's consolidated balance sheets. The Company has not recorded any liabilities with respect to VIEs not consolidated.

As substantially all of the funds managed by the Company qualify for the deferral under ASU 2010-10, *Amendments to Statement 167 for Certain Investment Funds*, the Company's determination of whether it is the primary beneficiary of a VIE is generally based on an analysis of which variable interest holder of a VIE is exposed to the majority of the expected losses or receives a majority of the expected residual returns. Fund investors are entitled to substantially all of the economics of these VIEs with the exception of the management fee (generally 1.5% to 2.5% annually of assets under management) and incentive income (generally 20% of net appreciation over a measurement period), if any, earned by the Company. Accordingly, the Company's determination of the primary beneficiary is not impacted by changes in the underlying assumptions made regarding future results or expected cash flows of these VIEs.

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The following table presents the assets and liabilities of funds determined to be VIEs and consolidated by the Company as primary beneficiary:

	March 31, 2011	December 31, 2010
	(dollars in thousands)	
Assets		
<i>Assets of consolidated Och-Ziff funds:</i>		
Investments, at fair value	\$ 257,585	\$ 165,551
Other assets of consolidated Och-Ziff funds	23,153	21,253
Total Assets	\$ 280,738	\$ 186,804
Liabilities		
<i>Liabilities of consolidated Och-Ziff funds:</i>		
Securities sold under agreements to repurchase	\$ 66,837	\$ 23,480
Other liabilities of consolidated Och-Ziff funds	382	4,107
Total Liabilities	\$ 67,219	\$ 27,587

The assets presented in the table above belong to the investors in those funds, are available for use only by the fund to which they belong, and are not available for use by the Company. The consolidated funds have no recourse to the general credit of the Company with respect to any liability. The Company also consolidates funds not considered to be VIEs and, therefore, the assets and liabilities of those funds are not included in the table above.

6. OTHER ASSETS AND OTHER LIABILITIES*Other Assets, Net*

The following table presents the components of other assets, net as reported in the consolidated balance sheets:

	March 31, 2011	December 31, 2010
	(dollars in thousands)	
<i>Fixed Assets:</i>		
Corporate aircraft	\$ 22,600	\$ 22,600
Leasehold improvements	20,325	20,283
Computer hardware and software	19,853	17,061
Furniture, fixtures and equipment	2,698	2,784
Accumulated depreciation and amortization	(34,247)	(32,043)
Fixed assets, net	31,229	30,685
Goodwill	22,691	22,691
Prepaid expenses	7,421	8,931

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Intangible assets, net	4,173	4,358
Refundable security deposits	3,661	3,669
Current income tax receivable	3,310	2,962
Investments in joint ventures	2,407	1,733
Investments in Och-Ziff funds	1,012	1,552
Other	5,285	5,718
Total Other Assets, Net	\$ 81,189	\$ 82,299

Table of Contents**OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED****MARCH 31, 2011****Other Liabilities**

The following table presents the components of other liabilities as reported in the consolidated balance sheets:

	March 31, 2011	December 31, 2010
	(dollars in thousands)	
Deferred income of consolidated Och-Ziff funds	\$ 21,944	\$ 19,618
Deferred rent credit	14,452	13,436
Accrued expenses	12,555	13,944
Current income taxes payable	7,629	11,331
Deferred income tax liabilities	570	3,210
Other	2,651	222
Total Other Liabilities	\$ 59,801	\$ 61,761

7. DEBT OBLIGATIONS***Och-Ziff Real Estate Funds Credit Facility***

On April 1, 2011, certain Och-Ziff real estate funds consolidated by the Company amended the original syndicated credit facility thereby increasing the total facility to \$150.0 million from \$50.0 million. The amended facility will mature on the earlier of (i) April 1, 2014 and (ii) the date that is ninety days prior to the end of the investment period of the certain real estate funds party to the agreement. The outstanding loans under the credit facility are secured by the unfunded capital commitments of one of the Company's consolidated subsidiaries (as general partner) and the investors in certain of the Och-Ziff real estate funds. The funds are jointly and severally liable for the indebtedness. For each borrowing under the amended credit facility, the funds have the option of borrowing at an interest rate equal to LIBOR plus 2.25%, or 1.25% plus the greater of (i) the prime rate and (ii) the federal funds rate plus 0.50%. For each letter of credit drawn under the new credit facility, the funds pay interest at a rate equal to 2.375%. In addition, the funds pay a minimum usage fee of 0.35% on the average daily amount of the unused portion of the credit facility.

Borrowings under the credit facility are recorded as liabilities by the investment subsidiaries of the funds using the facility. In accordance with U.S. GAAP, investment subsidiaries of the Company's consolidated funds are generally not consolidated, but are carried at fair value within investments, at fair value in the Company's consolidated balance sheets. Accordingly, such borrowings are not included within debt obligations in the Company's consolidated balance sheets. As of March 31, 2011, there were \$40.6 million in outstanding borrowings under the facility with an average interest rate of 3.01%, and \$4.3 million in letters of credit drawn under the facility with an average interest rate of 2.88%. As of December 31, 2010, there were \$250 thousand in outstanding borrowings under the facility with an average interest rate of 3.02%, and \$4.3 million in letters of credit drawn under the facility with an average interest rate of 2.88%.

Table of Contents**OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED****MARCH 31, 2011****8. GENERAL, ADMINISTRATIVE AND OTHER**

The following table presents the components of general, administrative and other expenses as reported in the consolidated statements of operations:

	Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
Occupancy and equipment	\$ 7,101	\$ 7,169
Professional services	4,977	4,694
Information processing and communications	4,045	3,137
Business development	1,749	2,109
Insurance	1,736	1,926
Other expenses	5,385	3,821
	24,993	22,856
Changes in tax receivable agreement liability	112	(264)
Total General, Administrative and Other	\$ 25,105	\$ 22,592

9. INCOME TAXES

The computation of the effective tax rate and provision at each interim period requires the use of certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent differences, and the likelihood of recovering deferred tax assets existing as of the balance sheet date. The estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained or as tax laws and regulations change. Additionally, the Company records the majority of its incentive income and discretionary cash bonuses in the fourth quarter each year. Accordingly, the effective tax rate for interim periods is not indicative of the tax rate expected for a full year.

The Registrant and each of the Och-Ziff Operating Group entities are partnerships for U.S. federal income tax purposes. As a result of the Company's legal structure, only a portion of the income earned by the Company is subject to corporate-level tax rates in the United States and in foreign jurisdictions. The provision for income taxes includes federal, state and local taxes in the United States and foreign taxes at an approximate effective tax rate of -2.5% and -2.3% for the three months ended March 31, 2011 and 2010, respectively. The reconciling items from the Company's statutory rate to the effective tax rate were driven primarily by the following: (i) a portion of the income earned by the Company is not subject to federal, state and local corporate income taxes in the United States; (ii) a portion of the income earned by the Company is subject to the New York City unincorporated business tax; (iii) certain foreign subsidiaries are subject to foreign corporate income taxes; and (iv) the Reorganization expenses related to the reclassification of the partners' and the Ziffs' interests as Och-Ziff Operating Group A Units are not deductible for tax purposes.

As of March 31, 2011 and December 31, 2010, the Company was not required to establish a liability for uncertain tax positions.

Table of Contents**OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED****MARCH 31, 2011****10. NET LOSS PER CLASS A SHARE**

Basic net loss per Class A Share is computed by dividing the net loss allocated to Class A Shareholders by the weighted-average number of Class A Shares outstanding for the period. In addition, 857,472 and 298,136 RSUs that have vested but have not been settled in Class A Shares as of March 31, 2011 and 2010, respectively, are included in the weighted-average of Class A Shares outstanding in the calculation of basic and diluted net loss per Class A Share.

The following table presents the computation of basic and diluted net loss per Class A Share:

	Net Loss Allocated to Class A Shareholders	Weighted- Average Class A Shares Outstanding	Net Loss Per Class A Share	Number of Antidilutive Units Excluded from Diluted Calculation
(dollars in thousands, except per share amounts)				
Three Months Ended March 31, 2011				
Basic	\$ (95,464)	96,812,723	\$ (0.99)	
<i>Effect of dilutive securities:</i>				
Och-Ziff Operating Group A Units				299,234,385
Class A Restricted Share Units				13,174,657
Diluted	\$ (95,464)	96,812,723	\$ (0.99)	
Three Months Ended March 31, 2010				
Basic	\$ (88,639)	82,708,885	\$ (1.07)	
<i>Effect of dilutive securities:</i>				
Och-Ziff Operating Group A Units				309,036,124
Class A Restricted Share Units				14,257,038
Diluted	\$ (88,639)	82,708,885	\$ (1.07)	

11. RELATED PARTY TRANSACTIONS*Due to Related Parties*

The following table presents the amounts included within due to related parties:

March 31, 2011	December 31, 2010
(dollars in thousands)	

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Amounts payable under tax receivable agreement	\$ 794,473	\$ 783,601
Deferred balances and related taxes payable	5,152	5,178
Total Due To Related Parties	\$ 799,625	\$ 788,779

Amounts Payable Under Tax Receivable Agreement

As further discussed in Note 12, the Company entered into an agreement with the partners and the Ziffs, whereby the Company would pay the partners and the Ziffs a portion of any tax savings resulting from the purchase of Och-Ziff Operating Group A Units at the time of the Offerings or as a result of any subsequent exchanges of their interests for Class A Shares.

Deferred Balances and Related Taxes Payable

Deferred balances relate to incentive income allocated to the partners and the Ziffs prior to the Offerings, net of any taxes owed by the Company related to such balances. Any excess taxes withheld are paid upon the completion of the Company's tax return.

Table of Contents**OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED****MARCH 31, 2011*****Management Fees and Incentive Income Earned from Och-Ziff Funds***

The Company earns substantially all of its management fees and incentive income from the Och-Ziff funds, which are considered related parties as the Company manages the operations of and makes investment decisions for these funds. Management fees related to the real estate funds included within the Company's Other Operations are collected directly from the investors in those funds, and therefore are not considered revenues earned from related parties. The following table presents management fees and incentive income earned from related parties:

	Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
Management fees	\$ 114,912	\$ 99,233
Incentive income	\$ 6,966	\$ 186

Management Fees and Incentive Income Earned from Related Parties and Waived Fees

Prior to the Offerings, the Company did not charge management fees or earn incentive income on investments made by the Company's partners, employees and other related parties. Following the Offerings, the Company began charging management fees and earning incentive income on new investments made in the funds by the partners and certain other related parties, including the partners' reinvestment of the after-tax proceeds from the Offerings. The Company continues to waive fees for employee investments in the funds. The following table presents management fees and incentive income charged on investments held by related parties and amounts waived by the Company for related parties:

	Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
<i>Fees charged on investments held by related parties:</i>		
Management fees	\$ 5,719	\$ 5,298
Incentive income	\$ 373	\$
<i>Fees waived on investments held by related parties:</i>		
Management fees	\$ 3,345	\$ 3,210
Incentive income	\$	\$

Corporate Aircraft

The Company's corporate aircraft is used primarily for business purposes. From time to time, Mr. Och uses the aircraft for personal use. The Company recorded revenues of \$130 thousand and \$90 thousand for Mr. Och's personal use of the corporate aircraft based on market rates for the three months ended March 31, 2011 and 2010, respectively.

12. COMMITMENTS AND CONTINGENCIES***Tax Receivable Agreement***

The purchase of Och-Ziff Operating Group A Units from the partners and the Ziffs with the proceeds from the Offerings, as well as subsequent taxable exchanges by the partners and the Ziffs of Och-Ziff Operating Group A Units for Class A Shares on a one-for-one basis (or, at the Company's option, a cash equivalent), resulted, and, in the case of future exchanges, are anticipated to result, in an increase in the tax basis of the tangible and intangible assets of the Och-Ziff Operating Group that would not otherwise have been available. As a result, the Company expects that its future tax liability will be reduced. Pursuant to the tax receivable agreement entered into among the Company, the partners and the Ziffs,

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the Company has agreed to pay to the partners and the Ziffs 85% of the amount of tax savings, if any, actually realized by the Company.

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The Company recorded its initial estimate of future payments under the tax receivable agreement by recording a decrease to paid-in capital and an increase in amounts due to related parties in the consolidated financial statements. Subsequent adjustments to the liability for future payments under the tax receivable agreement related to changes in estimated future tax rates or state income tax apportionment are recognized through current period earnings within general, administrative and other expenses in the consolidated statements of operations.

In connection with the departure of certain former partners in 2009 and 2010, the right to receive payments under the tax receivable agreement by such former partners was contributed to the Och-Ziff Operating Group. As a result, the Company now expects to pay to the remaining partners and the Ziffs approximately 78% (from 85% at the time of the Offerings) of the amount of cash savings, if any, in federal, state and local income taxes in the United States that the Company actually realizes as a result of the increases in tax basis discussed above.

The estimate of the timing and the amount of future payments under the tax receivable agreement involves several assumptions that do not account for the significant uncertainties associated with these potential payments, including an assumption that Och-Ziff Holding Corporation, a wholly-owned corporate-tax paying subsidiary of the Company, will have sufficient taxable income in the relevant tax years to utilize the tax benefits that would give rise to an obligation to make payments. The actual timing and amount of any actual payments under the tax receivable agreement will vary based upon these and a number of other factors.

Lease Obligations

The Company has non-cancelable operating leases for its headquarters in New York and its offices in London, Hong Kong, Mumbai and Beijing, in addition to operating leases on computer hardware. The related lease commitments have not changed materially since December 31, 2010.

Litigation

From time to time, the Company is involved in litigation and claims incidental to the conduct of the Company's business. The Company is also subject, from time to time, in the ordinary course of business, to reviews, inquiries and investigations by agencies that have regulatory authority over the Company's business activities. The Company is currently not subject to any pending judicial, administrative or arbitration proceedings that are expected to have a material impact on the Company's results of operations or financial condition.

Investment Commitments

From time to time, certain funds consolidated by the Company may have commitments to fund investments. These commitments are funded through contributions from investors in those funds. The Company generally only manages these funds and is not an investor in the funds.

The Company has committed to fund a portion of the annual operating budget for a joint venture, and this portion currently totals approximately \$4.7 million annually, of which \$536 thousand has been funded through March 31, 2011. The joint venture periodically returns substantially all of the cash that is contributed by the Company, as expenses incurred by the joint venture are generally reimbursed by the projects it manages.

Other Contingencies

In the normal course of business, the Company enters into contracts that provide a variety of general indemnifications. Such contracts include those with certain service providers, brokers and trading counterparties. Any exposure to the Company under these arrangements could involve future claims that may be made against the Company. Currently, no such claims exist or are expected to arise and, accordingly, the Company has not accrued any liability in connection with such indemnifications.

Table of Contents**OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED****MARCH 31, 2011****13. SEGMENT INFORMATION**

The Och-Ziff Funds segment is currently the Company's only reportable segment and represents the Company's core business, as substantially all of the Company's operations are conducted through this segment. The Och-Ziff Funds segment provides asset management services to the Company's funds.

The Company's Other Operations are currently comprised of its real estate business, which provides asset management services to the Company's real estate funds, and investments in businesses established to expand certain of the Company's private investment platforms. The businesses and investments included in the Company's Other Operations do not meet the thresholds of reportable business segments under U.S. GAAP.

Management does not regularly review assets by operating segment in assessing operating segment performance and the allocation of company resources; therefore, the Company does not present total assets by operating segment.

Och-Ziff Funds Segment

Management uses Economic Income to evaluate the financial performance of and make resource allocation and other operating decisions for the Och-Ziff Funds segment. Economic Income is a pre-tax measure of performance that excludes certain adjustments required under U.S. GAAP. See the footnotes that follow the reconciliation tables below for additional information regarding the adjustments made to arrive at Economic Income of the Och-Ziff Funds segment.

The following table presents Economic Income of the Och-Ziff Funds segment:

	Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
Economic Income Revenues		
Management fees	\$ 113,687	\$ 99,574
Incentive income	6,966	186
Other revenues	302	284
Total Economic Income Revenues	120,955	100,044
Economic Income Expenses		
Compensation and benefits	22,427	18,031
Non-compensation expenses	19,638	19,631
Total Economic Income Expenses	42,065	37,662
Net gains (losses) on joint ventures	169	(235)
Economic Income	\$ 79,059	\$ 62,147

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The tables below present Economic Income of the Och-Ziff Funds segment, the U.S. GAAP results of the Company's Other Operations and the related adjustments necessary to reconcile the Economic Income of the Och-Ziff Funds segment to the Company's consolidated U.S. GAAP net loss. For a description of these adjustments, see the notes following the tables:

Three Months Ended March 31, 2011	Economic Income - Och-Ziff Funds	Other Operations U.S. GAAP Basis	Reconciling Adjustments		Total Company U.S. GAAP Basis
			Funds Consolidation (dollars in thousands)	Other Adjustments	
Revenues					
Management fees	\$ 113,687	\$ 4,286	\$ (275)	\$ 3,648 (a)	\$ 121,346
Incentive income	6,966				6,966
Other revenues	302	56			358
Income of consolidated Och-Ziff funds		6,681	3,057		9,738
Total Revenues	120,955	11,023	2,782	3,648	138,408
Expenses					
Compensation and benefits	22,427	2,324		34,454 (b)(c)(f)	59,205
Reorganization expenses				405,855 (d)	405,855
Interest expense	2,048				2,048
General, administrative and other	17,590	1,465		6,050 (a)(e)	25,105
Expenses of consolidated Och-Ziff funds		1,204	246		1,450
Total Expenses	42,065	4,993	246	446,359	493,663
Other Income					
Net gains (losses) on investments in Och-Ziff funds and joint ventures	169	(54)		61 (e)	176
Deferred income from consolidated Och-Ziff funds		(1,185)	(1,141)		(2,326)
Net gains of consolidated Och-Ziff funds		4,590	3,697		8,287
Total Other Income	169	3,351	2,556	61	6,137
Income (Loss) Before Income Taxes	79,059	9,381	5,092	(442,650)	(349,118)
Income taxes		(360)		8,986 (e)	8,626
Consolidated Net Income (Loss)	\$ 79,059	\$ 9,741	\$ 5,092	\$ (451,636)	\$ (357,744)
	\$	\$ 9,616	\$ 5,092	\$ (276,988)(f)	\$ (262,280)

**Net Income (Loss) Allocated to Partners and
Others Interests in Consolidated Subsidiaries**

Net Income (Loss) Allocated to Class A Shareholders	\$ 79,059	\$ 125	\$ (174,648)	\$ (95,464)
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Table of Contents**OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED****MARCH 31, 2011**

Three Months Ended March 31, 2010	Economic Income - Och-Ziff Funds	Other Operations U.S. GAAP Basis	Reconciling Adjustments		Total Company U.S. GAAP Basis
			Funds Consolidation (dollars in thousands)	Other Adjustments	
Revenues					
Management fees	\$ 99,574	\$ 877	\$ (60)	\$ 1,351 (a)	\$ 101,742
Incentive income	186				186
Other revenues	284	107			391
Income of consolidated Och-Ziff funds		7,116			7,116
Total Revenues	100,044	8,100	(60)	1,351	109,435
Expenses					
Compensation and benefits	18,031	7,587		27,574 (b)(c)(f)	53,192
Reorganization expenses				424,806 (d)	424,806
Interest expense	1,957				1,957
General, administrative and other	17,674	1,731		3,187 (a)(e)	22,592
Expenses of consolidated Och-Ziff funds		1,076	6		1,082
Total Expenses	37,662	10,394	6	455,567	503,629
Other Income (Loss)					
Net gains (losses) on investments in Och-Ziff funds and joint ventures	(235)	(90)		378 (e)	53
Deferred income from consolidated Och-Ziff funds		(1,887)			(1,887)
Net gains of consolidated Och-Ziff funds		5,488	703		6,191
Total Other Income (Loss)	(235)	3,511	703	378	4,357
Income (Loss) Before Income Taxes	62,147	1,217	637	(453,838)	(389,837)
Income taxes		1,247		7,552 (e)	8,799
Consolidated Net Income (Loss)	\$ 62,147	\$ (30)	\$ 637	\$ (461,390)	\$ (398,636)
Net Income (Loss) Allocated to Partners and Others Interests in Consolidated Subsidiaries	\$	\$ 9,367	\$ 637	\$ (320,001)(f)	\$ (309,997)
Net Income (Loss) Allocated to Class A Shareholders	\$ 62,147	\$ (9,397)	\$	\$ (141,389)	\$ (88,639)

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The following is a description of the adjustments made to reconcile Economic Income for the Och-Ziff Funds segment to the Company's results on a U.S. GAAP basis:

Funds Consolidation

Economic Income for the Och-Ziff Funds segment reflects management fees and incentive income earned from all of the Company's funds, excluding the Company's domestic real estate funds which are included within the Company's Other Operations. The impacts of consolidation and the related eliminations of the Och-Ziff funds are not included in Economic Income.

Other Adjustments

- (a) Economic Income presents management fees net of recurring placement and related service fees on assets under management, as management considers these fees a reduction in management fees, not an expense.
- (b) Economic Income recognizes the full amount of deferred cash compensation and expenses related to compensation arrangements indexed to annual investment performance on the date it is determined (generally in the fourth quarter of each year), as management determines the total amount of compensation based on the Company's performance in the year of the award.
- (c) Economic Income excludes equity-based compensation expenses, as management does not consider these non-cash expenses to be reflective of the operating performance of the Company.

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

MARCH 31, 2011

- (d) Economic Income excludes Reorganization expenses, which are non-cash expenses directly attributable to the reclassification of interests held by the partners and the Ziffs prior to the Reorganization as Och-Ziff Operating Group A Units and any subsequent reallocations of such units.
- (e) Economic Income excludes depreciation and amortization, changes in the tax receivable agreement liability and net gains (losses) on investments in Och-Ziff funds, as management does not consider these items to be reflective of the operating performance of the Company. Economic Income also excludes income taxes as it is a measure of pre-tax performance.
- (f) Economic Income excludes amounts allocated to the partners and the Ziffs on their interests in the Och-Ziff Operating Group, as management reviews the performance of the Company at the Och-Ziff Operating Group level, where substantially all of the Company's activities are conducted.

Substantially all of the Company's revenues are earned from the Och-Ziff funds. For the three months ended March 31, 2011, the Company recorded revenues of \$49.2 million, \$20.6 million and \$15.7 million from three individual feeder funds managed by the Och-Ziff Funds segment, each of which represented more than 10% of the Company's total revenues. For the three months ended March 31, 2010, the Company recorded revenues of \$37.4 million, \$16.3 million and \$16.0 million from three individual feeder funds managed by the Och-Ziff Funds segment, each of which represented more than 10% of the Company's total revenues.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in Part I Item 1A, Risk Factors of our annual report filed with the U.S. Securities and Exchange Commission on Form 10-K for the year ended December 31, 2010, which we refer to as our Annual Report. Actual results may differ materially from those contained in any forward-looking statements. This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report. An investment in our Class A Shares is not an investment in any of our funds.

OVERVIEW

Our Business

We are one of the largest institutional alternative asset managers in the world, with approximately \$29.4 billion in assets under management as of May 1, 2011. We provide asset management services through our funds globally. Our funds seek to generate consistent, positive, risk-adjusted returns across market cycles with low volatility and low correlation to the equity markets. We have always limited our use of leverage to generate investment performance and we emphasize preservation of capital. Our assets under management are generally invested on a multi-strategy basis across multiple geographies. Our primary investment strategies are: convertible and derivative arbitrage, credit, long/short equity special situations, merger arbitrage, private investments and structured credit. Our fund investors value our funds' consistent performance history, our global investing expertise, our diverse investment strategies, our strong focus on risk management and a robust operational infrastructure.

Overview of Our 2011 First Quarter Results

As of March 31, 2011, our assets under management were \$29.0 billion, compared with \$24.8 billion as of March 31, 2010. The \$4.2 billion, or 17%, year-over-year increase was driven by performance-related appreciation of \$2.4 billion and capital net inflows of \$1.8 billion. During the first quarter of 2011, we maintained an active dialog with both current and prospective fund investors, and we continued to see interest from a diverse mix of investors globally. We believe that institutional investors are seeking to increase the proportion of investment strategies that are not correlated to the equity markets in their portfolios as a means to mitigate risk and enhance returns. As a result, we believe there will be a shift in asset allocations to alternative asset managers, particularly hedge funds, and that capital flows to the hedge fund industry are accelerating from the levels seen during the second half of 2010.

For the first quarter of 2011, we reported a U.S. GAAP net loss allocated to Class A Shareholders of \$95.5 million, compared to a net loss of \$88.6 million for the first quarter of 2010. The U.S. GAAP net loss in both periods primarily resulted from non-cash Reorganization expenses associated with our initial public offering in November 2007 of \$405.9 million and \$424.8 million for the three months ended March 31, 2011 and 2010, respectively.

We reported Economic Income for the Company¹ of \$80.5 million for the first quarter of 2011, compared with \$57.9 million for the first quarter of 2010. The increase was primarily attributable to the Och-Ziff Funds segment due to increased revenues, partially offset by higher compensation and benefits.

Overview of 2011 First Quarter Fund Performance

During the first quarter of 2011, our funds generated positive, risk-adjusted returns with low volatility and low correlation to the equity markets. Our funds protected investor capital in declining and volatile markets, as was evident during March 2011 when investor uncertainty increased due to more challenging economic conditions around the world. Our investment returns are a function of the consistency and discipline of our investment and risk management processes. Our performance also demonstrates the flexibility that our multi-strategy investment process and our international capabilities provide. These attributes allow us to respond to changes in the economic environment and capitalize on investment opportunities globally even when market conditions are unsettled.

During the first quarter of 2011, the OZ Master Fund generated a net return of 3.4%, the OZ Europe Master Fund a net return of 3.6%, the OZ Asia Master Fund a net return of 1.5% and the OZ Global Special Investments Master Fund a net return of 4.6%.² The most significant contributors to our 2011 first-quarter performance were credit-related strategies and long/short equity special situations globally. We identified a diverse range of investment opportunities worldwide during the

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- ¹ Economic Income for the Company is a non-GAAP measure. For additional information regarding non-GAAP measures, see Economic Income Analysis.
- ² For important information about our fund performance data, please see Fund Performance Summary.

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first quarter of 2011, and we believe that there will be additional opportunities in event-driven investing, such as merger arbitrage and long/short equity investing, structured credit and other credit-related strategies during the balance of 2011.

Financial Market and Capital Flow Environment

Our ability to generate management fees and incentive income is impacted by the financial markets, which influences our ability to generate returns for our fund investors, and by the amount of capital flowing into and out of the hedge fund industry, which impacts our ability to retain existing investor capital and the amount of new assets we attract.

Financial Market Environment

Our ability to successfully generate consistent, positive, risk-adjusted returns is dependent on our ability to execute each fund's investment strategy or strategies. Each investment strategy may be materially affected by conditions in the financial markets and by other global economic conditions.

During the first quarter of 2011, global equity markets generally increased, although market conditions became more volatile during March in reaction to instability in the Middle East and the events in Japan. Dominant themes during the quarter included continued monetary accommodation by the U.S. Federal Reserve, continued positive global economic growth and high levels of corporate merger-related activity, which largely offset concerns about rising inflation, commodity prices and a weaker U.S. dollar.

The U.S. corporate credit markets experienced robust new issue volumes during the first quarter, driven by perceptions that U.S. economic conditions are improving. High yield credit market performance was strong relative to many other fixed income products. Market performance continues to be supported by high yield and leveraged loan capital inflows, limited defaults and relatively wide credit spreads. In Europe, credit market conditions continued to be favorable, supported by generally constructive economic data and a positive resolution of the Irish banking crisis. The high yield primary markets continued to be very active for both high yield bonds and leveraged loans, with issuance of high yield bonds increasing strongly year-over-year. In Asia, credit markets experienced strong supply of new issuance combined with new money inflows.

Capital Flow Environment

Capital flows into the hedge fund industry increased during the first quarter of 2011 relative to those seen in the second half of 2010, and we believe that they will accelerate further during the remainder of this year. We believe that institutional investor interest in the hedge fund industry is growing as these investors seek to increase the proportion of investment strategies that are not correlated to the equity markets in their portfolios in order to mitigate risk and enhance return.

ASSETS UNDER MANAGEMENT

Competitive investment performance in rising markets and preservation of fund investor capital during periods of market volatility or decline are key determinants of the long-term success of our business. These attributes enable us to attract additional assets under management from both existing and new fund investors, as well as minimize redemptions of capital from our funds. Growth in assets under management in turn drives growth in our revenues and earnings. Conversely, poor investment performance slows our growth by decreasing our assets under management and increasing the potential for redemptions from our funds.

Our assets under management are a function of the capital that is placed with us by fund investors globally, which we invest on their behalf based on the fund or funds they have selected, and the investment performance we generate for them. We typically accept capital from new and existing investors into our funds on a monthly basis on the first day of each month. Investors in our funds (other than investors in private investments, certain real estate funds and other funds) have the right to redeem their interests in a fund following an initial lock-up period of one to three years. Following the expiration of these lock-up periods, investors may redeem capital generally on a quarterly or annual basis upon giving 30 to 45 days prior written notice. However, upon the payment of a redemption fee to the funds and upon giving 30 days prior written notice (subject to certain limitations), certain investors may redeem capital during their lock-up period. The lock-up requirements for the funds may generally be waived or modified at the sole discretion of the fund's general partner or board of directors, as applicable. With respect to investors with quarterly redemption rights, requests for redemptions submitted during a quarter generally are paid on the first day of the following quarter. Accordingly, quarterly redemptions generally will have no impact on management fees during the quarter in which they are submitted. Instead, these redemptions will decrease assets under management as of the first day of the following quarter, which reduces management fees for that quarter. With respect to investors with annual redemption rights, redemptions paid prior to the end of a quarter impact assets under management in the quarter in which they are paid, and therefore impact management fees for that quarter.

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Information with respect to our assets under management throughout this quarterly report, including the tables set forth in this discussion and analysis, includes investments by us, our partners, employees and certain other related parties. Prior to our IPO, we did not charge management fees or earn incentive income on these investments. Following our IPO, we began charging management fees and earning incentive income on new investments made in our funds by our partners and certain other related parties, including the reinvestment by our partners of their after-tax proceeds from the Offerings. As of March 31, 2011, approximately 9% of our assets under management represented investments by us, our partners and certain other related parties in our funds. As of that date, approximately 35% of these affiliated assets under management are not charged management fees and are not subject to an incentive income calculation.

As further discussed below in [Understanding Our Results Revenues](#), we generally calculate management fees based on assets under management as of the beginning of each quarter. The assets under management in the tables below are presented net of management fees and incentive income and are as of the end of the period. Accordingly, the assets under management presented in the tables below are not the amounts used to calculate management fees for the respective periods.

Summary of Changes in Assets Under Management

The table below presents the changes to our assets under management and weighted-average assets under management. Weighted-average assets under management exclude the impact of first-quarter performance-related appreciation for the periods presented, as these amounts do not impact management fees calculated for that period.

	Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
Balance-beginning of period	\$ 27,934,696	\$ 23,079,796
Net flows	150,936	1,025,624
Appreciation	944,583	744,351
Balance-end of period	\$ 29,030,215	\$ 24,849,771
Weighted-average assets under management	\$ 27,908,261	\$ 23,763,299

Our assets under management increased approximately \$4.2 billion, or 17%, year-over-year as a result of positive investment performance of \$2.4 billion generated by our funds from March 31, 2010 to March 31, 2011 and capital net inflows of \$1.8 billion over the same time period.

In the first quarter of 2011, our funds experienced performance-related appreciation of \$944.6 million and capital net inflows of \$150.9 million, which were comprised of \$1.2 billion of gross inflows and \$1.0 billion of gross outflows. The inflows came from a diverse mix of investors globally. We believe that institutional investors are continuing to increase the proportion of investment strategies in their portfolios that are not correlated to the equity markets in order to enhance the yield and diversification of their investments. As a result, we believe that capital allocations to the hedge funds are increasing. Additionally, our real estate funds and various other assets that we manage with longer than one-year measurement periods comprised a meaningful portion of gross inflows in the first quarter of 2011 (see [Understanding our Results Revenues Incentive Income](#)). The outflows were primarily driven by quarterly redemption requests received during the fourth quarter of 2010.

In the first quarter of 2010, our funds experienced performance-related appreciation of \$744 million and capital net inflows of \$1.0 billion, which were comprised of \$1.8 billion of gross inflows and \$815.8 million of gross outflows. The inflows were driven by increased institutional investor confidence in placing capital with alternative asset managers and, in turn with us, in order to enhance the yield and diversification of their investments as global market conditions have stabilized. The outflows were driven primarily by quarterly redemption requests, which had normalized to levels seen prior to 2008.

The following table sets forth assets under management of our most significant funds (by asset size):

	March 31,	
	2011	2010

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	(dollars in thousands)	
OZ Master Fund	\$ 20,059,282	\$ 18,052,988
OZ Europe Master Fund	\$ 2,904,943	\$ 2,951,839
OZ Asia Master Fund	\$ 1,634,202	\$ 1,327,460
OZ Global Special Investments Master Fund	\$ 1,228,139	\$ 1,242,417

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OZ Master Fund	3.4%	2.7%
OZ Europe Master Fund	3.6%	4.4%
OZ Asia Master Fund	1.5%	5.0%
OZ Global Special Investments Master Fund	4.6%	3.8%

Table of Contents***OZ Master Fund***

The table below presents a summary of each investment strategy's contribution to the OZ Master Fund's return before management fees and incentive income:

	Three Months Ended March 31,	
	2011	2010
Convertible and Derivative Arbitrage	10%	11%
Credit	20%	25%
Long/Short Equity Special Situations	24%	14%
Merger Arbitrage	5%	7%
Private Investments	4%	10%
Structured Credit	38%	33%
Other	-1%	0%
Total	100%	100%

OZ Europe Master Fund

The table below presents a summary of each investment strategy's contribution to the OZ Europe Master Fund's return before management fees and incentive income:

	Three Months Ended March 31,	
	2011	2010
Convertible and Derivative Arbitrage	12%	8%
Credit	22%	30%
Long/Short Equity Special Situations	14%	21%
Merger Arbitrage	6%	4%
Private Investments	25%	20%
Structured Credit	27%	17%
Other	-6%	0%
Total	100%	100%

OZ Asia Master Fund

The table below presents a summary of each investment strategy's contribution to the OZ Asia Master Fund's return before management fees and incentive income:

	Three Months Ended March 31,	
	2011	2010
Convertible and Derivative Arbitrage	19%	57%
Credit	30%	7%
Long/Short Equity Special Situations	22%	9%
Merger Arbitrage	-3%	4%
Private Investments	47%	23%
Other	-15%	0%
Total	100%	100%

Table of Contents***OZ Global Special Investments Master Fund***

The table below presents a summary of each investment strategy's contribution to the OZ Global Special Investments Master Fund's return before management fees and incentive income:

	Three Months Ended March 31,	
	2011	2010
Credit	5%	5%
Long/Short Equity Special Situations	11%	10%
Merger Arbitrage	3%	6%
Private Investments	23%	24%
Structured Credit	62%	56%
Other	-4%	-1%
Total	100%	100%

UNDERSTANDING OUR RESULTS***Revenues***

Our operations have been financed primarily by cash flows generated by our business. Our principal sources of revenues are management fees and incentive income. For any given fiscal period, our revenues are influenced by the amount of our assets under management, the investment performance of our funds and the timing of when we recognize incentive income for certain assets under management as discussed below.

The ability of investors to contribute capital to and redeem capital from our funds causes our assets under management to fluctuate from period to period. Fluctuations in assets under management also result from our funds' investment performance. Both of these factors directly impact the revenues we earn from management fees and incentive income. For example, a \$1 billion increase or decrease in assets under management subject to a 2% management fee would generally increase or decrease annual management fees by \$20 million. If net profits attributable to a fee-paying fund investor were \$10 million, we generally would earn incentive income equal to \$2 million, assuming a one-year incentive income measurement period, no change in current incentive income rates, no hurdle rate and no high-water marks from prior years.

For any given quarter, our revenues will be influenced by the combination of assets under management and the investment performance of our funds. For the first three quarters of each year, our revenues will be primarily comprised of the management fees we have earned for each respective quarter. In the fourth quarter, our revenues will be primarily comprised of the management fees we have earned for the quarter, as well as incentive income related to the full-year investment performance generated for the majority of our fund investors.

Management Fees. Management fees typically range from 1.5% to 2.5% annually of assets under management and currently average approximately 1.7%. This average rate takes into account the effect of non-fee paying assets under management, the management fee charged on capital contributed and the management fee on capital redeemed. Management fees are generally calculated and paid to us on a quarterly basis at the beginning of the quarter, based on assets under management at the beginning of the quarter. Management fees are prorated for capital inflows and redemptions during the quarter. Accordingly, changes in our management fee revenues from quarter to quarter are driven by changes in the quarterly opening balances of assets under management, the management fee rates charged on new capital compared with the rates on capital that is redeemed, and the relative magnitude and timing of inflows and redemptions during the respective quarter.

Incentive Income. We earn incentive income based on the performance of our funds. Incentive income is typically equal to 20% of the net realized and unrealized profits attributable to each fund investor, but excludes unrealized profits on private investments. We do not recognize incentive income until the end of the measurement period when the amounts are contractually payable, or crystallized. Additionally, all of our funds are subject to a perpetual loss carry forward, or perpetual high-water mark, meaning we will not be able to earn incentive income with respect to a fund investor's investment loss in the year or years following negative investment performance until that loss is recouped, at which point a fund investor's investment surpasses the high-water mark. We earn incentive income on any net profits in excess of the high-water mark.

The measurement period for most of our assets under management is on a calendar-year basis, and therefore we generally crystallize incentive income annually on December 31st. We may recognize incentive income during the first three quarters of the year related to assets subject to three-year measurement periods, as well as assets in our real estate funds and certain other funds we manage. Additionally, we may recognize

incentive income for tax distributions related to these assets.

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Tax distributions are amounts distributed to us to cover tax liabilities related to incentive income that has been accrued at the fund level but will not be realized until the end of the relevant measurement period. Finally, we may also recognize incentive income related to fund investor redemptions during the first three quarters of the year.

The measurement periods with respect to approximately 15.0% of our assets under management as of March 31, 2011 are based on measurement periods longer than one year and include assets subject to three-year measurement periods, as well as our real estate funds and certain other funds that we manage. Incentive income related to assets subject to three-year measurement periods is generally not earned until the end of the three-year period and is based on the cumulative performance over the three-year period. The three-year measurement period with respect to a portion of these assets will begin to expire in 2012. Incentive income related to our real estate funds and certain other funds we manage is generally not earned until it is no longer subject to repayment to the respective fund. Our ability to earn incentive income on these assets, as well as those with three-year measurement periods, is also subject to hurdle rates whereby we do not earn any incentive income until the investment returns exceed an agreed upon benchmark.

Income of Consolidated Och-Ziff Funds. Revenues recorded as income of consolidated Och-Ziff funds consists of interest income, dividend income and other miscellaneous items.

Expenses

Our operating expenses consist of the following:

Compensation and Benefits. Compensation and benefits is comprised of salaries and benefits, payroll taxes, discretionary and guaranteed cash bonus expense and equity-based compensation primarily in the form of Class A restricted share units, or RSUs. On an annual basis, compensation and benefits comprise the most significant portion of total expenses, with discretionary cash bonuses comprising the majority of total compensation and benefits. These cash bonuses are funded by total annual revenues, which are significantly influenced by the incentive income we earn for the year. Annual discretionary cash bonuses in a year with no high-water marks in effect are generally determined and expensed in the fourth quarter each year.

Interest Expense. Amounts included within interest expense relate primarily to interest expense on our term loan and the note payable on our corporate aircraft, both of which are LIBOR-based, variable-rate borrowings. The LIBOR interest rate on our term loan resets every one, two, three or six months (at our option), two business days prior to the start of each interest period. The LIBOR interest rate on the note payable on our corporate aircraft resets on a monthly basis, three business days prior to the start of each month.

General, Administrative and Other. General, administrative and other expenses are related to professional services, occupancy and equipment, business development expenses, information processing and communications, insurance, changes in the tax receivable agreement liability and other miscellaneous expenses.

In addition, the following expenses also impact our U.S. GAAP results:

Reorganization Expenses. Prior to the Offerings, we completed a reorganization of our business, which we refer to as the Reorganization. As part of the Reorganization, interests in the Och-Ziff Operating Group held by our partners and the Ziffs were reclassified as Och-Ziff Operating Group A Units, resulting in significant non-cash charges that we have recorded within Reorganization expenses in our consolidated statements of operations.

Expenses of Consolidated Och-Ziff Funds. Expenses recorded as expenses of consolidated Och-Ziff funds consist of interest expense and other miscellaneous expenses.

Other Income

Our other income consists of:

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Net Gains (Losses) on Investments in Och-Ziff Funds and Joint Ventures. Net gains (losses) on investments in Och-Ziff funds and joint ventures primarily consists of net gains (losses) on investments in our funds made by us and net losses on investments in joint ventures established to expand our private investment platforms.

Change in Deferred Income of Consolidated Och-Ziff Funds. Incentive income allocations from consolidated Och-Ziff funds are recognized through a greater share of these funds' net earnings being allocated to us, and a correspondingly reduced share of these earnings allocated to investors in the funds (partners' and others' interests in

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consolidated subsidiaries). To the extent we are allocated incentive income by a consolidated Och-Ziff fund that could be subject to repayment in the event of future losses, we defer the recognition of our share of income through change in deferred income of consolidated Och-Ziff funds in the consolidated statements of operations and record a corresponding liability within other liabilities in the consolidated balance sheets. The liability is reversed and recognized in earnings when these amounts are no longer subject to repayment.

Net Gains of Consolidated Och-Ziff Funds. Net gains of consolidated Och-Ziff funds consist of realized and unrealized gains and losses on investments held by the consolidated Och-Ziff funds.

Income Taxes

Income taxes consist of our provision for federal, state and local income taxes in the United States and foreign income taxes, including provisions for deferred income taxes resulting from temporary differences between the tax and U.S. GAAP basis. The computation of the provision requires certain estimates and significant judgment, including, but not limited to, the expected taxable income for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent differences between the tax and U.S. GAAP basis and the likelihood of being able to fully utilize deferred income tax assets existing as of the end of the period. In addition, the amount of incentive income we earn, the resultant flow of revenues and expenses through our legal entity structure, the effect that changes in our Class A Share price may have on the ultimate deduction we are able to take related to the vesting of RSUs, and any changes in future enacted income tax rates may have a significant impact on our income tax provision and effective tax rate.

Net Loss Allocated to Partners and Others Interests in Consolidated Subsidiaries

Partners and others interests in consolidated subsidiaries represents ownership interests in the Company's subsidiaries held by parties other than us and is primarily made up of: (i) Och-Ziff Operating Group A Units held by our partners and the Ziffs; and (ii) fund investors' interests in the consolidated Och-Ziff funds. Increases or decreases in this item related to the Och-Ziff Operating Group A Units are driven by the earnings or losses of the Och-Ziff Operating Group. Increases or decreases in this item related to fund investors' interests in consolidated Och-Ziff funds are driven by the earnings or losses of the consolidated Och-Ziff funds.

RESULTS OF OPERATIONS**Revenues**

	Three Months Ended March 31,		Change	
	2011	2010	\$	%
	(dollars in thousands)			
Management fees	\$ 121,346	\$ 101,742	\$ 19,604	19%
Incentive income	6,966	186	6,780	NM
Other revenues	358	391	(33)	-8%
Income of consolidated Och-Ziff funds	9,738	7,116	2,622	37%
Total Revenues	\$ 138,408	\$ 109,435	\$ 28,973	26%

The increase in total revenues was primarily due to higher management fees resulting from the year-over-year increase in average assets under management. The increase in average assets under management was driven by a combination of capital net inflows and performance-related appreciation. Our management fees, before the impact of eliminations, were 1.7% (annualized) of our weighted-average assets under management in the first quarter of 2011 and 2010. Also contributing to the increase in total revenues was higher incentive income, which was primarily due to amounts taken as tax distributions in the first quarter of 2011 related to assets under management subject to longer than one-year measurement periods.

The increase in income of consolidated Och-Ziff funds was driven by the investment activities of the real estate and other funds that we consolidate.

Table of Contents**Expenses**

	Three Months Ended March 31,		Change	
	2011	2010	\$	%
	(dollars in thousands)			
Compensation and benefits	\$ 59,205	\$ 53,192	\$ 6,013	11%
Reorganization expenses	405,855	424,806	(18,951)	-4%
Interest expense	2,048	1,957	91	5%
General, administrative and other	25,105	22,592	2,513	11%
Expenses of consolidated Och-Ziff funds	1,450	1,082	368	34%
Total Expenses	\$ 493,663	\$ 503,629	\$ (9,966)	-2%

The decrease in total expenses was driven primarily by lower Reorganization expenses resulting from lower amortization expense on certain units forfeited by former partners that were subsequently reallocated to the remaining partners. The grant-date fair value of the reallocated units was generally lower than the original grant-date fair value, and therefore the Reorganization expenses associated with the reallocated units decreased. Also contributing to the decrease was the acceleration of \$11.4 million of Reorganization expenses on certain Och-Ziff Operating Group A Units related to the departure of certain former partners in the first quarter of 2010. Assuming no material forfeitures or reallocations, the estimated future Reorganization expenses related to the amortization of Och-Ziff Operating Group A Units held by our partners are expected to be approximately \$1.2 billion for the remainder of 2011 and \$1.4 billion in 2012.

The decrease in Reorganization expenses was partially offset by higher compensation and benefits that was primarily due to an increase in guaranteed bonus accruals and equity-based compensation. Our worldwide headcount increased from 382 at March 31, 2010 to 409 at March 31, 2011. Further offsetting the decrease in Reorganization expenses was an increase in general, administrative and other primarily driven by higher recurring placement and related service fees on assets under management.

Other Income

	Three Months Ended March 31,		Change	
	2011	2010	\$	%
	(dollars in thousands)			
Net gains on investments in Och-Ziff funds and joint ventures	\$ 176	\$ 53	\$ 123	232%
Change in deferred income of consolidated Och-Ziff funds	(2,326)	(1,887)	(439)	23%
Net gains of consolidated Och-Ziff funds	8,287	6,191	2,096	34%
Total Other Income	\$ 6,137	\$ 4,357	\$ 1,780	41%

The increase in total other income was driven primarily by the increase in net gains of consolidated Och-Ziff funds. These gains were driven by the investment activities of the real estate and other funds that we consolidate.

Income Taxes

	Three Months Ended March 31,		Change	
	2011	2010	\$	%
	(dollars in thousands)			
Income taxes	\$ 8,626	\$ 8,799	\$ (173)	-2%

The Registrant and the Och-Ziff Operating Group entities are partnerships for U.S. federal income tax purposes. As a result of our legal structure, only a portion of the income we earn is subject to corporate level tax rates in the United States and foreign jurisdictions. The provision for income taxes includes federal, state and local income taxes in the United States and foreign income taxes at an effective tax rate of -2.5% and -2.3% for the three months ended March 31, 2011 and 2010, respectively. The reconciling items between our statutory rate and our effective tax

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rate were due to the following: (i) a portion of the income we earn is not subject to federal, state and local corporate income taxes in the United States; (ii) a portion of the income we earn is subject to the New York City unincorporated business tax; (iii) certain foreign subsidiaries are subject to foreign corporate income taxes; and (iv) Reorganization expenses are non-deductible for income tax purposes.

As of and for the three months ended March 31, 2011 and 2010, we were not required to establish a liability for uncertain tax positions.

Table of Contents**Net Loss Allocated to Partners and Others Interests in Consolidated Subsidiaries**

The following table presents the components of the net loss allocated to partners and others interests in consolidated subsidiaries:

	Three Months Ended March 31,		Change	
	2011	2010	\$	%
	(dollars in thousands)			
Och-Ziff Operating Group A Units	\$ (276,987)	\$ (320,001)	\$ 43,014	-13%
Consolidated Och-Ziff funds	13,862	10,158	3,704	36%
Other	845	(154)	999	NM
Total	\$ (262,280)	\$ (309,997)	\$ 47,717	-15%

The decrease in net loss allocated to partners and others interests in consolidated subsidiaries was driven primarily by a decrease in the amount of loss of the Och-Ziff Operating Group allocated to the Och-Ziff Operating Group A Units. The partners and the Ziffs interests in the Och-Ziff Operating Group in the form of Och-Ziff Operating Group A Units declined from 78.9% as of March 31, 2010 to 75.6% as of March 31, 2011 as a result of the vesting of RSUs and the exchange of Och-Ziff Operating Group A Units for Class A Shares. As a result of these issuances, a larger share of losses of the Och-Ziff Operating Group was allocated to us due to the decline in the partners and the Ziffs direct interests in the Och-Ziff Operating Group. The Och-Ziff Operating Group A Units are expected to continue to significantly reduce our net loss in future periods as losses of the Och-Ziff Operating Group are allocated to these interests.

Net Loss Allocated to Class A Shareholders

	Three Months Ended March 31,		Change	
	2011	2010	\$	%
	(dollars in thousands)			
Net loss allocated to Class A Shareholders	\$ (95,464)	\$ (88,639)	\$ (6,825)	8%

The increase in the net loss allocated to Class A Shareholders was driven primarily by the increase in our ownership interest in the Och-Ziff Operating Group as discussed above. Offsetting the increase in net loss was an increase in management fees as a result of higher assets under management, as well as lower Reorganization expenses.

ECONOMIC INCOME ANALYSIS

	Three Months Ended March 31,		Change	
	2011	2010	\$	%
	(dollars in thousands)			
<i>Economic Income:</i>				
Och-Ziff Funds segment	\$ 79,059	\$ 62,147	\$ 16,912	27%
Other Operations - Non-GAAP	1,431	(4,265)	5,696	NM
Total Company - Non-GAAP	\$ 80,490	\$ 57,882	\$ 22,608	39%

We conduct substantially all of our operations through our only reportable segment under U.S. GAAP, the Och-Ziff Funds segment, which provides asset management services to our funds. Our Other Operations are currently comprised of our real estate business, which provides asset management services to our real estate funds, and investments in businesses established to expand certain of our private investment platforms.

In addition to analyzing our results on a U.S. GAAP basis, management also reviews our results on an Economic Income basis. Economic Income for the Company, the Och-Ziff Funds segment and our Other Operations excludes the adjustments described below that are required for presentation of our results on a U.S. GAAP basis, but that management does not consider when evaluating operating performance in any given period. Management, therefore, uses Economic Income as the basis on which it evaluates our financial performance and makes resource

allocation and other operating decisions. Management considers it important that investors review the same operating information that it uses.

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Economic Income is a measure of pre-tax operating performance that excludes the following from our results on a U.S. GAAP basis:

Income allocations to our partners and the Ziffs on their direct interests in the Och-Ziff Operating Group. Management reviews operating performance at the Och-Ziff Operating Group level, where substantially all of our operations are performed, prior to making any income allocations;

Reorganization expenses related to the Offerings, equity-based compensation expenses and depreciation and amortization expenses, as management does not consider these non-cash expenses to be reflective of operating performance;

Net gains on investments in Och-Ziff funds and changes in the tax receivable agreement liability, as management does not consider these to be reflective of operating performance;

Amounts related to the consolidated Och-Ziff funds, including the related eliminations of management fees and incentive income, as management reviews the total amount of management fees and incentive income earned in relation to total assets under management and fund performance.

In addition, the full amount of deferred cash compensation and expenses related to compensation arrangements indexed to annual investment performance are recognized on the date they are determined (generally in the fourth quarter of each year), as management determines the total amount of compensation based on our performance in the year of the award.

For reconciliations of Economic Income of the Och-Ziff Funds segment and its components to the respective U.S. GAAP basis for the periods presented and additional information regarding the reconciling adjustments discussed above, see Note 13 to our consolidated financial statements included in this quarterly report.

Economic Income for our Other Operations is a non-GAAP measure that is calculated on the same basis as the methodology that is used to calculate Economic Income for the Och-Ziff Funds segment. Management also evaluates Economic Income for the Company, which is a non-GAAP measure that equals the sum of Economic Income for the Och-Ziff Funds segment and for our Other Operations. Our non-GAAP financial measures should not be considered as alternatives to our U.S. GAAP net loss or cash flow from operations, or as indicative of liquidity or the cash available to fund operations. Our non-GAAP measures may not be comparable to similarly-titled measures used by other companies. For reconciliations of these non-GAAP measures to the respective U.S. GAAP measures, see Economic Income Reconciliations following Critical Accounting Policies and Estimates below.

Och-Ziff Funds Segment Economic Income Analysis

	Three Months Ended March 31,		Change	
	2011	2010	\$	%
	(dollars in thousands)			
Economic Income Revenues				
Management fees	\$ 113,687	\$ 99,574	\$ 14,113	14%
Incentive income	6,966	186	6,780	NM
Other revenues	302	284	18	6%
Total Economic Income Revenues	120,955	100,044	20,911	21%
Economic Income Expenses				
Compensation and benefits	22,427	18,031	4,396	24%
Non-compensation expenses	19,638	19,631	7	0%

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Total Economic Income Expenses	42,065	37,662	4,403	12%
Net losses on joint ventures	169	(235)	404	NM
Economic Income	\$ 79,059	\$ 62,147	\$ 16,912	27%

Economic Income Revenues

The increase in total Economic Income revenues for the segment was primarily due to higher management fees resulting from the year-over-year increase in average assets under management. The increase in average assets under management was driven by a combination of capital net inflows and performance-related appreciation. Also contributing to the increase in total segment revenues was higher incentive income, which was primarily due to amounts taken as tax

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distributions in the first quarter of 2011 related to assets under management subject to longer than one-year measurement periods.

Economic Income Expenses

The increase in total Economic Income expenses for the segment was primarily attributable to an increase in guaranteed bonus accruals and higher salaries and benefits due to the increase in our worldwide headcount. Non-compensation expenses remained essentially unchanged year-over-year.

Other Operations Economic Income Analysis (Non-GAAP)

	Three Months Ended March 31,		Change	
	2011	2010	\$	%
	(dollars in thousands)			
Economic Income for Other Operations - Non-GAAP	\$ 1,431	\$ (4,265)	\$ 5,696	NM

Our Other Operations are comprised of our real estate business, which provides asset management services to our real estate funds, and investments in businesses established to expand certain of our private investment platforms. The businesses within our Other Operations are not included in the results of the Och-Ziff Funds segment.

The increase in Economic Income for our Other Operations was principally due to increased management fees related to the launch of our second domestic real estate fund, as well as lower expenses associated with our Asia Real Estate business.

Economic Income for our Other Operations as discussed above is a non-GAAP measure. For reconciliations of Economic Income of our Other Operations to the respective U.S. GAAP net loss for the periods described above, see Economic Income Reconciliations following Critical Accounting Policies and Estimates below.

The Company Economic Income Analysis (Non-GAAP)

	Three Months Ended March 31,		Change	
	2011	2010	\$	%
	(dollars in thousands)			
Economic Income for the Company - Non-GAAP	\$ 80,490	\$ 57,882	\$ 22,608	39%

The increase in Economic Income for the Company was primarily attributable to the Och-Ziff Funds segment due to increased revenues, partially offset by higher compensation and benefits.

Economic Income for the Company as discussed above is a non-GAAP measure. For reconciliations of Economic Income for the Company to the respective U.S. GAAP net loss for the periods described above, see Economic Income Reconciliations following Critical Accounting Policies and Estimates below.

LIQUIDITY AND CAPITAL RESOURCES

The working capital needs of our business have historically been met and continue to be met through cash generated from management fees and incentive income earned by the Och-Ziff Operating Group from our funds. We currently do not incur any indebtedness to fund our ongoing operations, but have outstanding indebtedness that was incurred in connection with the Reorganization and to refinance the note payable on our corporate aircraft. We expect that our primary liquidity needs over the next 12 months will be to:

pay our operating expenses, primarily consisting of compensation and benefits, as well as any related tax withholding obligations, and non-compensation expenses;

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repay borrowings and interest thereon;

provide capital to facilitate the growth of our business;

pay income taxes and amounts to our partners and the Ziffs with respect to the tax receivable agreement as discussed below under Tax Receivable Agreement ; and

make cash distributions in accordance with our distribution policy as discussed below under Distributions.

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Historically, management fees have been more than sufficient to cover all of our fixed operating expenses, which we define as salaries and benefits and our non-compensation costs. As explained above under Understanding Our Results Revenues Incentive Income, we generally do not recognize incentive income during the first three quarters of the year other than amounts earned as a result of fund investor redemptions during the period or, beginning in 2012, amounts earned from fund investors subject to three-year measurement periods. Additionally, we may recognize a portion of incentive income prior to the end of the three-year period related to tax distributions as discussed in Understanding Our Results Revenues Incentive Income.

We cannot predict the amount of incentive income, if any, which we may earn in any given year. Accordingly, we do not rely on incentive income to meet our fixed operating expenses. Total annual revenues, which typically have been influenced by the amount of annual incentive income we earn, historically have been sufficient to fund all of our other working capital needs, including annual discretionary cash bonuses. These cash bonuses, which historically have comprised our largest operating expense, are variable such that, in any year where total annual revenues are greater or less than the prior year, cash bonuses may be adjusted accordingly. Our ability to scale our largest operating expense to our total annual revenues helps us manage our cash flow and liquidity position from year to year.

Based on our past results, management's experience and our current level of assets under management, we believe that our existing cash resources, together with the cash generated from management fees, will be sufficient to meet our anticipated fixed operating expenses and capital expenditure requirements for at least the next 12 months. As we have done historically, we will determine the actual amount of discretionary cash bonuses for 2011 during the fourth quarter and intend to fund this amount through total annual revenues. Although we cannot predict the amount, if any, of incentive income we may earn, we are able to regularly monitor expected management fees and we believe that we will be able to adjust our expense infrastructure, including discretionary cash bonuses, as needed to meet the requirements of our business and in order to maintain positive operating cash flows. Nevertheless, if we generate insufficient cash flows from operations to meet our short-term liquidity needs, we may have to borrow funds or sell assets, subject to existing contractual arrangements.

Our term loan, discussed below under Debt Obligations Term Loan, matures in July 2012, and the balance on our aircraft loan, discussed below under Debt Obligations Aircraft Loan, is payable in May 2011. To date, we have used cash on hand to repurchase and retire \$105 million of the outstanding principal amount of our term loan. In addition, as of March 31, 2011, we had repaid an additional \$18.8 million of the outstanding balance on our term loan from cash on hand, as we are required to make quarterly payments in an aggregate annual amount equal to 1% of the original loan balance. We may continue to use cash on hand to repay the term loan and the aircraft loan in part or in full prior to their maturity dates, which would reduce amounts available to distribute to our Class A Shareholders. For any amounts unpaid as of those dates, we will be required to either refinance the obligations by entering into new facilities, which could result in higher borrowing costs, or raise cash by issuing equity or other securities, which would dilute existing shareholders. No assurance can be given that we will be able to enter into new facilities or issue equity or other securities in the future on attractive terms or at all. Any new facilities that we may be able to enter into may have covenants that impose additional limitations on us, including with respect to making distributions, entering into business transactions or other matters, and may result in increased interest expense. If we are unable to meet our debt obligations on terms that are favorable to us, our business may be adversely impacted.

For our other longer-term liquidity requirements, we expect to continue to fund our fixed operating expenses through management fees and to fund discretionary cash bonuses and the repayment of our debt obligations through a combination of management fees and incentive income. We may also decide to meet these requirements by issuing debt or additional equity or other securities. Over the long term, we believe we will be able to grow our assets under management and generate positive investment performance in our funds, which we expect will allow us to grow our management fees and incentive income in amounts sufficient to cover our long-term liquidity requirements.

To maintain maximum flexibility to meet demands and opportunities both in the short and long term, and subject to existing contractual arrangements, we may want to retain cash, issue additional equity or borrow additional funds to:

support the future growth in our business;

create new or enhance existing products and investment platforms;

repay borrowings;

pursue new investment opportunities; and

develop new distribution channels.

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Market conditions and other factors may make it more difficult or costly to raise or borrow additional funds. Excessive costs or other significant market barriers may limit or prevent us from maximizing our growth potential and flexibility.

Debt Obligations

Term Loan. On July 2, 2007, we entered into a \$750 million term loan bearing an interest rate of LIBOR plus 0.75%. The term loan will mature in July 2012 and is secured by a first priority lien on substantially all of our assets. The term loan is payable in equal quarterly installments, which began on December 31, 2008, in an aggregate annual amount equal to 1% of the original principal amount borrowed under the term loan, and the balance will be payable upon maturity. In June 2009, we repurchased and retired \$5.0 million of the outstanding balance for \$3.0 million, and in December 2009, we repurchased and retired an additional \$100.0 million of the outstanding balance for \$80.0 million. As of March 31, 2011, the total outstanding amount of the term loan was \$626.3 million.

The term loan includes provisions that restrict our ability to further encumber our assets and make certain distributions. Specifically, we generally are prohibited from:

incurring further secured indebtedness;

engaging in certain transactions with shareholders or affiliates;

engaging in a substantially different line of business; and

amending our organizational documents in a manner materially adverse to the lenders.

The term loan permits us to incur up to \$150 million of unsecured indebtedness and additional unsecured indebtedness so long as, after giving effect to the incurrence of such indebtedness, we are in compliance with a leverage ratio (as defined in the credit agreement) of 3.0 to 1.0 and no default or event of default has occurred and is continuing. As of March 31, 2011, we have not incurred any unsecured indebtedness. The term loan does not include any financial maintenance covenants, such as minimum requirements relating to assets under management or profitability. We will not be permitted to make distributions from the Och-Ziff Operating Group to our Class A Shareholders or the holders of Och-Ziff Operating Group A Units if we are in default under the term loan.

The term loan also limits the amount of distributions we can pay in a 12-month period to our free cash flow. Free cash flow for any period includes the combined net income or loss of the Och-Ziff Operating Group entities, excluding certain subsidiaries, subject to certain additions and deductions for taxes, interest, depreciation, amortization and other non-cash charges for such period, less total interest paid, expenses in connection with the purchase of property and equipment, distributions to equity holders to pay taxes, realized gains or losses on investments and dividends and interest from investments. As of March 31, 2011, distributions from the Och-Ziff Operating Group were in compliance with the free cash flow covenant.

Aircraft Loan. On May 30, 2008, we refinanced the remaining principal balance on the original note on our corporate aircraft. On March 30, 2009, we amended the terms of the note payable on our corporate aircraft. The principal amount borrowed under the amended note is approximately \$16.8 million, bears an annual interest rate of LIBOR plus 2.35%, is due in full at maturity on May 31, 2011 and is secured by a first priority lien on the aircraft.

The terms of the amended note also require us to make one or more prepayments of the note or post cash collateral with the lender in the event that the outstanding principal balance of the loan at any time exceeds an amount equal to 65% of the fair market value of the aircraft, as determined by the lender pursuant to an appraisal obtained by the lender that may not be exercised more than once every 12 months. During the second quarter of 2010, we paid \$3.4 million of the note payable and applied \$2.0 million of collateral previously posted with the lender against the remaining principal balance. As of March 31, 2011, the remaining principal balance of the note payable was \$11.3 million.

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The terms of the amended note payable also require us to comply with the following financial maintenance covenants in order for us to avoid an event of default:

The minimum amount of assets under management is \$17 billion, tested quarterly;

Annual management fees earned by the Och-Ziff Operating Group must not fall below \$286.1 million, tested annually;

All revenues earned by the Och-Ziff Operating Group less compensation expenses and all other cash operating expenses must exceed three times the annual principal and interest payments due on all direct or indirect indebtedness of the Och-Ziff Operating Group, tested quarterly; and

Average cash, unrestricted marketable securities and other liquid investments that may be converted to cash within 90 days must be equal to an amount greater than the outstanding principal balance of the note, tested quarterly.

Upon an event of default, subject to certain cure periods set forth in the note, the lender may declare all amounts outstanding under the note to be due and payable.

Tax Receivable Agreement

We have made, and may in the future be required to make, payments under the tax receivable agreement that we entered into with our partners and the Ziffs. The purchase by the Och-Ziff Operating Group of Och-Ziff Operating Group A Units from our partners and the Ziffs with proceeds from the Offerings, and subsequent taxable exchanges by our partners and the Ziffs of Och-Ziff Operating Group A Units for our Class A Shares on a one-for-one basis (or, at our option, a cash equivalent), resulted, and, in the case of future exchanges, are anticipated to result, in an increase in the tax basis of the assets of the Och-Ziff Operating Group that would not otherwise have been available. We anticipate that any such tax basis adjustment resulting from an exchange will be allocated principally to certain intangible assets of the Och-Ziff Operating Group, and we will derive our tax benefits principally through amortization of these intangibles over a 15-year period. Consequently, these tax basis adjustments will increase, for tax purposes, our depreciation and amortization expenses and will therefore reduce the amount of tax that Och-Ziff Corp and any other future intermediate corporate taxpaying entities that acquire Och-Ziff Operating Group B Units in connection with an exchange, if any, would otherwise be required to pay in the future. Accordingly, pursuant to the tax receivable agreement, such corporate taxpaying entities (including Och-Ziff Capital Management Group LLC if it is treated as a corporate taxpayer) have agreed to pay our partners and the Ziffs 85% of the amount of cash savings, if any, in federal, state and local income taxes in the United States that these entities actually realize related to their units as a result of such increases in tax basis. In connection with the departure of certain former partners, the right to receive payments under the tax receivable agreement by such partners was contributed to the Och-Ziff Operating Group. As a result, we expect to pay to our remaining partners and the Ziffs approximately 78% (from 85% at the time of the Offerings) of the overall cash savings, if any, in federal, state and local income taxes in the United States that we actually realize as a result of such increases in tax basis. To the extent that we do not realize any cash savings in federal, state and local income taxes in the United States, we would not be required to make corresponding payments under the tax receivable agreement.

Payments under the tax receivable agreement are anticipated to increase the tax basis adjustment of intangible assets resulting from a prior exchange, with such increase being amortized over the remainder of the amortization period applicable to the original basis adjustment of such intangible assets resulting from such prior exchange. It is anticipated that this will result in increasing annual amortization deductions in the taxable years of and after such increases to the original basis adjustments, and potentially will give rise to increasing tax savings with respect to such years and correspondingly increasing payments under the tax receivable agreement.

As of March 31, 2011, assuming no material changes in the relevant tax law and that we generate sufficient taxable income to realize the full tax benefit of the increased amortization resulting from the increase in tax basis of our assets, we expect to pay our partners and the Ziffs approximately \$794.5 million over the next 15 years as a result of the cash savings to our intermediate holding companies from the purchase of Och-Ziff Operating Group A Units from our partners and the Ziffs with proceeds from the Offerings and the exchange of Och-Ziff Operating Group A Units for Class A Shares. Future cash savings and related payments to our partners under the tax receivable agreement in respect of subsequent exchanges would be in addition to these amounts. The obligation to make payments under the tax receivable agreement is an obligation of the intermediate corporate taxpaying entities and not of the Och-Ziff Operating Group entities. We may need to incur debt to finance payments under the tax receivable agreement to the extent the entities within the Och-Ziff Operating Group do not distribute cash to our

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intermediate corporate tax paying entities in an amount sufficient to meet our obligations under the tax receivable agreement. The actual increase in tax basis of the Och-Ziff Operating Group assets resulting from an

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exchange or from payments under the tax receivable agreement, as well as the amortization thereof and the timing and amount of payments under the tax receivable agreement, will vary based upon a number of factors, including those described below:

The amount and timing of the income of Och-Ziff Corp will impact the payments to be made under the tax receivable agreement. To the extent that Och-Ziff Corp does not have sufficient taxable income to utilize the amortization deductions available as a result of the increased tax basis in the Och-Ziff Operating Group assets, payments required under the tax receivable agreement would be reduced.

The price of our Class A Shares at the time of any exchange will determine the actual increase in tax basis of the Och-Ziff Operating Group assets resulting from such exchange; payments under the tax receivable agreement resulting from future exchanges, if any, will be dependent in part upon such actual increase in tax basis.

The composition of the Och-Ziff Operating Group's assets at the time of any exchange will determine the extent to which Och-Ziff Corp may benefit from amortizing its increased tax basis in such assets and thus will impact the amount of future payments under the tax receivable agreement resulting from any future exchanges.

The extent to which future exchanges are taxable will impact the extent to which Och-Ziff Corp will receive an increase in tax basis of the Och-Ziff Operating Group assets as a result of such exchanges, and thus will impact the benefit derived by Och-Ziff Corp and the resulting payments, if any, to be made under the tax receivable agreement.

Depending upon the outcome of these factors, payments that we may be obligated to make to our partners and the Ziffs under the tax receivable agreement in respect of exchanges could be substantial. In light of the numerous factors affecting our obligation to make payments under the tax receivable agreement, the timing and amounts of any such actual payments are not reasonably ascertainable.

Other Future Liquidity and Capital Needs

Restricted Share Units (RSUs). Substantially all of the RSUs that we have awarded to date accrue dividend equivalents equal to the dividend amounts paid on our Class A Shares. To date, these dividend equivalents have been awarded in the form of additional RSUs, which accrue additional dividends. The dividend equivalents will be paid if and when the related RSUs vest. Our Board of Directors has the right to determine whether the RSUs and any related dividend equivalents will be settled in Class A Shares or in cash. We currently withhold shares to satisfy the tax withholding obligations of holders of vested RSUs and dividend equivalents, which results in the use of cash from operations or borrowings to satisfy these tax withholding payments.

Tax Liability Distributions. In accordance with the Och-Ziff Operating Group entities' limited partnership agreements, we may cause the applicable Och-Ziff Operating Group entities to distribute cash to the intermediate holding companies, the partners and the Ziffs in an amount at least equal to the presumed maximum tax liabilities arising from their direct ownership in these entities. The presumed maximum tax liabilities are based upon the presumed maximum income allocable to any such unit holder at the maximum combined U.S. federal, New York State and New York City tax rates. Holders of our Class A Shares may not always receive distributions at a time when our partners and the Ziffs are receiving distributions on their interests, as distributions to our intermediate holding companies may be used to settle tax liabilities, if any, or other obligations. Such tax distributions will take into account the disproportionate income allocation (but not a disproportionate cash allocation) to the unit holders with respect to built-in gain assets, if any, at the time of the Offerings. Consequently, Och-Ziff Operating Group tax distributions may be greater than if such assets had a tax basis equal to their value at the time of the Offerings.

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The following table presents the cash dividends declared on our Class A Shares in 2011 and the related cash distributions to our partners and the Ziffs with respect to their direct ownership interests in the Och-Ziff Operating Group:

Class A Shares		Dividend per Share	Related Distributions to the Partners and the Ziffs (dollars in thousands)
Payment Date	Record Date		
May 19, 2011	May 12, 2011	\$ 0.13	\$ 48,713
February 25, 2011	February 18, 2011	\$ 0.71	\$ 264,876

Our intention is to distribute to our Class A Shareholders substantially all of their pro rata share of annual Economic Income (as described above under Economic Income Analysis) in excess of amounts determined by us to be necessary or appropriate to provide for the conduct of our business, to pay income taxes, to pay any amounts owed under the tax receivable agreement, to make appropriate investments in our business and our funds, and to make payments on any of our debt obligations, including our term loan and the note payable on our corporate aircraft. When we pay dividends on our Class A Shares, subject to the terms of the limited partnership agreements of the Och-Ziff Operating Group entities, we intend to make corresponding distributions to our partners and the Ziffs on their interests in the Och-Ziff Operating Group.

Our ability to make cash distributions to our partners and the Ziffs and pay dividends to our Class A Shareholders depends on a number of factors that our Board of Directors takes into account as it may deem relevant. These factors include: revenues earned and profits generated by the Och-Ziff Operating Group; general economic and business conditions; our strategic plans and prospects; the impact of tax and other regulatory factors relevant to our structure and operations; our business and investment opportunities; our financial condition and operating results; our working capital requirements and anticipated cash needs; the need or ability of the Och-Ziff Operating Group to secure additional sources of liquidity; and contractual obligations, including payment obligations pursuant to the tax receivable agreement, our term loan and other indebtedness. If we generate insufficient cash flows from operations to make such distributions or payments, we may need to borrow funds or sell assets, subject to existing contractual obligations. In addition, we may not be able to obtain additional financing on terms that are acceptable, if at all.

The declaration and payment of future distributions will be at the sole discretion of our Board of Directors, which may change our distribution policy at any time. In determining whether to pay any dividend our Board of Directors will take into account such factors as it may deem relevant, including those noted above. Depending on the facts and circumstances at any given time, our Board of Directors may determine to reduce, increase or suspend from time to time at any time, the payment of dividends to our Class A Shareholders.

Our Funds Liquidity and Capital Resources

Our funds have access to liquidity from our prime brokers and other counterparties. Additionally, our funds may have committed facilities in addition to regular financing from our counterparties. These sources of liquidity provide our funds with additional financing resources, allowing them to take advantage of opportunities in the global marketplace.

Our funds' current liquidity position could be adversely impacted by any substantial, unanticipated investor redemptions from our funds that are made within a short time period. As discussed above in Assets Under Management, capital contributions from investors in our funds generally are subject to initial lock-up periods of one to three years. These lock-ups and redemption notice periods help us to manage our liquidity position.

We also follow a thorough risk management process and regularly monitor the liquidity of our funds' portfolios in relation to economic and market factors and the timing of potential investor redemptions. As a result of this process, we may determine to reduce exposure or increase the liquidity of our funds' portfolios at any time, whether in response to global economic and market conditions, redemption requests or otherwise. For these reasons, we believe we will be well prepared to address market conditions and redemption requests, as well as any other events, with limited impact on our funds' liquidity position. Nevertheless, significant redemptions made during a single quarter could adversely affect our funds' liquidity position, as we may meet redemptions by using our funds' available cash or selling assets (possibly at a loss). Such actions would result in lower assets under management, which would reduce the amount of management fees and incentive income we may earn. Our funds could also meet redemption requests by increasing leverage, provided we are able to obtain financing on reasonable terms, if at all. We believe our funds have sufficient liquidity to meet any anticipated redemptions for the foreseeable future.

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Cash Flows Analysis

Operating Activities. Net cash provided by operating activities was \$325.1 million and \$397.2 million for the three months ended March 31, 2011 and 2010, respectively. For both periods, net cash flows from operating activities were primarily related to the collection of prior-year incentive income and current-year management fees, less interest expense and other operating expenses. Additionally, during the first three months of 2010, we collected \$389.3 million of deferred balances, which we in turn distributed to our partners and the Ziffs, net of taxes. The deferred balances distributed to Mr. Och, net of taxes, in the amount of \$122.0 million during the three months ended March 31, 2010 were recorded within cash flows from financing activities, as these were distributions on Mr. Och's pre-IPO equity interest. Additionally, cash flows from operating activities also include the investment activities of our consolidated funds.

Investing Activities. There were no significant changes in the net cash used in investing activities for the three months ended March 31, 2011 and 2010, as investment-related cash flows of the consolidated Och-Ziff funds are classified within operating activities in our consolidated statements of cash flows.

Financing Activities. Net cash used in financing activities was \$281.7 million and \$351.0 million for the three months ended March 31, 2011 and 2010, respectively. For the three months ended March 31, 2011 and 2010, net cash flows from financing activities were primarily related to the dividends paid of \$68.6 million and \$47.5 million, respectively, to our Class A Shareholders and distributions to our partners and the Ziffs of \$260.3 million and \$198.9 million, respectively, on their Och-Ziff Operating Group A Units. As discussed above, deferred balances distributed to Mr. Och, net of taxes, in the amount of \$122.0 million during the three months ended March 31, 2010 were also recorded as financing-related cash outflows. Additionally, capital inflows and outflows of our consolidated funds are included within financing activities.

CONTRACTUAL OBLIGATIONS

There have been no significant changes to our contractual obligations reported in our Annual Report.

OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2011, we did not have any off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are those that require us to make significant judgments, estimates or assumptions that affect amounts reported in our financial statements or the notes thereto. We base our judgments, estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable and prudent. Actual results may differ materially from these estimates. See Note 2 to our consolidated financial statements included in our Annual Report for a description of our accounting policies. The following is a summary of what we believe to be our most critical accounting policies and estimates:

Fair Value of Investments

The valuation of investments held by our funds is the most critical estimate made by management impacting our results. The Och-Ziff funds are considered investment companies for U.S. GAAP purposes. Pursuant to specialized accounting for investment companies under U.S. GAAP, investments of these funds are carried at their estimated fair values. The valuation of investments in our funds has a significant impact on our results, as our management fees and incentive income are determined based on the fair value of the investments held by the funds.

Assets and liabilities measured at fair value are classified into one of the following categories:

Level I Fair value is determined using quoted prices that are available in active markets for identical assets or liabilities as of the measurement date. Assets and liabilities that would generally be included in this category include certain listed equities and listed derivatives.

Level II Fair value is determined using quotations received from dealers making a market for these assets or liabilities (broker quotes), valuations obtained from independent third-party pricing vendors (independent pricing services), the use of models, or other

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valuation methodologies based on pricing inputs that are either directly or indirectly market observable as of the measurement date. Consideration is given to the nature of the broker quotes (e.g., indicative or executable). Assets and liabilities for which executable broker quotes are significant inputs in determining the fair value of an asset or liability are included within Level II. Assets and liabilities that would generally be included in this category include certain corporate bonds, certain credit default swap

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contracts, certain bank debt securities, less liquid and restricted equity securities, forward contracts and certain over-the-counter (OTC) derivatives.

Level III Fair value is determined using pricing inputs that are unobservable in the market and includes situations where there is little, if any, market activity for the asset or liability. The fair value for assets and liabilities in this category may require significant judgment or estimation in determining fair value of the assets or liabilities. The fair value of such assets and liabilities may be estimated using a combination of observed transaction prices, independent pricing services and relevant broker quotes. Assets and liabilities for which indicative broker quotes are significant inputs in determining the fair value of an asset or liability are included within Level III. Assets and liabilities that would generally be included in this category include equity and debt securities issued by private entities, limited partnerships, certain corporate bonds, certain credit default swaps, certain bank debt securities, certain OTC derivatives and structured products.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

As of March 31, 2011, the absolute values of our funds' invested assets and liabilities were classified within the fair value hierarchy as follows: approximately 49% within Level I; approximately 23% within Level II; and approximately 28% within Level III. As of December 31, 2010, the absolute values of our funds' invested assets and liabilities were classified within the fair value hierarchy as follows: approximately 45% within Level I; approximately 26% within Level II; and approximately 29% within Level III. The classification of our funds' assets and liabilities within the fair value hierarchy will fluctuate based on the investments made at any given time and such fluctuations could be significant.

A portion of our funds' Level III assets relate to private or other investments on which we do not earn any incentive income until such investments are sold or otherwise realized. Upon the sale or realization event of these assets, any realized profits are included in the calculation of incentive income for such year. Accordingly, the estimated fair value of our funds' Level III assets may not have any relation to the amount of incentive income actually earned with respect to such assets.

Valuation of Investments. Fair value represents the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants as of the measurement date. The fair value of our funds' investments is based on observable market prices when available. Such values are generally based on the last sales price.

We, as the investment manager of the Och-Ziff funds, determine the fair value of investments that are not actively traded on a recognized securities exchange or otherwise lack a readily ascertainable market value. The methods and procedures to value these investments may include, but are not limited to: (i) performing comparisons with prices of comparable or similar securities; (ii) obtaining valuation-related information from the issuers; (iii) calculating the present value of future cash flows; (iv) assessing other analytical data and information relating to the investment that is an indication of value; (v) obtaining information provided by third parties; (vi) reviewing of amounts invested in these investments; and (vii) evaluating financial information provided by the management of these investments. See Note 4 to our consolidated financial statements included in this quarterly report for additional information.

Significant judgment and estimation goes into the assumptions that drive our valuation methodologies and procedures for assets that are not actively traded on a recognized securities exchange or otherwise lack a readily ascertainable market value and the actual amounts ultimately realized could differ materially from the values estimated based on the use of these methodologies. Realizations at values significantly lower than the values at which investments have been reflected could result in losses at the fund level and a decline in future management fees and incentive income. Such situations may also negatively impact fund investor perception of our valuation policies and procedures, which could result in redemptions and difficulties in raising additional capital.

We have established an internal control infrastructure over the valuation of financial instruments that requires ongoing independent oversight by our Financial Control Group as well as periodic audits by our Internal Audit Group. These management control functions are independent of the trading and investing functions. We have also established a Valuation Committee, comprised of non-investment professionals, that is responsible for overseeing and monitoring the pricing of our funds' investments. The Valuation Committee may obtain input from investment professionals for consideration in carrying out their responsibilities.

We employ resources to help ensure that the Financial Control and Internal Audit Groups are able to function at an appropriate quality level. We believe our internal control infrastructure utilizes an effective and appropriate level of segregation of duties. Specifically, the Financial Control Group is responsible for establishing and monitoring compliance with valuation policies, as well as reporting compliance with these policies to

our Audit Committee. Our Internal Audit Group

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employs a risk-based program of audit coverage that is designed to provide an independent assessment of the design and effectiveness of controls over our operations, regulatory compliance, valuation of financial instruments and reporting. Additionally, our Internal Audit Group meets with management periodically to evaluate and provide guidance on the existing risk framework and control environment assessments. Within our trading and investing functions, we have established policies and procedures that relate to the approval of all new transaction types, transaction pricing sources, and fair valuation hierarchy coding within our financial reporting system. The appropriate internal and external resources with technical expertise and product, market and industry knowledge, perform independent verification of prices, profit and loss review, and validation of the models used in our valuation process.

The analysis used in measuring the fair value of financial instruments is generally related to the level of observable pricing inputs. For Level III inputs that are less observable, to the extent possible, procedures have been established to discuss the valuation methodology, including pricing techniques, with senior management of the trading and investing functions, to compare the inputs to observable inputs for similar positions, to review subsequent secondary market activities and to perform comparison of actual versus projected cash flows.

As of March 31, 2011 and December 31 2010, our only assets carried at fair value were the deferred balances and the investment holdings of the consolidated Och-Ziff funds. The deferred balances and the investments held by the consolidated Och-Ziff funds are predominately valued using sources other than observable market data, which are considered to be within Level III of the fair value hierarchy.

The following table presents the fair values of assets classified as Level III within the fair value hierarchy and a brief description of the valuation technique for each type of asset:

Assets Recorded at Fair Value	March 31, 2011 (dollars in thousands)	Valuation Technique
Deferred balances, at fair value	\$ 2,892	Deferred balances are valued based on net asset value information provided by the underlying funds. The underlying investments within these funds are carried at fair value and are comprised of Levels I, II, and III financial instruments.
Investments, at fair value (assets of consolidated Och-Ziff funds)	518,633	Investments of the consolidated Och-Ziff funds are generally based upon discounted cash flows, a multiple of earnings, broker quotes or as determined in good faith with third-party input or other observable market inputs, where available. See Note 4 to the consolidated financial statements for additional information.
Total Level III assets, at fair value	521,525	
Level III assets for which we do not bear economic exposure	(518,642)	
Net Economic Exposure to Level III Assets	\$ 2,883	

Level III assets for which we do not bear economic exposure include: (i) deferred balances, as changes in the fair value of such receivables are offset by changes in a corresponding liability to our partners and the Ziffs; and (ii) substantially all of the investments of consolidated Och-Ziff funds, as substantially all of the changes in the fair values of these investments are absorbed by fund investors in these consolidated funds (i.e. partners and others interests in consolidated subsidiaries in our consolidated balance sheets).

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Impact of Fair Value Measurement on Our Results. A 10% change in the estimate of fair value of the investments held by our funds would have the following effects on our results:

	Och-Ziff Funds (excluding real estate and certain other funds)	Och-Ziff Real Estate and Certain Other Funds
Management fees	Generally, a 10% change in the period subsequent to the change in fair value, as management fees are charged based on the assets under management at the beginning of the period.	None, as management fees are generally charged based on committed capital during the original investment period and invested capital thereafter.
Incentive income	Generally, an immediate 10% impact if the change in fair value continues at the end of the measurement period, at which time incentive income is recognized.	None, as incentive income is based on realized profits, subject to clawback.

As management fees are charged based on the fair value of assets under management subject to fees at the beginning of the period, a 10% change in the fair value of the investments held by the Och-Ziff funds as of April 1, 2011 would impact management fees calculated on such date by approximately \$11.7 million.

Variable Interest Entities

The determination of whether or not to consolidate a variable interest entity under U.S. GAAP requires a significant amount of judgment concerning the degree of control over an entity by its holders of variable interests. To make these judgments, management has conducted an analysis, on a case-by-case basis, of the relationship of the holders of variable interests to each other, the design of the entity, the expected operations of the entity, which holder of variable interests is most closely associated to the entity and which holder of variable interests is the primary beneficiary required to consolidate the entity. Upon the occurrence of certain events, such as redemptions by all unaffiliated investors in any fund and modifications to fund organization documents and investment management agreements, management reviews and reconsiders its previous conclusion regarding the status of an entity as a variable interest entity. Additionally, management continually reconsiders whether we are deemed to be a variable interest entity's primary beneficiary who consolidates such entity.

Income Taxes

We use the asset and liability method of accounting for deferred income taxes. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Additionally, a valuation allowance is established when management believes it is more likely than not that a deferred income tax asset will not be realized.

Substantially all of our deferred income tax assets relate to the goodwill and other intangible assets deductible for tax purposes by Och-Ziff Corp that arose in connection with the purchase of Och-Ziff Operating Group A Units from our partners and the Ziffs with proceeds from the Offerings, subsequent exchanges of Och-Ziff Operating Group A Units for Class A Shares and subsequent payments to our partners and the Ziffs made under the tax receivable agreement, in addition to any related net operating loss carryforward. In accordance with relevant provisions of the Internal Revenue Code, we expect to take these goodwill and other intangible deductions over the 15-year period following the Offerings and the additional 20-year loss carryforward period available to us. Our analysis of whether we expect to have sufficient future taxable income to realize these deductions is based solely on estimates over this period.

We generated taxable income in the amount of \$18.3 million in the first three months of 2011 before taking into account deductions related to the amortization of the goodwill and other intangible assets. We determined that we would need to generate taxable income of at least \$2.3 billion over the remaining 12-year weighted-average amortization period and the additional 20-year loss carryforward period available to us in order to fully realize the deferred income tax assets. In this regard, Reorganization expenses and certain other expenses are considered permanent book to tax differences, and therefore do not impact taxable income. Accordingly, while we reported net losses on a U.S. GAAP basis, and expect to continue to report a U.S. GAAP net loss on an annual basis through 2012, we generated income before the amortization of goodwill and other intangible assets on a tax basis over these prior periods. As of March 31, 2011, using the estimates and assumptions discussed below, we expect to generate sufficient taxable income over the remaining amortization and loss carryforward periods available to us in order to fully realize these deferred income tax assets. As of March 31, 2011, we had \$102.9 million of net operating losses available to offset future taxable income for federal income tax purposes that will expire between 2029 and 2031. Additionally, as of March 31, 2011, we had \$123.3 million of net operating losses available to offset future taxable income for state and \$112.7 million for local income tax purposes that

will expire between 2028 and 2031.

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To generate \$2.3 billion in taxable income over the remaining amortization and loss carryforward periods available to us, we estimated that, based on assets under management of \$29.0 billion as of April 1, 2011, we would need to generate a minimum compound annual growth rate in assets under management of less than 1% over the period for which the taxable income estimate relates to fully realize the deferred income tax assets, assuming no performance-related growth, and therefore no incentive income. The assumed nature and amount of this estimated growth rate are not based on historical results or current expectations of future growth; however, the other assumptions underlying the taxable income estimate, such as general maintenance of current expense ratios and cost allocation percentages among the Och-Ziff Operating Group entities, which impact the amount of taxable income flowing through our legal structure, are based on our near-term operating budget. If our actual growth rate in assets under management falls below this minimum threshold for any extended time during the period for which these estimates relate and we do not otherwise experience offsetting growth rates in other periods, we may not generate taxable income sufficient to realize the deferred income tax assets and may need to record a valuation allowance.

Management regularly reviews the model used to generate the estimates, including the underlying assumptions. If it determines that a valuation allowance is required for any reason, the amount would be determined based on the relevant circumstances at that time. To the extent we record a valuation allowance against our deferred income tax assets related to the goodwill and other intangible assets, we would record a corresponding decrease in the liability to our partners and the Ziffs under the tax receivable agreement equal to approximately 78% of such amount; therefore, net earnings would only be impacted by 22% of any valuation allowance recorded against the deferred income tax assets.

Actual taxable income may differ from the estimate described above, which was prepared solely for the purpose of determining whether we currently expect to have sufficient future taxable income to realize the deferred income tax assets. Furthermore, actual or estimated future taxable income may be materially impacted by significant changes in assets under management, whether as a result of fund investment performance or fund investor contributions or redemptions, significant changes to the assumptions underlying our estimates, future changes in income tax law, state income tax apportionment or other factors.

Based on the analysis set forth above, we have determined that it is not necessary to record a valuation allowance with respect to our deferred income tax assets related to the goodwill and other intangible assets deductible for tax purposes, and any related net operating loss carryforward, as of March 31, 2011. We have, however, determined that we may not realize certain deferred state income tax credits. Accordingly, a valuation allowance in the amount of \$4.4 million has been established for these credits.

Impact of Recently Adopted Accounting Pronouncements on Recent and Future Trends

None of the changes to U.S. GAAP that went into effect during the first quarter of 2011 are expected to have an impact on our future trends.

Expected Impact of Future Adoption of New Accounting Pronouncements on Future Trends

None of the changes to U.S. GAAP that are not yet effective are expected to have an impact on our future trends.

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The following tables present the reconciliations of Economic Income to our U.S. GAAP net loss for the periods previously discussed:

	Three Months Ended March 31, 2011		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net Income (Loss) Allocated to Class A Shareholders - U.S. GAAP	\$ (95,589)	\$ 125	\$ (95,464)
Reorganization expenses	405,855		405,855
Net loss allocated to the Och-Ziff Operating Group A Units	(276,988)		(276,988)
Equity-based compensation	31,929	1,569	33,498
Income taxes	8,986	(360)	8,626
Depreciation and amortization	2,290	184	2,474
Amortization of deferred cash compensation and expenses related to compensation arrangements indexed to annual fund performance	1,689		1,689
Net gains on investments in Och-Ziff funds	(61)	(112)	(173)
Change in tax receivable agreement liability	112		112
Other	836	25	861
Economic Income - Non-GAAP	\$ 79,059	\$ 1,431	\$ 80,490

	Three Months Ended March 31, 2010		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net Loss Allocated to Class A Shareholders - U.S. GAAP	\$ (79,242)	\$ (9,397)	\$ (88,639)
Reorganization expenses	424,806		424,806
Net loss allocated to the Och-Ziff Operating Group A Units	(320,001)		(320,001)
Equity-based compensation	27,048	3,787	30,835
Income taxes	7,552	1,247	8,799
Depreciation and amortization	2,100	185	2,285
Net gains on investments in Och-Ziff funds	(378)	(120)	(498)
Change in tax receivable agreement liability	(264)		(264)
Amortization of deferred cash compensation and expenses related to compensation arrangements indexed to annual fund performance	188		188
Other	338	33	371
Economic Income - Non-GAAP	\$ 62,147	\$ (4,265)	\$ 57,882

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our predominant exposure to market risk is related to our role as general partner or investment manager for the Och-Ziff funds, and the sensitivities to movements in the fair value of their investments that may adversely affect our management fees and incentive income.

Fair value of the financial assets and liabilities of the Och-Ziff funds may fluctuate in response to changes in the value of securities, foreign currency exchange rates, commodity prices and interest rates. With regards to the consolidated Och-Ziff funds, the net effect of these fair value changes impacts the net gains (losses) of consolidated Och-Ziff funds in our consolidated statements of operations; however, the majority of these fair value changes are absorbed by the investors of these funds (partners and others interests in consolidated subsidiaries). To the extent the

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Och-Ziff funds are not consolidated, the fair value changes in the assets and liabilities of the Och-Ziff funds affect our management fees and incentive income.

Impact on Management Fees

Our management fees are generally based on the net asset value of the funds we manage. Accordingly, management fees will change in proportion to changes in the market value of investments held by our funds.

Impact on Incentive Income

Our incentive income is generally based on a percentage of annual profits generated by our funds, which is impacted by global market conditions and other factors. Major factors that influence the degree of impact include how the investments

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held by our funds are impacted by changes in the market and the extent to which any high-water marks impact our ability to earn incentive income. Consequently, incentive income cannot be readily predicted or estimated.

Market Risk

The amount of our assets under management is primarily based on the net asset value of each of our funds. A 10% change in the fair value of the investments held by our funds as of March 31, 2011 would result in a change of approximately \$2.8 billion in our assets under management. A 10% change in the fair value of the investments held by our funds as of December 31, 2010 would have resulted in a change of approximately \$2.4 billion in our assets under management.

A 10% change in the fair value of the investments held by our funds as of April 1, 2011 (date management fees are calculated for the following period), would impact management fees calculated on such date by approximately \$11.7 million. A 10% change in the fair value of the investments held by our funds as of January 1, 2011, would have impacted management fees calculated on such date by approximately \$11.3 million.

A 10% change in the fair value of the investments held by our funds as of the end of any year (excluding private investments), could significantly affect our incentive income by a corresponding amount, as incentive income is generally based on a percentage of annual profits generated by our funds. We do not earn incentive income on unrealized gains and losses on our private investments, and therefore a change in the fair value of those investments would have no effect on incentive income.

Exchange Rate Risk

Our funds hold investments denominated in non-U.S. dollar currencies, which may be affected by movements in the rate of exchange between the U.S. dollar and foreign currencies. We estimate that, as of March 31, 2011 and December 31, 2010, a 10% weakening or strengthening of the U.S. dollar against all or any combination of currencies to which our funds have exposure to exchange rates would not have a material effect on our revenues, net loss allocated to Class A Shareholders or Economic Income.

Interest Rate Risk

Our funds have financing arrangements and hold credit instruments that accrue interest at variable rates. Interest rate changes may therefore impact the amount of interest payments, future earnings and cash flows. In the event LIBOR, and rates directly or indirectly tied to LIBOR, were to increase by 10% over LIBOR as of March 31, 2011 and December 31, 2010, based on our funds' debt investments and obligations as of such date, we estimate that the net effect on interest income and interest expense would not result in a material impact to our earnings. A tightening of credit and an increase in prevailing interest rates could make it more difficult for us to raise capital and sustain our growth rate.

In addition, our debt obligations bear interest at rates indexed to LIBOR. For every increase or decrease of 10% in LIBOR as of March 31, 2011, our annual interest expense will increase or decrease by approximately \$238 thousand. For every increase or decrease of 10% in LIBOR as of December 31, 2010, our annual interest expense would have increased or decreased by approximately \$269 thousand.

Credit Risk

Credit risk is the risk that counterparties or debt issuers may fail to fulfill their obligations or that the collateral value may become inadequate to cover our exposure. We manage credit risk by monitoring the credit exposure to and the creditworthiness of counterparties, requiring additional collateral where appropriate.

Item 4. Controls and Procedures

Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed

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and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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As of March 31, 2011, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, that occurred in the first quarter of 2011 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

We are not currently subject to any pending judicial, administrative or arbitration proceedings that we expect to have a material impact on our results of operations or financial condition. We may from time to time be involved in litigation and claims incidental to the conduct of our business. Like other businesses in our industry, we are subject to scrutiny by the regulatory agencies that have or may in the future have regulatory authority over us and our business activities, which could result in regulatory agency investigations or litigation related to regulatory compliance matters. See Item 1A. Risk Factors Risks Related to Our Business Extensive regulation of our business affects our activities and creates the potential for significant liabilities and penalties. Our reputation, business and operations could be materially affected by regulatory issues and Item 1A. Risk Factors Risks Related to Our Business Increased regulatory focus could result in additional burdens on our business in our annual report on Form 10-K for the year ended December 31, 2010, which we refer to as our Annual Report.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part 1, Item 1A of our Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the first quarter of 2011, we issued 1,555,498 Class A Shares in exchange for an equal number of Och-Ziff Operating Group A Units to the Ziffs. The Och-Ziff Operating Group A Units surrendered by the Ziffs were automatically canceled upon the exchange. The issuance of the Class A Shares and cancellation of the surrendered Och-Ziff Operating Group A Units were pursuant to the terms of the exchange agreement, which was entered into concurrent with our IPO, by and among Och-Ziff Capital Management Group LLC, Och-Ziff Corp, Och-Ziff Holding, OZ Management, OZ Advisors, OZ Advisors II, the partners and the Ziffs. The Class A Shares were issued without registration under the Securities Act in reliance on Section 4(2) of Securities Act.

Item 3. Defaults upon Senior Securities

None.

Item 4. [Reserved]**Item 5. Other Information**

None.

Item 6. Exhibits

Exhibit No.	Description
10.1+	Form of Independent Director Award Agreement
31.1	Certificate of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934
31.2	Certificate of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Securities Exchange Act of 1934

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32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

+ Management contract, compensatory plan or arrangement

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 3, 2011

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

By: /s/ JOEL M. FRANK
 Joel M. Frank
 Chief Financial Officer, Senior Chief Operating
 Officer and Executive Managing Director