Och-Ziff Capital Management Group LLC
Form 10-Q
August 02, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2013

OR

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

Commission File Number 001-33805

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

(Exact Name of Registrant as Specified in its Charter)

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 x 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 x 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 x	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 x

As of July 15, 2013, there were 150,261,652 Class A Shares and 301,884,116 Class B Shares outstanding.

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

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In this quarterly report, references to Och-Ziff, our Company, the Company, the firm, we, us, or our refer, unless the context requires o 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 I, 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 executive managing directors refer to the current limited partners of the Och-Ziff Operating Group entities other than the Ziffs and our intermediate holding companies, and include 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 its 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, which we refer to as the NYSE. 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 executive managing directors 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 2007 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, which we refer to as DIC. References to the 2011 Offering refer to our public offering of 33.3 million Class A Shares in November 2011. References to the Reorganization refer to the reorganization of our business prior to the 2007 Offerings.

References to our funds or the Och-Ziff funds refer to the multi-strategy funds, credit funds, collateralized loan obligations (CLOs), real estate funds and other alternative investment vehicles for which we provide asset management services. References to Special Investments refer to investments that we, as investment manager, believe lack a readily ascertainable market value, are illiquid or should be held until the resolution of a special event or circumstance.

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

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Forward-Looking Statements

Some of the statements under Part I Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, which we refer to as the MD&A, Part I Item 3. Quantitative and Qualitative Disclosures About Market Risk, and Part II Item 1A. Risk Factors 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, which we refer to as the Exchange Act, 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 predict, intend, plan, estimate, anticipate, opportunity, comfortable, assume, remain, maintain, sustain, achieve, see, negative version of those words or other comparable words.

Any forward-looking statements contained 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 a 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 the following: global economic, business, market and geopolitical conditions, including Euro-zone sovereign debt issues; U.S. and foreign regulatory developments relating to, among other things, financial institutions and markets, government oversight, fiscal and tax policy; conditions impacting the alternative asset management industry; our ability to successfully compete for fund investors, assets, professional talent and investment opportunities; our ability to retain our executive managing directors, managing directors and other investment professionals; our successful formulation and execution of our business and growth strategies; our ability to appropriately manage conflicts of interest and tax and other regulatory factors relevant to our business; and 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 included in our filings with the SEC, including but not limited to our annual report on Form 10-K for the year ended December 31, 2012, filed on February 28, 2013, which we refer to as our Annual Report.

There may be additional risks, uncertainties and factors that we do not currently view as material or that are not known. The forward-looking statements contained in this quarterly report are made only as of the date of this report. We do not undertake to update any forward-looking statement because of new information, future developments or otherwise.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

CONSOLIDATED BALANCE SHEETS UNAUDITED

	June 30, 2013	December 31, 2012
	(dollars in thousands)	
Assets		
Cash and cash equivalents	$ 242,181	$ 162,485
Income and fees receivable	40,175	593,504
Due from related parties	5,330	3,147
Deferred income tax assets	902,007	920,877
Other assets, net	72,016	72,238
Assets of consolidated Och-Ziff funds:		
Investments, at fair value	2,003,519	1,744,626
Other assets of Och-Ziff funds	57,338	38,188
Total Assets	**$ 3,322,566**	**$ 3,535,065**
Liabilities and Shareholders Equity		
Liabilities		
Due to related parties	$ 749,189	$ 741,773
Debt obligations	386,105	388,043
Compensation payable	7,575	210,055
Other liabilities	160,111	119,529
Liabilities of consolidated Och-Ziff funds:		
Securities sold under agreements to repurchase	342,314	223,543
Other liabilities of Och-Ziff funds	6,126	3,538
Total Liabilities	**1,651,420**	**1,686,481**
Commitments and Contingencies (Note 11)		
Shareholders Equity		
Class A Shares, no par value, 1,000,000,000 shares authorized, 150,245,624 and 147,689,919 shares issued and outstanding as of June 30, 2013, and December 31, 2012, respectively		
Class B Shares, no par value, 750,000,000 shares authorized, 299,260,442 and 281,886,394 shares issued and outstanding as of June 30, 2013, and December 31, 2012, respectively		
Paid-in capital	2,929,487	2,900,109
Accumulated deficit	(3,277,473)	(3,150,644)
Shareholders deficit attributable to Class A Shareholders	(347,986)	(250,535)
Shareholders equity attributable to noncontrolling interests	2,019,132	2,099,119
Total Shareholders Equity	**1,671,146**	**1,848,584**
Total Liabilities and Shareholders Equity	**$ 3,322,566**	**$ 3,535,065**

See notes to consolidated financial statements.

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) UNAUDITED

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Revenues				
Management fees	$ 139,499	$ 127,492	$ 269,909	$ 249,574
Incentive income	22,905	18,414	123,065	19,635
Other revenues	222	220	1,183	584
Income of consolidated Och-Ziff funds	45,210	32,296	84,049	49,553
Total Revenues	**207,836**	**178,422**	**478,206**	**319,346**
Expenses				
Compensation and benefits	69,283	41,321	120,698	82,191
Reorganization expenses	4,021	398,416	8,042	796,832
Interest expense	1,735	1,212	3,465	2,455
General, administrative and other	41,714	32,252	79,596	61,200
Expenses of consolidated Och-Ziff funds	3,947	2,939	7,862	5,051
Total Expenses	**120,700**	**476,140**	**219,663**	**947,729**
Other Income				
Net gains (losses) on investments in Och-Ziff funds and joint ventures	417	(382)	722	(288)
Change in deferred income of consolidated Och-Ziff funds	(17,642)	(7,055)	(38,300)	(22,427)
Net gains of consolidated Och-Ziff funds	35,891	8,864	139,017	85,276
Total Other Income	**18,666**	**1,427**	**101,439**	**62,561**
Income (Loss) Before Income Taxes	**105,802**	**(296,291)**	**359,982**	**(565,822)**
Income taxes	12,625	12,491	35,017	26,895
Consolidated Net Income (Loss)	**93,177**	**(308,782)**	**324,965**	**(592,717)**
Other Comprehensive Income, Net of Tax				
Foreign currency translation adjustment		192		229
Total Comprehensive Income (Loss)	**$ 93,177**	**$ (308,590)**	**$ 324,965**	**$ (592,488)**
Allocation of Consolidated Net Income (Loss)				
Class A Shareholders	$ 4,897	$ (116,242)	$ 30,966	$ (238,986)
Noncontrolling interests	88,280	(192,540)	293,999	(353,731)
	$ 93,177	**$ (308,782)**	**$ 324,965**	**$ (592,717)**
Allocation of Total Comprehensive Income (Loss)				
Class A Shareholders	$ 4,897	$ (116,205)	$ 30,966	$ (238,937)

Noncontrolling interests		88,280		(192,385)		293,999		(353,551)
	$	**93,177**	**$**	**(308,590)**	**$**	**324,965**	**$**	**(592,488)**
Earnings (Loss) Per Class A Share								
Basic	$	0.03	$	(0.82)	$	0.20	$	(1.69)
Diluted	$	0.03	$	(0.82)	$	0.20	$	(1.69)
Weighted-Average Class A Shares Outstanding								
Basic		152,016,631		141,722,881		151,335,477		141,308,533
Diluted		155,900,015		141,722,881		153,756,866		141,308,533
Dividends Paid per Class A Share	**$**	**0.28**	**$**	**0.10**	**$**	**1.03**	**$**	**0.14**

See notes to consolidated financial statements.

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY UNAUDITED

	Och-Ziff Capital Management Group LLC Shareholders						
	Number of Class A Shares	**Number of Class B Shares**	**Paid-in Capital**	**Accumulated Deficit**	**Shareholders Deficit Attributable to Class A Shareholders**	**Shareholders Equity Attributable to Noncontrolling Interests**	**Total Shareholders Equity**
				(dollars in thousands)			
As of December 31, 2012	**147,689,919**	**281,886,394**	**$ 2,900,109**	**$ (3,150,644)**	**$ (250,535)**	**$ 2,099,119**	**$ 1,848,584**
Capital contributions						328,196	328,196
Capital distributions						(746,579)	(746,579)
Cash dividends declared on Class A Shares				(152,909)	(152,909)		(152,909)
Dividend equivalents on Class A restricted share units			4,886	(4,886)		(1)	
Equity-based compensation	555,705	17,374,048	19,947		19,947	39,594	59,541
Och-Ziff Operating Group A Unit Transactions (See Note 3)	2,000,000		1,913		1,913	(607)	1,306
Impact of amortization of Reorganization charges on capital			2,632		2,632	5,410	8,042
Total comprehensive income				30,966	30,966	293,999	324,965
As of June 30, 2013	**150,245,624**	**299,260,442**	**$ 2,929,487**	**$ (3,277,473)**	**$ (347,986)**	**$ 2,019,132**	**$ 1,671,146**

(1) The dividend equivalents on Class A restricted share units impacted noncontrolling interests by increasing the paid-in capital component and a corresponding offsetting increase in the accumulated deficit component of noncontrolling interests, each by $9.9 million.

See notes to consolidated financial statements.

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS UNAUDITED

	Six Months Ended June 30, 2013	2012
	(dollars in thousands)	
Cash Flows from Operating Activities		
Consolidated net income (loss)	$ 324,965	$ (592,717)
Adjustments to reconcile consolidated net income (loss) to net cash provided by (used in) operating activities:		
Reorganization expenses	8,042	796,832
Amortization of equity-based compensation	63,037	34,075
Depreciation and amortization	4,322	4,679
Deferred income taxes	27,335	20,674
Operating cash flows due to changes in:		
Income and fees receivable	553,329	37,623
Due from related parties	(2,183)	99
Other assets, net	(4,381)	4,561
Assets of consolidated Och-Ziff funds	(278,043)	(333,748)
Due to related parties	17	(51)
Compensation payable	(202,480)	(99,703)
Other liabilities	41,687	16,675
Liabilities of consolidated Och-Ziff funds	121,359	80,685
Net Cash Provided by (Used in) Operating Activities	**657,006**	**(30,316)**
Cash Flows from Investing Activities		
Investments in joint ventures	(2,344)	(2,351)
Return of investments in joint ventures	3,733	1,324
Purchases of fixed assets	(1,526)	(312)
Net Cash Used in Investing Activities	**(137)**	**(1,339)**
Cash Flows from Financing Activities		
Contributions from noncontrolling interests	328,196	202,259
Distributions to noncontrolling interests	(746,579)	(132,624)
Proceeds from Delayed Draw Term Loan		384,500
Repayments of debt obligations	(1,938)	(378,195)
Dividends on Class A Shares	(152,909)	(19,589)
Withholding taxes paid on vested Class A restricted share units	(3,505)	(2,083)
Principal payments under capital lease obligations	(438)	(417)
Net Cash Provided by (Used in) Financing Activities	**(577,173)**	**53,851**
Net Change in Cash and Cash Equivalents	**79,696**	**22,196**
Cash and Cash Equivalents, Beginning of Period	**162,485**	**149,011**
Cash and Cash Equivalents, End of Period	**$ 242,181**	**$ 171,207**
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period:		
Interest	$ 3,296	$ 2,102
Income taxes	$ 8,093	$ 8,124

See notes to consolidated financial statements.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

JUNE 30, 2013

1. OVERVIEW

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, Beijing and Mumbai. The Company provides asset management services to its investment funds (the Och-Ziff funds or the funds), which pursue a broad range of global investment opportunities. The Company currently manages multi-strategy funds, credit funds, collateralized loan obligations (CLOs), real estate funds and other alternative investment vehicles.

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 of its funds. 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 its multi-strategy funds, credit funds, CLOs and other alternative investment vehicles. The Company s Other Operations are primarily comprised of its real estate business, which provides asset management services to its real estate funds. The businesses included in the Company s Other Operations do not meet the thresholds of reportable business segments under U.S. generally accepted accounting principles (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 executive managing directors refer to the current limited partners of OZ Management LP, OZ Advisors LP and OZ Advisors II LP (collectively with their consolidated subsidiaries, the Och-Ziff Operating Group) other than the Ziffs and the Company s intermediate holding companies, and include the Company s founder, Mr. Daniel S. Och, except where the context requires otherwise. The Company conducts substantially all of its operations through the Och-Ziff Operating Group. References to the Ziffs refer collectively to Ziff Investors Partnership, L.P. II and certain of its affiliates and control persons. References to the Company s intermediate holding companies refer, collectively, to Och-Ziff Holding Corporation (Och-Ziff Corp) and Och-Ziff Holding LLC, both of which are wholly owned subsidiaries of the Registrant.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These unaudited, interim, consolidated financial statements are prepared in accordance with GAAP as set forth in the Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC), and should be read in conjunction with the audited consolidated financial statements included in the Company s annual report on Form 10-K for the year ended December 31, 2012. 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 because 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 December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11, as clarified by ASC 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,* requires entities to disclose both gross and net information about derivative instruments, repurchase and reverse-repurchase agreements, and securities borrowing and lending transactions that are either

(i) offset in the balance sheet, or (ii) subject to an enforceable master netting arrangement or similar arrangement, irrespective of whether they are offset in the balance sheet. In addition, ASU 2011-11 requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. The requirements of ASU 2011-11 were effective for the Company beginning in the first quarter of 2013. The adoption of ASU 2011-11 did not have any impact on the Company s financial position or results of operations, as ASU 2011-11 only affects disclosures about offsetting. No changes were made to the existing guidance on the offsetting of assets and liabilities in the Company s balance sheet.

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

JUNE 30, 2013

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU 2013-02 requires entities to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income only if the amount is required to be reclassified to net income in its entirety within the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required that provide additional detail about those amounts. The requirements of ASU 2013-02 were effective for the Company beginning in the first quarter of 2013. The adoption of ASU 2013-02 did not have any impact on the Company s financial position or results of operations.

Future Adoption of Accounting Pronouncements

In June 2013, the FASB issued ASU 2013-08, *Financial Services Investment Companies*. ASU 2013-08 provides clarifying guidance to determine if an entity qualifies as an investment company. ASU 2013-08 also requires an investment company to measure noncontrolling interests in other investment companies at fair value. The following disclosures will also be required upon adoption of ASU 2013-08: (i) whether an entity is an investment company and is applying the accounting and reporting guidance for investment companies; (ii) information about changes, if any, in an entity s status as an investment company; and (iii) information about financial support provided or contractually required to be provided by an investment company to any of its investees. The requirements of ASU 2013-08 are effective for the Company beginning in the first quarter of 2014. The Company is currently evaluating the impact, if any, that these updates will have on its financial condition or results of operations.

3. NONCONTROLLING INTERESTS

Noncontrolling interests represent ownership interests in the Company s subsidiaries held by parties other than the Company, and are primarily made up of Och-Ziff Operating Group A Units held by the Company s executive managing directors and the Ziffs, and fund investors interests in the consolidated Och-Ziff funds. Increases or decreases in net income (loss) allocated 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 the net income (loss) allocated to fund investors interests in consolidated Och-Ziff funds are driven by the earnings or losses of those funds.

The following table presents the components of the net income (loss) allocated to noncontrolling interests:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
	(dollars in thousands)			
Och-Ziff Operating Group A Units	$ 31,191	$ (222,241)	$ 123,273	$ (458,649)
Consolidated Och-Ziff funds	56,563	29,333	169,593	104,136
Other	526	368	1,133	782
	$ 88,280	**$ (192,540)**	**$ 293,999**	**$ (353,731)**

Och-Ziff Operating Group Ownership

On November 19, 2007, the Company completed its initial public offering (IPO) of 36,000,000 Class A Shares and a private offering of 38,138,571 Class A Shares to DIC Sahir, a wholly owned subsidiary of Dubai International Capital LLC (collectively, the 2007 Offerings). The Company used the net proceeds from the 2007 Offerings to acquire a 19.2% interest in the Och-Ziff Operating Group from the Company s executive managing directors and the Ziffs, who collectively held all of the interests in the Och-Ziff Operating Group prior to the 2007 Offerings. The Company s interest in the Och-Ziff Operating Group increased to 32.3% as of June 30, 2013.

Increases in the Company s interest in the Och-Ziff Operating Group were driven by the issuance of Class A Shares in a public offering of 33,333,333 Class A Shares in November 2011 (the 2011 Offering). Additionally, the exchange of Och-Ziff Operating Group A Units for an equal number of Class A Shares (Och-Ziff Operating Group A Unit Transactions) and the

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OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

JUNE 30, 2013

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 increased the Company s interest in the Och-Ziff Operating Group. In the future, the Company expects to issue additional Class A Shares under its 2013 Incentive Plan. 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 exchange of Och-Ziff Operating Group A Units and vesting of RSUs. These increases will be offset upon the conversion of Och-Ziff Operating Group D Units, which are not considered equity for GAAP purposes, into Och-Ziff Operating Group A Units.

4. FAIR VALUE AND BALANCE SHEET OFFSETTING 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.

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 assets and liabilities 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. The types of assets and liabilities that would generally be included in this category are certain listed equities, sovereign debt of developed nations 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 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. The types of assets and liabilities that would generally be included in this category are certain corporate bonds, certain credit default swap contracts, certain bank debt securities, certain commercial real estate debt, 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 these 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. 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. The types of assets and liabilities that would generally be included in this category include real estate investments, equity and debt securities issued by private entities, limited partnerships, certain corporate bonds, certain credit default swap contracts, certain bank debt securities, certain commercial real estate debt, certain OTC derivatives, residential and commercial mortgage-backed securities, asset-backed securities and collateralized debt obligations.

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 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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Fair Value Measurements Categorized within the Fair Value Hierarchy

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 June 30, 2013				
	Level I	Level II	Level III	Counterparty Netting of Derivative Contracts	Total
	(dollars in thousands)				
Real estate investments	$	$	$ 715,682	$	$ 715,682
Residential mortgage-backed securities			347,805		347,805
Collateralized debt obligations			257,604		257,604
Energy and natural resources limited partnerships			154,005		154,005
Commercial real estate debt			153,712		153,712
Investments in affiliated funds			129,806		129,806
United States government obligations	93,973				93,973
Asset-backed securities			60,226		60,226
Common and preferred stock			43,196		43,196
Commercial mortgage-backed securities			27,715		27,715
Bank debt			15,634		15,634
Other investments	2,624	618	1,850	(931)	4,161
Financial Assets, at Fair Value, Included Within Investments, at Fair Value	**$ 96,597**	**$ 618**	**$ 1,907,235**	**$ (931)**	**$ 2,003,519**
Financial Liabilities, at Fair Value, Included Within Other Liabilities of Och-Ziff Funds	**$ 93**	**$ 4**	**$ 3,596**	**$ (931)**	**$ 2,762**

	As of December 31, 2012				
	Level I	Level II	Level III	Counterparty Netting of Derivative Contracts	Total
	(dollars in thousands)				
Real estate investments	$	$	$ 615,634	$	$ 615,634
Residential mortgage-backed securities	103		260,410		260,513
Collateralized debt obligations			265,722		265,722
Energy and natural resources limited partnerships			167,467		167,467
Commercial real estate debt			151,275		151,275
Investments in affiliated funds			88,298		88,298
United States government obligations	72,955				72,955
Asset-backed securities			12,234		12,234
Common and preferred stock			47,002		47,002
Commercial mortgage-backed securities			41,961		41,961
Bank debt			21,255		21,255
Other investments	457	70	183	(400)	310

Financial Assets, at Fair Value, Included Within Investments, at Fair Value	**$ 73,515**	**$ 70**	**$ 1,671,441**	**$ (400)**	**$ 1,744,626**
Financial Liabilities, at Fair Value, Included Within Other Liabilities of Och-Ziff Funds	**$ 374**	**$ 48**	**$ 1,087**	**$ (400)**	**$ 1,109**

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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 and six months ended June 30, 2013 and 2012, there were no transfers between Level I, Level II or Level III assets or liabilities.

Reconciliation of Fair Value Measurements Categorized within Level III

The following table summarizes the changes in the Company s Level III assets and liabilities for the three months ended June 30, 2013:

	Balance as of March 31, 2013	Investment Purchases	Investment Sales	Derivative Settlements	Net Gains (Losses) of Consolidated Och-Ziff Funds	Balance as of June 30, 2013
	(dollars in thousands)					
Real estate investments	$ 650,165	$ 104,634	$ (59,981)	$	$ 20,864	$ 715,682
Residential mortgage-backed securities	293,503	91,825	(26,126)		(11,397)	347,805
Collateralized debt obligations	262,492	6,030	(17,719)		6,801	257,604
Energy and natural resources limited partnerships	111,626	23,739			18,640	154,005
Commercial real estate debt	150,901	41,755	(39,841)		897	153,712
Investments in affiliated funds	76,814	60,920	(8,728)		800	129,806
Asset-backed securities	10,800	54,403	(2,816)		(2,161)	60,226
Common and preferred stock	43,342	725	(1,189)		318	43,196
Commercial mortgage-backed securities	42,184	4,528	(19,173)		176	27,715
Bank debt	19,294	6,879	(11,877)		1,338	15,634
Other investments (including derivatives, net)	(1,323)			(1,161)	738	(1,746)
Total, at Fair Value	**$ 1,659,798**	**$ 395,438**	**$ (187,450)**	**$ (1,161)**	**$ 37,014**	**$ 1,903,639**

The following table summarizes the changes in the Company s Level III assets and liabilities for the three months ended June 30, 2012:

	Balance as of March 31, 2012	Investment Purchases	Investment Sales	Derivative Settlements	Net Gains (Losses) of Consolidated Och-Ziff Funds	Balance as of June 30, 2012
	(dollars in thousands)					
Real estate investments	$ 337,809	$ 47,665	$ (14,097)	$	$ 5,019	$ 376,396
Residential mortgage-backed securities	151,515	105,701	(79,533)		(447)	177,236
Collateralized debt obligations	99,983	44,567	(18,760)		6,422	132,212
Energy and natural resources limited partnerships	135,023	773			5,376	141,172
Commercial real estate debt	88,425	47,368	(16,174)		(8,722)	110,897
Investments in affiliated funds	31,939	1,340			428	33,707
Common and preferred stock		29,575			389	29,964
Commercial mortgage-backed securities	36,428	19,981	(7,394)		32	49,047
Other investments (including derivatives, net)	2,845	4,205		(3,234)	1,133	4,949
Total, at Fair Value	**$ 883,967**	**$ 301,175**	**$ (135,958)**	**$ (3,234)**	**$ 9,630**	**$ 1,055,580**

The following table summarizes the changes in the Company s Level III assets and liabilities for the six months ended June 30, 2013:

	Balance as of December 31, 2012	Investment Purchases	Investment Sales	Derivative Settlements	Net Gains (Losses) of Consolidated Och-Ziff Funds	Balance as of June 30, 2013
	(dollars in thousands)					
Real estate investments	$ 615,634	$ 185,293	$ (172,853)	$	$ 87,608	$ 715,682
Residential mortgage-backed securities	260,410	175,726	(86,831)		(1,500)	347,805
Collateralized debt obligations	265,722	30,393	(67,006)		28,495	257,604
Energy and natural resources limited partnerships	167,467	29,466	(53,269)		10,341	154,005
Commercial real estate debt	151,275	53,867	(53,709)		2,279	153,712
Investments in affiliated funds	88,298	101,501	(69,931)		9,938	129,806
Asset-backed securities	12,234	54,403	(4,175)		(2,236)	60,226
Common and preferred stock	47,002	725	(6,008)		1,477	43,196
Commercial mortgage-backed securities	41,961	14,045	(30,061)		1,770	27,715
Bank debt	21,255	9,078	(16,495)		1,796	15,634
Other investments (including derivatives, net)	(904)			(4,926)	4,084	(1,746)
Total, at Fair Value	**$ 1,670,354**	**$ 654,497**	**$ (560,338)**	**$ (4,926)**	**$ 144,052**	**$ 1,903,639**

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The following table summarizes the changes in the Company s Level III assets and liabilities for the six months ended June 30, 2012:

	Balance as of December 31, 2011	Investment Purchases	Investment Sales	Derivative Settlements	Net Gains (Losses) of Consolidated Och-Ziff Funds	Balance as of June 30, 2012
	(dollars in thousands)					
Real estate investments	$ 308,019	$ 68,833	$ (20,230)	$	$ 19,774	$ 376,396
Residential mortgage-backed securities	147,426	175,663	(159,220)		13,367	177,236
Collateralized debt obligations	44,060	97,149	(23,344)		14,347	132,212
Energy and natural resources limited partnerships	100,827	1,878	(3,777)		42,244	141,172
Commercial real estate debt	82,439	52,860	(17,304)		(7,098)	110,897
Investments in affiliated funds		31,525			2,182	33,707
Common and preferred stock		29,575			389	29,964
Commercial mortgage-backed securities	27,256	31,221	(11,098)		1,668	49,047
Other investments (including derivatives, net)	2,885	4,205		(2,963)	822	4,949
Total, at Fair Value	**$ 712,912**	**$ 492,909**	**$ (234,973)**	**$ (2,963)**	**$ 87,695**	**$ 1,055,580**

The table below summarizes the net change in unrealized gains and losses on the Company s Level III investments held as of the reporting date. These gains and losses are included within net gains of consolidated Och-Ziff funds in the Company s consolidated statements of comprehensive income (loss):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(dollars in thousands)			
Real estate investments	$ 4,804	$ 4,117	$ 62,140	$ 17,975
Residential mortgage-backed securities	(16,903)	(3,738)	(14,605)	3,852
Collateralized debt obligations	(1,450)	(3,909)	6,459	3,205
Energy and natural resources limited partnerships	18,640	5,376	10,341	41,217
Commercial real estate debt	(2,494)	(10,657)	(1,494)	(9,144)
Investments in affiliated funds	(517)	(1,057)	1,735	849
Asset-backed securities	(2,230)		(2,321)	
Common and preferred stock	240	389	1,090	389
Commercial mortgage-backed securities	(7,865)	(165)	(9,240)	1,453
Bank debt	(594)		(30)	
Other investments (including derivatives, net)	(1,768)	949	(1,128)	739
Total	**$ (10,137)**	**$ (8,695)**	**$ 52,947**	**$ 60,535**

Valuation Methodologies for Fair Value Measurements Categorized within Levels II and III

Real Estate Investments

Real estate investments 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 discounting the expected cash flows from the investment or a cash flow multiple. 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.

The significant unobservable inputs used in the fair value measurement of the Company s real estate investments are discount rates, cash flow growth rates, capitalization rates, the price per square foot, the absorption percentage per year, exit multiples and credit spreads. Significant increases (decreases) in the discount rates, capitalization rates and credit spreads in isolation would be expected to result in a significantly lower (higher) fair value measurement. Significant increases (decreases) in the cash flow growth rates, the price per square foot, the absorption percentage per year and exit multiples in isolation would be expected to result in a significantly higher (lower) fair value measurement.

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Collateralized Debt Obligations; Residential and Commercial Mortgage-Backed Securities; Commercial Real Estate Debt; Common and Preferred Stock; Asset-Backed Securities; Bank Debt

The fair value of investments in collateralized debt obligations, residential and commercial mortgage-backed securities, commercial real estate debt, common and preferred stock, asset-backed securities and bank debt that do not have readily ascertainable fair values is generally determined using broker quotes or is based on invested capital. To the extent broker quotes are not available or deemed unreliable, the methods and procedures to value these investments may include, but are not limited to: using independent pricing services; performing comparisons with prices of comparable or similar securities; obtaining valuation-related information from the issuers; calculating the present value of future cash flows; assessing other analytical data and information relating to these investments that is an indication of their value; obtaining information provided by third parties; reviewing the amounts invested in these investments; and evaluating financial information provided by the management of these investments. Market data is used to the extent that it is observable and considered reliable.

The significant unobservable inputs used in the fair value measurement of the Company s residential mortgage-backed securities that are not valued using broker quotes are discount rates and credit spreads. Significant increases (decreases) in the discount rates and credit spreads in isolation would be expected to result in a significantly lower (higher) fair value measurement.

Energy and Natural Resources Limited Partnerships

The fair value of energy and natural resources limited partnerships are generally determined using discounted cash flows when assets are producing oil or gas, or when it is reasonably certain that an asset will be capable of producing oil or gas. Acreage with proven undeveloped, probable or possible reserves are valued using prevailing prices of comparable properties, and may include adjustments for other assets or liabilities such as seismic data, equipment, and cash held by the investee. Certain natural resource assets may be valued based on recent financings or based on the fair value of certain underlying publicly traded securities held by an investee, adjusted for lack of marketability. Additionally, the fair value for certain energy and natural resources limited partnership investments is based on the net asset value of the underlying fund, adjusted for an illiquidity discount.

The significant unobservable inputs used in the fair value measurement of the Company s energy and natural resources limited partnerships are energy differentials, discount rates, price of natural gas per thousand cubic feet and price of oil per barrel. Significant increases (decreases) in the discount to energy differentials, discount rates and illiquidity discount in isolation would be expected to result in a lower (higher) fair value measurement. Significant increases (decreases) in the price of natural gas per thousand cubic feet and price of oil per barrel in isolation would be expected to result in a significantly higher (lower) fair value measurement.

Investments in Affiliated Funds

The fair value of investments in affiliated funds relates to consolidated feeder funds investments into their related master funds. The Company is not an investor of these feeder funds or master funds. The fair value of these investments is based on the consolidated feeder funds proportionate share of the respective master funds net asset value. These master funds invest primarily in credit-related strategies.

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Information about Significant Inputs Used in Fair Value Measurements Categorized within Level III

The table below summarizes information about the significant unobservable inputs used in determining the fair value of the Level III assets and liabilities held by the consolidated funds. Level III investments not presented in the table below generally do not have any unobservable inputs to disclose, as they are valued primarily using broker quotes, invested capital for recent transactions or net asset value for investments in affiliated funds. These assets and liabilities belong to the investors in the consolidated funds and the Company has a minimal, if any, investment in such funds.

Type of Investment	Fair Value at June 30, 2013 (in thousands)	Valuation Technique	Unobservable Input	Range
Real estate investments	$ 715,682	Discounted cash flow	Discount rate	9.5% - 35.0%
			Cash flow growth rate	(19.8%) - 25.0%
			Capitalization rate	7.5% - 10.0%
			Price per square foot	$55.70 - $750.00
			Absorption rate per year	2.8% - 43.0%
			Exit multiple	6.1x - 8.8x
			Credit spread	1225 bps
Residential mortgage-backed securities	25,435	Discounted cash flow	Discount rate	11% - 21%
			Credit spread	765 - 1225 bps
Energy and natural resources limited partnerships	106,148	Net asset value	Illiquidity discount	20%
	7,387	Discounted cash flow	Energy differentials	10%
			Discount rate	15%
			Price of natural gas per thousand cubic feet	$ 5.03
			Price of oil per barrel	$ 80.00
Common and preferred stock	10,965	Discounted cash flow	Discount rate	22%
			Exit multiple	5.2x

Valuation Process for Fair Value Measurements Categorized within Level III

The Company has established an internal control infrastructure over the valuation of financial instruments that includes ongoing independent oversight by its Financial Controls Group and Valuation Committee, as well as periodic audits by the Company s Internal Audit Group. These management control functions are segregated from the trading and investing functions.

The Valuation Committee is responsible for developing valuation policies to help ensure that all of the funds investments reflect fair values, as well as providing oversight of the valuation process. These valuation policies and procedures include, but are not limited to the following: determining the pricing sources used to value specific investment classes; the selection of independent pricing services; the periodic review of due diligence materials of independent pricing services; and the fair value hierarchy coding of the funds investments. The Valuation Committee reviews a variety of reports on a monthly basis, which include, but are not limited to the following: summaries of the sources used to determine the value the funds investments; summaries of the fair value hierarchy of the funds investments; and variance reports that compare the values of investments to independent pricing services. The Valuation Committee is comprised of non-investment professionals, and may obtain input from investment professionals for consideration in carrying out its responsibilities.

The Financial Controls Group is responsible for ensuring compliance with the valuation policies and preparing the monthly valuation reports reviewed by the Valuation Committee. The Financial Controls Group s other responsibilities include, but are not limited to the following: preparation and distribution of daily profit and loss reports; overseeing the collection and evaluation of counterparty prices, broker-dealer quotations, exchange prices and third party pricing feeds; performing back testing by comparing prices observed in executed transactions to previous day valuations and/or pricing service providers on a weekly and monthly basis; preparing due diligence report reviews on independent pricing services on an annual or as needed basis; and assisting the Valuation Committee in developing valuation policies.

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The Internal Audit Group employs a risk-based program of audit coverage that is designed to provide an independent assessment of the design and effectiveness of controls over the Company s operations, regulatory compliance, valuation of financial instruments and reporting. Additionally, the Internal Audit Group meets with management periodically to evaluate and provide guidance on the existing risk framework and control environment assessments.

Monthly procedures have been established for Level III investments to compare unobservable inputs to observable inputs for similar positions, review subsequent market activities, perform comparisons of actual versus projected cash flows, and discuss the valuation methodology, including pricing techniques when applicable, with investment professionals. Independent pricing services may be used to corroborate the Company s internal valuations. Investment professionals and members of the Financial Controls Group review a daily profit and loss report, as well as other periodic reports that analyze the profit and loss and related asset class exposure of the funds investments.

Fair Value of Delayed Draw Term Loan

Management estimates that the fair value of the $386.1 million outstanding under the Company s delayed draw term loan agreement entered into in November 2011 (the Delayed Draw Term Loan) was approximately 93% of its carrying value as of June 30, 2013, based on an analysis of comparable issuers. This fair value measurement would be categorized as Level III within the fair value hierarchy.

Balance Sheet Offsetting

In the ordinary course of business, the consolidated funds have entered into certain transactions which are subject to master agreements that provide for payment netting and that, in the case of a default or similar event with respect to the counterparty to the master agreement, provide for netting across transactions. Generally, upon a counterparty default, the fund can terminate all transactions under the master agreement and set off amounts it owes across all transactions under a particular master agreement against collateral it has received under such master agreement; provided, however, that in the case of certain defaults, the fund may only be able to terminate and setoff solely with respect to the transactions affected by the default. Generally, the funds party to these agreements manage cash and securities collateral on a counterparty basis as permitted under each master agreement. The table below presents the repurchase agreements that are set off, if any, as well as collateral received related to those repurchase agreements. No other material financial instruments were subject to master netting agreements or other similar agreements.

Securities Sold Under Agreements to Repurchase	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities in the Consolidated Balance Sheet	Financial Instruments and Collateral Delivered	Net Amount
			(dollars in thousands)		
As of June 30, 2013	$ 342,314		342,314	342,314	
As of December 31, 2012	$ 223,543		223,543	223,543	

5. VARIABLE INTEREST ENTITIES

In the ordinary course of business, the Company sponsors the formation of variable interest entities (VIEs). These VIEs generally consist of the following categories: funds, CLOs and joint ventures. The Company has not recorded any liabilities with respect to VIEs that are not consolidated.

Funds

Many of the Company s funds are VIEs. The Company generally serves as the general partner or the investment manager with decision-making rights for these entities. Substantially all of the funds that are VIEs managed by the Company qualify for the deferral granted under ASU 2010-10, *Amendments to Statement 167 for Certain Investment Funds*. Accordingly, the Company s determination of whether it is the primary beneficiary of a fund that is a VIE is generally based on identifying the variable interest holder that 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 management fees and incentive income, if any, earned by the Company. Accordingly, the determination of whether the Company is the primary beneficiary of these entities 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 Company consolidates funds that are VIEs where either kick-out rights or liquidation rights were not granted to the investors in those funds, or these rights, if granted, were deemed not to be substantive. The following table presents the assets and liabilities of funds that are VIEs and consolidated by the Company:

	June 30, 2013	December 31, 2012
	(dollars in thousands)	
Assets		
Assets of consolidated Och-Ziff funds:		
Investments, at fair value	$ 662,090	$ 585,537
Other assets of Och-Ziff funds	17,897	17,973
Total Assets	**$ 679,987**	**$ 603,510**
Liabilities		
Liabilities of consolidated Och-Ziff funds:		
Securities sold under agreements to repurchase	$ 94,320	$ 65,449
Other liabilities of Och-Ziff funds	3,146	1,993
Total Liabilities	**$ 97,466**	**$ 67,442**

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 that are not VIEs, and therefore the assets and liabilities of those funds are not included in the table above.

The Company s involvement with funds that are VIEs and not consolidated by the Company is generally 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 $29.8 billion and $27.7 billion as of June 30, 2013, and December 31, 2012, 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 these entities. As of June 30, 2013, and December 31, 2012, the only assets arising from these variable interests related to income and fees receivable of $22.4 million and $392.9 million, respectively.

CLOs

The Company sponsors the formation of CLOs that are VIEs. CLOs are entities that issue collateralized loan instruments that offer investors the opportunity for returns that vary commensurately with the risk they assume. The loans issued by the CLOs are generally backed by asset portfolios consisting of loans or structured debt. The Company serves as collateral manager to the CLOs and receives collateral management fees for these services. The Company s exposure to loss from these entities is limited to a decrease in the fees that may be earned in future periods from these entities. As of June 30, 2013, and December 31, 2012, the only assets related to the CLOs are income and fees receivable from these CLOs of $2.1 million and $1.6 million, respectively. Total gross assets held by these VIEs were $2.3 billion and $1.1 billion as of June 30, 2013, and December 31, 2012, respectively.

The deferral granted in ASU 2010-10 does not apply to CLOs. Accordingly, the determination of whether the Company is the primary beneficiary that would consolidate a CLO is based on a qualitative assessment to determine whether the Company, as collateral manager, has

(i) the power to direct the activities of the CLO that most significantly impact the entity s economic performance, and (ii) the obligations to absorb losses or the right to receive benefits from the entity that could potentially be significant.

The Company determined that it possesses the power to direct the activities of the CLOs that most significantly impact the CLOs economic performance through its role in managing collateral and credit risk. However, the Company is not an investor in the CLOs, and it has determined that the collateral management fees it expects to receive would not be significant to the

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economic performance of the CLOs. In addition to collateral management fees, the Company also has the potential to earn incentive income based on the performance the CLOs deliver to the holders of the subordinated notes issued by the CLOs; however, due to the hurdle rates required to be exceeded before the Company is able to earn incentive income, and the size of the subordinated notes relative to each respective CLO, the Company has determined that any incentive income from the CLO would not be significant to the economic performance of the CLO. The determination that the collateral management fees and potential incentive income earned from the CLOs would not be significant to its economic performance is based on a qualitative assessment of the nature of the fees and the CLO structures. A quantitative assessment was performed to support these conclusions, which included an analysis of the fees the Company would earn under various performance scenarios of the underlying collateral. The Company determined that under these scenarios, fees earned by the Company would not be significant to the economic performance of the CLOs. Accordingly, the Company currently does not consolidate any CLOs.

Joint Ventures

The Company holds a variable interest in a joint venture that is a VIE. The Company s exposure to loss for this joint venture is limited to its investments in the entity, which totaled $3.8 million and $4.7 million as of June 30, 2013, and December 31, 2012, respectively, and is recorded within other assets in the Company s consolidated balance sheets.

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:

	June 30, 2013	December 31, 2012
	(dollars in thousands)	
Fixed Assets:		
Corporate aircraft	$ 22,600	$ 22,600
Leasehold improvements	21,660	21,579
Computer hardware and software	19,712	18,682
Furniture, fixtures and equipment	3,139	3,123
Accumulated depreciation and amortization	(49,089)	(45,139)
Fixed assets, net	18,022	20,845
Goodwill	22,691	22,691
Receivables	8,363	2,107
Prepaid expenses	7,806	10,530
Refundable security deposits	5,221	5,765
Investments in joint ventures	3,804	4,654
Investments in Och-Ziff funds	2,627	1,658
Intangible assets, net	2,487	2,859
Other	995	1,129
Total Other Assets, Net	**$ 72,016**	**$ 72,238**

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Other Liabilities

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

	June 30, 2013	December 31, 2012
	(dollars in thousands)	
Deferred income of consolidated Och-Ziff funds	$ 117,292	$ 78,992
Accrued expenses	24,663	20,910
Deferred rent credit	14,222	14,498
Current income taxes payable	2,658	3,331
Other	1,276	1,798
Total Other Liabilities	**$ 160,111**	**$ 119,529**

7. GENERAL, ADMINISTRATIVE AND OTHER

The following table presents the components of general, administrative and other expenses as reported in the consolidated statements of comprehensive income (loss):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Professional services	$ 14,686	$ 6,813	$ 26,188	$ 11,630
Occupancy and equipment	7,305	7,043	15,190	13,751
Recurring placement and related service fees	7,333	5,941	13,866	11,301
Information processing and communications	5,279	5,189	9,883	9,885
Business development	2,767	2,733	5,154	4,715
Insurance	1,876	1,912	3,733	3,819
Other expenses	2,478	2,598	5,565	6,150
	41,724	32,229	79,579	61,251
Changes in tax receivable agreement liability	(10)	23	17	(51)
Total General, Administrative and Other	**$ 41,714**	**$ 32,252**	**$ 79,596**	**$ 61,200**

8. 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. Due to 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 11.9% and -4.2% for the three months ended June 30, 2013 and 2012, respectively, and 9.7% and -4.8% for the six months ended June 30, 2013 and 2012, 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 executive managing directors and the Ziffs interests as Och-Ziff Operating Group A Units are not deductible for tax purposes.

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As of June 30, 2013, and December 31, 2012, the Company was not required to establish a liability for uncertain tax positions.

9. EARNINGS (LOSS) PER CLASS A SHARE

Basic earnings (loss) per Class A Share is computed by dividing the net income (loss) allocated to Class A Shareholders by the weighted-average number of Class A Shares outstanding for the period. For the three months ended June 30, 2013 and 2012, the Company included, respectively, 2,044,912 and 952,982 RSUs that have vested but have not been settled in Class A Shares in the weighted-average Class A Shares outstanding used in the calculation of basic and diluted earnings (loss) per Class A Share. For the six months ended June 30, 2013 and 2012, the Company included, respectively, 1,983,147 and 1,059,747 RSUs that have vested but have not been settled in Class A Shares in the weighted-average Class A Shares outstanding used in the calculation of basic and diluted earnings (loss) per Class A Share.

The following tables present the computation of basic and diluted earnings (loss) per Class A Share:

Three Months Ended June 30, 2013	Net Income Allocated to Class A Shareholders	Weighted-Average Class A Shares Outstanding	Earnings Per Class A Share	Number of Antidilutive Units Excluded from Diluted Calculation
	(dollars in thousands, except per share amounts)			
Basic	$ 4,897	152,016,631	$ 0.03	
Effect of dilutive securities:				
Och-Ziff Operating Group A Units				315,605,914
RSUs		3,883,384		
Diluted	$ 4,897	155,900,015	$ 0.03	

Three Months Ended June 30, 2012	Net Loss Allocated to Class A Shareholders	Weighted-Average Class A Shares Outstanding	Loss Per Class A Share	Number of Antidilutive Units Excluded from Diluted Calculation
	(dollars in thousands, except per share amounts)			
Basic	$ (116,242)	141,722,881	$ (0.82)	
Effect of dilutive securities:				
Och-Ziff Operating Group A Units				295,742,476
RSUs				8,553,594
Diluted	$ (116,242)	141,722,881	$ (0.82)	

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Six Months Ended June 30, 2013	Net Income Allocated to Class A Shareholders	Weighted-Average Class A Shares Outstanding	Earnings Per Class A Share	Number of Antidilutive Units Excluded from Diluted Calculation
	(dollars in thousands, except per share amounts)			
Basic	$ 30,966	151,335,477	$ 0.20	
Effect of dilutive securities:				
Och-Ziff Operating Group A Units				315,605,914
RSUs		2,421,389		
Diluted	$ 30,966	153,756,866	$ 0.20	

Six Months Ended June 30, 2012	Net Loss Allocated to Class A Shareholders	Weighted-Average Class A Shares Outstanding	Loss Per Class A Share	Number of Antidilutive Units Excluded from Diluted Calculation
	(dollars in thousands, except per share amounts)			
Basic	$ (238,986)	141,308,533	$ (1.69)	
Effect of dilutive securities:				
Och-Ziff Operating Group A Units				295,742,476
RSUs				8,553,594
Diluted	$ (238,986)	141,308,533	$ (1.69)	

10. RELATED PARTY TRANSACTIONS

Due to Related Parties

Amounts due to related parties relate to future payments owed to the Company s executive managing directors and the Ziffs under the tax receivable agreement. As further discussed in Note 11, the Company entered into an agreement with the executive managing directors and the Ziffs, whereby the Company would pay them a portion of any tax savings resulting from the purchase of Och-Ziff Operating Group A Units at the time of the 2007 Offerings or as a result of any subsequent exchanges of their interests for Class A Shares.

Management Fees and Incentive Income Earned from the 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.

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

Prior to the 2007 Offerings, the Company did not charge management fees or earn incentive income on investments made by the Company s executive managing directors, employees and other related parties. Following the 2007 Offerings, the Company began charging management fees and earning incentive income on new investments made in the funds by executive managing directors and certain other related parties, including the reinvestment by executive managing directors of the after-tax proceeds from the 2007 Offerings. The Company continues to waive fees for employee investments in the funds.

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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 before the impact of eliminations related to the consolidated funds:

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(dollars in thousands)			
Fees charged on investments held by related parties:				
Management fees	$ 7,371	$ 6,346	$ 14,835	$ 12,401
Incentive income	$ 1,589	$ 591	$ 1,715	$ 638
Fees waived on investments held by related parties:				
Management fees	$ 3,561	$ 3,303	$ 7,019	$ 6,449

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. For the three months ended June 30, 2013 and 2012, the Company charged Mr. Och $53 thousand and $80 thousand, respectively, based on market rates for his personal use of the aircraft. For the six months ended June 30, 2013 and 2012, the Company charged Mr. Och $405 thousand and $210 thousand, respectively, for his personal use of the aircraft.

11. COMMITMENTS AND CONTINGENCIES

Tax Receivable Agreement

The purchase of Och-Ziff Operating Group A Units from the executive managing directors and the Ziffs with the proceeds from the 2007 Offerings, and subsequent taxable exchanges by them 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 executive managing directors and the Ziffs, the Company has agreed to pay to the executive managing directors and the Ziffs 85% of the amount of tax savings, if any, actually realized by the Company.

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 comprehensive income (loss).

In connection with the departure of certain former executive managing directors since the 2007 Offerings, the right to receive payments under the tax receivable agreement by those former executive managing directors was contributed to the Och-Ziff Operating Group. As a result, the Company now expects to pay to the remaining executive managing directors and the Ziffs approximately 77% (from 85% at the time of the 2007 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.

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 Corp 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 various other operating leases for its offices in London, Hong Kong, Beijing and Mumbai. The Company also has operating leases for other locations, as well as

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operating and capital leases on computer hardware. The related capital lease commitments have not changed materially since December 31, 2012. During the second quarter of 2013, the Company extended its operating lease for its headquarters in New York through 2029. The table below presents total future minimum lease payments for all of the Company s operating leases, including the extension discussed above.

	Minimum Lease Payments (dollars in thousands)	
Remainder of 2013	$	9,958
2014		19,867
2015		21,520
2016		23,196
2017		23,194
Thereafter		217,865
Total Minimum Lease Payments	**$**	**315,600**

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 to extensive scrutiny by regulatory agencies globally that have, or may in the future have, regulatory authority over the Company and its business activities. This has resulted, or may in the future result, in regulatory agency investigations, litigation and subpoenas and costs related to each. 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 consolidated financial statements.

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. 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.

12. 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 multi-strategy funds, credit funds, CLOs and other alternative investment vehicles.

The Company s Other Operations are primarily comprised of its real estate business, which provides asset management services to its real estate funds. The businesses included in the Company s Other Operations do not meet the thresholds of reportable business segments under GAAP.

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In addition to analyzing the Company s results on a GAAP basis, management also reviews its results on an Economic Income basis. Economic Income excludes the adjustments described below that are required for presentation of the Company s results on a 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 the Company s financial performance and makes resource allocation and other operating decisions. Management considers it important that investors review the same operating information that it uses.

Economic Income is a measure of pre-tax operating performance that excludes the following from the Company s results on a GAAP basis:

Income allocations to the Company s executive managing directors 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 the Company s operations are performed, prior to making any income allocations.

Reorganization expenses related to the 2007 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.

Changes in the tax receivable agreement liability and net gains (losses) on investments in Och-Ziff funds, 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, expenses related to compensation arrangements based on fund investment performance are recognized at the end of the relevant performance measurement period (generally in the fourth quarter of each year), as management determines the total amount of compensation under these arrangements once the investment performance of the relevant fund over the applicable performance measurement period is known.

Finally, management reviews Economic Income revenues by presenting management fees net of recurring placement and related service fees, rather than considering these fees an expense, and by excluding the impact of the consolidated Och-Ziff funds.

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. All interest expense related to outstanding indebtedness is allocated to the Och-Ziff Funds segment.

Och-Ziff Funds Segment Results

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Och-Ziff Funds Segment:				
Economic Income Revenues	$ 155,322	$ 139,493	$ 381,068	$ 256,471

Economic Income	$ 97,691	$ 93,248	$ 270,926	$ 168,649

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Reconciliation of Och-Ziff Funds Segment Revenues to Consolidated Revenues

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(dollars in thousands)			
Total consolidated revenues	$ 207,836	$ 178,422	$ 478,206	$ 319,346
Adjustment to management fees[1]	(4,638)	(4,271)	(8,656)	(8,473)
Adjustment to incentive income[2]			1,114	
Other Operations revenues	(2,666)	(2,362)	(5,547)	(4,849)
Income of consolidated Och-Ziff funds	(45,210)	(32,296)	(84,049)	(49,553)
Economic Income Revenues - Och-Ziff Funds segment	**$ 155,322**	**$ 139,493**	**$ 381,068**	**$ 256,471**

(1) Adjustment to present management fees net of recurring placement and related service fees, as management considers these fees a reduction in management fees, not an expense. The impact of eliminations related to the consolidated Och-Ziff funds is also removed.
(2) Adjustment to exclude the impact of eliminations related to the consolidated funds.

Reconciliation of Och-Ziff Funds Economic Income to Net Income (Loss) Allocated to Class A Shareholders

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(dollars in thousands)			
Net income (loss) allocated to Class A Shareholders	$ 4,897	$ (116,242)	$ 30,966	$ (238,986)
Net income (loss) allocated to the Och-Ziff Operating Group A Units	31,191	(222,241)	123,273	(458,649)
Equity-based compensation	40,319	16,267	63,037	34,075
Income taxes	12,625	12,491	35,017	26,895
Reorganization expenses	4,021	398,416	8,042	796,832
Allocations to Och-Ziff Operating Group D Units	1,390	1,368	5,590	2,432
Depreciation and amortization	2,002	2,321	4,322	4,679
Adjustment for expenses related to compensation arrangements based on fund investment performance	2,276	1,685	3,279	2,965
Other Operations	(821)	(727)	(1,801)	(1,220)
Other adjustments	(209)	(90)	(799)	(374)
Economic Income - Och-Ziff Funds segment	**$ 97,691**	**$ 93,248**	**$ 270,926**	**$ 168,649**

13. SUBSEQUENT EVENTS

On August 2, 2013, the Company announced a cash dividend of $0.14 per Class A Share. The dividend is payable on August 19, 2013, to holders of record as of the close of business on August 12, 2013.

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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. Actual results may differ materially from those contained in any forward-looking statements. This MD&A should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this quarterly report. An investment in our Class A Shares is not an investment in any of our funds.

Overview

Overview of Our 2013 Second Quarter and First Half Results

As of June 30, 2013, our assets under management were $36.6 billion, 22% higher than $29.9 billion as of June 30, 2012, and 12% higher than $32.6 billion as of December 31, 2012. The year-to-date increase was driven by performance-related appreciation of $2.0 billion and capital net inflows of $2.0 billion, which included approximately $1.2 billion of CLOs. Our year-to-date capital net inflows reflected interest from fund investors in our dedicated credit platforms, particularly in the United States. Pension funds remained our largest source of new capital on a year-to-date basis through June 30, 2013. We continue to meet with current and prospective investors and conversations with both have increased since the beginning of 2013.

We are seeking to expand and diversify our business by growing the assets under management in our dedicated credit, real estate and long/short equity special situations platforms. These products complement our multi-strategy funds and, as such, we believe are attractive investment alternatives to our current and prospective fund investors.

For the second quarter of 2013, we reported GAAP net income allocated to Class A Shareholders of $4.9 million, compared to a net loss of $116.2 million for the second quarter of 2012, and net income of $31.0 million for the first half of 2013, compared to a net loss of $239.0 million for the first half of 2012. The improvement in our GAAP results was driven by a decrease in Reorganization expenses related to the amortization of Och-Ziff Operating Group A Units issued in connection with the IPO. Substantially all of these units were fully vested as of November 2012. Also contributing to the improvement in our GAAP results in both periods was an increase in management fees and incentive income. These increases were partially offset by increases in compensation and benefits and general, administrative and other expenses.

We reported Economic Income for the Company of $98.5 million for the second quarter of 2013, compared to $94.0 million for the second quarter of 2012, and $272.7 million for the first half of 2013, compared to $169.9 million for the first half of 2012. The year-over-year increase for both periods was principally driven by higher incentive income and management fees, partially offset by increases in non-compensation expenses and compensation and benefits. Economic Income for the Company is a non-GAAP measure. For additional information regarding non-GAAP measures, as well as for a discussion of the drivers of the year-over-year changes in Economic Income, please see Economic Income Analysis.

Overview of 2013 Second Quarter and First Half Fund Performance

During the second quarter and first half of 2013, the OZ Master Fund generated a net return of 2.4% and 6.5%, respectively; the OZ Europe Master Fund generated a net return of 1.0% and 4.9%, respectively; and the OZ Asia Master Fund generated a net return of 2.8% and 8.5%, respectively. For the first half of 2013, these returns were generated with approximately 52% of the volatility of the S&P 500 Index on a weighted-average basis. During the second quarter of 2013, we extended the strong returns we generated in the first quarter and protected investor capital through effective asset allocation and exposure management in response to the volatile market environment in late May and throughout June.

The most significant contributors to our investment performance during the first half of 2013 were our credit-related and long/short equity special situations strategies. We remained fully invested in the OZ Master Fund as of the end of the second quarter. For important information about our fund performance data, please see Assets Under Management and Fund Performance Information.

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.

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Financial Market Environment

Our ability to successfully generate consistent, positive, absolute 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 global economic and business conditions.

Following a positive and relatively stable first quarter, equity markets began the second quarter of 2013 on a strong note. However, beginning in mid-May and continuing through June, market stability deteriorated as uncertainty increased about the pace of a potential reduction in quantitative easing by the United States Federal Reserve. As a result, equity markets experienced increased volatility and declined in value globally. Despite reports of improved U.S. economic data during the quarter, the S&P 500 Index generated its first negative monthly total return of 2013 in June, and the 10-year U.S. Treasury yield rose above 2.5% for the first time since August 2011. Similarly, in Europe, supportive commentary from the European Central Bank was outweighed by the global market sell-off, and in June the EURO STOXX 50 witnessed its first monthly loss in over a year. Asian markets were also not immune to the sell-off. In Japan, increased volatility and investor disappointment regarding the Japanese government s growth policy resulted in the NIKKEI 225 briefly entering bear market territory. In China, slowed growth, stalled industrial production and weak manufacturing data caused investors to remain cautious.

Following a strong first quarter, corporate credit spreads tightened early in the second quarter of 2013. In mid-May, investor concerns regarding the potential reduction in quantitative easing by the United States Federal Reserve caused interest rates to rise as investors moved to the sidelines and the high-yield market experienced record outflows. The global interest rate sell-off reduced issuance in the high yield market. In contrast, strong demand for floating rate instruments caused year-to-date leveraged loan issuance to reach new records. In Europe, corporate credit markets performed well despite volatile market conditions globally during the second quarter. In Asia, bond markets were dislocated for much of the quarter in response to the United States Federal Reserve s comments and concerns about growth in China.

Capital Flow Environment

During the second quarter of 2013, hedge fund industry assets grew by a net amount of approximately $40 billion, or 1.7%, to $2.4 trillion, according to Hedge Fund Research. Net new industry inflows of approximately $15 billion decreased slightly from first quarter levels, although year-to-date net inflows of approximately $30 billion were more than double the amount allocated to the industry in the second half of 2012. We remain confident that industry allocations will increase as market conditions stabilize further, and as institutional investors increase their focus on enhancing the returns of their equity and fixed income portfolios.

Assets Under Management

Our financial results are primarily driven by the combination of our assets under management and the investment performance of our funds. Both of these factors directly affect the revenues we earn from management fees and incentive income. Growth in assets under management due to capital placed with us by investors in our funds and positive investment performance of our funds drive 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, which would have a negative effect on our revenues and earnings.

We typically accept capital from new and existing investors in our funds on a monthly basis on the first day of each month. Investors in our funds (other than investors in our real estate funds, certain credit funds and certain other alternative investment vehicles we manage and other than with respect to capital invested in Special Investments) typically 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, subject to certain limitations, investors may redeem capital generally on a quarterly or annual basis upon giving 30 to 90 days prior written notice. However, upon the payment of a redemption fee to the applicable fund and upon giving 30 days prior written notice, certain investors may redeem capital during the lock-up period. The lock-up requirements for our funds may generally be waived or modified at the sole discretion of each 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.

Information with respect to our assets under management throughout this report, including the tables set forth in this discussion and analysis, includes investments by us, our executive managing directors, 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

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began charging management fees and earning incentive income on new investments made in our funds by our executive managing directors and certain other related parties, including the reinvestment by our executive managing directors of their after-tax proceeds from the 2007 Offerings. As of June 30, 2013, approximately 9% of our assets under management represented investments by us, our executive managing directors, employees and certain other related parties in our funds. As of that date, approximately 32% of these affiliated assets under management are not charged management fees and are not subject to an incentive income calculation. Additionally, to the extent that an Och-Ziff fund is an investor in another Och-Ziff fund, we waive or rebate a corresponding portion of the management fees charged to the fund.

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 our weighted-average assets under management for the respective periods. Weighted-average assets under management exclude the impact of second quarter investment performance for the periods presented, as these amounts do not impact management fees calculated for that period.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Balance-beginning of period	$ 34,992,271	$ 30,116,849	$ 32,603,930	$ 28,766,340
Net flows	895,263	(185,516)	1,986,237	(248,651)
Appreciation (Depreciation)	679,538	(3,603)	1,976,905	1,410,041
Balance-end of period	**$ 36,567,072**	**$ 29,927,730**	**$ 36,567,072**	**$ 29,927,730**
Weighted-average assets under management	$ 35,306,208	$ 29,763,232	$ 34,126,256	$ 29,164,976

In the first half of 2013, our funds experienced performance-related appreciation of $2.0 billion and capital net inflows of $2.0 billion, which were comprised of $4.4 billion of gross inflows and $2.4 billion of gross outflows. Our gross inflows for the first half of 2013 also included $1.2 billion related to the launch of our third and fourth CLOs. Direct allocations from pension funds continued to be the largest driver of our inflows (excluding CLOs), while redemptions from pension funds were the largest driver of our outflows for the first half of 2013.

In the first half of 2012, our funds experienced performance-related appreciation of $1.4 billion and capital net outflows of $248.7 million, which were comprised of $1.4 billion of gross inflows and $1.7 billion of gross outflows. Direct allocations from pension funds were the largest driver of our inflows, while redemptions from fund-of-funds were the largest driver of our outflows.

Assets Under Management and Fund Performance Information

	June 30,	
	2013	2012
	(dollars in thousands)	
Multi-strategy funds		
OZ Master Fund	$ 22,767,485	$ 20,807,573
OZ Europe Master Fund	1,865,234	2,057,464
OZ Asia Master Fund	1,181,068	1,577,092
Other multi-strategy funds	3,250,229	2,380,271
Credit funds	3,846,222	1,684,796
CLOs	2,152,217	13,746
Real estate funds	864,535	914,163
Other	640,082	492,625

Total	**$ 36,567,072**	**$ 29,927,730**

The table above presents the composition of our assets under management based on the strategy or asset class in which they are invested. Presentation of the assets under management and performance for individual funds is shown for those funds that we consider material to understanding our business and results of operations for the periods presented. All of our funds are managed by the Och-Ziff Funds segment with the exception of our domestic real estate funds, which are managed by the real estate management business included in Other Operations.

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The performance information reflected in this discussion and analysis is not indicative of the performance of our Class A Shares and is not necessarily indicative of the future results of any particular fund. An investment in our Class A Shares is not an investment in any of our funds. There can be no assurance that any of our existing or future funds will achieve similar results.

The net returns presented in this discussion represent the composite performance of all feeder funds that comprise each of the master funds presented. The net return is calculated using the total return of all feeder funds, net of all fees and expenses of such feeder funds and master funds (except incentive income on unrealized gains attributable to Special Investments that could reduce returns in these investments at the time of realization) and the returns of each feeder fund include the reinvestment of all dividends and other income. The net returns also include realized and unrealized gains and losses attributable to Special Investments and initial public offering investments that are not allocated to all investors in the feeder funds. Investors that were not allocated Special Investments and initial public offering investments may experience materially different returns.

Multi-Strategy Funds

We currently manage three main investment funds on a multi-strategy basis, across multiple geographies, as well as various other smaller multi-strategy funds. Management fees for these funds generally range from 1.5% to 2.5%. Incentive income for these funds is earned at the end of the applicable performance measurement period, which generally ranges from one to three years. The measurement period for the majority of these assets is one year and expires on December 31 each year. See Understanding Our Results Incentive Income for additional information.

OZ Master Fund

	Assets Under Management as of June 30,		Net Returns for the Three Months Ended June 30,		Net Returns for the Six Months Ended June 30,	
	2013	2012	2013	2012	2013	2012
	(dollars in thousands)					
OZ Master Fund	$ 22,767,485	$ 20,807,573	2.4%	0.2%	6.5%	4.9%

The $2.0 billion year-over-year increase in assets under management was driven by performance-related appreciation in each of the last two quarters of 2012 and the first two quarters of 2013, as well as capital net inflows in the second quarter of 2013. These increases were partially offset by capital net outflows in the last two quarters of 2012 and the first quarter of 2013.

For the three months ended June 30, 2013, convertible and derivative arbitrage contributed approximately 7% of the fund s return before management fees and incentive income; corporate credit contributed approximately 16%; long/short equity special situations contributed approximately 37%; merger arbitrage contributed approximately 14%; private investments contributed approximately -2%; structured credit contributed approximately 32%; and other items contributed approximately -4%.

For the three months ended June 30, 2012, convertible and derivative arbitrage contributed approximately 30% of the fund s return before management fees and incentive income; corporate credit contributed approximately 39%; long/short equity special situations contributed approximately -118%; merger arbitrage contributed approximately 17%; private investments contributed approximately -1%; structured credit contributed approximately 136%; and other items contributed approximately -3%.

For the six months ended June 30, 2013, convertible and derivative arbitrage contributed approximately 4% of the fund s return before management fees and incentive income; corporate credit contributed approximately 17%; long/short equity special situations contributed approximately 46%; merger arbitrage contributed approximately 7%; private investments contributed approximately -3%; structured credit contributed approximately 31%; and other items contributed approximately -2%.

For the six months ended June 30, 2012, convertible and derivative arbitrage contributed approximately 7% of the fund s return before management fees and incentive income; corporate credit contributed approximately 23%; long/short equity special situations contributed approximately 25%; merger arbitrage contributed approximately 3%; private investments contributed approximately 3%; structured credit contributed approximately 40%; and other items contributed approximately -1%.

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OZ Europe Master Fund

	Assets Under Management as of June 30,		Net Returns for the Three Months Ended June 30,		Net Returns for the Six Months Ended June 30,	
	2013	2012	2013	2012	2013	2012
	(dollars in thousands)					
OZ Europe Master Fund	$ 1,865,234	$ 2,057,464	1.0%	-1.4%	4.9%	3.4%

The $192.2 million year-over-year decrease in assets under management was driven by capital net outflows in each of the last two quarters of 2012 and the first two quarters of 2013, partially offset by performance-related appreciation in each of those quarters.

For the three months ended June 30, 2013, convertible and derivative arbitrage contributed approximately 4% of the fund s return before management fees and incentive income; corporate credit contributed approximately 51%; long/short equity special situations contributed approximately 20%; merger arbitrage contributed approximately 17%; private investments contributed approximately -65%; structured credit contributed approximately 70%; and other items contributed approximately 3%.

For the three months ended June 30, 2012, convertible and derivative arbitrage contributed approximately -17% of the fund s return before management fees and incentive income; corporate credit contributed approximately -6%; long/short equity special situations contributed approximately 84%; merger arbitrage contributed approximately -33%; private investments contributed approximately 117%; structured credit contributed approximately -49%; and other items contributed approximately 4%.

For the six months ended June 30, 2013, corporate credit contributed approximately 37% of the fund s return before management fees and incentive income; long/short equity special situations contributed approximately 56%; merger arbitrage contributed approximately 3%; private investments contributed approximately -34%; structured credit contributed approximately 36%; and other items contributed approximately 2%.

For the six months ended June 30, 2012, convertible and derivative arbitrage contributed approximately 3% of the fund s return before management fees and incentive income; corporate credit contributed approximately 35%; long/short equity special situations contributed approximately 35%; merger arbitrage contributed approximately 7%; private investments contributed approximately -22%; structured credit contributed approximately 43%; and other items contributed approximately -1%.

OZ Asia Master Fund

	Assets Under Management as of June 30,		Net Returns for the Three Months Ended June 30,		Net Returns for the Six Months Ended June 30,	
	2013	2012	2013	2012	2013	2012
	(dollars in thousands)					
OZ Asia Master Fund	$ 1,181,068	$ 1,577,092	2.8%	-3.4%	8.5%	2.3%

The $396.0 million year-over-year decrease in assets under management was driven by capital net outflows in each of the last two quarters of 2012 and the first two quarters of 2013, partially offset by performance-related appreciation in each of those quarters.

For the three months ended June 30, 2013, convertible and derivative arbitrage contributed approximately 8% of the fund s return before management fees and incentive income; corporate credit contributed approximately -9%; long/short equity special situations contributed approximately 130%; merger arbitrage contributed approximately -4%; private investments contributed approximately -21%; and other items contributed approximately -4%.

For the three months ended June 30, 2012, convertible and derivative arbitrage contributed approximately -2% of the fund s return before management fees and incentive income; corporate credit contributed approximately -17%; long/short equity special situations contributed approximately 92%; merger arbitrage contributed approximately 1%; private investments contributed approximately 20%; and other items contributed approximately 6%.

For the six months ended June 30, 2013, convertible and derivative arbitrage contributed approximately 11% of the fund s return before management fees and incentive income; corporate credit contributed approximately 3%; long/short equity special situations contributed approximately 100%; merger arbitrage contributed approximately -1%; private investments contributed approximately -9%; and other items contributed approximately -4%.

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For the six months ended June 30, 2012, convertible and derivative arbitrage contributed approximately 14% of the fund s return before management fees and incentive income; corporate credit contributed approximately 40%; long/short equity special situations contributed approximately 59%; merger arbitrage contributed approximately -4%; private investments contributed approximately -6%; and other items contributed approximately -3%.

Other Multi-Strategy Funds

The remaining assets under management in our multi-strategy funds generally invest in strategies similar to the OZ Master Fund; however, investment performance for these funds may vary materially from the returns of the OZ Master Fund.

The $870.0 million year-over-year increase in assets under management was driven by capital net inflows and performance-related appreciation in each of the last two quarters of 2012 and the first two quarters of 2013.

Credit Funds

We manage various credit funds that generally make investments in structured and corporate credit assets, primarily in the United States and Europe. Management fees for these funds generally range from 0.75% to 1.5% of assets under management based on the amount of capital committed to these platforms by our fund investors. Incentive income related to the majority of these assets is subject to hurdle rates and is not recognized as revenue until it is no longer subject to clawback, which is at or near the end of the life of the fund.

The $2.2 billion year-over-year increase in assets under management was driven by the continued growth in our various credit funds, including the restructuring and expansion of a relationship with an existing investor that resulted in the recognition of $69.6 million of incentive income during the first quarter of 2013.

CLOs

In the second half of 2012, we raised $985.9 million of assets under management in our CLOs. In the first half of 2013, we raised an additional $1.2 billion, for a total of $2.2 billion in CLO assets under management. Management fees for the CLOs are generally 0.50% based on the par value of the collateral and cash held in the CLOs. Incentive income from our CLOs is equal to 20% of the excess cash flows due to the holders of the subordinated notes issued by the CLOs, subject to a stated hurdle rate.

Real Estate Funds

Our real estate funds generally make investments in commercial and residential real estate in North America, including real property, multi-property portfolios, real estate-related joint ventures, real estate operating companies and other real estate-related assets. Management fees for our real estate funds range from 0.75% to 1.5% of assets under management based on the amount of capital committed to these platforms by our fund investors. Incentive income related to these funds is subject to hurdle rates and is not recognized as revenue until it is no longer subject to clawback, which is at or near the end of the life of the relevant fund.

The $49.6 million year-over-year decrease in assets under management was driven by the wind-down of our first domestic real estate fund, partially offset by increases related to our second domestic real estate fund.

Other

Our other assets under management are comprised of funds that are generally strategy-specific. Management fees for these funds range from 1.00% to 1.75% of assets under management, generally based on the amount of capital committed to these platforms by our fund investors. Incentive income related to these funds may be subject to hurdle rates. For the majority of these other assets, incentive income is not recognized as revenue until at or near the end of the life of the fund when it is no longer subject to clawback.

The $147.5 million year-over-year increase in assets under management was driven primarily by the launch of additional strategy-specific products for our fund investors.

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 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 in a given year, we generally would earn incentive income equal to $2 million, assuming a 20% incentive income rate, a one-year performance measurement period, 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 addition, we may recognize incentive income for assets under management for which the measurement period expired in that quarter, such as assets subject to three-year performance measurement periods, or incentive income related to fund investor redemptions, and these amounts may be significant. 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 on assets under management that are subject to annual measurement periods, or for other assets under management for which the measurement period expired in that quarter.

Management Fees. Management fees are generally calculated and paid to us on a quarterly basis in advance, based on the amount of 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 relative magnitude and timing of inflows and redemptions during the respective quarter, as well as the impact of differing management fee rates charged on those inflows and redemptions. Our average management fee rate for the second quarter of 2013 was approximately 1.53%. This average rate takes into account the effect of non-fee paying assets under management, as well as our credit funds, CLOs, real estate funds and the other alternative investment vehicles we manage, which generally pay lower management fees than our multi-strategy products, consistent with the market convention for these asset classes.

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 it excludes unrealized gains and losses attributable to Special Investments.

We do not recognize incentive income until the end of the applicable performance measurement period when the amounts are contractually payable, or crystallized. Additionally, all of our hedge 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 positive investment performance we generate for a fund investor in any year 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 performance 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 31. We may also recognize incentive income related to fund investor redemptions at other times during the year. Additionally, we may recognize a material amount of incentive income during the year related to assets subject to three-year performance measurement periods for which the measurement period has expired (including the rollover of a portion of these assets into one-year measurement periods upon the conclusion of the initial three-year measurement period), as well as assets in our credit funds, real estate funds and certain other funds we manage. We may also recognize incentive income for tax distributions related to these assets. 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 recognized by us until the end of the relevant performance measurement period (if at all).

As of June 30, 2013, the performance measurement periods with respect to approximately $9.4 billion, or 25.6%, of our assets under management were longer than one year. These assets under management include assets subject to three-year performance measurement periods in the OZ Master Fund and other multi-strategy funds, as well as assets in our credit funds, CLOs, real estate funds and other alternative investment vehicles we manage. Incentive income related to these assets, excluding CLOs, is based on the cumulative investment performance over a specified measurement period, and is not earned until it is no longer subject to repayment to the respective fund. Our ability to earn incentive income on these longer-term assets may also be subject to hurdle rates whereby we do not earn any incentive income until the investment returns exceed an agreed upon benchmark. However, for a portion of these assets subject to hurdle rates, once investment performance has exceeded the hurdle rate, we may receive a preferential catch-up allocation, resulting in a potential recognition to us of a full 20% of the net profits attributable to investors in these assets. Incentive income from our CLOs is based on the excess cash flows due to the holders of the subordinated notes issued by the CLOs, subject to a stated hurdle rate.

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

Expenses

Compensation and Benefits. Compensation and benefits is comprised of salaries, benefits, payroll taxes, and discretionary and guaranteed cash bonus expense. On an annual basis, compensation and benefits comprise a significant portion of total expenses, with discretionary cash bonuses generally comprising a significant portion of total compensation and benefits. These cash bonuses are funded by total annual revenues, which are significantly influenced by the amount of incentive income we earn in the year. Annual discretionary cash bonuses in a year with no significant high-water marks in effect are generally determined and expensed in the fourth quarter each year.

Compensation and benefits also includes equity-based compensation expense, which is primarily in the form of RSUs and Och-Ziff Operating Group A Units granted to executive managing directors subsequent to the 2007 Offerings. Subsequent to the 2007 Offerings we have issued Och-Ziff Operating Group D Units to certain executive managing directors. Our Eligible Pre-IPO Partners (as defined below) may be eligible to receive awards, including cash and Och-Ziff Operating Group D Units under The Och-Ziff Capital Management Group LLC 2012 Partner Incentive Plan (the PIP), which is described further below. We may also issue additional performance-related Och-Ziff Operating Group D Units or make discretionary performance cash payments to our executive managing directors. These Och-Ziff Operating Group D Units are not considered equity under GAAP and no equity-based compensation expense is recognized related to these units. Allocations to the Och-Ziff Operating Group D Units are recorded within compensation and benefits, and are done on a pro rata basis with the Och-Ziff Operating Group A Units (held by our executive managing directors and the Ziffs) and the Och-Ziff Operating Group B Units (held by our intermediate holding companies). Upon the conversion of Och-Ziff Operating Group D Units into Och-Ziff Operating Group A Units, we recognize a one-time charge for the grant-date fair value of the vested units and begin to amortize the grant-date fair value of the unvested units over the vesting period. As additional Och-Ziff Operating Group D Units are converted into Och-Ziff Operating Group A Units in the future, we may see increasing non-cash equity-based compensation expense related to these units.

In August 2012, we adopted the PIP, whereby executive managing directors at the time of the IPO participating in the PIP (the Eligible Pre-IPO Partners) may be eligible to receive discretionary grants of annual performance awards (Performance Awards) over a five-year period commencing in 2013. Performance Awards may be satisfied in Och-Ziff Operating Group D Units (Performance Unit Awards) and may also be satisfied in cash (Performance Cash Awards). Under the original terms of the PIP, the Eligible Pre-IPO Partners, collectively, would have been eligible to receive aggregate grants of up to 3,628,907 Och-Ziff Operating Group D Units per year. As a result of the departure of Michael Cohen, a member of the Partner Management Committee, in March 2013, the aggregate number of Och-Ziff Operating Group D Units that may be issued under the PIP each year was reduced to 2,770,749 per year, if a determination is made for each such year to award the maximum number of Performance Unit Awards to all of the Eligible Pre-IPO Partners. The Eligible Pre-IPO Partners, collectively, may also be eligible to receive discretionary annual Performance Cash Awards if we earn incentive income in the relevant year. The maximum aggregate amount of Performance Cash Awards that may be awarded to all of the Eligible Pre-IPO Partners, collectively, for each year will be capped at 10% of our incentive income earned during that year, up to a maximum of $52.4 million prior to the departure of Michael Cohen in March 2013. As a result of Michael Cohen s departure, the maximum aggregate incentive income that may be awarded under the PIP was reduced to $39.6 million per year.

Reorganization Expenses. As part of the Reorganization, interests in the Och-Ziff Operating Group held by our executive managing directors and the Ziffs were reclassified as Och-Ziff Operating Group A Units, resulting in significant non-cash Reorganization expenses. Substantially all of those Och-Ziff Operating Group A Units were expensed on a straight-line basis over a five-year vesting period following the 2007 Offerings, which concluded in November 2012. However, certain units have vesting periods through 2015.

Interest Expense. Amounts included within interest expense relate primarily to indebtedness outstanding under a delayed draw term loan agreement entered into in November 2011 (the Delayed Draw Term Loan), which is a LIBOR-based, variable-rate borrowing. The LIBOR interest rate on our Delayed Draw Term Loan resets every one, two, three or six months (at our option), two business days prior to the start of each interest period. Prior to the repayment of the indebtedness outstanding under the term loan entered into in connection with the 2007 Offerings (the 2007 Term Loan) and our aircraft loan in June 2012, interest expense also included interest on those LIBOR-based, variable-rate borrowings.

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

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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

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 gains (losses) on investments in joint ventures established to expand certain of our private investments platforms.

Change in Deferred Income of Consolidated Och-Ziff Funds. Incentive income allocations from funds that we consolidate 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 (noncontrolling interests). To the extent we are allocated incentive income by a consolidated 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 comprehensive income (loss) 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 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 GAAP basis and the likelihood of being able to fully utilize deferred income tax assets existing as of the end of the period.

The Registrant and the Och-Ziff Operating Group entities are partnerships for U.S. federal income tax purposes. Due to our legal structure, only a portion of the income we earn is subject to corporate-level income taxes in the United States and foreign jurisdictions. The amount of incentive income we earn in a given year, 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 income tax rate.

Net Income (Loss) Allocated to Noncontrolling Interests

Noncontrolling interests represent ownership interests in our subsidiaries held by parties other than us and are primarily made up of Och-Ziff Operating Group A Units held by our executive managing directors and the Ziffs, and fund investors interests in the consolidated Och-Ziff funds. Increases or decreases in net income (loss) allocated to the Och-Ziff Operating Group A Units are driven by the earnings (losses) of the Och-Ziff Operating Group. Increases or decreases in the net income (loss) allocated to fund investors interests in consolidated Och-Ziff funds are driven by the earnings (losses) of those funds.

Our interest in the Och-Ziff Operating Group is expected to continue to increase over time as additional Class A Shares are issued upon the exchange of Och-Ziff Operating Group A Units and vesting of RSUs. These increases will be offset upon the conversion of Och-Ziff Operating Group D Units, which are not considered equity for GAAP purposes, into Och-Ziff Operating Group A Units.

Results of Operations

Revenues

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Management fees	$ 139,499	$ 127,492	$ 269,909	$ 249,574

Incentive income	22,905	18,414	123,065	19,635
Other revenues	222	220	1,183	584
Income of consolidated Och-Ziff funds	45,210	32,296	84,049	49,553
Total Revenues	**$ 207,836**	**$ 178,422**	**$ 478,206**	**$ 319,346**

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Total revenues for the quarter-to-date period increased by $29.4 million primarily due to the following:

- A $12.9 million increase in income of consolidated Och-Ziff funds. The majority of this income is allocated to noncontrolling interests, as we only have a minimal ownership interest, if any, in each of these funds. A portion of this income may be allocated to us as an incentive income allocation; however, these amounts are deferred until the end of the performance measurement periods for the relevant fund.

- A $12.0 million increase in management fees primarily due to the year-over-year growth in assets under management. This growth was driven by a combination of performance-related appreciation and capital net inflows. See Economic Income Analysis for information regarding our average management fee rate.

Total revenues for the year-to-date period increased by $158.9 million primarily due to the following:

- A $103.4 million increase in incentive income driven by the crystallization of $69.6 million of incentive income on certain of our credit assets due to the restructuring of terms and expansion of a relationship with an existing investor in the first quarter of 2013. The remaining increase was principally attributable to incentive income on our multi-strategy assets under management for which the three-year measurement period expired during the first quarter of 2013.

- A $34.5 million increase in income of consolidated Och-Ziff funds. The majority of this income is allocated to noncontrolling interests, as we only have a minimal ownership interest, if any, in each of these funds. A portion of this income may be allocated to us as an incentive income allocation; however, these amounts are deferred until the end of the performance measurement periods for the relevant fund.

- A $20.3 million increase in management fees primarily due to the year-over-year growth in assets under management. This growth was driven by a combination of performance-related appreciation and capital net inflows. See Economic Income Analysis for information regarding our average management fee rate.

Expenses

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2013	**2012**	**2013**	**2012**
	(dollars in thousands)			
Compensation and benefits	$ 69,283	$ 41,321	$ 120,698	$ 82,191
Reorganization expenses	4,021	398,416	8,042	796,832
Interest expense	1,735	1,212	3,465	2,455
General, administrative and other	41,714	32,252	79,596	61,200
Expenses of consolidated Och-Ziff funds	3,947	2,939	7,862	5,051
Total Expenses	**$ 120,700**	**$ 476,140**	**$ 219,663**	**$ 947,729**

Total expenses for the quarter-to-date period decreased by $355.4 million primarily due to the following:

- A $394.4 million decrease in Reorganization expenses, as substantially all of the Och-Ziff Operating Group A Units granted in connection with the Reorganization were expensed on a straight-line basis over a five-year vesting period following the 2007 Offerings, which concluded in November 2012.

A $28.0 million offsetting increase in compensation and benefits primarily due to $24.1 million higher equity-based compensation. The increase in equity-based compensation was driven in part by a $12.9 million one-time charge taken in the second quarter of 2013 related to the conversion of vested Och-Ziff Operating Group D Units (non-equity interests) into Och-Ziff Operating Group A Units. The remaining increase in equity-based compensation was principally attributable to amortization of

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Och-Ziff Operating Group A Units granted to executive managing directors subsequent to the end of the second quarter of 2012. Growth in salaries and benefits due in part to an increase in our worldwide headcount from 448 as of June 30, 2012, to 503 as of June 30, 2013 drove the remaining increase in compensation and benefits.

A $9.5 million offsetting increase in general, administrative and other expenses primarily due to $7.9 million higher professional services fees related to business operations, infrastructure, and expenses associated with regulation and compliance.

Total expenses for the year-to-date period decreased by $728.1 million primarily due to the following:

A $788.8 million decrease in Reorganization expenses, as substantially all of the Och-Ziff Operating Group A Units granted in connection with the Reorganization were expensed on a straight-line basis over a five-year vesting period following the 2007 Offerings, which concluded in November 2012.

A $38.5 million offsetting increase in compensation and benefits primarily due to a $29.0 million increase in equity-based compensation. The increase in equity-based compensation was driven in part by a $12.9 million one-time charge taken in the second quarter of 2013 related to the conversion of vested Och-Ziff Operating Group D Units (non-equity interests) into Och-Ziff Operating Group A Units. The remaining increase in equity-based compensation was principally attributable to amortization of Och-Ziff Operating Group A Units granted to executive managing directors subsequent to the end of the second quarter of 2012. Growth in salaries and benefits due in part to the increase in our worldwide headcount discussed above drove the remaining increase in compensation and benefits.

An $18.4 million offsetting increase in general, administrative and other expenses primarily due to $14.6 million higher professional services fees related to business operations, infrastructure, and expenses associated with regulation and compliance.

Other Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	**2012**	**2013**	**2012**
		(dollars in thousands)		
Net gains (losses) on investments in Och-Ziff funds and joint ventures	$ 417	$ (382)	$ 722	$ (288)
Change in deferred income of consolidated Och-Ziff funds	(17,642)	(7,055)	(38,300)	(22,427)
Net gains of consolidated Och-Ziff funds	35,891	8,864	139,017	85,276
Total Other Income	**$ 18,666**	**$ 1,427**	**$ 101,439**	**$ 62,561**

Total other income for the quarter-to-date period increased by $17.2 million primarily due to the following:

A $27.0 million increase in net gains of consolidated Och-Ziff funds. The majority of these net gains are allocated to noncontrolling interests, as we only have a minimal ownership interest, if any, in each of these funds. A portion of these net gains is allocated to us as an incentive income allocation; however, these amounts are deferred until the end of the performance measurement periods for the relevant fund.

A $10.6 million offsetting decrease in other income resulting from the change in deferred income of consolidated Och-Ziff funds. This change was driven by the increase in income and net gains of consolidated Och-Ziff funds discussed above. We defer our incentive income allocation from these funds until the performance measurement period ends and any incentive income allocated to us is no longer subject to repayment.

Total other income for the year-to-date period increased by $38.9 million primarily due to the following:

A $53.7 million increase in net gains of consolidated Och-Ziff funds. The majority of these net gains are allocated to noncontrolling interests, as we only have a minimal ownership interest, if any, in each of these funds. A portion of these net gains is allocated to us as an incentive income allocation; however, these amounts are deferred until the end of the performance measurement periods for the relevant fund.

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A $15.9 million offsetting decrease in other income resulting from the change in deferred income of consolidated Och-Ziff funds. This change was driven by the increase in income and net gains of consolidated Och-Ziff funds discussed above. We defer our incentive income allocation from these funds until the performance measurement period ends and any incentive income allocated to us is no longer subject to repayment.

Income Taxes

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Income taxes	$ 12,625	$ 12,491	$ 35,017	$ 26,895

Income tax expense increased year-over-year by $134 thousand for the quarter-to-date period and $8.1 million for the year-to-date period. The increase for the year-to-date period was primarily due to higher incentive income as discussed above.

The Registrant and the Och-Ziff Operating Group entities are partnerships for U.S. federal income tax purposes. Due to 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 11.9% and -4.2% for the three months ended June 30, 2013 and 2012, respectively, and 9.7% and -4.8% for the six months ended June 30, 2013 and 2012, respectively.

The reconciling items between our statutory rate and our effective tax 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 and six months ended June 30, 2013 and 2012, we were not required to establish a liability for uncertain tax positions.

Net Income (Loss) Allocated to Noncontrolling Interests

The following table presents the components of the net income (loss) allocated to noncontrolling interests:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Och-Ziff Operating Group A Units	$ 31,191	$ (222,241)	$ 123,273	$ (458,649)
Consolidated Och-Ziff funds	56,563	29,333	169,593	104,136
Other	526	368	1,133	782
Total	**$ 88,280**	**$ (192,540)**	**$ 293,999**	**$ (353,731)**

Net income (loss) allocated to noncontrolling interests for the quarter-to-date period increased by $280.8 million primarily due to the following:

A $253.4 million improvement in the earnings allocated to the Och-Ziff Operating Group A Units driven by the decrease in Reorganization expenses and the increase in incentive income discussed above.

A $27.2 million increase in the amount of net income allocated to the consolidated Och-Ziff funds driven by the increase in income and net gains of consolidated Och-Ziff funds discussed above.

Net income (loss) allocated to noncontrolling interests for the year-to-date period increased by $647.7 million primarily due to the following:

A $581.9 million improvement in the earnings allocated to the Och-Ziff Operating Group A Units driven by the decrease in Reorganization expenses and the increase in incentive income discussed above.

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A $65.5 million increase in the amount of net income allocated to the consolidated Och-Ziff funds driven primarily by the increase in income and net gains of consolidated Och-Ziff funds discussed above.

Our executive managing directors and the Ziffs interests in the Och-Ziff Operating Group in the form of Och-Ziff Operating Group A Units increased from 67.6% as of June 30, 2012 to 67.7% as of June 30, 2013. The Och-Ziff Operating Group A Units are expected to continue to significantly reduce our net income in future periods as income of the Och-Ziff Operating Group is allocated to these interests.

Net Income (Loss) Allocated to Class A Shareholders

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(dollars in thousands)			
Net income (loss) allocated to Class A Shareholders	$ 4,897	$ (116,242)	$ 30,966	$ (238,986)

The improvement in our GAAP results for both periods was driven by higher incentive income and management fees and lower Reorganization expenses, partially offset by increases in compensation and benefits and general, administrative and other expenses.

Economic Income Analysis

In addition to analyzing our results on a GAAP basis, management also reviews our results on an Economic Income basis. Economic Income excludes the adjustments described below that are required for presentation of our results on a 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.

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

Income allocations to our executive managing directors 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 2007 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.

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 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, expenses related to compensation arrangements based on fund investment performance are recognized at the end of the relevant performance measurement period (generally in the fourth quarter of each year), as management determines the total amount of compensation under these arrangements once the investment performance of the relevant fund over the applicable performance measurement period is known.

As a result of the adjustments described above, as well as an adjustment to present management fees net of recurring placement and related service fees (rather than considering these fees an expense), management fees, incentive income, compensation and benefits, non-compensation expenses and net income (loss) allocated to noncontrolling interests as presented on an Economic Income basis are also non-GAAP measures. No adjustments to the GAAP basis have been made for other revenues and net gains (losses) on joint ventures. For reconciliations of our non-GAAP measures to the respective GAAP measures, please see Economic Income Reconciliations at the end of this MD&A.

Our non-GAAP financial measures should not be considered as alternatives to our GAAP net income (loss) allocated to Class A Shareholders 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.

We conduct substantially all of our operations through our only reportable segment under GAAP, the Och-Ziff Funds segment, which provides asset management services to our multi-strategy funds, credit funds, CLOs and other alternative investment vehicles. Other Operations are primarily comprised of our real estate business, which provides asset management services to our real estate funds.

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Economic Income Revenues (Non-GAAP)

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Economic Income Basis						
Management fees	$ 132,198	$ 2,663	$ 134,861	$ 120,862	$ 2,359	$ 123,221
Incentive Income	22,905		22,905	18,414		18,414
Other revenues	219	3	222	217	3	220
Total Economic Income Revenues	**$ 155,322**	**$ 2,666**	**$ 157,988**	**$ 139,493**	**$ 2,362**	**$ 141,855**

Economic Income revenues for the quarter-to-date period increased by $16.1 million primarily due to an $11.6 million increase in management fees. The increase in management fees was primarily due to the year-over-year growth in assets under management, which was driven by a combination of performance-related appreciation and capital net inflows. Our average management fee rate was 1.53% for the second quarter of 2013, lower than the 1.67% for the second quarter of 2012. This decline was due primarily to an increase in our dedicated credit platforms and CLOs. These products generally have lower management fee rates than our traditional hedge fund products, consistent with market convention for these products.

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Economic Income Basis						
Management fees	$ 255,713	$ 5,540	$ 261,253	$ 236,355	$ 4,746	$ 241,101
Incentive Income	124,179		124,179	19,635		19,635
Other revenues	1,176	7	1,183	481	103	584
Total Economic Income Revenues	**$ 381,068**	**$ 5,547**	**$ 386,615**	**$ 256,471**	**$ 4,849**	**$ 261,320**

Economic Income revenues for the year-to-date period increased by $125.3 million primarily due to the following:

A $104.5 million increase in incentive income driven by the crystallization of $69.6 million of incentive income on certain of our credit assets due to the restructuring of terms and expansion of a relationship with an existing investor in the first quarter of 2013. The remaining increase was principally attributable to incentive income on our multi-strategy assets under management for which the three-year measurement period expired during the first quarter of 2013.

A $20.2 million increase in management fees primarily due to the year-over-year growth in assets under management. This growth was driven by a combination of performance-related appreciation and capital net inflows. Our average management fee was 1.54% for the first half of 2013, lower than the 1.66% for the first half of 2012. This decline was due primarily to an increase in our dedicated credit platforms and CLOs, as discussed above.

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Economic Income Expenses (Non-GAAP)

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Economic Income Basis						
Compensation and benefits	$ 24,213	$ 1,084	$ 25,297	$ 21,058	$ 941	$ 21,999
Non-compensation expenses	33,724	400	34,124	24,804	375	25,179
Total Economic Income Expenses	**$ 57,937**	**$ 1,484**	**$ 59,421**	**$ 45,862**	**$ 1,316**	**$ 47,178**

Economic Income expenses for the quarter-to-date period increased by $12.2 million primarily due to $8.9 million higher non-compensation expenses, which was driven by a $7.9 million increase in professional services fees related to business operations, infrastructure, and expenses associated with regulation and compliance. The ratio of non-compensation expenses to management fees was 25% for the second quarter of 2013, compared to 20% for the second quarter of 2012. The increase was due primarily to non-compensation expenses growing at a faster rate than management fees.

The ratio of salaries and benefits to management fees was 16% in both the 2013 and 2012 second quarters.

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Economic Income Basis						
Compensation and benefits	$ 46,646	$ 2,146	$ 48,792	$ 40,801	$ 1,917	$ 42,718
Non-compensation expenses	64,044	811	64,855	46,800	926	47,726
Total Economic Income Expenses	**$ 110,690**	**$ 2,957**	**$ 113,647**	**$ 87,601**	**$ 2,843**	**$ 90,444**

Economic Income expenses for the year-to-date period increased by $23.2 million due to the following:

A $17.1 million increase in non-compensation expenses driven by a $14.6 million increase in professional services fees related to business operations, infrastructure, and expenses associated with regulation and compliance. The ratio of non-compensation expenses to management fees was 25% for the first half of 2013, compared to 20% for the first half of 2012. The increase was due primarily to non-compensation expenses growing at a faster rate than management fees.

A $6.1 million increase in compensation and benefits driven by an increase in salaries and benefits due in part to an increase in our worldwide headcount as discussed above in Results of Operations. The ratio of salaries and benefits to management fees was 17% in the first half of 2013, compared to 16% in the first half of 2012. The increase was due to salaries and benefits increasing at a faster rate than management fees.

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Other Economic Income Items (Non-GAAP)

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Economic Income Basis						
Net gains (losses) on joint ventures	$ 305	$	$ 305	$ (383)	$	$ (383)
Net income (loss) allocated to noncontrolling interests	$ (1)	$ 361	$ 360	$	$ 319	$ 319

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Economic Income Basis						
Net gains (losses) on joint ventures	$ 540	$	$ 540	$ (221)	$ (111)	$ (332)
Net income (loss) allocated to noncontrolling interests	$ (8)	$ 789	$ 781	$	$ 675	$ 675

Net gains (losses) on joint ventures represent the gains (losses) on joint ventures established to expand certain of our private investments platforms. Net income (loss) allocated to noncontrolling interests represents the amount of income (loss) that was reduced from Economic Income and allocated to residual interests in certain businesses not owned by us.

Economic Income (Non-GAAP)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(dollars in thousands)			
Economic Income:				
Och-Ziff Funds segment	$ 97,691	$ 93,248	$ 270,926	$ 168,649
Other Operations	821	727	1,801	1,220
Total Company	**$ 98,512**	**$ 93,975**	**$ 272,727**	**$ 169,869**

Economic Income increased $4.5 million for the quarter-to-date period and $102.9 million for the year-to-date period primarily due to higher incentive income and management fees, partially offset by increases in non-compensation expenses and compensation and benefits.

Liquidity and Capital Resources

The working capital needs of our business have historically been met, and we anticipate will 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 finance our ongoing operations, but we have outstanding indebtedness that was incurred in connection with the refinancing of indebtedness entered into in connection with the Reorganization:

Over the next 12 months, we expect that our primary liquidity needs 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.

Repay borrowings and interest thereon.

Provide capital to facilitate the growth of our business.

Pay income taxes and amounts to our executive managing directors and the Ziffs with respect to the tax receivable agreement as discussed below under Tax Receivable Agreement.

Make cash distributions in accordance with our distribution policy as discussed below under Dividends and 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. 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 are heavily 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 cash 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 cash operating expense to our total annual revenues helps us manage our cash flow and liquidity position from year to year.

Beginning in 2013, the Eligible Pre-IPO Partners may be eligible to receive discretionary annual Performance Cash Awards each year for a five-year period, if we earn incentive income in the relevant year. The maximum aggregate amount of Performance Cash Awards that may be awarded to all of the Eligible Pre-IPO Partners, collectively, for each year will be capped at 10% of our incentive income earned during that year, up to a maximum of $39.6 million. Whether any Performance Cash Award is awarded to any Eligible Pre-IPO Partner in a particular year, and the amount of this award, will be determined by the Compensation Committee of the Board in its sole discretion, based on recommendations from Mr. Och for that 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 other working capital needs for at least the next 12 months. As we have done historically, we will determine the amount of discretionary cash bonuses, including discretionary annual Performance Cash Awards under the PIP described above, during the fourth quarter of each year, based on our total annual revenues. We intend to fund this amount through fourth quarter management fees and incentive income crystallized on December 31, which represents the majority of the incentive income we typically earn each year. 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.

We may use cash on hand to repay borrowings under the Delayed Draw Term Loan in part prior to the maturity date, which would reduce amounts available to distribute to our Class A Shareholders. For any amounts unpaid as of the maturity date, we will be required to repay the remaining balance by using cash on hand, refinancing the remaining balance by entering into new credit facilities, which could result in higher borrowing costs, or by raising 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 credit facilities or issue equity or other securities in the future on attractive terms or at all. Any new credit 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. See Debt Obligations for more information regarding our Delayed Draw Term Loan.

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.

Develop new distribution channels.

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

In June 2012, we refinanced the indebtedness outstanding under our 2007 Term Loan, as well as the indebtedness outstanding under our aircraft loan. A $384.5 million borrowing under the Delayed Draw Term Loan was used to fund these refinancings, with the balance being used for general corporate purposes. A $6.5 million borrowing under the facility was made in November 2011 to fund a portion of the 2007 Term Loan repurchased and retired in connection with the 2011 Offering. As of June 30, 2013, the total indebtedness outstanding under the Delayed Draw Term Loan was $386.1 million.

Borrowings under the Delayed Draw Term Loan are payable in quarterly installments equal to 0.25% of the amount outstanding on the last day of each quarter, and the balance will be payable upon maturity on November 23, 2016. Any amounts borrowed under the facility and subsequently repaid may not be re-borrowed. Amounts borrowed bear interest at a rate of LIBOR plus 1.50%, or a base rate plus 0.50%, and are secured by a first priority lien on substantially all assets of the Och-Ziff Operating Group.

The Delayed Draw Term Loan includes two financial maintenance covenants. The first prohibits total assets under management as of the last day of any fiscal quarter to be less than $17.5 billion for two successive quarters, and the second prohibits the economic income leverage ratio (as defined in the Delayed Draw Term Loan) as of the last day of any fiscal quarter from exceeding 4.0 to 1.0. The Delayed Draw Term Loan allows a limited right to cure an event of default resulting from noncompliance with the economic income leverage ratio test with an equity contribution made to the borrower, OZ Management. Such cure right may not be used more than two times in any four-quarter period or more than three times during the term of the facility. As of June 30, 2013, we were in compliance with these covenants.

The Delayed Draw Term Loan includes provisions that restrict or limit the ability of the Och-Ziff Operating Group from:

- Incurring additional indebtedness or issuing certain equity interests.
- Creating liens.
- Paying dividends in excess of free cash flow (as defined below) or making certain other payments.
- Merging, consolidating, selling or otherwise disposing of all or part of its assets.
- Engaging in certain transactions with shareholders or affiliates.
- Engaging in a substantially different line of business.
- Amending its organizational documents in a manner materially adverse to the lenders.

The Delayed Draw Term Loan permits the Och-Ziff Operating Group 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, it is in compliance with an economic income leverage ratio of 4.0 to 1.0 and no default or event of default has occurred and is continuing. As of June 30, 2013, the Och-Ziff Operating Group had not incurred any unsecured indebtedness. We will not be permitted to make distributions from the Och-Ziff Operating Group if we are in default under the Delayed Draw Term Loan.

The Delayed Draw Term Loan also limits the amount of distributions the Och-Ziff Operating Group can pay in a 12-month period to its free cash flow. Free cash flow for any period includes the combined net income or loss of the Och-Ziff Operating Group, 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, plus (or minus) realized gains (or losses) on investments and dividends and interest from investments. As of June 30, 2013, distributions from the Och-Ziff Operating Group were in compliance with the free cash flow covenant.

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 executive managing directors and the Ziffs. The purchase by the Och-Ziff Operating Group of Och-Ziff Operating Group A Units from our executive managing directors and the Ziffs with proceeds from the 2007 Offerings, and subsequent taxable exchanges by them 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 corporate taxpaying entities that hold 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 executive managing directors 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 executive managing directors since the 2007 Offerings, the right to receive payments under the tax receivable agreement by those former executive managing directors was contributed to the Och-Ziff Operating Group. As a result, we expect to pay to our remaining executive managing directors and the Ziffs approximately 77% (from 85% at the time of the 2007 Offerings) of the amount of 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, 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 June 30, 2013, 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 executive managing directors and the Ziffs approximately $749.2 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 executive managing directors and the Ziffs with proceeds from the 2007 Offerings and the exchange of Och-Ziff Operating Group A Units for Class A Shares. Future cash savings and related payments to our executive managing directors 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 Och-Ziff Corp, and any other corporate taxpaying entities that hold Och-Ziff Operating Group B Units, 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 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 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 the following:

- 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.

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The tax rates in effect at the time any potential tax savings are realized, which would affect the amount of any future payments under the tax receivable agreement.

Depending upon the outcome of these factors, payments that we may be obligated to make to our executive managing directors 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.

Dividends and Distributions

The following table presents the cash dividends declared on our Class A Shares in 2013 and the related cash distributions to our executive managing directors and the Ziffs with respect to their direct ownership interests in the Och-Ziff Operating Group:

	Class A Shares		
Payment Date	**Record Date**	**Dividend per Share**	**Related Distributions to Executive Managing Directors and the Ziffs (dollars in thousands)**
August 19, 2013	August 12, 2013	$ 0.14	$ 57,281
May 20, 2013	May 13, 2013	$ 0.28	$ 111,380
February 26, 2013	February 19, 2013	$ 0.75	$ 287,270

We intend to distribute to our Class A Shareholders substantially all of their pro rata share of our 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 other obligations.

When we pay dividends on our Class A Shares, we also intend to make distributions to our executive managing directors and the Ziffs on their interests in the Och-Ziff Operating Group, subject to the terms of the limited partnership agreements of the Och-Ziff Operating Group entities.

The declaration and payment of future distributions will be at the sole discretion of our Board of Directors, which may change our distribution policy or reduce or eliminate our distributions at any time in its discretion. Our Board of Directors will take into account such factors as it may deem relevant, including general economic and business conditions; our strategic plans and prospects; our business and investment opportunities; our financial condition and operating results; working capital requirements and anticipated cash needs; contractual restrictions and obligations, including payment obligations pursuant to the tax receivable agreement and restrictions pursuant to our term loan; legal, tax and regulatory restrictions; and other restrictions and limitations on the payment of distributions by us to our Class A Shareholders or by our subsidiaries to us, and such other factors as our Board of Directors may deem relevant.

The declaration and payment of any distribution may be subject to legal, contractual or other restrictions. For example, as a Delaware limited liability company, Och-Ziff Capital Management Group LLC is not permitted to make distributions if and to the extent that after giving effect to such distributions, its liabilities would exceed the fair value of its assets. We are also not permitted to make distributions if we are in default under our term loan. Our term loan also limits the amount of distributions we can pay to our free cash flow, as discussed above. Our cash needs and payment obligations may fluctuate significantly from quarter to quarter, and we may have material unexpected expenses in any period. This may cause amounts available for distribution to significantly fluctuate from quarter to quarter or may reduce or eliminate such amounts.

Additionally, RSUs outstanding 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 related to vested RSUs and dividend equivalents held by our employees, which results in the use of cash from operations or borrowings to satisfy these tax-withholding payments.

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, our executive managing directors 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 intermediate holding companies, our executive managing directors 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 2007 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 2007 Offerings.

Our cash distribution policy has certain risks and limitations, particularly with respect to our liquidity. Although we expect to pay distributions according to our policy, we may not make distributions according to our policy, or at all, if, among other things, we do not have the cash necessary to pay the distribution. Moreover, if the Och-Ziff Operating Group s cash flows from operations are insufficient to enable it to make required minimum tax distributions discussed above, the Och-Ziff Operating Group may have to borrow funds or sell assets, and thus our liquidity and financial condition could be materially adversely affected. Furthermore, by paying cash distributions rather than investing that cash in our businesses, we might risk slowing the pace of our growth, or not having a sufficient amount of cash to fund our obligations, operations, new investments or unanticipated capital expenditures, should the need arise. In such event, we may not be able to execute our business and growth strategy to the extent intended.

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 and Fund Performance, capital contributions from investors in our funds generally are subject to initial lock-up periods of one to three years. Following the expiration of these lock-up periods, subject to certain limitations, investors may redeem capital generally on a quarterly or annual basis upon giving 30 to 90 days prior written notice. These lock-ups and redemption notice periods help us to manage our liquidity position. However, upon the payment of a redemption fee to the applicable fund and upon giving 30 days prior written notice, certain investors may redeem capital during the lock-up period.

We also follow a rigorous 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.

Cash Flows Analysis

Operating Activities. Net cash from operating activities was $657.0 million and $(30.3) million for the six months ended June 30, 2013 and 2012, respectively. Our net cash flows from operating activities are generally comprised of current-year management fees, the collection of incentive income earned during the fourth quarter of the previous year, less cash operating expenses. Additionally, net cash from operating activities also includes the investment activities of the funds we consolidate, as these entities are investment companies for GAAP purposes, and therefore their investment-related cash flows are classified within operating activities. These investment-related cash flows are of the consolidated funds and do not directly impact the cash flows related to our Class A Shareholders.

The increase in net cash provided by operating activities was primarily due to the increase in incentive income in 2012 compared to 2011, partially offset by higher discretionary cash bonuses related to 2012 compared to 2011. Incentive income is collected and the related cash bonus payments are paid out during the first quarter of the following year. Also contributing to the increase were lower cash outflows related to the investment activities of the consolidated funds.

Investing Activities. There were no significant changes in the net cash used in investing activities, as investment-related cash flows of the consolidated Och-Ziff funds are classified within operating activities.

Financing Activities. Net cash from financing activities was $(577.2) million and $53.9 million for the six months ended June 30, 2013 and 2012, respectively. Our net cash from financing activities are generally comprised of dividends paid to our Class A Shareholders, borrowings and repayments related to our debt obligations, and withholding taxes on vested RSUs. Contributions from noncontrolling interests, substantially all of which relate to fund investor contributions into the consolidated funds, and distributions to noncontrolling interests, which relate to fund investor redemptions and distributions to our executive managing directors and the Ziffs on their Och-Ziff Operating Group A Units, are also included in net cash from financing activities.

We paid dividends to our Class A Shareholders of $152.9 million and $19.6 million and paid distributions to our executive managing directors and the Ziffs on their Och-Ziff Operating Group A Units of $388.6 million and $56.5 million for the six months ended June 30, 2013 and 2012, respectively.

Additionally, during the second quarter of 2012 we repaid the outstanding obligations under our 2007 Term Loan and our aircraft loan through a $384.5 million borrowing under our Delayed Draw Term Loan. See Debt Obligations for additional information.

The decrease in net cash provided by financing activities was primarily due to increases in distributions on the Och-Ziff Operating Group A Units and dividends to Class A Shareholders. These increases were driven by the higher incentive income in 2012 compared to 2011, partially offset by higher discretionary cash bonuses related to 2012 compared to 2011, as discussed above in Operating Activities. Also contributing to the decrease were higher cash outflows to investors in the consolidated funds.

Contractual Obligations

During the second quarter of 2013, we extended the operating lease for our headquarters in New York through 2029. The table below presents total future minimum lease payments for all of our operating leases, including this lease extension. There have been no significant changes to our other contractual obligations reported in our Annual Report.

	Remainder of 2013	2014 - 2015	2016 - 2017	2018 - Thereafter	Total
Operating leases	$ 9,958	$ 41,387	$ 46,390	$ 217,865	$ 315,600

Off-Balance Sheet Arrangements

As of June 30, 2013, 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. Set forth below 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. Pursuant to specialized accounting for investment companies under GAAP, investments held by the Och-Ziff funds are carried at their estimated fair values. The valuation of investments held by our funds has a significant impact on our results, as our management fees and incentive income are generally determined based on the fair value of these investments.

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 assets and liabilities 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. The types of assets and liabilities that would generally be included in this category are certain listed equities, sovereign debt of developed nations 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 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. The types of assets and liabilities that would generally be included in this category include certain corporate bonds, certain credit default swap contracts, certain bank debt securities, certain commercial real estate debt, 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 these 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. 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. The types of assets and liabilities that would generally be included in this category include real estate investments, equity and debt securities issued by private entities, limited partnerships, certain corporate bonds, certain credit default swap contracts, certain bank debt securities, certain commercial real estate debt, certain OTC derivatives, residential and commercial mortgage-backed securities, asset-backed securities and collateralized debt obligations.

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 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 June 30, 2013, the absolute values of our funds invested assets and liabilities were classified within the fair value hierarchy as follows: approximately 53% within Level I; approximately 12% within Level II; and approximately 35% within Level III. As of December 31, 2012, the absolute values of our funds invested assets and liabilities were classified within the fair value hierarchy as follows: approximately 48% within Level I; approximately 15% within Level II; and approximately 37% within Level III. The percentage 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 Special Investments 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 the 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 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. 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.

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We have established an internal control infrastructure over the valuation of financial instruments that includes ongoing independent oversight by our Financial Controls Group and Valuation Committee, as well as periodic audits by our Internal Audit Group. These management control functions are segregated from the trading and investing functions.

The Valuation Committee is responsible for developing valuation policies to help ensure that all of the funds investments reflect fair values, as well as providing oversight of the valuation process. These valuation policies and procedures include, but are not limited to the following: determining the pricing sources used to value specific investment classes; the selection of independent pricing services; the periodic review of due diligence materials of independent pricing services; and the fair value hierarchy coding of the funds investments. The Valuation Committee reviews a variety of reports on a monthly basis, which include, but are not limited to the following: summaries of the sources used to determine the value the funds investments; summaries of the fair value hierarchy of the funds investments; and variance reports that compare the values of investments to independent pricing services. The Valuation Committee is comprised of non-investment professionals, and may obtain input from investment professionals for consideration in carrying out their responsibilities.

The Financial Controls Group is responsible for ensuring compliance with the valuation policies and preparing the monthly valuation reports reviewed by the Valuation Committee. The Financial Controls Group s other responsibilities include, but are not limited to the following: preparation and distribution of daily profit and loss reports; overseeing the collection and evaluation of counterparty prices, broker-dealer quotations, exchange prices and third party pricing feeds; performing back testing by comparing prices observed in executed transactions to previous day valuations and/or pricing service providers on a weekly and monthly basis; preparing due diligence report reviews on independent pricing services on an annual basis; and assisting the Valuation Committee in developing valuation policies.

The Internal Audit Group 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, the Internal Audit Group meets with management periodically to evaluate and provide guidance on the existing risk framework and control environment assessments.

Monthly procedures have been established for Level III investments to compare unobservable inputs to observable inputs for similar positions, review subsequent market activities, perform comparisons of actual versus projected cash flows, and discuss the valuation methodology, including pricing techniques when applicable, with investment professionals. Independent pricing services may be used to corroborate our internal valuations. Investment professionals and members of the Financial Controls Group review a daily profit and loss report, as well as other periodic reports that analyze the profit and loss and related asset class exposure of the funds investments.

As of June 30, 2013, the only assets and liabilities carried at fair value in our consolidated balance sheet were the investment holdings of the consolidated Och-Ziff funds. The majority of the investments held by the consolidated Och-Ziff funds are valued using sources other than observable market data, which are considered to be within Level III of the fair value hierarchy. However, substantially all of these fair value changes are absorbed by the investors of these funds (noncontrolling interests).

The following table presents our net economic exposure to these Level III investments:

	June 30, 2013 (dollars in thousands)
Level III assets and liabilities (net) of consolidated Och-Ziff funds	$ 1,903,639
Less: Level III assets and liabilities (net) for which we do not bear economic exposure	(1,899,392)
Net Economic Exposure to Level III Assets and Liabilities (net)	**$ 4,247**

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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:

	Hedge Funds	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, and assuming no high-water marks in effect.	None, as incentive income is recognized based on realized profits and when no longer subject to clawback.

For additional information regarding the impact that the fair value measurement of assets under management has on our results, please see Part I Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Variable Interest Entities

The determination of whether or not to consolidate a variable interest entity under 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 organizational 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 a variable interest entity s primary beneficiary who would consolidate 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. 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 executive managing directors and the Ziffs with proceeds from the 2007 Offerings, subsequent exchanges of Och-Ziff Operating Group A Units for Class A Shares and subsequent payments to our executive managing directors 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 2007 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.

Och-Ziff Corp generated taxable income of $78.2 million in the first half of 2013 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 $2.1 billion over the remaining 10-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 annual net losses on a GAAP basis through 2012, we generated income before the amortization of goodwill and other intangible assets on a tax basis over these prior periods. 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.

To generate $2.1 billion in taxable income over the remaining amortization and loss carryforward periods available to us, we estimated that, based on assets under management of $36.1 billion as of July 1, 2013, 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 executive managing directors and the Ziffs under the tax receivable agreement equal to approximately 77% of such amount; therefore, our net income (loss) allocated to Class A Shareholders would only be impacted by 23% 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 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.

As of June 30, 2013, we had $117.4 million of net operating losses available to offset future taxable income for federal income tax purposes that will expire between 2029 and 2032, and $162.5 million of net operating losses available to offset future taxable income for state income tax purposes and $152.6 million for local income tax purposes that will expire between 2028 and 2032. Based on the analysis set forth above, as of June 30, 2013, 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. However, we have determined that we may not realize certain deferred state income tax credits. Accordingly, a valuation allowance for $9.3 million has been established for these credits.

Impact of Recently Adopted Accounting Pronouncements on Recent and Future Trends

None of the changes to GAAP that went into effect during the first half of 2013 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 GAAP that are not yet effective are expected to have an impact on our future trends.

Economic Income Reconciliations

The following tables present the reconciliations of Economic Income to our GAAP net income (loss) allocated to Class A Shareholders for the periods presented in this MD&A:

	Three Months Ended June 30, 2013		
	Och-Ziff Funds Segment	Other Operations	Total Company
		(dollars in thousands)	
Net income allocated to Class A Shareholders GAAP	$ 4,125	$ 772	$ 4,897
Equity-based compensation	40,319		40,319
Net income allocated to the Och-Ziff Operating Group A Units	31,191		31,191
Income taxes	12,625		12,625
Reorganization expenses	4,021		4,021
Adjustment for expenses related to compensation arrangements based on fund investment performance	2,276		2,276
Depreciation and amortization	1,816	186	2,002

Allocations to Och-Ziff Operating Group D Units	1,390		1,390
Other adjustments	(72)	(137)	(209)
Economic Income Non-GAAP	**$ 97,691**	**$ 821**	**$ 98,512**

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	Three Months Ended June 30, 2012		
	Och-Ziff Funds Segment	Other Operations (dollars in thousands)	Total Company
Net income (loss) allocated to Class A Shareholders GAAP	$ (116,870)	$ 628	$ (116,242)
Reorganization expenses	398,416		398,416
Net loss allocated to the Och-Ziff Operating Group A Units	(222,241)		(222,241)
Equity-based compensation	16,248	19	16,267
Income taxes	12,483	8	12,491
Depreciation and amortization	2,135	186	2,321
Adjustment for expenses related to compensation arrangements based on fund investment performance	1,685		1,685
Allocations to Och-Ziff Operating Group D Units	1,368		1,368
Other adjustments	24	(114)	(90)
Economic Income Non-GAAP	**$ 93,248**	**$ 727**	**$ 93,975**

	Six Months Ended June 30, 2013		
	Och-Ziff Funds Segment	Other Operations (dollars in thousands)	Total Company
Net income allocated to Class A Shareholders GAAP	$ 28,872	$ 2,094	$ 30,966
Net income allocated to the Och-Ziff Operating Group A Units	123,273		123,273
Equity-based compensation	63,037		63,037
Income taxes	35,017		35,017
Reorganization expenses	8,042		8,042
Allocations to Och-Ziff Operating Group D Units	5,590		5,590
Depreciation and amortization	3,951	371	4,322
Adjustment for expenses related to compensation arrangements based on fund investment performance	3,279		3,279
Other adjustments	(135)	(664)	(799)
Economic Income Non-GAAP	**$ 270,926**	**$ 1,801**	**$ 272,727**

	Six Months Ended June 30, 2012		
	Och-Ziff Funds Segment	Other Operations (dollars in thousands)	Total Company
Net income (loss) allocated to Class A Shareholders GAAP	$ (240,066)	$ 1,080	$ (238,986)
Reorganization expenses	796,832		796,832
Net loss allocated to the Och-Ziff Operating Group A Units	(458,649)		(458,649)
Equity-based compensation	34,036	39	34,075
Income taxes	26,887	8	26,895
Depreciation and amortization	4,306	373	4,679
Adjustment for expenses related to compensation arrangements based on fund investment performance	2,965		2,965
Allocations to Och-Ziff Operating Group D Units	2,432		2,432
Other adjustments	(94)	(280)	(374)
Economic Income Non-GAAP	**$ 168,649**	**$ 1,220**	**$ 169,869**

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Economic Income Revenues

The following tables present the reconciliations of Economic Income revenues and its components to the respective GAAP measure for the periods presented in this MD&A:

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Management fees GAAP	$ 136,836	$ 2,663	$ 139,499	$ 125,133	$ 2,359	$ 127,492
Adjustment to management fees(1)	(4,638)		(4,638)	(4,271)		(4,271)
Management Fees Economic Income Basis Non-GAAP	**132,198**	**2,663**	**134,861**	**120,862**	**2,359**	**123,221**
Incentive income GAAP	22,905		22,905	18,414		18,414
Adjustment to incentive income(2)						
Incentive Income Economic Income Basis Non-GAAP	**22,905**		**22,905**	**18,414**		**18,414**
Other revenues(3)	219	3	222	217	3	220
Total Revenues Economic Income Basis Non-GAAP	**$ 155,322**	**$ 2,666**	**$ 157,988**	**$ 139,493**	**$ 2,362**	**$ 141,855**

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Management fees GAAP	$ 264,369	$ 5,540	$ 269,909	$ 244,828	$ 4,746	$ 249,574
Adjustment to management fees(1)	(8,656)		(8,656)	(8,473)		(8,473)
Management Fees Economic Income Basis Non-GAAP	**255,713**	**5,540**	**261,253**	**236,355**	**4,746**	**241,101**
Incentive income GAAP	123,065		123,065	19,635		19,635
Adjustment to incentive income(2)	1,114		1,114			
Incentive Income Economic Income Basis Non-GAAP	**124,179**		**124,179**	**19,635**		**19,635**
Other revenues(3)	1,176	7	1,183	481	103	584
Total Revenues Economic Income Basis Non-GAAP	**$ 381,068**	**$ 5,547**	**$ 386,615**	**$ 256,471**	**$ 4,849**	**$ 261,320**

(1) Adjustment to present management fees net of recurring placement and related service fees, as management considers these fees a reduction in management fees, not an expense. The impact of eliminations related to the consolidated Och-Ziff funds is also removed.
(2) Adjustment to exclude the impact of eliminations related to the consolidated Och-Ziff funds.
(3) These items are presented on a GAAP basis. Accordingly, no adjustments to or reconciliations of these items are presented.

Economic Income Expenses

The following tables present the reconciliations of Economic Income expenses and its components to the respective GAAP measure for the periods presented in this MD&A:

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Compensation and benefits GAAP	$ 68,199	$ 1,084	$ 69,283	$ 40,361	$ 960	$ 41,321
Adjustment to compensation and benefits(1)	(43,986)		(43,986)	(19,303)	(19)	(19,322)
Compensation and Benefits Economic Income Basis Non-GAAP	**$ 24,213**	**$ 1,084**	**$ 25,297**	**$ 21,058**	**$ 941**	**$ 21,999**
Interest expense and general, administrative and other expenses GAAP	$ 42,864	$ 585	$ 43,449	$ 32,903	$ 561	$ 33,464
Adjustment to interest expense and general, administrative and other expenses(2)	(9,140)	(185)	(9,325)	(8,099)	(186)	(8,285)
Non-Compensation Expenses Economic Income Basis Non-GAAP	**$ 33,724**	**$ 400**	**$ 34,124**	**$ 24,804**	**$ 375**	**$ 25,179**

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Compensation and benefits GAAP	$ 118,552	$ 2,146	$ 120,698	$ 80,235	$ 1,956	$ 82,191
Adjustment to compensation and benefits(1)	(71,906)		(71,906)	(39,434)	(39)	(39,473)
Compensation and Benefits Economic Income Basis Non-GAAP	**$ 46,646**	**$ 2,146**	**$ 48,792**	**$ 40,801**	**$ 1,917**	**$ 42,718**
Interest expense and general, administrative and other expenses GAAP	$ 81,880	$ 1,181	$ 83,061	$ 62,356	$ 1,299	$ 63,655
Adjustment to interest expense and general, administrative and other expenses(2)	(17,836)	(370)	(18,206)	(15,556)	(373)	(15,929)
Non-Compensation Expenses Economic Income Basis Non-GAAP	**$ 64,044**	**$ 811**	**$ 64,855**	**$ 46,800**	**$ 926**	**$ 47,726**

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(1) Adjustment to exclude equity-based compensation, as management does not consider these non-cash expenses to be reflective of our operating performance. Further, expenses related to compensation arrangements based on fund investment performance are recognized at the end of the relevant performance measurement period (generally in the fourth quarter of each year), as management determines the total amount of compensation under these arrangements once the investment performance of the relevant fund over the applicable performance period is known. Allocations to the Och-Ziff Operating Group D Units are also excluded, as 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.

(2) Adjustment to exclude depreciation, amortization and changes in the tax receivable agreement liability, as management does not consider these items to be reflective of our operating performance. Additionally, recurring placement and related service fees are excluded, as management considers these fees a reduction in management fees, not an expense.

Other Economic Income Items

The following tables present the reconciliations of other items included in Economic Income to the respective GAAP measure for the periods presented in this MD&A:

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Och-Ziff Funds Segment	**Other Operations**	**Total Company**	**Och-Ziff Funds Segment**	**Other Operations**	**Total Company**
			(dollars in thousands)			
Net gains (losses) on investments in Och-Ziff funds and joint ventures GAAP	$ 417	$	$ 417	$ (382)	$	$ (382)
Adjustment to net gains (losses) on investments in Och-Ziff funds and joint ventures[1]	(112)		(112)	(1)		(1)
Net Gains (Losses) on Joint Ventures GAAP[2]	**$ 305**	**$**	**$ 305**	**$ (383)**	**$**	**$ (383)**
Net income (loss) allocated to noncontrolling interests GAAP	$ 48,787	$ 39,493	$ 88,280	$ (209,068)	$ 16,528	$ (192,540)
Adjustment to net income (loss) allocated to noncontrolling interests[3]	(48,788)	(39,132)	(87,920)	209,068	(16,209)	192,859
Net Income (Loss) Allocated to Noncontrolling Interests Economic Income Basis Non-GAAP	**$ (1)**	**$ 361**	**$ 360**	**$**	**$ 319**	**$ 319**

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	Och-Ziff Funds Segment	**Other Operations**	**Total Company**	**Och-Ziff Funds Segment**	**Other Operations**	**Total Company**
			(dollars in thousands)			
Net gains (losses) on investments in Och-Ziff funds and joint ventures GAAP	$ 722	$	$ 722	$ (177)	$ (111)	$ (288)
Adjustment to net gains (losses) on investments in Och-Ziff funds and joint ventures[1]	(182)		(182)	(44)		(44)
Net Gains (Losses) on Joint Ventures GAAP[2]	**$ 540**	**$**	**$ 540**	**$ (221)**	**$ (111)**	**$ (332)**
Net income (loss) allocated to noncontrolling interests GAAP	$ 184,674	$ 109,325	$ 293,999	$ (423,959)	$ 70,228	$ (353,731)
Adjustment to net income (loss) allocated to noncontrolling interests[3]	(184,682)	(108,536)	(293,218)	423,959	(69,553)	354,406
Net Income (Loss) Allocated to Noncontrolling Interests Economic Income Basis Non-GAAP	**$ (8)**	**$ 789**	**$ 781**	**$**	**$ 675**	**$ 675**

(1) Adjustment to exclude net gains (losses) on investments in Och-Ziff funds, as management does not consider these gains (losses) to be reflective of our operating performance.

(2) Represents the net gains (losses) on joint ventures established to expand certain of our private investments platforms.

(3) Adjustment to exclude amounts allocated to our executive managing directors and the Ziffs on their interests in the Och-Ziff Operating Group, as management reviews operating performance at the Och-Ziff Operating Group level. We conduct substantially all of our activities through the Och-Ziff Operating Group. Additionally, the impact of the consolidated Och-Ziff funds, including the allocation of earnings (losses) to investors in those funds, is also removed.

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 investments, foreign currency exchange rates, commodity prices and interest rates. The fair value changes in the assets and liabilities of the Och-Ziff funds affect the management fees and incentive income we may earn from the funds.

With regards to the consolidated Och-Ziff funds, the net effect of these fair value changes primarily impacts the net gains (losses) of consolidated Och-Ziff funds in our consolidated statements of comprehensive income (loss); however, substantially all of these fair value changes are absorbed by the investors of these funds (noncontrolling interests).

Impact on Management Fees

Management fees for our hedge funds are generally based on the net asset value of those funds. Accordingly, management fees will generally change in proportion to changes in the fair value of investments held by our funds. Management fees for our real estate funds and certain other funds are generally based on committed capital during the original investment period and invested capital thereafter; therefore, management fees are not impacted by changes in the fair value of investments held by those 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 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 hedge funds and committed or invested capital for our real estate and certain other funds. A 10% change in the fair value of the net assets held by our funds as of June 30, 2013, and December 31, 2012, would have resulted in a change of approximately $3.3 billion and $2.9 billion, respectively, in our assets under management.

A 10% change in the fair value of the net assets held by our funds as of July 1, 2013 (the date management fees are calculated for the third quarter of 2013) would impact management fees charged on that day by approximately $12.5 million. A 10% change in the fair value of the net assets held by our funds as of January 1, 2013, would have impacted management fees charged on that day by approximately $11.3 million.

A 10% change in the fair value of the net assets held by our funds as of the end of any year (excluding unrealized gains and losses in Special Investments or other investments on which we do not earn any incentive income until such investments are sold or otherwise realized), 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 attributable to Special Investments and certain other 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 June 30, 2013, and December 31, 2012, 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 income (loss) allocated to Class A Shareholders or Economic Income.

Interest Rate Risk

Our Delayed Draw Term Loan bears interest at rates indexed to LIBOR. We estimate that as of June 30, 2013, and December 31, 2012, a 10% increase or decrease in LIBOR would not have a material effect on our annual interest expense, net income (loss) allocated to Class A Shareholders or Economic Income.

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 June 30, 2013, and December 31, 2012, based on our funds debt investments and obligations as of such date, we estimate that the net effect on our revenues, net income (loss) allocated to Class A Shareholders or Economic Income would not have been material. A tightening of credit and an increase in prevailing interest rates could make it more difficult for us to raise capital and sustain the growth rate of the funds.

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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 recognized that any controls and procedures, no matter how well designed 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.

As of June 30, 2013, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our 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 a 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 second quarter of 2013 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.

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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 consolidated financial statements. We are from time to time involved in litigation and claims incidental to the conduct of our business. Like other businesses in our industry, we are subject to extensive scrutiny by regulatory agencies globally that have, or may in the future have, regulatory authority over us and our business activities. This has resulted in, or may in the future result in, regulatory agency investigations, litigation and subpoenas and related costs. 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.

Item 1A. Risk Factors

None.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
10.1	The Och-Ziff Capital Management Group LLC 2013 Incentive Plan, incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 8, 2013.
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.
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.

* Filed herewith
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: August 2, 2013

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

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