

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

Och-Ziff Capital Management Group LLC  
Form 10-Q  
November 04, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2014

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  
(State of Incorporation)

26-0354783  
(I.R.S. Employer Identification Number)

9 West 57th Street, New York, New York 10019  
(Address of Principal Executive Offices)  
Registrant's telephone number: (212) 790-0041

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

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

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

Large accelerated filer  Accelerated filer

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

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of October 31, 2014, there were 172,199,039 Class A Shares and 301,884,116 Class B Shares outstanding.

---

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
TABLE OF CONTENTS

	Page
PART I — FINANCIAL INFORMATION	
Item 1. <u>Financial Statements (Unaudited)</u>	<u>3</u>
<u>Consolidated Balance Sheets as of September 30, 2014, and December 31, 2013</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013</u>	<u>4</u>
<u>Consolidated Statement of Changes in Shareholders' Equity for the Nine Months Ended September 30, 2014</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>36</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>69</u>
Item 4. <u>Controls and Procedures</u>	<u>71</u>
PART II — OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>72</u>
Item 1A. <u>Risk Factors</u>	<u>72</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>72</u>
Item 3. <u>Defaults upon Senior Securities</u>	<u>72</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>72</u>
Item 5. <u>Other Information</u>	<u>72</u>
Item 6. <u>Exhibits</u>	<u>73</u>
<u>Signatures</u>	<u>74</u>

In this quarterly report, references to “Och-Ziff,” “our Company,” “the Company,” “the firm,” “we,” “us,” or “our” refer, unless context requires otherwise, to Och-Ziff Capital Management Group LLC, a Delaware limited liability company, and its consolidated subsidiaries, including the Och-Ziff Operating Group. References to the “Och-Ziff Operating Group” refer, collectively, to OZ Management LP, a Delaware limited partnership, which we refer to as “OZ Management,” OZ Advisors LP, a Delaware limited partnership, which we refer to as “OZ Advisors 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 our intermediate holding companies, including our founder, Mr. Daniel S. Och, and, except where the context requires otherwise, include certain limited partners who are no longer active in the business of the Company. References to our “active executive managing directors” refer to executive managing directors who remain active in our business. 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 “Reorganization” refer to the reorganization of our business prior to the 2007 Offerings. References to the “2011 Offering” refer to our public offering of 33.3 million Class A Shares in November 2011.

References to “our funds” or the “Och-Ziff funds” refer to the multi-strategy funds, credit funds, collateralized loan obligations (“CLOs”), real estate funds, equity 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 U.S. 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.

## 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,” “approximately,” “predict,” “intend,” “plan,” “estimate,” “an opportunity,” “comfortable,” “assume,” “remain,” “maintain,” “sustain,” “achieve,” “see,” “think,” “position” or the negative 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 active 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, 2013, filed on March 18, 2014, 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 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.

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
CONSOLIDATED BALANCE SHEETS – UNAUDITED

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
Assets		
Cash and cash equivalents	\$367,196	\$189,974
Income and fees receivable	32,749	942,589
Due from related parties	4,409	5,314
Deferred income tax assets	876,151	934,658
Other assets, net	167,222	85,550
Assets of consolidated Och-Ziff funds:		
Investments, at fair value	6,990,399	4,608,418
Other assets of Och-Ziff funds	140,393	102,771
Total Assets	\$8,578,519	\$6,869,274
Liabilities and Shareholders' Equity		
Liabilities		
Due to related parties	\$764,846	\$782,667
Debt obligations	431,962	384,177
Compensation payable	28,537	307,495
Other liabilities	93,020	60,933
Liabilities of consolidated Och-Ziff funds:		
Notes payable of consolidated CLOs, at fair value	4,784,510	2,763,977
Securities sold under agreements to repurchase	277,929	257,691
Other liabilities of Och-Ziff funds	31,437	20,727
Total Liabilities	6,412,241	4,577,667
Commitments and Contingencies (Note 14)		
Redeemable Noncontrolling Interests (Note 3)	435,774	76,583
Shareholders' Equity		
Class A Shares, no par value, 1,000,000,000 shares authorized, 171,995,396 and 169,641,610 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	—	—
Class B Shares, no par value, 750,000,000 shares authorized, 301,884,116 and 301,884,116 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	—	—
Paid-in capital	2,999,683	2,958,324
Appropriated retained earnings (deficit)	(34,527)	) 12,872
Accumulated deficit	(3,313,937)	) (3,104,917)
Shareholders' deficit attributable to Class A Shareholders	(348,781)	) (133,721)
Shareholders' equity attributable to noncontrolling interests	2,079,285	2,348,745
Total Shareholders' Equity	1,730,504	2,215,024

Total Liabilities, Redeemable Noncontrolling Interests and Shareholders' Equity	\$8,578,519	\$6,869,274
---	-------------	-------------

See notes to consolidated financial statements.

3

---

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated - See Note 17)	2014	2013 (Restated - See Note 17)
	(dollars in thousands)			
<b>Revenues</b>				
Management fees	\$ 171,906	\$ 140,666	\$ 494,707	\$ 406,829
Incentive income	28,011	72,338	91,022	195,403
Other revenues	284	203	931	1,386
Income of consolidated Och-Ziff funds	106,484	66,560	267,974	191,524
<b>Total Revenues</b>	<b>306,685</b>	<b>279,767</b>	<b>854,634</b>	<b>795,142</b>
<b>Expenses</b>				
Compensation and benefits	74,115	68,238	206,664	188,936
Reorganization expenses	4,023	4,022	12,065	12,064
Interest expense	1,688	1,827	5,047	5,292
General, administrative and other	23,160	36,396	102,303	115,991
Expenses of consolidated Och-Ziff funds	50,082	31,972	127,215	70,809
<b>Total Expenses</b>	<b>153,068</b>	<b>142,455</b>	<b>453,294</b>	<b>393,092</b>
<b>Other Income (Loss)</b>				
Net gains on investments in Och-Ziff funds and joint ventures	76	531	5,949	1,253
Net gains (losses) of consolidated Och-Ziff funds	(4,769)	) 43,081	115,498	186,094
<b>Total Other Income (Loss)</b>	<b>(4,693)</b>	<b>) 43,612</b>	<b>121,447</b>	<b>187,347</b>
<b>Income Before Income Taxes</b>	<b>148,924</b>	<b>180,924</b>	<b>522,787</b>	<b>589,397</b>
Income taxes	36,110	11,996	91,029	50,394
<b>Consolidated and Total Comprehensive Net Income</b>	<b>\$ 112,814</b>	<b>\$ 168,928</b>	<b>\$ 431,758</b>	<b>\$ 539,003</b>
<b>Allocation of Consolidated and Total Comprehensive Net Income</b>				
Class A Shareholders	\$ 23,202	\$ 28,852	\$ 57,770	\$ 62,705
Noncontrolling interests	83,235	137,643	343,896	471,156
Redeemable noncontrolling interests	6,377	2,433	30,092	5,142
	\$ 112,814	\$ 168,928	\$ 431,758	\$ 539,003
<b>Earnings Per Class A Share</b>				
Basic	\$ 0.13	\$ 0.18	\$ 0.33	\$ 0.41
Diluted	\$ 0.09	\$ 0.15	\$ 0.32	\$ 0.40
<b>Weighted-Average Class A Shares Outstanding</b>				
Basic	172,959,765	156,752,496	172,541,709	153,160,992
Diluted	481,078,788	475,281,312	479,936,636	156,667,500



Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

Dividends Paid per Class A Share	\$0.17	\$0.14	\$1.52	\$1.17
----------------------------------	--------	--------	--------	--------

See notes to consolidated financial statements.

4

---

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	Appropriated Retained Earnings (Deficit)	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, 2013	169,641,610	301,884,116	\$2,958,324	\$12,872	\$(3,104,917)	\$(133,721)	\$2,348,745	\$2,215,024
Capital contributions	—	—	—	—	—	—	156,420	156,420
Capital distributions	—	—	—	—	—	—	(842,003 )	(842,003 )
Cash dividends declared on Class A Shares	—	—	—	—	(258,696 )	(258,696 )	—	(258,696 )
Dividend equivalents on Class A restricted share units	—	—	8,094	—	(8,094 )	—	—	—
Equity-based compensation	1,008,314	—	28,086	—	—	28,086	47,708	75,794
Och-Ziff Operating Group A Unit exchanges (See Note 3)	1,345,472	—	1,205	—	—	1,205	—	1,205
Impact of changes in Och-Ziff Operating Group ownership (See Note 3)	—	—	(253 )	—	—	(253 )	253	—
Acquisition of noncontrolling interests	—	—	(141 )	—	—	(141 )	(251 )	(392 )
Initial consolidation of CLOs	—	—	—	(30,579 )	—	(30,579 )	—	(30,579 )
Allocation of losses of consolidated	—	—	—	(16,820 )	—	(16,820 )	16,820	—

CLOs								
Impact of amortization of Reorganization —	—	4,368	—	—	4,368	7,697	12,065	
charges on capital Total								
comprehensive net income, excluding amounts —	—	—	—	57,770	57,770	343,896	401,666	
allocated to redeemable noncontrolling interests								
As of September 30, 2014	171,995,396	301,884,116	\$2,999,683	\$(34,527)	\$(3,313,937)	\$(348,781)	\$2,079,285	\$1,730,504

See notes to consolidated financial statements.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED

	Nine Months Ended September 30,	
	2014	2013 (Restated - See Note 17)
	(dollars in thousands)	
<b>Cash Flows from Operating Activities</b>		
Consolidated net income	\$431,758	\$539,003
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Reorganization expenses	12,065	12,064
Amortization of equity-based compensation	84,597	99,426
Depreciation and amortization	5,238	6,344
Deferred income taxes	67,779	38,644
Operating cash flows due to changes in:		
Income and fees receivable	909,840	529,501
Due from related parties	905	368
Other assets, net	(24,357	) (12,136 )
Due to related parties	(24,646	) (1,048 )
Compensation payable	(278,958	) (194,818 )
Other liabilities	30,272	11,225
Consolidated Och-Ziff funds related items:		
Realized gains of consolidated Och-Ziff funds	(111,918	) (195,086 )
Change in unrealized gains of consolidated Och-Ziff funds	14,121	32,569
Change in unrealized losses of notes payables of consolidated CLOs	(17,701	) (23,578 )
Purchases of investments	(3,842,599	) (2,150,854 )
Proceeds from sale of investments	3,400,438	1,759,479
Other assets of consolidated Och-Ziff funds	133,664	324,652
Securities sold under agreements to repurchase	20,238	78,235
Other liabilities of consolidated Och-Ziff funds	5,058	18,830
Net Cash Provided by Operating Activities	815,794	872,820
<b>Cash Flows from Investing Activities</b>		
Deposit on corporate aircraft	(48,662	) —
Investment in Och-Ziff funds	(15,389	) (16,118 )
Return on investment in Och-Ziff funds	15,902	257
Purchases of fixed assets	(18,435	) (2,864 )
Other, net	4,036	610
Net Cash Used in Investing Activities	(62,548	) (18,115 )
<b>Cash Flows from Financing Activities</b>		
Contributions from noncontrolling and redeemable noncontrolling interests	485,519	382,627
Distributions to noncontrolling and redeemable noncontrolling interests	(842,003	) (933,575 )
Dividends on Class A Shares	(258,696	) (173,963 )
Borrowings under Aircraft Loan	48,662	—
Other, net	(9,506	) (9,038 )

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

Net Cash Used in Financing Activities	(576,024	) (733,949	)
Net Change in Cash and Cash Equivalents	177,222	120,756	
Cash and Cash Equivalents, Beginning of Period	189,974	162,485	
Cash and Cash Equivalents, End of Period	\$367,196	\$283,241	

6

---

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED – (Continued)

	Nine Months Ended September 30,	
	2014	2013 (Restated - See Note 17)
	(dollars in thousands)	
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period:		
Interest	\$5,067	\$5,089
Income taxes	\$18,400	\$12,331
Non-cash transactions:		
Assets related to the initial consolidation of CLOs	\$2,013,309	\$1,219,181
Liabilities related to the initial consolidation of CLOs	\$2,043,888	\$1,237,635

See notes to consolidated financial statements.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
SEPTEMBER 30, 2014

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, Mumbai, Beijing and Dubai. 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, credit, real estate and equity funds, collateralized loan obligations (“CLOs”) 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, credit and equity 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.

The Company conducts substantially all of its operations through OZ Management LP, OZ Advisors LP and OZ Advisors II LP and their consolidated subsidiaries (collectively, the “Och-Ziff Operating Group”). 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 other than the Company’s intermediate holding companies, including the Company’s founder, Mr. Daniel S. Och, and, except where the context requires otherwise, include certain limited partners who are no longer active in the business of the Company. References to the Company’s “active executive managing directors” refer to executive managing directors who remain active in the Company’s business. 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, 2013 (the “Annual Report”). 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.

As discussed in Note 17, the Company restated the quarterly amounts previously reported in its Form 10-Qs for the first through third quarters of 2013. See Note 17 for additional information.



OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
SEPTEMBER 30, 2014

Recently Adopted Accounting Pronouncements

None of the changes to GAAP that went into effect in the nine months ended September 30, 2014 has had a material effect on the Company's consolidated financial statements.

Future Adoption of Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605—Revenue Recognition and most industry-specific guidance throughout the Codification. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities are permitted to apply the guidance in ASU 2014-09 using one of the following methods: (1) full retrospective application to each prior period presented, or (2) modified retrospective application with a cumulative effect adjustment to opening retained earnings in the annual reporting period that includes that date of initial application. The requirements of ASU 2014-09 are effective for the Company beginning in the first quarter of 2017. The Company is currently evaluating the impact, if any, that these updates will have on its financial condition and results of operations.

In August 2014, the FASB issued ASU 2014-13, Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. ASU 2014-13 amends ASC 810—Consolidation to address the measurement difference that may occur between the fair value, as determined under GAAP, of the financial assets and financial liabilities of a consolidated collateralized financing entity, such as a CLO. The new guidance provides a measurement alternative which allows entities to measure both the financial assets and financial liabilities of the consolidated collateralized financing entity using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. The requirements of ASU 2014-13 are effective for the Company beginning in the first quarter of 2016, with early adoption permitted in the first quarter of 2015. The Company is currently evaluating the impact that this update will have on its financial condition and results of operations.

None of the other changes to GAAP that are not yet effective is expected to have a material effect on the Company's consolidated financial statements.

3. NONCONTROLLING INTERESTS

Noncontrolling interests represent ownership interests in the Company's subsidiaries held by parties other than the Company, and primarily relate to the Och-Ziff Operating Group A Units held by the Company's executive managing directors and the Ziffs (until they exchanged their remaining interests during the 2014 second quarter) and fund investors' interests in the consolidated Och-Ziff funds. Net income allocated to the Och-Ziff Operating Group A Units is driven by the earnings of the Och-Ziff Operating Group. Net income allocated to fund investors' interests in consolidated Och-Ziff funds is driven by the earnings of those funds, including the net difference in the fair value of CLO assets and liabilities that are subsequently reclassified to appropriated retained earnings on the consolidated balance sheets.

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

Three Months Ended September 30,	Nine Months Ended September 30,
-------------------------------------	------------------------------------

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

	2014	2013 (Restated - See Note 17)	2014	2013 (Restated - See Note 17)
	(dollars in thousands)			
Och-Ziff Operating Group A Units	\$57,946	\$71,600	\$180,508	\$207,172
Consolidated Och-Ziff funds	25,124	65,238	163,080	258,895
Other	165	805	308	5,089
	\$83,235	\$137,643	\$343,896	\$471,156

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

The following table presents the components of the shareholders' equity attributable to noncontrolling interests:

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
Och-Ziff Operating Group A Units	\$467,147	\$788,689
Consolidated Och-Ziff funds	1,610,052	1,558,435
Other	2,086	1,621
	\$2,079,285	\$2,348,745

The following table presents the activity in redeemable noncontrolling interests as presented in the consolidated balance sheets:

	Nine Months Ended September 30, 2014 (dollars in thousands)
Beginning balance	\$76,583
Capital contributions	329,099
Total comprehensive income	30,092
Ending Balance	\$435,774

#### Och-Ziff Operating Group Ownership

The Company's interest in the Och-Ziff Operating Group increased to 36.3% as of September 30, 2014, from 35.9% as of December 31, 2013. Increases in the Company's interest in the Och-Ziff Operating Group were driven by the exchange of Och-Ziff Operating Group A Units for an equal number of Class A Shares and the issuance of Class A Shares under the Company's Amended and Restated 2007 Equity Incentive Plan, primarily related to the vesting of Class A restricted share units ("RSUs"). The Company also makes awards under its 2013 Incentive Plan, which may result in the issuance of Class A Shares in the future, primarily related to the vesting of RSUs or the exchange of Och-Ziff Operating Group A Units. 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 any conversion of Och-Ziff Operating Group D Units, which are not considered equity for GAAP purposes, into Och-Ziff Operating Group A Units.

#### Och-Ziff Operating Group A Unit Exchanges

During the nine months ended September 30, 2014, the Company issued 1,345,472 Class A Shares in connection with the Ziffs' exchange of an equal number of Och-Ziff Operating Group A Units. As a result, the Company recorded an increase to shareholders' equity related to deferred income tax assets resulting from the exchange, net of an increase in the tax receivable agreement liability. Following such exchange, the Ziffs ceased to own any Och-Ziff Operating Group A Units.

#### 4. FAIR VALUE DISCLOSURES

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

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.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
SEPTEMBER 30, 2014

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, U.S. Treasury obligations and certain 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. 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. 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, collateralized debt obligations, as well as the notes payable of consolidated CLOs.

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.

The assets and liabilities presented in the tables below belong to the investors in the consolidated funds. The Company has a minimal, if any, investment in these funds.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

## 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 September 30, 2014:

	As of September 30, 2014			Counterparty	
	Level I	Level II	Level III	Netting of Derivative Contracts	Total
	(dollars in thousands)				
Bank debt	\$—	\$2,732,059	\$2,013,069	\$—	\$4,745,128
Real estate investments	—	—	608,006	—	608,006
Investments in affiliated credit funds	—	—	548,578	—	548,578
Residential mortgage-backed securities	—	—	499,912	—	499,912
Collateralized debt obligations	—	—	187,456	—	187,456
Energy and natural resources limited partnerships	—	—	174,057	—	174,057
Commercial real estate debt	—	—	127,067	—	127,067
Corporate bonds	—	31,437	631	—	32,068
United States government obligations	30,978	—	—	—	30,978
Asset-backed securities	—	—	23,267	—	23,267
Commercial mortgage-backed securities	—	—	9,800	—	9,800
Other investments	918	21	4,314	(1,171	) 4,082
Financial Assets, at Fair Value, Included Within Investments, at Fair Value	\$31,896	\$2,763,517	\$4,196,157	\$(1,171	) \$6,990,399
Senior secured notes payable of consolidated CLOs	\$—	\$—	\$4,359,880	\$—	\$4,359,880
Subordinated notes payable of consolidated CLOs	—	—	424,630	—	424,630
Notes payable of consolidated CLOs, at fair value	—	—	4,784,510	—	4,784,510
Other liabilities, included within other liabilities of Och-Ziff funds	3,138	22	1,165	(1,171	) 3,154
Financial Liabilities, at Fair Value	\$3,138	\$22	\$4,785,675	\$(1,171	) \$4,787,664

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

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 December 31, 2013:

	As of December 31, 2013			Counterparty Netting of Derivative Contracts	Total
	Level I	Level II	Level III		
	(dollars in thousands)				
Bank debt	\$—	\$1,551,892	\$1,180,831	\$—	\$2,732,723
Real estate investments	—	—	633,311	—	633,311
Investments in affiliated credit funds	—	—	188,454	—	188,454
Residential mortgage-backed securities	—	—	400,510	—	400,510
Collateralized debt obligations	—	—	205,026	—	205,026
Energy and natural resources limited partnerships	—	—	158,759	—	158,759
Commercial real estate debt	—	—	93,445	—	93,445
Corporate bonds	—	38,228	817	—	39,045
United States government obligations	97,741	—	—	—	97,741
Asset-backed securities	—	—	34,627	—	34,627
Commercial mortgage-backed securities	—	—	20,530	—	20,530
Other investments	964	87	3,292	(96	) 4,247
Financial Assets, at Fair Value, Included Within Investments, at Fair Value	\$98,705	\$1,590,207	\$2,919,602	\$(96	) \$4,608,418
Senior secured notes payable of consolidated CLOs	\$—	\$—	\$2,508,338	\$—	\$2,508,338
Subordinated notes payable of consolidated CLOs	—	—	255,639	—	255,639
Notes payable of consolidated CLOs, at fair value	—	—	2,763,977	—	2,763,977
Other liabilities, included within other liabilities of Och-Ziff funds	3,066	19	800	(96	) 3,789
Financial Liabilities, at Fair Value	\$3,066	\$19	\$2,764,777	\$(96	) \$2,767,766

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

Reconciliation of Fair Value Measurements Categorized within Level III

The Company assumes that any transfers between Level I, Level II or Level III occur at the beginning of the reporting period presented. Amounts related to the initial consolidation of the Company's CLOs are included within investment purchases in the tables below.

The following table summarizes the changes in the Company's Level III assets and liabilities (excluding notes payable of consolidated CLOs) for the three months ended September 30, 2014:

	June 30, 2014	Transfers In	Transfers Out	Investment Purchases	Investment Sales	Derivative of Settlement	Net Gains (Losses) of Consolidated Och-Ziff Funds	September 30, 2014
(dollars in thousands)								
Bank debt	\$1,641,800	\$450,879	\$(292,641)	\$639,221	\$(409,350)	\$—	\$(16,840)	\$2,013,069
Real estate investments	609,323	—	—	16,282	(38,677)	—	21,078	608,006
Investments in affiliated credit funds	537,207	—	—	11,491	(12,104)	—	11,984	548,578
Residential mortgage-backed securities	421,408	—	—	94,221	(17,732)	—	2,015	499,912
Collateralized debt obligations	190,816	—	—	8,057	(16,184)	—	4,767	187,456
Energy and natural resources limited partnerships	171,515	—	—	8,410	(2,876)	—	(2,992)	174,057
Commercial real estate debt	162,931	—	—	93	(36,893)	—	936	127,067
Corporate bonds	826	—	—	—	—	—	(195)	631
Asset-backed securities	23,392	—	—	—	(1,360)	—	1,235	23,267
Commercial mortgage-backed securities	9,883	—	—	—	—	—	(83)	9,800
Other investments (including derivatives, net)	3,872	—	—	—	(205)	(457)	(61)	3,149
	\$3,772,973	\$450,879	\$(292,641)	\$777,775	\$(535,381)	\$(457)	\$21,844	\$4,194,992



OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
SEPTEMBER 30, 2014

The following table summarizes the changes in the Company's Level III assets and liabilities (excluding notes payable of consolidated CLOs) for the three months ended September 30, 2013:

(Restated - See Note 17)	June 30, 2013	Transfers In	Transfers Out	Investment Purchases	Investment Sales	Derivative Settlements	Net Gains (Losses) of Consolidated Och-Ziff Funds	September 30, 2013
	(dollars in thousands)							
Bank debt	\$1,642,989	\$37,109	\$(27,072)	\$390,296	\$(286,163)	\$—	\$1,287	\$1,758,446
Real estate investments	715,682	—	—	10,343	(104,928)	—	11,053	632,150
Investments in affiliated credit funds	129,806	—	—	34,755	(17,890)	—	9,065	155,736
Residential mortgage-backed securities	347,805	—	—	36,091	(25,415)	—	38	358,519
Collateralized debt obligations	257,604	—	—	4,993	(23,508)	—	8,293	247,382
Energy and natural resources limited partnerships	154,005	—	—	11,825	—	—	(1,143)	164,687
Commercial real estate debt	153,712	—	—	8,440	(32,828)	—	1,399	130,723
Corporate bonds	4,728	—	(4,728)	4,000	—	—	(40)	3,960
Asset-backed securities	60,226	—	—	9,112	(33,178)	—	1,609	37,769
Commercial mortgage-backed securities	27,715	—	—	—	(5,221)	—	7,342	29,836
Other investments (including derivatives, net)	41,450	—	—	22	(10,259)	1,537	2,323	35,073
	\$3,535,722	\$37,109	\$(31,800)	\$509,877	\$(539,390)	\$1,537	\$41,226	\$3,554,281

The following table summarizes the changes in the Company's Level III assets and liabilities (excluding notes payable of consolidated CLOs) for the nine months ended September 30, 2014:

	December 31, 2013	Transfers In	Transfers Out	Investment Purchases	Investment Sales	Derivative Settlements	Net Gains (Losses) of Consolidated Och-Ziff Funds	September 30, 2014
	(dollars in thousands)							
Bank debt	\$1,180,831	\$128,509	\$(198,654)	\$1,943,328	\$(1,029,300)	\$—	\$(11,645)	\$2,013,069

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

Real estate investments	633,311	—	—	34,774	(110,404)	) —	50,325	608,006
Investments in affiliated credit funds	188,454	—	—	359,088	(46,452)	) —	47,488	548,578
Residential mortgage-backed securities	400,510	—	—	227,513	(164,484)	) —	36,373	499,912
Collateralized debt obligations	205,026	—	—	83,508	(124,634)	) —	23,556	187,456
Energy and natural resources limited partnerships	158,759	—	—	29,169	(18,878)	) —	5,007	174,057
Commercial real estate debt	93,445	—	—	105,481	(77,698)	) —	5,839	127,067
Corporate bonds	817	—	—	18	—	) —	(204)	) 631
Asset-backed securities	34,627	—	—	596	(11,136)	) —	(820)	) 23,267
Commercial mortgage-backed securities	20,530	—	—	—	(13,320)	) —	2,590	9,800
Other investments (including derivatives, net)	2,492	69	—	1,993	(3,539)	) 1,964	170	3,149
	\$2,918,802	\$128,578	\$(198,654)	\$2,785,468	\$(1,599,845)	\$1,964	\$158,679	\$4,194,992

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
SEPTEMBER 30, 2014

The following table summarizes the changes in the Company's Level III assets and liabilities (excluding notes payable of consolidated CLOs) for the nine months ended September 30, 2013:

(Restated - See Note 17)	December 31, 2012	Transfers In	Transfers Out	Investment Purchases	Investment Sales	Derivative Settlements	Net Gains (Losses) of Consolidated Och-Ziff Funds	September 30, 2013
(dollars in thousands)								
Bank debt	\$384,578	\$93,903	\$(8,010)	\$2,058,279	\$(771,906)	\$—	\$1,602	\$1,758,446
Real estate investments	615,634	—	—	195,636	(277,781)	—	98,661	632,150
Investments in affiliated credit funds	88,298	—	—	136,256	(87,821)	—	19,003	155,736
Residential mortgage-backed securities	260,410	—	—	211,817	(112,246)	—	(1,462)	358,519
Collateralized debt obligations	265,722	—	—	35,386	(90,514)	—	36,788	247,382
Energy and natural resources limited partnerships	167,467	—	—	41,291	(53,269)	—	9,198	164,687
Commercial real estate debt	151,275	—	—	62,307	(86,537)	—	3,678	130,723
Corporate bonds	—	—	—	7,117	(3,148)	—	(9)	3,960
Asset-backed securities	12,234	—	—	63,515	(37,353)	—	(627)	37,769
Commercial mortgage-backed securities	41,961	—	—	14,045	(35,282)	—	9,112	29,836
Other investments (including derivatives, net)	46,098	—	—	747	(16,267)	(3,389)	7,884	35,073
	\$2,033,677	\$93,903	\$(8,010)	\$2,826,396	\$(1,572,124)	\$(3,389)	\$183,828	\$3,554,281

Transfers out of Level III presented in the tables above resulted from the fair values of certain securities becoming market observable, with fair value determined using independent pricing services. Transfers into Level III presented in the table above resulted from the valuation of certain investments with decreased market observability, with fair values determined using broker quotes or independent pricing services. There were no transfers between Levels I and II during the period presented above.

The table below summarizes the net change in unrealized gains and losses on the Company's Level III assets and liabilities (excluding notes payable of consolidated CLOs) 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated - See Note 17)	2014	2013 (Restated - See Note 17)
	(dollars in thousands)			
Bank debt	\$ (16,773 )	\$ 223	\$ (13,882 )	\$ (4,084 )
Real estate investments	6,424	(15,193 )	29,868	46,947
Investments in affiliated credit funds	(15,360 )	8,900	(10,724 )	10,635
Residential mortgage-backed securities	831	(2,981 )	22,686	(17,586 )
Collateralized debt obligations	904	1,009	6,751	7,468
Energy and natural resources limited partnerships	(2,992 )	(1,143 )	5,556	9,198
Commercial real estate debt	1,318	565	3,481	(929 )
Corporate bonds	(199 )	(40 )	(219 )	(40 )
Asset-backed securities	1,211	2,462	(1,069 )	141
Commercial mortgage-backed securities	(109 )	6,675	(112 )	(2,565 )
Other investments (including derivatives, net)	(267 )	5,402	295	5,364
	\$ (25,012 )	\$ 5,879	\$ 42,631	\$ 54,549

The tables below summarize the changes in the notes payable of consolidated CLOs for the three and nine months ended September 30, 2014 and 2013. The amounts presented within net gains (losses) of consolidated Och-Ziff funds represent the net

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

change in unrealized gains (losses) on the notes payable of consolidated CLOs. These amounts all relate to liabilities still in existence as of each respective balance sheet date. Amounts related to the initial consolidation of the Company's CLOs are included within issuances in the tables below.

	June 30, 2014	Issuances	Net Gains of Consolidated Och-Ziff Funds	September 30, 2014
	(dollars in thousands)			
Senior secured notes payable of consolidated CLOs	\$3,818,203	\$555,002	\$(13,325 )	\$4,359,880
Subordinated notes payable of consolidated CLOs	374,903	57,038	(7,311 )	424,630
	\$4,193,106	\$612,040	\$(20,636 )	\$4,784,510
(Restated - See Note 17)	June 30, 2013	Issuances	Net Gains of Consolidated Och-Ziff Funds	September 30, 2013
	(dollars in thousands)			
Senior secured notes payable of consolidated CLOs	\$2,067,086	\$—	\$(8,840 )	\$2,058,246
Subordinated notes payable of consolidated CLOs	219,387	—	(2,125 )	217,262
	\$2,286,473	\$—	\$(10,965 )	\$2,275,508
	December 31, 2013	Issuances	Net Gains of Consolidated Och-Ziff Funds	September 30, 2014
	(dollars in thousands)			
Senior secured notes payable of consolidated CLOs	\$2,508,338	\$1,861,182	\$(9,640 )	\$4,359,880
Subordinated notes payable of consolidated CLOs	255,639	177,052	(8,061 )	424,630
	\$2,763,977	\$2,038,234	\$(17,701 )	\$4,784,510
(Restated - See Note 17)	December 31, 2012	Issuances	Net Gains of Consolidated Och-Ziff Funds	September 30, 2013
	(dollars in thousands)			
Senior secured notes payable of consolidated CLOs	\$956,693	\$1,117,860	\$(16,307 )	\$2,058,246
Subordinated notes payable of consolidated CLOs	104,852	119,681	(7,271 )	217,262
	\$1,061,545	\$1,237,541	\$(23,578 )	\$2,275,508

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

## Real Estate Investments

Real estate investments are generally structured as equity, preferred equity, mezzanine debt, and participating debt in entities domiciled primarily in the United States and include investments in lodging, gaming, multifamily properties, retail, healthcare, distressed residential, senior housing, golf, parking, office buildings and land. 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.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
SEPTEMBER 30, 2014

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 and exit multiples. Significant increases (decreases) in the discount rates and capitalization rates 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. A change in the assumption used for price per square foot is generally accompanied by a directionally inverse change in the absorption percentage per year.

Bank Debt; Residential and Commercial Mortgage-Backed Securities; Collateralized Debt Obligations; Commercial Real Estate Debt; Corporate Bonds; Asset-Backed Securities; Notes Payable of Consolidated CLOs

The fair value of investments in bank debt, residential and commercial mortgage-backed securities, collateralized debt obligations, commercial real estate debt, corporate bonds, asset-backed securities and notes payable of consolidated CLOs that do not have readily ascertainable fair values is generally determined using broker quotes or independent pricing services. For month-end valuations, the Company generally receives one to four broker quotes for each security, depending on the type of security being valued. These broker quotes are generally non-binding or indicative in nature. The Company verifies that these broker quotes are reflective of fair value as defined in GAAP generally through procedures such as comparison to independent pricing services, back testing procedures, review of stale pricing reports and performance of other due diligence procedures as may be deemed necessary. Historically, the Company has only adjusted a small number of broker quotes when used in determining final valuations for securities as a result of these procedures.

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: obtaining and using other additional broker quotes deemed reliable; 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 bank debt, residential and commercial mortgage-backed securities, commercial real estate debt, corporate bonds and asset-backed securities that are not valued using broker quotes or independent pricing services are discount rates, credit spreads and yields. Significant increases (decreases) in the discount rates, credit spreads and yields in isolation would be expected to result in a significantly lower (higher) fair value measurement.

During the first quarter of 2014, the Company changed the valuation methodology for its senior secured notes payable of consolidated CLOs from discounted cash flows to broker quote. The use of broker quotes is generally consistent with the valuation methodologies of the Company's other credit investments.

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, or using recent financing for certain investments. 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 also be valued using scenario analyses and sum of the parts analyses.

The fair value for certain energy and natural resources limited partnership investments is based on the net asset value of the underlying fund. This amount represents a certain consolidated fund's investment into another fund managed by the Company. The investee invests primarily in energy and natural resource investments. The fund may not redeem its investment into the investee prior to liquidation. The fund will receive distributions from the investee as investments are sold, the timing of which cannot be estimated. The consolidated fund has \$46.8 million of unfunded commitments that will be funded by capital contributions from investors in the fund, as the Company is not an investor in the fund.



OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

The significant unobservable inputs used in the fair value measurement of the Company's energy and natural resources limited partnerships are discount rates, EBITDA multiples, price per acre, production multiples, EV/risked prospective resources, price of natural gas per thousand cubic feet, price of oil per barrel and well risking. Significant increases (decreases) in the discount rates and well risking in isolation would be expected to result in a lower (higher) fair value measurement. Significant increases (decreases) in the EBITDA multiples, price per acre, production multiples, EV/risked prospective resources, 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 Credit Funds

The fair value of investments in affiliated credit 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. Approximately 73% of these investments can be redeemed and paid to investors in the feeder fund after an initial lock-up period of one to three years, after which the feeder fund may redeem its investment on a quarterly basis upon 90 days' prior written notice. The Company, as investment manager of the master fund, has the option (not exercised to date) to suspend redemptions in certain situations. The remaining 27% relates to a feeder fund that is not able to redeem its investment in the master fund prior to liquidation, the timing of which cannot be estimated. The feeder fund will receive distributions from the master fund as investments are sold, the timing of which cannot be estimated due to the illiquid nature of the investments held by the master fund. The consolidated feeder funds have \$24.6 million of unfunded commitments that will be funded by capital contributions from investors in the feeder funds, as the Company is not an investor in the feeder funds or master funds.

#### 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 as of September 30, 2014.

Type of Investment or Liability	Fair Value at September 30, 2014 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Bank debt	\$1,902,007	Independent pricing services	n/a	
	13,173	Yield analysis	Yield	14 %
	97,889	Broker quotes	n/a	
Real estate investments	\$606,653	Discounted cash flow	Discount rate	10% to 30% (20%)
			Cash flow growth rate	-50% to 133% (2%)
			Capitalization rate	5% to 14% (8%)
			Price per square foot	\$54.22 to \$535.20 (\$163.89)
			Absorption rate per year	1% to 36% (13%)
		Exit multiple	6.4x	

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

	1,353	Broker quotes	n/a		
Investments in affiliated credit funds	\$548,578	Net asset value	n/a		
Residential mortgage-backed securities	\$492,900	Broker quotes	n/a		
	7,012	Discounted cash flow	Discount rate	20	%
			Credit spread	1225 bps	
Collateralized debt obligations	\$187,456	Broker quotes	n/a		
Energy and natural resources limited partnerships	\$100,430	Net asset value	n/a		
	25,188	Scenario analysis	Discount rate	10	%
			EBITDA multiple	6.3x	
			Price of natural gas per thousand cubic feet	\$4.45	
			Price of oil per barrel	\$80.00	

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
SEPTEMBER 30, 2014

Type of Investment or Liability	Fair Value at September 30, 2014 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted-Average)
			Price per acre	\$1,750.00
			Production multiple (price per thousand cubic feet equivalent per day)	\$6,500.00
	23,292	Sum of the parts	Discount rate	15 %
			EBITDA multiple	6.0x
			EV/risked prospective resources	1.3x
			Price of natural gas per thousand cubic feet	\$4.45
			Price of oil per barrel	\$80.00
			Price per acre	\$500.00
			Well risking	75 %
	19,810	Recent financing	n/a	
	5,332	Discounted cash flow	Discount rate	15 %
			Price of natural gas per thousand cubic feet	\$4.45
			Price of oil per barrel	\$80.00
	5	Broker quotes	n/a	
Commercial real estate debt	\$46,256	Yield analysis	Yield	11% to 18% (13%)
	80,811	Discounted cash flow	Discount rate	6% to 15% (14%)
Corporate bonds	\$424	Yield analysis	Yield	11 %
	207	Broker quotes	n/a	
Asset-backed securities	\$20,011	Broker quotes	n/a	
	3,256	Discounted cash flow	Discount rate	12 %
Commercial mortgaged-backed securities	\$9,800	Broker quotes	n/a	
Senior secured notes payable of consolidated CLOs	\$4,359,880	Broker quotes	n/a	
Subordinated notes payable of consolidated CLOs	\$424,630	Broker quotes	n/a	

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 as of December 31, 2013.

Valuation Technique Unobservable Input

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

Type of Investment or Liability	Fair Value at December 31, 2013 (in thousands)			Range (Weighted-Average)		
Bank debt	\$1,159,302	Independent pricing services	n/a			
	15,360	Yield analysis	Yield	13 %		
	6,169	Broker quotes	n/a			
Real estate investments	\$600,690	Discounted cash flow	Discount rate	5% to 36% (21%)		
			Cash flow growth rate	-22% to 137% (3%)		
			Capitalization rate	5% to 14% (8%)		
			Price per square foot	\$55.49 to \$750.00 (\$186.69)		
			Absorption rate per year	1% to 27% (13%)		
			Exit multiple	6.1x		
			Capitalization rate	7 %		
Residential mortgage-backed securities	\$385,860	Broker quotes	n/a			
				Discounted cash flow	Discount rate	11% to 21% (17%)
					Credit spread	520 to 1225 bps (960bps)

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
SEPTEMBER 30, 2014

Type of Investment or Liability	Fair Value at December 31, 2013 (in thousands)	Valuation Technique	Unobservable Input	Range (Weighted-Average)
Collateralized debt obligations	\$205,026	Broker quotes	n/a	
Investments in affiliated credit funds	\$188,454	Net asset value	n/a	
Energy and natural resources limited partnerships	\$106,149	Net asset value	n/a	
	25,903	Scenario analysis	Discount rate EBITDA multiple Price of natural gas per thousand cubic feet Price of oil per barrel Price per acre Production multiple (price per thousand cubic feet equivalent per day)	10 6.3x \$4.43 \$80.00 \$1,750.00 \$6,250.00
	18,522	Sum of the parts	Discount rate EBITDA multiple EV/risked prospective resources Price of natural gas per thousand cubic feet Price of oil per barrel Price per acre Well risking	15 4.5x to 7.5x (6.0x) 1.0x to 1.5x (1.3x) \$4.43 \$80.00 \$50.00 to \$500.00 (\$459.45) 75 %
	8,185	Discounted cash flow	Discount rate Price of natural gas per thousand cubic feet Price of oil per barrel	15 \$4.43 \$80.00
Commercial real estate debt	\$57,808	Yield analysis	Yield	10% to 14% (12%)
	30,604	Discounted cash flow	Discount rate	18 %
	5,033	Independent pricing services	n/a	
Corporate bonds	\$427	Yield analysis	Yield	16 %
	390	Broker quotes	n/a	
Asset-backed securities	\$29,380	Broker quotes	n/a	
	5,247	Discounted cash flow	Discount rate	15 %

Commercial mortgaged-backed securities	\$20,530	Broker quotes	n/a		
Senior secured notes payable of consolidated CLOs	\$2,508,338	Discounted cash flow	Interest rate	5	%
			Loan default rate	2	%
			Loan loss severity	20	%
			Loan prepayment rate	20	%
			Reinvestment price	\$99.50	
Subordinated notes payable of consolidated CLOs	\$255,639	Broker quotes	n/a		

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 oversight by its Financial Controls Group and Valuation Committee, as well as periodic audits by the Company's Internal Audit Group. These control functions are segregated from the trading and investing functions.

The Valuation Committee is responsible for establishing the valuation policy and monitors compliance of the valuation policy, ensuring that all of the funds' investments reflect fair values, as well as providing oversight of the valuation process. These

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
SEPTEMBER 30, 2014

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 of 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 seeking to ensure compliance with the valuation policies, performing price verification 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.

The Internal Audit Group employs a risk-based program of audit coverage that is designed to provide an 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, which includes comparing unobservable inputs to observable inputs for similar positions, reviewing subsequent market activities, performing comparisons of actual versus projected performance indicators, and discussing 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 Other Financial Instruments

Management estimates that the fair value of the \$381.3 million outstanding under the Company's delayed draw term loan agreement entered into in November 2011 (the "Delayed Draw Term Loan") was approximately 98% of its carrying value as of September 30, 2014, based on an analysis of comparable issuers. The carrying value of the Company's other financial instruments approximated their fair values as of September 30, 2014. These fair value measurements would be categorized as Level III within the fair value hierarchy.

#### 5. BALANCE SHEET OFFSETTING

In the ordinary course of business, certain consolidated funds have entered into certain transactions that 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.



OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

The table below presents the repurchase agreements that are set off, if any, as well as securities transferred to counterparties related to those repurchase agreements (capped so that the net amount presented will not be reduced below zero). 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	Securities Transferred	Net Amount
	(dollars in thousands)				
As of September 30, 2014	\$277,929	\$—	\$277,929	\$277,929	\$—
As of December 31, 2013	\$257,691	\$—	\$257,691	\$257,691	\$—

## 6. VARIABLE INTEREST ENTITIES

In the ordinary course of business, the Company sponsors the formation of VIEs. These VIEs generally consist of the following categories: funds, including 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, including its CLOs, are VIEs. The Company generally serves as the general partner or the investment or collateral 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.

The Company acts as collateral manager for CLOs that are VIEs. CLOs are entities that issue collateralized notes that offer investors the opportunity for returns that vary commensurately with the risk they assume. The notes issued by the CLOs are generally backed by asset portfolios consisting of loans or other debt. The Company receives collateral management fees for acting as collateral manager to the CLOs, and may earn incentive income based on the performance of the CLOs, subject to hurdle rates.

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 its economic performance, and (ii) the obligations to absorb losses or the right to receive benefits from the CLO that could potentially be significant to the CLO. The Company determined that when it launches its CLOs, 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 as the collateral manager. In addition, the Company

determined that when it launches its CLOs, it has the right to receive benefits from the CLOs that could potentially be significant, on a quantitative and qualitative basis, because of the management fees and incentive income the Company could earn from the CLOs, as well as the purpose and design of the CLOs. As a result, the Company consolidates the CLOs it manages upon launch.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

The following table presents the assets and liabilities of funds that are VIEs and consolidated by the Company:

	September 30, 2014		December 31, 2013	
	CLOs	Other Funds	CLOs	Other Funds
(dollars in thousands)				
<b>Assets</b>				
Assets of consolidated Och-Ziff funds:				
Investments, at fair value	\$4,694,575	\$882,499	\$2,749,422	\$607,823
Other assets of Och-Ziff funds	84,363	17,466	43,832	20,736
<b>Total Assets</b>	<b>\$4,778,938</b>	<b>\$899,965</b>	<b>\$2,793,254</b>	<b>\$628,559</b>
<b>Liabilities</b>				
Liabilities of consolidated Och-Ziff funds:				
Notes payable of consolidated CLOs, at fair value	\$4,784,510	\$—	\$2,763,977	\$—
Securities sold under agreements to repurchase	—	9,803	—	49,304
Other liabilities of Och-Ziff funds	23,733	2,047	13,293	2,550
<b>Total Liabilities</b>	<b>\$4,808,243</b>	<b>\$11,850</b>	<b>\$2,777,270</b>	<b>\$51,854</b>

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, as well as the loss of investments in these entities, if any. The net assets of these VIEs were \$36.6 billion and \$33.7 billion as of September 30, 2014 and December 31, 2013, 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 well as investments in these entities, if any. As of September 30, 2014 and December 31, 2013, the only assets arising from these variable interests related to income and fees receivable of \$20.4 million and \$574.1 million, respectively.

#### 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 \$231 thousand and \$6.7 million as of September 30, 2014 and December 31, 2013, respectively, and is recorded within other assets in the Company's consolidated balance sheets.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

7. OTHER ASSETS, NET

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

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
Fixed Assets:		
Leasehold improvements	\$31,637	\$21,714
Computer hardware and software	27,632	21,165
Corporate aircraft	22,600	22,600
Furniture, fixtures and equipment	5,157	3,146
Accumulated depreciation and amortization	(57,074)	(52,416)
Fixed assets, net	29,952	16,209
Receivables	43,697	10,270
Deposit on new corporate aircraft	48,662	4,000
Goodwill	22,691	22,691
Prepaid expenses	8,025	18,165
Investments in Och-Ziff funds	3,508	3,192
Intangible assets, net	1,550	2,110
Investments in joint ventures	231	6,745
Other	8,906	2,168
Total Other Assets, Net	\$167,222	\$85,550

8. OTHER LIABILITIES

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

	September 30, 2014	December 31, 2013
	(dollars in thousands)	
Accrued expenses	\$65,886	\$39,851
Deferred rent credit	16,842	15,928
Unrecognized tax benefits	7,000	—
Current income taxes payable	1,817	4,059
Other	1,475	1,095
Total Other Liabilities	\$93,020	\$60,933

9. DEBT OBLIGATIONS

Notes Payable of Consolidated CLOs

The Company consolidates the CLOs it manages. As a result, the senior and subordinated notes issued by the CLOs are included in the Company's consolidated balance sheets. Notes payable of the consolidated CLOs are collateralized by the assets held by the CLOs and the assets of one CLO may not be used to satisfy the liabilities of another. This collateral generally consists of corporate loans, corporate bonds and other securities. As of September 30, 2014 and

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

December 31, 2013, the fair value of the CLO assets was \$4.8 billion and \$2.8 billion, respectively. The stated maturity dates for the notes issued by the CLOs range from 2023 to 2026.

The Company has elected to carry these notes at fair value in its consolidated balance sheets to mitigate the accounting mismatch between the carrying values of the assets and liabilities of the consolidated CLOs. The Company recorded unrealized

25

---

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

gains of \$20.6 million and \$11.0 million for the three months ended September 30, 2014 and 2013, respectively, and \$17.7 million and \$23.6 million for the nine months ended September 30, 2014 and 2013, respectively. These amounts are included within net gains (losses) of consolidated Och-Ziff funds in the statements of comprehensive income. Substantially all of these changes related to changes in instrument specific credit risk, as substantially all of these are floating-rate instruments.

The tables below present information related to the CLO notes outstanding. The subordinated notes have no stated interest rate, and are entitled to any excess cash flows after contractual payments are made to the senior notes.

	As of September 30, 2014		Weighted-Average Interest Rate	Weighted-Average Maturity in Years
	Borrowings Outstanding (dollars in thousands)	Fair Value		
Senior secured notes payable of consolidated CLOs	\$4,431,250	\$4,359,880	2.32%	10.8
Subordinated notes payable of consolidated CLOs	462,300	424,630	N/A	10.7
Total Notes Payable of Consolidated CLOs	\$4,893,550	\$4,784,510		

	As of December 31, 2013		Weighted-Average Interest Rate	Weighted-Average Maturity in Years
	Borrowings Outstanding (dollars in thousands)	Fair Value		
Senior secured notes payable of consolidated CLOs	\$2,543,000	\$2,508,338	2.30%	10.8
Subordinated notes payable of consolidated CLOs	282,300	255,639	N/A	10.8
Total Notes Payable of Consolidated CLOs	\$2,825,300	\$2,763,977		

#### Aircraft Loan

On February 14, 2014, the Company entered into a secured multiple draw term loan agreement for up to \$59.0 million to finance the purchase of a new corporate aircraft expected to be delivered in the first quarter of 2015 (the "Aircraft Loan"). The Aircraft Loan is guaranteed by OZ Management, OZ Advisors and OZ Advisors II. As of September 30, 2014, \$48.7 million was outstanding under the Aircraft Loan.

Amounts borrowed prior to aircraft delivery to fund progress payments under the aircraft purchase agreement bear interest at a rate of LIBOR plus 1.40%. Following aircraft delivery, the Company will have the option of selecting a 5- or 7-year term with either a fixed or floating interest rate, which rate will vary based on the term selected. There are no financial covenants associated with the Aircraft Loan. No principal payments are due prior to aircraft delivery; however, the Aircraft Loan will become due if the aircraft is not delivered by October 30, 2015. Following aircraft delivery, borrowings under the Aircraft Loan will be payable in installments for the term of the facility, with a balloon payment due upon maturity. The amount of the installment and balloon payments will be determined based upon the selection of either a 5- or 7-year term. The Aircraft Loan includes other customary terms and conditions, including customary events of default and covenants.



OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

10. 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated - See Note 17)	2014	2013 (Restated - See Note 17)
	(dollars in thousands)			
Recurring placement and related service fees	\$12,749	\$8,190	\$35,483	\$22,056
Occupancy and equipment	7,396	7,314	22,842	22,504
Professional services	7,827	8,589	22,929	34,777
Information processing and communications	6,188	5,340	16,899	15,223
Insurance	4,078	1,920	12,057	5,653
Business development	2,807	2,649	8,548	7,803
Other expenses	2,768	3,458	8,017	9,022
	43,813	37,460	126,775	117,038
Changes in tax receivable agreement liability	(20,653)	(1,064)	(24,472)	(1,047)
Total General, Administrative and Other	\$23,160	\$36,396	\$102,303	\$115,991

11. 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 24.2% and 6.6% for the three months ended September 30, 2014 and 2013, respectively, and 17.4% and 8.6% for the nine months ended September 30, 2014 and 2013, 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.



In accordance with GAAP, the Company recognizes tax benefits for amounts that are “more likely than not” to be sustained upon examination by tax authorities. For uncertain tax positions in which the benefit to be realized does not meet the “more likely than not” threshold, the Company establishes a liability, which is included within other liabilities in the consolidated balance sheets.

A reconciliation of the changes in the Company's unrecognized tax benefits, excluding related interest and penalties, is presented in the table below. As of and prior to December 31, 2013, the Company did not have a liability for unrecognized tax benefits.

	Nine Months Ended September 30, 2014 (dollars in thousands)
Beginning balance	\$—
Additions for tax benefits related to prior years	7,000
Ending Balance	\$7,000

As of and for the three and nine months ended September 30, 2014, the Company did not accrue interest or penalties related to uncertain tax positions. As of September 30, 2014, the Company does not believe that there will be a significant change to the uncertain tax positions during the next 12 months. The Company's total unrecognized tax benefits that, if recognized, would affect its effective tax rate was \$4.5 million as of September 30, 2014.

## 12. EARNINGS PER CLASS A SHARE

Basic earnings per Class A Share is computed by dividing the net income allocated to Class A Shareholders by the weighted-average number of Class A Shares outstanding for the period. For the three months ended September 30, 2014 and 2013, the Company included, respectively, 1,091,238 and 1,600,165 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 per Class A Share. For the nine months ended September 30, 2014 and 2013, the Company included, respectively, 1,512,577 and 1,854,084 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 per Class A Share.

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

Three Months Ended September 30, 2014	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	\$23,202	172,959,765	\$0.13	
Effect of dilutive securities:				
Och-Ziff Operating Group A Units	18,860	301,884,116		—
RSUs	—	6,234,907		—
Diluted	\$42,062	481,078,788	\$0.09	
Three Months Ended September 30, 2013 (Restated - See Note 17)	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)			

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

Basic	\$28,852	156,752,496	\$0.18	
Effect of dilutive securities:				
Och-Ziff Operating Group A Units	44,151	312,852,072		—
RSUs	—	5,676,744		—
Diluted	\$73,003	475,281,312	\$0.15	

28

---

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

Nine Months Ended September 30, 2014	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	\$57,770	172,541,709	\$0.33	
Effect of dilutive securities:				
Och-Ziff Operating Group A Units	93,993	302,321,853		—
RSUs	—	5,073,074		—
Diluted	\$151,763	479,936,636	\$0.32	
	(dollars in thousands, except per share amounts)			
Nine Months Ended September 30, 2013 (Restated - See Note 17)	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	\$62,705	153,160,992	\$0.41	
Effect of dilutive securities:				
Och-Ziff Operating Group A Units	—	—		309,229,588
RSUs	—	3,506,508		—
Diluted	\$62,705	156,667,500	\$0.40	

### 13. RELATED PARTY TRANSACTIONS

#### Due to Related Parties

Amounts due to related parties relate primarily to future payments owed to the Company's executive managing directors and the Ziffs under the tax receivable agreement. As further discussed in Note 14, 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.

#### Notes Payable of Consolidated CLOs

A portion of the notes payable of consolidated CLOs is held by certain funds managed by the Company. As of September 30, 2014 and December 31, 2013, these amounts totaled \$181.9 million and \$162.8 million, respectively.

#### 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 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.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

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 September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated - See Note 17)	2014	2013 (Restated - See Note 17)
	(dollars in thousands)			
Fees charged on investments held by related parties:				
Management fees	\$5,640	\$7,271	\$17,283	\$22,106
Incentive income	\$625	\$1,776	\$3,983	\$3,491
Fees waived on investments held by related parties:				
Management fees	\$3,693	\$3,577	\$11,553	\$10,596

#### 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 September 30, 2014 and 2013, the Company charged Mr. Och \$125 thousand and \$94 thousand, respectively, for his personal use of the aircraft. For the nine months ended September 30, 2014 and 2013, the Company charged Mr. Och \$474 thousand and \$499 thousand, respectively, for his personal use of the aircraft.

#### 14. 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.

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 78% (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.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
SEPTEMBER 30, 2014

### Lease Obligations

The Company has non-cancelable operating leases for its headquarters in New York expiring in 2029 and various other operating leases for its offices in London, Hong Kong, Mumbai, Beijing and Dubai expiring on various dates through 2024. The Company also has operating leases for other locations, as well as operating leases on computer hardware. Certain operating leases allow for rent holiday periods. The Company recognizes expense related to its operating leases on a straight-line basis over the lease term taking into account these rent holiday periods. The related lease commitments have not changed materially since December 31, 2013.

### 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.

Beginning in 2011, and from time to time thereafter, the Company has received subpoenas from the Securities and Exchange Commission and requests for information from the U.S. Department of Justice in connection with an investigation involving the Foreign Corrupt Practices Act and related laws. The investigation concerns an investment by a foreign sovereign wealth fund in some of the Och-Ziff funds in 2007 and investments by some of the funds, both directly and indirectly, in a number of companies in Africa. At this time, the Company is unable to determine how the investigation will be resolved and what impact, if any, it will have. An adverse outcome could have a material effect on the Company's consolidated financial statements.

On May 5, 2014, a purported class of shareholders filed a lawsuit against the Company in the U.S. District Court for the Southern District of New York (*Menaldi v. Och-Ziff Capital Mgmt., et al.*). Daniel Och and Joel Frank are also named defendants. The complaint asserts claims on behalf of all purchasers of Company securities from February 9, 2012 to April 25, 2014, and asserts claims under the Securities Exchange Act of 1934. The complaint alleges, among other things, breaches of certain disclosure obligations with respect to matters under investigation by the U.S. Securities and Exchange Commission and the U.S. Department of Justice. On May 30, 2014, a shareholder derivative action was filed against the Company in the Supreme Court of the State of New York, County of New York (*Stokes v. Och, et al.*). On August 8, 2014, a second shareholder derivative action was filed against us in the United States District Court for the Southern District of New York (*Jha v. Och, et al.*). Each complaint asserts claims derivatively on behalf of the Company against all of the Company's directors and alleges that the directors breached their fiduciary duties and other disclosure obligations with respect to the matters described above.

The Company believes these cases are without merit and intends to defend them vigorously.

### 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 operating budget for a joint venture. The amount of the commitment will be equal to the actual costs incurred in the projects the joint venture manages, as determined by the



Company and its joint venture partner. 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.

Certain of the Company's executive managing directors, collectively, have capital commitments to a fund managed by the Company of up to \$30.0 million. The Company has guaranteed these commitments in the event any executive managing director fails to fund any portion when called by the fund. The Company has historically not funded any of these commitments and does not expect to in the future, as these commitments are expected to be funded by the Company's executive managing directors individually.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
SEPTEMBER 30, 2014

### 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.

### 15. 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, credit and equity 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.

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 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 (until they exchanged their remaining interests during the 2014 second quarter) 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. The Company also defers the recognition of incentive income allocations from the consolidated Och-Ziff funds until all clawback contingencies are resolved, consistent with the revenue recognition policy for the funds the Company does not consolidate.

In addition, expenses related to compensation and profit-sharing arrangements based on fund investment performance are recognized at the end of the relevant performance measurement period, as management reviews the total compensation expense related to these arrangements in relation to any incentive income earned by the relevant fund.

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 eliminations related to the consolidated Och-Ziff funds.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

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 September 30, 2014		Nine Months Ended September 30, 2014	
	2014	2013	2014	2013
	(dollars in thousands)			
Och-Ziff Funds Segment:				
Economic Income Revenues	\$194,656	\$208,021	\$577,648	\$589,089
Economic Income	\$132,217	\$153,535	\$403,624	\$424,461

Reconciliation of Och-Ziff Funds Segment Revenues to Consolidated Revenues

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2014	2013 (Restated - See Note 17)	2014	2013 (Restated - See Note 17)
	(dollars in thousands)			
Total consolidated revenues	\$306,685	\$279,767	\$854,634	\$795,142
Adjustment to management fees(1)	(3,569)	(2,495)	(12,156)	(7,405)
Adjustment to incentive income(2)	32,455	—	42,831	1,114
Other Operations revenues	(34,431)	(2,691)	(39,687)	(8,238)
Income of consolidated Och-Ziff funds	(106,484)	(66,560)	(267,974)	(191,524)
Economic Income Revenues - Och-Ziff Funds Segment	\$194,656	\$208,021	\$577,648	\$589,089

Adjustment to present management fees net of recurring placement and related service fees, as management (1) 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.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
 SEPTEMBER 30, 2014

## Reconciliation of Och-Ziff Funds Economic Income to Net Income Allocated to Class A Shareholders

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated - See Note 17)	2014	2013 (Restated - See Note 17)
	(dollars in thousands)			
Net income allocated to Class A Shareholders—GAAP	\$23,202	\$28,852	\$57,770	\$62,705
Net income allocated to the Och-Ziff Operating Group A Units	57,946	71,600	180,508	207,172
Equity-based compensation	28,728	36,389	84,597	99,426
Income taxes	36,110	11,996	91,029	50,394
Adjustment for incentive income allocations from consolidated funds subject to clawback	21,735	(4,081)	3,612	(25,799)
Allocations to Och-Ziff Operating Group D Units	4,944	—	14,418	5,590
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	(1,911)	4,324	6,318	7,603
Reorganization expenses	4,023	4,022	12,065	12,064
Changes in tax receivable agreement liability	(20,653)	(1,064)	(24,472)	(1,047)
Depreciation and amortization	1,607	2,022	5,238	6,344
Other adjustments	(139)	161	(1,300)	2,496
Other Operations	(23,375)	(686)	(26,159)	(2,487)
Economic Income - Och-Ziff Funds Segment	\$132,217	\$153,535	\$403,624	\$424,461

## 16. SUBSEQUENT EVENTS

## Dividend

On November 4, 2014, the Company announced a cash dividend of \$0.20 per Class A Share. The dividend is payable on November 21, 2014 to holders of record as of the close of business on November 14, 2014.

## 17. RESTATEMENTS

As discussed in Note 2 to the Company's consolidated financial statements included in its Annual Report, the Company restated the quarterly amounts previously reported in its 2013 first through third quarters Form 10-Qs due to material adjustments necessary to give effect to the consolidation of the Company's CLOs. In addition, due to a change related to the accounting for previously deferred incentive income allocations from the consolidated Och-Ziff funds that remained subject to clawback, as well as the presentation of redeemable noncontrolling interests, the Company adjusted the prior period amounts presented throughout this quarterly report to conform to the current period presentation. See Note 2 to the Company's consolidated financial statements included in its Annual Report for additional information.

The tables below present the effect of these adjustments on the affected line items in the Company's consolidated statement of comprehensive income as originally reported in the Company's quarterly report on Form 10-Q for the

three and nine months ended September 30, 2013. There were no changes to the previously reported net cash flows from operating, investing and financing activities resulting from these adjustments.

OCH-ZIFF CAPITAL MANAGEMENT GROUP LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — UNAUDITED  
SEPTEMBER 30, 2014

	Three Months Ended September 30, 2013		
	Previously Reported	Adjustments	Restated
	(dollars in thousands)		
Management fees	\$143,518	\$(2,852)	) \$140,666
Income of consolidated Och-Ziff funds	40,812	25,748	66,560
General, administrative and other	36,387	9	36,396
Expenses of consolidated Och-Ziff funds	4,296	27,676	31,972
Change in deferred income of consolidated Och-Ziff funds	(12,942)	) 12,942	—
Net gains of consolidated Och-Ziff funds	30,733	12,348	43,081
Income taxes	14,786	(2,790)	) 11,996
Consolidated and total comprehensive net income	145,637	23,291	168,928
Allocation of Consolidated and Total Comprehensive Net Income			
Class A Shareholders	\$24,895	\$3,957	\$28,852
Noncontrolling interests	120,742	16,901	137,643
Redeemable noncontrolling interests	—	2,433	2,433
	\$145,637	\$23,291	\$168,928
Earnings Per Class A Share			
Basic	\$0.16	\$0.02	\$0.18
Diluted	\$0.14	\$0.01	\$0.15
	Nine Months Ended September 30, 2013		
	Previously Reported	Adjustments	Restated
	(dollars in thousands)		
Management fees	\$413,427	\$(6,598)	) \$406,829
Income of consolidated Och-Ziff funds	124,861	66,663	191,524
General, administrative and other	115,983	8	115,991
Expenses of consolidated Och-Ziff funds	12,158	58,651	70,809
Change in deferred income of consolidated Och-Ziff funds	(51,242)	) 51,242	—
Net gains of consolidated Och-Ziff funds	169,750	16,344	186,094
Income taxes	49,803	591	50,394
Consolidated and total comprehensive net income	470,602	68,401	539,003
Allocation of Consolidated and Total Comprehensive Net Income			
Class A Shareholders	\$55,861	\$6,844	\$62,705
Noncontrolling interests	414,741	56,415	471,156
Redeemable noncontrolling interests	—	5,142	5,142
	\$470,602	\$68,401	\$539,003
Earnings Per Class A Share			
Basic	\$0.36	\$0.05	\$0.41
Diluted	\$0.36	\$0.04	\$0.40





## 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 2014 Third Quarter Results

As of September 30, 2014, our assets under management were \$46.8 billion, 16% higher than \$40.2 billion as of December 31, 2013. The increase was driven by capital net inflows of \$5.4 billion and performance-related appreciation of \$1.1 billion. We continued to grow the assets in our dedicated credit, real estate and long/short equity products, which in total reached approximately \$12.6 billion as of September 30, 2014, or 27% of our assets under management. We believe that we are benefiting from the secular trend of the largest investors increasing their allocations to leading alternative asset managers across multiple asset classes.

During the third quarter of 2014, pension funds globally and private banks in the U.S. remained our largest sources of net new capital. Together, they represented approximately 50% of our total assets under management as of October 1, 2014. We continue to benefit from institutions who invest with us directly. In real estate, we completed the final closing of our third domestic real estate fund in September 2014, bringing total capital commitments to \$1.5 billion. Investor interest in the OZ Master Fund continued to be high during the third quarter, and the momentum in both our opportunistic and long-only credit products is also strong.

For the third quarter of 2014, we reported GAAP net income allocated to Class A Shareholders of \$23.2 million, compared to \$28.9 million for the third quarter of 2013, and net income of \$57.8 million for the first nine months of 2014, compared to net income of \$62.7 million for the first nine months of 2013. The decrease in our GAAP net income for both the quarter-to-date and year-to-date period was primarily due to a decrease in incentive income and higher income taxes, partially offset by higher management fees and lower general, administrative and other expenses. Partially offsetting the declines for both periods was the increase in our ownership interest in the Och-Ziff Operating Group, which resulted in a larger share of earnings being allocated to us.

We reported Economic Income for the Company of \$155.6 million for the third quarter of 2014, compared to \$154.2 million for the third quarter of 2013, and \$429.8 million for the first nine months of 2014, compared to \$426.9 million for the first nine months of 2013. The year-over-year increase for both the quarter-to-date and year-to-date periods was driven primarily by an increase in management fees, partially offset by a decrease in incentive income and an increase in compensation and benefits expenses. 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 2014 Third Quarter Fund Performance

During the third quarter and first nine months of 2014, the OZ Master Fund generated a net return of +0.4% and +2.5%, respectively; the OZ Asia Master Fund generated a net return of +3.4% and -3.5%, respectively; and the OZ Europe Master Fund generated a net return of +1.2% and -0.7%, respectively. For the first nine months of 2014 these returns were generated with approximately 53% of the volatility of the S&P 500 Index on a weighted-average basis. For the first nine months of 2014, the performance of the OZ Master Fund was driven primarily by its U.S. long/short

equity special situations and U.S. credit-related strategies, partially offset by negative performance in its European and Asian long/short equity special situations strategies. The performance of the OZ Asia Master Fund and the OZ Europe Master Fund was driven by these funds' negative returns in their long/short equity special situations strategies, partially offset by positive performance in their credit-related strategies. We remained fully invested in the OZ Master Fund as of the end of the third quarter.

During the third quarter of 2014, market conditions were more challenging globally. Geopolitical concerns and increased market volatility eroded investor confidence and contributed to rising risk aversion across asset classes. We remained fully invested in the OZ Master Fund as of the end of the third quarter, although we adjusted our capital allocations across strategies and geographies as the quarter progressed. We continue to identify select opportunities, particularly in long/short equity special situations and merger arbitrage, as large-scale M&A activity remains strong. While credit spreads in many areas of the credit markets

continued to tighten during the third quarter, we continue to invest opportunistically in corporate and structured credit. 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.

#### 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 strategy may be materially affected by conditions in the financial markets, and by global economic and business conditions.

Global equity markets opened the 2014 third quarter strongly, with the S&P 500 Index closing above 2,000 for the first time in its history during August. However, renewed volatility rattled the markets in August and September. Geopolitical concerns and heightened focus about the timing of an increase in interest rates by the U.S. Federal Reserve eroded investor confidence and contributed to increased volatility and rising risk aversion across asset classes as the S&P 500 Index ended the month of September down 1.40%.

In Europe, concerns about the European banking sector and uncertainty over the European Central Bank's asset quality review, among other factors, weighed on investor sentiment throughout the 2014 third quarter.

In Asia, equity markets in the region generated improved performance during the 2014 third quarter. In China, the government announced several policies to support the housing sector during the third quarter. In addition, the People's Bank of China introduced measures to lower mortgage rates. In Japan, while economic data remained mixed, the weakening Yen versus the U.S. Dollar helped improve equity market performance.

#### Capital Flow Environment

As of the end of the 2014 third quarter, total capital allocated to the hedge fund industry totaled \$2.82 trillion, the ninth quarterly consecutive record, increasing approximately \$18 billion, or 0.6%, from the end of the second quarter. Capital net inflows comprised \$15.9 billion, or 88%, of the sequential increase, with the remainder coming from performance-related appreciation. Capital net inflows were approximately half those seen during the second quarter. During the first nine months of 2014, capital net inflows totaled \$72.8 billion, 14% higher than the \$63.7 billion for all of 2013.

#### Assets Under Management and Fund Performance

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, CLOs 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 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 September 30, 2014, approximately 5% 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 41% 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 third quarter investment performance for the periods presented, as these amounts do not impact management fees calculated for that period.

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	2013	2014	2013	2014
	(dollars in thousands)			
Balance-beginning of period	\$45,884,204	\$36,567,072	\$40,238,812	\$32,603,930
Net flows	639,340	161,002	5,434,942	2,147,239
Appreciation	259,903	1,080,294	1,109,693	3,057,199
Balance-end of period	\$46,783,447	\$37,808,368	\$46,783,447	\$37,808,368
Weighted-average assets under management	\$45,843,338	\$36,427,398	\$43,875,492	\$34,901,732

In the first nine months of 2014, our funds experienced performance-related appreciation of \$1.1 billion and capital net inflows of \$5.4 billion, which were comprised of \$9.9 billion of gross inflows and \$4.4 billion of gross outflows. Direct allocations from private banks and pension funds remained the largest drivers of our gross inflows during the first nine months of 2014 (excluding CLOs), but we also saw growth from fund-of-funds and corporate, institutional and other. These gross inflows included \$2.1 billion related to the launch of additional CLOs and \$1.5 billion committed to our third domestic real estate fund. Redemptions from fund-of-funds were the largest driver of our gross outflows during the first nine months of 2014. Our outflows also included a \$334.9 million reduction in assets under management resulting from the expiration of the investment period for our second domestic real estate fund.

In the first nine months of 2013, our funds experienced performance-related appreciation of \$3.1 billion and capital net inflows of \$2.1 billion, which were comprised of \$5.8 billion of gross inflows and \$3.6 billion of gross outflows. Direct allocations from pension funds continued to be the largest driver of our inflows (excluding CLOs), while redemptions from fund-of-funds were the largest driver of our outflows for the first nine months of 2013. Our gross inflows also included \$1.2 billion related to the launch of our third and fourth CLOs.

## Assets Under Management and Fund Performance Information

	September 30, 2014	September 30, 2013
	(dollars in thousands)	
Multi-strategy funds		
OZ Master Fund	\$27,584,128	\$23,494,806
OZ Asia Master Fund	1,359,197	1,275,475
OZ Europe Master Fund	1,220,374	1,504,148
Other multi-strategy funds	3,677,471	3,648,696
Credit funds	5,150,783	4,216,463
CLOs	4,698,256	2,134,138
Real estate funds	1,934,976	854,430
Other	1,158,262	680,212
Total	\$46,783,447	\$37,808,368

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.

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 1.0% to 2.5% of assets under management based on the net asset value of these funds. Incentive income for these funds is generally 20% of realized and unrealized profits, and a portion of these assets is subject to hurdle rates. See “—Understanding Our Results—Incentive Income” for additional information.

## OZ Master Fund

Assets Under Management as of September 30,		Net Returns for the Three Months Ended September 30,		Net Returns for the Nine Months Ended September 30,	
2014	2013	2014	2013	2014	2013

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

(dollars in thousands)

OZ Master Fund	\$27,584,128	\$23,494,806	+0.4	% +3.1	% +2.5	% +9.7	%
----------------	--------------	--------------	------	--------	--------	--------	---

The \$4.1 billion year-over-year increase in assets under management was driven by performance-related appreciation and capital net inflows in each quarter.

For the three months ended September 30, 2014, convertible and derivative arbitrage contributed approximately 16% of the fund's return before management fees and incentive income; corporate credit contributed approximately -1%; long/short equity special situations contributed approximately 59%; merger arbitrage contributed approximately 12%; private investments contributed approximately -2%; structured credit contributed approximately 57%; and other items contributed approximately -41%.



For the three months ended September 30, 2013, convertible and derivative arbitrage contributed approximately -1% of the fund's return before management fees and incentive income; corporate credit contributed approximately 10%; long/short equity special situations contributed approximately 63%; merger arbitrage contributed approximately 5%; private investments contributed approximately 4%; structured credit contributed approximately 20%; and other items contributed approximately -1%.

For the nine months ended September 30, 2014, convertible and derivative arbitrage contributed approximately 3% of the fund's return before management fees and incentive income; corporate credit contributed approximately 26%; long/short equity special situations contributed approximately 15%; merger arbitrage contributed approximately 17%; private investments contributed approximately 3%; structured credit contributed approximately 49%; and other items contributed approximately -13%.

For the nine months ended September 30, 2013, convertible and derivative arbitrage contributed approximately 3% of the fund's return before management fees and incentive income; corporate credit contributed approximately 15%; long/short equity special situations contributed approximately 51%; merger arbitrage contributed approximately 6%; private investments contributed approximately -1%; structured credit contributed approximately 28%; and other items contributed approximately -2%.

#### OZ Asia Master Fund

	Assets Under Management as of September 30,		Net Returns for the Three Months Ended September 30,		Net Returns for the Nine Months Ended September 30,			
	2014	2013	2014	2013	2014	2013		
	(dollars in thousands)							
OZ Asia Master Fund	\$1,359,197	\$1,275,475	+3.4	% +1.3	% -3.5	% +10.0	%	

The \$83.7 million year-over-year increase in assets under management was driven by capital net inflows in the first and second quarters of 2014 and the fourth quarter of 2013 and performance-related appreciation in the second and third quarters of 2014 and the fourth quarter of 2013, partially offset by capital net outflows in the third quarter of 2014 and performance-related depreciation in the first quarter of 2014.

For the three months ended September 30, 2014, convertible and derivative arbitrage contributed approximately 12% of the fund's return before management fees and incentive income; corporate credit contributed approximately 3%; long/short equity special situations contributed approximately 103%; private investments contributed approximately -9%; and other items contributed approximately -9%.

For the three months ended September 30, 2013, convertible and derivative arbitrage contributed approximately -4% of the fund's return before management fees and incentive income; corporate credit contributed approximately 10%; long/short equity special situations contributed approximately 124%; merger arbitrage contributed approximately 10%; private investments contributed approximately -32%; and other items contributed approximately -8%.

For the nine months ended September 30, 2014, convertible and derivative arbitrage contributed approximately -29% of the fund's return before management fees and incentive income; corporate credit contributed approximately -70%; long/short equity special situations contributed approximately 121%; private investments contributed approximately 18%; and other items contributed approximately 60%.

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

For the nine months ended September 30, 2013, convertible and derivative arbitrage contributed approximately 9% of the fund's return before management fees and incentive income; corporate credit contributed approximately 4%; long/short equity special situations contributed approximately 104%; merger arbitrage contributed approximately 1%; private investments contributed approximately -13%; and other items contributed approximately -5%.

OZ Europe Master Fund

	Assets Under Management as of September 30,		Net Returns for the Three Months Ended September 30,		Net Returns for the Nine Months Ended September 30,			
	2014	2013	2014	2013	2014	2013		
	(dollars in thousands)							
OZ Europe Master Fund	\$1,220,374	\$1,504,148	+1.2	% +2.8	% -0.7	% +7.8	%	

The \$283.8 million year-over-year decrease in assets under management was driven by capital net outflows in the first and third quarters of 2014 and the fourth quarter of 2013, and performance-related depreciation in the first and second quarters of 2014. These decreases were partially offset by performance-related appreciation in the third quarter of 2014 and fourth quarter of 2013 and capital net inflows in the second quarter of 2014.

For the three months ended September 30, 2014, convertible and derivative arbitrage contributed approximately 7% of the fund's return before management fees and incentive income; corporate credit contributed approximately 12%; long/short equity special situations contributed approximately 26%; merger arbitrage contributed approximately 9%; private investments contributed approximately -3%; structured credit contributed approximately 52%; and other items contributed approximately -3%.

For the three months ended September 30, 2013, corporate credit contributed approximately 16% of the fund's return before management fees and incentive income; long/short equity special situations contributed approximately 50%; merger arbitrage contributed approximately -1%; private investments contributed approximately -5%; and structured credit contributed approximately 40%;

For the nine months ended September 30, 2014, convertible and derivative arbitrage contributed approximately 23% of the fund's return before management fees and incentive income; corporate credit contributed approximately 126%; long/short equity special situations contributed approximately -356%; merger arbitrage contributed approximately 77%; private investments contributed approximately -60%; structured credit contributed approximately 319%; and other items contributed approximately -29%.

For the nine months ended September 30, 2013, corporate credit contributed approximately 30% of the fund's return before management fees and incentive income; long/short equity special situations contributed approximately 53%; merger arbitrage contributed approximately 2%; private investments contributed approximately -24%; structured credit contributed approximately 37%; and other items contributed approximately 2%.

#### 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 \$28.8 million year-over-year increase in assets under management was driven by capital net inflows in the first and second quarters of 2014, and performance-related appreciation in the fourth quarter of 2013 and the second quarter of 2014. These increases were partially offset by capital net outflows in the fourth quarter of 2013 and third quarter of 2014 and performance-related depreciation in the first and third quarters of 2014.

#### 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 1.75% of assets under management based on either the net asset value of these funds or on the amount of capital committed to these platforms by our fund investors. Incentive income related to the majority of these assets is equal to 20% of realized profits, subject to hurdle rates. For funds we do not consolidate, incentive income is recognized at or near the end of the life of the fund when it is no longer subject to clawback. See “—Understanding Our Results—Incentive Income” for additional information, including the recognition of incentive income for funds we consolidate.

The \$934.3 million year-over-year increase in assets under management was driven by continued growth in our various credit funds.

#### CLOs

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. We consolidate our CLOs, and therefore the management fees and incentive income from these entities is eliminated in consolidation. See “—Understanding Our Results—Incentive Income” for additional information.

The \$2.6 billion year-over-year increase in assets under management was driven by additional CLOs we closed in the fourth quarter of 2013 and the first nine months of 2014.

## 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 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 these funds is equal to 20% of the realized profits, subject to hurdle rates. We consolidate our real estate funds, and therefore incentive income from these entities is eliminated in consolidation. Management fees from the real estate funds are paid to us directly by the fund investors in those funds, and therefore those amounts are not eliminated in consolidation. See “—Understanding Our Results—Incentive Income” for additional information, including the recognition of incentive income for funds we consolidate.

The \$1.1 billion year-over-year increase in assets under management was driven by the launch of our third domestic real estate fund, partially offset by the wind-down of our first domestic real estate fund. Also offsetting the increase in assets under management was a \$334.9 million reduction in assets under management resulting from the expiration of the investment period of our second domestic real estate fund.

## Other

Our other assets under management are comprised of funds that are generally strategy-specific, including our equity funds. 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 is generally 20% of realized profits and 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. See “—Understanding Our Results—Incentive Income” for additional information.

The \$478.1 million year-over-year increase in assets under management was driven primarily by growth in our long/short equity funds.

## 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 third quarter of 2014 was approximately 1.46%. 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 in our multi-strategy funds and certain other funds, but it excludes unrealized gains and losses attributable to Special Investments. For our credit funds, real estate funds and certain other funds, incentive income is typically equal to 20% of the realized profits attributable to each fund investor. For our CLOs, incentive income is typically 20% of the excess cash flows available to the holders of the subordinated notes. Our ability to earn incentive income from some of our funds may be impacted by hurdle rates as further discussed below.

For funds that we consolidate, including our real estate funds, certain credit funds and certain other funds, incentive income is recognized by allocating a portion of the net income of the consolidated Och-Ziff funds to us rather than to the fund investors (noncontrolling interests). Incentive income allocated to us is not reflected as incentive income in our consolidated revenues, as these amounts are eliminated in consolidation. The allocation of incentive income to us is based on the contractual terms of the relevant fund agreements. As a result, we may recognize earnings related to our incentive income allocation from the consolidated Och-Ziff funds prior to the end of their respective performance measurement periods, and therefore we may recognize earnings that are subject to clawback to the extent a consolidated fund generates subsequent losses. For Economic Income purposes, we defer recognition of these earnings until they are no longer subject to clawback.

For funds that we do not consolidate, incentive income is not recognized 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 certain of our credit funds and certain other funds we manage, which typically have measurement periods beyond one year. 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).

In addition to assets under management subject to one-year measurement periods, approximately \$15.0 billion, or 32.0%, of our assets under management as of September 30, 2014 were subject to initial performance measurement periods of three years or longer. 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 is based on the cumulative investment performance over a specified measurement period (in the case of CLOs, based on the excess cash flows available to the holders of the subordinated notes), and, to the extent a fund is not consolidated, 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 is also 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 the 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.

**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 based on total annual revenues, which are significantly influenced by the amount of incentive income we earn in the year. Annual discretionary cash bonuses 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. Certain executive managing directors 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, which we refer to as 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.

The Och-Ziff Operating Group D Units are not considered equity under GAAP and no equity-based compensation expense is recognized related to these units when they are granted. Distributions made to holders of these units are recognized within compensation and benefits in the consolidated statements of comprehensive income, 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, until they exchanged their remaining units during the 2014 second quarter) and the Och-Ziff Operating Group B Units (held by our intermediate holding companies). An Och-Ziff Operating Group D Unit converts into an Och-Ziff Operating Group A Unit to the extent the Company determines that it has become economically equivalent to an Och-Ziff Operating Group A Unit, at which point it is considered a grant of equity-based compensation for GAAP purposes. 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.

We also have profit-sharing arrangements whereby certain employees or executive managing directors are entitled to a share of incentive income distributed by certain funds. This incentive income is typically paid to us, and a portion paid to the participant, as investments held by these funds are realized. We defer the recognition of any portion of this incentive income to the extent it is subject to clawback and relates to a fund that is not consolidated. See “—Incentive Income” above. To the extent that the payments to the employees or executive managing directors are probable and reasonably estimable, we accrue these payments as compensation expense for GAAP purposes, which may occur prior to the recognition of the related incentive income.

In August 2012, we adopted the PIP, under which certain of our executive managing directors at the time of the IPO may be eligible to receive discretionary cash awards and discretionary grants of Och-Ziff Operating Group D Units over a five-year period that commenced in 2013. Each year, an aggregate of up to 2,770,749 Och-Ziff Operating Group D Units may be granted under the PIP to the participating executive managing directors, for an aggregate of up to 13,853,745 over the five-year period if a determination is made each year to award the maximum number of units. Aggregate discretionary cash awards for each year under the PIP will be capped at 10% of our incentive income earned during such year, up to a maximum of \$39.6 million. The participating executive managing directors, collectively, may receive a maximum aggregate amount of up to \$197.8 million over the five-year period if we earn enough incentive income each year and if a determination is made each year to award the maximum amount.

**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 of these 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”) and under a secured multiple draw term loan agreement entered into on February 14, 2014 to finance the purchase of a new corporate aircraft expected to be delivered in the first quarter of 2015 (the “Aircraft Loan”). Both of these loans are LIBOR-based, variable rate borrowings. 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 delivery of a new corporate aircraft, the LIBOR interest rate on our Aircraft Loan resets every month on the first day of each interest period. Following delivery of the new corporate aircraft, we will have the option of selecting a fixed or variable interest rate. See “—Liquidity and Capital Resources—Debt Obligations” for additional information.

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.

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 (Loss)

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

Net Gains (Losses) of Consolidated Och-Ziff Funds. Net gains (losses) of consolidated Och-Ziff funds consist of net 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 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 and fund investors' interests in the consolidated Och-Ziff funds. Increases or decreases in net income allocated to the Och-Ziff Operating Group A Units are driven by the earnings of the Och-Ziff Operating Group. Increases or decreases in the net income allocated to fund investors' interests in consolidated Och-Ziff funds are driven by the earnings of those funds as allocated under the contractual terms of the relevant fund agreements.

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.

Additionally, we consolidate a credit-focused hedge fund that we manage, wherein investors are able to redeem their interests after an initial lock-up period of one to three years. Allocations of profits and losses to these interests are reflected within net income allocated to redeemable noncontrolling interests in the consolidated statements of comprehensive income.



## Results of Operations

## Revenues

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated)	2014	2013 (Restated)
	(dollars in thousands)			
Management fees	\$171,906	\$140,666	\$494,707	\$406,829
Incentive income	28,011	72,338	91,022	195,403
Other revenues	284	203	931	1,386
Income of consolidated Och-Ziff funds	106,484	66,560	267,974	191,524
Total Revenues	\$306,685	\$279,767	\$854,634	\$795,142

Total revenues for the quarter-to-date period increased by \$26.9 million, primarily due to the following:

A \$39.9 million increase in income of consolidated Och-Ziff funds. Substantially all of this income is allocated to noncontrolling interests, as we only have a minimal ownership interest, if any, in each of these funds. We may, however, be allocated a portion of these earnings through our incentive income allocation as general partner of these funds.

A \$31.2 million increase in management fees, 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. See “—Economic Income Analysis” for information regarding our average management fee rate.

A \$44.3 million offsetting decrease in incentive income, primarily due to a \$24.4 million decrease related to fund investor redemptions. The remaining decrease was primarily driven by lower incentive income from longer-term multi-strategy assets.

Total revenues for the year-to-date period increased by \$59.5 million, primarily due to the following:

An \$87.9 million increase in management fees, 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. See “—Economic Income Analysis” for information regarding our average management fee rate.

A \$76.5 million increase in income of consolidated Och-Ziff funds. Substantially all of this income is allocated to noncontrolling interests, as we only have a minimal ownership interest, if any, in each of these funds. We may, however, be allocated a portion of these earnings through our incentive income allocation as general partner of these funds.

A \$104.4 million offsetting decrease in incentive income, primarily due to the following: (i) \$69.6 million of incentive income crystallized in 2013 that was not repeated in 2014. This incentive related to the restructuring of terms and expansion of a relationship with an existing investor in certain of our credit assets; (ii) a \$47.9 million decrease related to longer-term multi-strategy assets; (iii) a \$35.3 million decrease related to fund investor redemptions; (iv) an offsetting \$27.6 million increase in the tax distributions taken to cover tax liabilities on incentive income that has been accrued by certain funds we manage, but that will not be realized until the end of the relevant performance measurement period; and (v) an offsetting \$17.1 million increase in incentive income crystallized on certain longer-term credit assets. The remaining variance was attributable to incentive income related to assets subject to

one-year measurement periods.

## Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated)	2014	2013 (Restated)
	(dollars in thousands)			
Compensation and benefits	\$74,115	\$68,238	\$206,664	\$188,936
Reorganization expenses	4,023	4,022	12,065	12,064
Interest expense	1,688	1,827	5,047	5,292
General, administrative and other	23,160	36,396	102,303	115,991
Expenses of consolidated Och-Ziff funds	50,082	31,972	127,215	70,809
Total Expenses	\$153,068	\$142,455	\$453,294	\$393,092

Total expenses for the quarter-to-date period increased by \$10.6 million, primarily due to the following:

An \$18.1 million increase in expenses of consolidated Och-Ziff funds. Substantially all of these expenses are allocated to noncontrolling interests, as we only have a minimal ownership interest, if any, in each of these funds. These expenses, however, may reduce the amount of earnings from the consolidated funds allocated to us through our incentive income allocation as general partner of these funds.

A \$5.9 million increase in compensation and benefits expenses, primarily due to the following: (i) a \$5.4 million increase in bonus expense; (ii) a \$4.9 million increase in the allocation to Och-Ziff Operating Group D Units, primarily driven by a greater number of units outstanding in 2014; (iii) a \$3.1 million increase in salaries and benefits due in part to an increase in our worldwide headcount from 532 as of September 30, 2013 to 584 as of September 30, 2014; and (iv) a \$7.7 million offsetting decrease in equity-based compensation primarily related to a \$4.2 million charge in the third quarter of 2013 in connection with the departure of a former executive managing director, as well as lower amortization expense on the remaining Och-Ziff Operating Group D Units that converted into Och-Ziff Operating Group A Units.

A \$13.2 million offsetting decrease in general, administrative and other expenses, primarily driven by a decrease of \$19.6 million in the change in tax receivable agreement liability due to updated estimated future income tax savings resulting from a change in income tax rates at the state and local level. This decrease was partially offset by a \$4.6 million increase in placement fees and a \$2.2 million increase in insurance costs. The remaining variance was driven by a combination of various other miscellaneous expenses.

Total expenses for the year-to-date period increased by \$60.2 million, primarily due to the following:

A \$56.4 million increase in expenses of consolidated Och-Ziff funds. Substantially all of these expenses are allocated to noncontrolling interests, as we only have a minimal ownership interest, if any, in each of these funds. These expenses, however, may reduce the amount of earnings from the consolidated funds allocated to us through our incentive income allocation as general partner of these funds.

A \$17.7 million increase in compensation and benefits expenses, primarily due to the following: (i) a \$13.0 million increase in bonus expense; (ii) a \$10.8 million increase in salaries and benefits due in part to an increase in our worldwide headcount as discussed above; (iii) an \$8.8 million increase in the allocation to Och-Ziff Operating Group D Units, primarily driven by a greater number of units outstanding in 2014; and (iv) a \$14.8 million offsetting decrease in equity-based compensation primarily related to the amortization of Och-Ziff Operating Group A Units. The decline was driven primarily 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, as well as a \$4.2 million charge in the third quarter of 2013 in connection with the departure of a former executive managing director. These decreases were partially offset by increased amortization related to unvested RSUs.



A \$13.7 million offsetting decrease in general, administrative and other expenses, primarily driven by a decrease of \$23.4 million in the change in tax receivable agreement liability due to updated estimated future income tax savings resulting from a change in income tax rates at the state and local level. Also contributing to the decline was a decrease of \$11.8 million in professional services. These decreases were partially offset by a \$13.4 million increase in placement fees and a \$6.4 million increase in insurance costs. The remaining variance was driven by a combination of various other miscellaneous expenses.

## Other Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated)	2014	2013 (Restated)
	(dollars in thousands)			
Net gains on investments in Och-Ziff funds and joint ventures	\$76	\$531	\$5,949	\$1,253
Net gains (losses) of consolidated Och-Ziff funds	(4,769)	) 43,081	115,498	186,094
Total Other Income (Loss)	\$ (4,693)	) \$43,612	\$121,447	\$187,347

Total other income for the quarter-to-date period decreased by \$48.3 million and \$65.9 million for the year-to-date period, primarily due to a decrease in net gains (losses) of consolidated Och-Ziff funds. Substantially all of these net gains (losses) are allocated to noncontrolling interests, as we only have a minimal ownership interest, if any, in each of these funds. We may, however, be allocated a portion of these earnings through our incentive income allocation as general partner of these funds. Partially offsetting the year-to-date decrease was a \$4.7 million increase in net gains on investments in Och-Ziff funds and joint ventures driven by the sale of an investment held by a joint venture during the first quarter of 2014.

## Income Taxes

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated)	2014	2013 (Restated)
	(dollars in thousands)			
Income taxes	\$36,110	\$11,996	\$91,029	\$50,394

Income tax expense increased by \$24.1 million for the quarter-to-date period, primarily due to a \$16.4 million increase due to the impact of lower state and local income tax rates. The remaining increase related primarily to adjustments recorded with the finalization of our 2013 income tax returns.

Income tax expense increased by \$40.6 million for the year-to-date period, primarily driven by a \$22.6 million increase due to the impact of lower state and local income tax rates. Also contributing to the year-to-date increase was a \$5.9 million increase due to higher profitability, as well as a \$7.0 million increase related to the establishment of a liability for unrecognized tax benefits in the first quarter of 2014. The remaining increase related primarily to adjustments recorded with the finalization of our 2013 income tax returns.

## Net Income Allocated to Noncontrolling Interests

The following table presents the components of the net income allocated to noncontrolling interests and to redeemable noncontrolling interests:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated)	2014	2013 (Restated)
	(dollars in thousands)			
Och-Ziff Operating Group A Units	\$57,946	\$71,600	\$180,508	\$207,172
Consolidated Och-Ziff funds	25,124	65,238	163,080	258,895
Other	165	805	308	5,089
Total	\$83,235	\$137,643	\$343,896	\$471,156
Redeemable noncontrolling interests	\$6,377	\$2,433	\$30,092	\$5,142

Net income allocated to noncontrolling interests for the quarter-to-date period decreased \$54.4 million primarily due to the following:

A \$40.1 million decrease in the net income allocated to the consolidated Och-Ziff funds primarily driven by the decrease in net gains of consolidated Och-Ziff funds and higher expenses in those funds, partially offset by higher income in the consolidated funds.

A \$13.7 million decrease in the net income allocated to the Och-Ziff Operating Group A Units driven primarily by a decrease in incentive income, partially offset by higher management fees and lower general, administrative and other expenses, as discussed above.

Net income allocated to noncontrolling interests for the year-to-date period decreased \$127.3 million primarily due to the following:

A \$95.8 million decrease in the net income allocated to the consolidated Och-Ziff funds driven primarily by the decrease in net gains of consolidated Och-Ziff funds and higher expenses in those funds, partially offset by higher income in the consolidated funds.

A \$26.7 million decrease in the net income allocated to the Och-Ziff Operating Group A Units driven primarily by the decrease in incentive income and higher compensation and benefits, partially offset by higher management fees and lower general, administrative and other expenses, as discussed above. Also driving the year-over-year decline was an increase in the earnings of the Och-Ziff Operating Group allocated to us rather than to the Och-Ziff Operating Group A Units. The Och-Ziff Operating Group A Units ownership interests in the Och-Ziff Operating Group declined from 66.0% as of September 30, 2013 to 63.7% as of September 30, 2014.

## Net Income Allocated to Class A Shareholders

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013 (Restated)	2014	2013 (Restated)
	(dollars in thousands)			
Net income allocated to Class A Shareholders	\$23,202	\$28,852	\$57,770	\$62,705

Net income allocated to Class A Shareholders for the quarter-to-date period decreased by \$5.7 million and by \$4.9 million for the year-to-date period. These decreases were primarily due to a decrease in incentive income and higher income taxes, partially offset by higher management fees and lower general, administrative and other expenses. Also partially offsetting the declines for both periods was the increase in our ownership interest in the Och-Ziff Operating Group, which resulted in a larger share of earnings being allocated to us.

## 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 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 (until they exchanged their remaining interests during the 2014 second quarter) 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. We also defer the recognition of incentive income allocations from the consolidated Och-Ziff funds until all clawback contingencies are resolved, consistent with the revenue recognition policy for the funds we do not consolidate.

In addition, expenses related to compensation and profit-sharing arrangements based on fund investment performance are recognized at the end of the relevant performance measurement period, as management reviews the total compensation expense related to these arrangements in relation to any incentive income earned by the relevant fund.

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 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, equity funds 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.



## Economic Income Revenues (Non-GAAP)

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Economic Income Basis						
Management fees	\$163,268	\$5,069	\$168,337	\$135,486	\$2,685	\$138,171
Incentive income	31,111	29,355	60,466	72,338	—	72,338
Other revenues	277	7	284	197	6	203
Total Economic Income Revenues	\$194,656	\$34,431	\$229,087	\$208,021	\$2,691	\$210,712

Economic Income revenues for the quarter-to-date period increased by \$18.4 million, primarily due to the following:

A \$30.2 million increase in management fees, 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 rate fee rate was 1.46% for the third quarter of 2014, lower than the 1.50% for the third quarter of 2013. This decline was due primarily to an increase in the assets under management in our dedicated credit platforms and CLOs, which earn lower management fee rates than our traditional hedge fund products, consistent with market convention for these products.

An \$11.9 million offsetting decrease in incentive income, primarily due to the following: (i) a \$24.4 million decrease related to fund investor redemptions; (ii) a 21.9 million decrease in incentive income from longer-term multi-strategy assets; (iii) an offsetting \$29.4 million increase in incentive income crystallized in Other Operations related to the wind-down of our first domestic real estate fund; and (iv) an offsetting \$5.4 million increase in incentive income crystallized on certain longer-term credit assets.

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Economic Income Basis						
Management fees	\$472,240	\$10,311	\$482,551	\$391,199	\$8,225	\$399,424
Incentive income	104,498	29,355	133,853	196,517	—	196,517
Other revenues	910	21	931	1,373	13	1,386
Total Economic Income Revenues	\$577,648	\$39,687	\$617,335	\$589,089	\$8,238	\$597,327

Economic Income revenues for the year-to-date period increased by \$20.0 million, primarily due to the following:

An \$83.1 million increase in management fees, 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 1.47% for the first nine months of 2014, lower than the 1.53% for the first nine months of 2013. This decline was due primarily to an increase in the assets under management in our dedicated credit platforms and CLOs, which earn lower management fee rates than our traditional hedge fund products, consistent with market convention for these products.

A \$62.7 million offsetting decrease in incentive income, primarily due to the following: (i) \$69.6 million of incentive income crystallized in 2013 that was not repeated in 2014. This incentive related to the restructuring of terms and expansion of a relationship with an existing investor in certain of our credit assets; (ii) a \$35.6 million decrease related to fund investor redemptions; (iii) a \$47.5 million decrease related to longer-term multi-strategy assets; (iv) an offsetting \$31.1 million increase in the tax distributions taken to cover tax liabilities on incentive income that has been accrued by certain funds we manage, but that will not be realized until the end of the relevant performance measurement period; (v) an offsetting \$29.4 million increase in incentive income crystallized in Other Operations related to the wind-down of our first domestic real estate fund; and (vi) an offsetting \$26.0 million increase in incentive income crystallized on certain longer-term credit assets. The

remaining variance was primarily attributable to incentive income related to assets subject to one-year measurement periods.

#### Economic Income Expenses (Non-GAAP)

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	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	\$32,620	\$9,734	\$42,354	\$26,420	\$1,105	\$27,525
Non-compensation expenses	29,824	1,322	31,146	28,485	586	29,071
Total Economic Income Expenses	\$62,444	\$11,056	\$73,500	\$54,905	\$1,691	\$56,596

Economic Income expenses for the quarter-to-date period increased by \$16.9 million, primarily due to the following:

A \$14.8 million increase in compensation and benefits expenses driven by an \$11.7 million increase in bonus expense primarily due to incentive income profit sharing related to the recognition of incentive from our first domestic real estate fund as discussed above. The remaining \$3.1 million increase in compensation and benefits was driven by 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 15% in the third quarter of 2014, compared to 17% in the third quarter of 2013.

A \$2.1 million increase in non-compensation expenses, primarily due to higher insurance costs. The ratio of non-compensation expense to management fees was 19% in the third quarter of 2014, compared to 21% in the third quarter of 2013.

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	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	\$89,455	\$11,876	\$101,331	\$73,066	\$3,251	\$76,317
Non-compensation expenses	89,449	1,652	91,101	92,529	1,397	93,926
Total Economic Income Expenses	\$178,904	\$13,528	\$192,432	\$165,595	\$4,648	\$170,243

Economic Income expenses for the year-to-date period increased by \$22.2 million, primarily due to the following:

A \$25.0 million increase in compensation and benefit expenses driven by a \$14.3 million increase in bonus expense primarily due to incentive income profit sharing related to the recognition of incentive from our first domestic real estate fund as discussed above. The remaining \$10.8 million increase in compensation and benefits was driven by



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 16% for the first nine months of 2014, compared to 17% for the first nine months of 2013.

A \$2.8 million offsetting decrease in non-compensation expenses, primarily due to lower professional services fees, partially offset by higher insurance costs. The ratio of non-compensation expense to management fees was 19% in the first nine months of 2014, compared to 24% in the first nine months of 2013.

## Other Economic Income Items (Non-GAAP)

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
(dollars in thousands)						
Economic Income Basis						
Net gains on joint ventures	\$—	\$—	\$—	\$420	\$—	\$420
Net income (loss) allocated to noncontrolling interests	\$(5	) \$—	\$(5	) \$1	\$314	\$315
	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
(dollars in thousands)						
Economic Income Basis						
Net gains on joint ventures	\$4,874	\$—	\$4,874	\$960	\$—	\$960
Net income (loss) allocated to noncontrolling interests	\$(6	) \$—	\$(6	) \$(7	) \$1,103	\$1,096

Net gains on joint ventures represent the net gains 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. The increase in net gains on joint ventures for the year-to-date period was primarily due to the sale of an investment held by a joint venture.

## Economic Income (Non-GAAP)

	Three Months Ended September		Nine Months Ended September	
	30, 2014	2013	30, 2014	2013
(dollars in thousands)				
Economic Income:				
Och-Ziff Funds segment	\$132,217	\$153,535	\$403,624	\$424,461
Other Operations	23,375	686	26,159	2,487
Total Company	\$155,592	\$154,221	\$429,783	\$426,948

Economic Income for the quarter-to-date period increased \$1.4 million and by \$2.8 million for the year-to-date period. The increases for both periods were driven primarily by an increase in management fees, partially offset by a decrease in incentive income and an increase in compensation and benefits expenses.

## 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.”

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.

Executive managing directors participating in the PIP may be eligible to receive discretionary annual cash awards each year for a five-year period that commenced in 2013, if we earn incentive income in the relevant year. The maximum aggregate amount of cash that may be awarded for each year under the PIP to the participating executive managing directors, collectively, will be capped at 10% of our incentive income earned during that year, up to a maximum aggregate amount of \$39.6 million. Whether any cash is awarded under the PIP in a particular year, and the amount of such awards, 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 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 and the Aircraft Loan in part prior to the respective 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.

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

### Delayed Draw Term Loan

As of September 30, 2014, we had \$381.3 million of indebtedness outstanding under the Delayed Draw Term Loan. 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 September 30, 2014, 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 September 30, 2014, 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 September 30, 2014, distributions from the Och-Ziff Operating Group were in compliance with the free cash flow covenant.

On March 13, 2014, OZ Management and certain of our other subsidiaries entered into an amendment and waiver with the administrative agent and certain of the lenders under our Delayed Draw Term Loan in order to, among other things, waive any breach or violation of any provision of the Delayed Draw Term Loan that may have resulted from the restatements and

reclassifications discussed in Note 2 to our consolidated financial statements included in our Annual Report, including any defaults or events of default that might have resulted therefrom (including by way of cross-default).

#### Aircraft Loan

On February 14, 2014, we entered into the Aircraft Loan for up to \$59.0 million to finance the purchase of a new corporate aircraft expected to be delivered in the first quarter of 2015. The Aircraft Loan is guaranteed by OZ Management, OZ Advisors and OZ Advisors II. As of September 30, 2014, \$48.7 million was outstanding under the Aircraft Loan.

Amounts borrowed prior to aircraft delivery to fund progress payments under the aircraft purchase agreement bear interest at a rate of LIBOR plus 1.40%. Following aircraft delivery, we will have the option of selecting a 5- or 7-year term with either a fixed or floating interest rate, which rate will vary based on the term selected. There are no financial covenants associated with the Aircraft Loan. No principal payments are due prior to aircraft delivery; however, the Aircraft Loan will become due if the aircraft is not delivered by October 30, 2015. Following aircraft delivery, borrowings under the Aircraft Loan will be payable in installments for the term of the facility, with a balloon payment due upon maturity. The amount of the installment and balloon payments will be determined based upon the selection of either a 5- or 7-year term. The Aircraft Loan includes other customary terms and conditions, including customary events of default and covenants.

On March 13, 2014, OZ Management, OZ Advisors, OZ Advisors II and one of our other subsidiaries entered into a waiver with the lender under our Aircraft Loan in order to waive any breach or violation of any provision of the Aircraft Loan documents that may have resulted from the restatements and reclassifications discussed in Note 2 to our consolidated financial statements included in our Annual Report, including any defaults or events of default that might have resulted therefrom (including by way of cross-default).

#### 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 the other executive managing directors and the Ziffs approximately 78% (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 September 30, 2014, 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 \$763.1 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.
- 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 2014 and the related cash distributions to our executive managing directors and the Ziffs (until they exchanged their remaining interests during the 2014 second quarter):

Payment Date	Class A Shares Record Date	Dividend per Share	Related Distributions to Executive Managing Directors and the Ziffs
--------------	-------------------------------	-----------------------	---

			(dollars in thousands)
November 21, 2014	November 14, 2014	\$0.20	\$83,427
August 22, 2014	August 15, 2014	\$0.17	\$67,383
May 19, 2014	May 12, 2014	\$0.23	\$92,942
February 25, 2014	February 18, 2014	\$1.12	\$420,724

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 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; 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 dividend equivalents. The dividend equivalents will only be paid if the related RSUs vest and will be settled at the same time as the underlying RSUs. 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 and our executive managing directors 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 and our executive managing directors 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 \$815.8 million and \$872.8 million for the nine months ended September 30, 2014 and 2013, 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. 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 decrease in net cash from operating activities was primarily due to higher cash outflows related to the activities of the consolidated funds. Partially offsetting the decrease was an increase in incentive income in 2013 compared to 2012, partially offset by higher discretionary cash bonuses related to 2013 compared to 2012. Incentive income is collected and the related bonus payments are paid out during the first quarter of the following year.

**Investing Activities.** Net cash from investing activities was \$(62.5) million and \$(18.1) million for the nine months ended September 30, 2014 and 2013, respectively. Investing cash flows in the first nine months of 2014 primarily related to deposit payments of \$48.7 million on our new corporate aircraft. These payments were financed by borrowings under the Aircraft Loan. Investment-related cash flows of the consolidated Och-Ziff funds are classified within operating activities.

**Financing Activities.** Net cash from financing activities was \$(576.0) million and \$(733.9) million for the nine months ended September 30, 2014 and 2013, respectively. Our net cash from financing activities are generally comprised of dividends paid to our Class A Shareholders and borrowings and repayments related to our debt obligations. 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 (until they exchanged their remaining interests during the 2014 second quarter) on the Och-Ziff Operating Group A Units, are also included in net cash from financing activities.

We paid dividends to our Class A Shareholders of \$258.7 million and \$174.0 million and paid distributions to our executive managing directors and the Ziffs on the Och-Ziff Operating Group A Units of \$557.5 million and \$445.4

million for the nine months ended September 30, 2014 and 2013, respectively. Additionally, during the first nine months of 2014, we borrowed \$48.7 million under the Aircraft Loan to fund deposit payments related to our new corporate aircraft.

The decrease in net cash used in financing activities was primarily due to higher cash inflows from investors in the consolidated funds and the borrowings under the Aircraft Loan, partially offset by higher distributions on the Och-Ziff Operating Group A Units and dividends to Class A Shareholders. These higher distributions and dividends were driven by the higher incentive income in 2013 compared to 2012, partially offset by higher discretionary cash bonuses related to 2013 compared to 2012, as discussed above in “—Operating Activities.”

## Contractual Obligations

In the nine months ended September 30, 2014, we closed additional CLOs resulting in an increase in the notes payable of consolidated CLOs. The table below presents the contractual cash obligations related to these consolidated CLOs as of September 30, 2014, and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

	Remainder of 2014 (dollars in thousands)	2015 - 2016	2017 - 2018	2019 - Thereafter	Total
Notes payable of consolidated CLOs <sup>(1)</sup>	\$—	\$—	\$—	\$4,893,550	\$4,893,550
Estimated interest on notes payable of consolidated CLOs <sup>(2)</sup>	26,175	206,992	206,992	678,177	1,118,336
Total Contractual Obligations of Consolidated CLOs	\$26,175	\$206,992	\$206,992	\$5,571,727	\$6,011,886

(1) Represents the obligations of our consolidated CLOs, which have no recourse to the Och-Ziff Operating Group.

Represents the expected future interest payments on the notes payable of our consolidated CLOs, assuming no

(2) prepayments will be made and that debt will be outstanding until its final stated maturity date. For notes with variable interest rates, the amounts presented are based on the LIBOR rate in effect as of September 30, 2014.

Additionally, during the first quarter of 2014, we entered into the Aircraft Loan. See “Liquidity and Capital Resources—Debt Obligations—Aircraft Loan” for additional information regarding this contractual obligation. There have been no other significant changes to the contractual obligations reported in our Annual Report.

## Off-Balance Sheet Arrangements

As of September 30, 2014, 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 (Level I) or for which fair value can be measured from actively quoted prices (Level II) generally will have a higher degree of market price observability and lesser degree of judgment used in measuring fair value than those measured using pricing inputs that are unobservable in the market (Level III). See Note 4 to our consolidated financial statements included in this report for additional information regarding fair value measurements.

As of September 30, 2014, the absolute values of our funds' invested assets and liabilities (excluding the notes payable of our CLOs) were classified within the fair value hierarchy as follows: approximately 55% within Level I; approximately 21% within Level II; and approximately 24% within Level III. As of December 31, 2013, the absolute values of our funds' invested assets and liabilities (excluding the notes payable of our CLOs) were classified within the fair value hierarchy as follows: approximately 57% within Level I; approximately 15% within Level II; and approximately 28% 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; and (vi) 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.

We have established an internal control infrastructure over the valuation of financial instruments that includes ongoing 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 seeking to ensure 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 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 September 30, 2014, the only assets and liabilities carried at fair value in our consolidated balance sheet were the investment holdings of the consolidated Och-Ziff funds and the related debt obligations of our consolidated CLOs. The majority of these assets and liabilities of 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 loss related to these Level III investments (assets and liabilities excluding notes payable of consolidated CLOs):

	September 30, 2014 (dollars in thousands)
Level III investments (net) of consolidated Och-Ziff funds	\$4,194,992
Less: Level III investments (net) for which we do not bear direct economic exposure to loss	(4,191,461 )
Net Economic Exposure to Loss Related to Level III Investments (net)	\$3,531

**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 generally have a 10% change in management fees 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. For certain credit and other funds, there would be no impact as management fees are generally charged based on committed capital during the original investment period and invested capital thereafter. The impact of a 10% change in the estimate of fair value of the investments held by our funds would generally have an immediate 10% impact on our incentive income if the change in fair value continues at the end of the performance measurement period, at which time incentive income is recognized, and assuming no high-water marks in effect. For certain credit and other funds that are not consolidated, there would be no impact, 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 within a related party group 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 \$144.2 million for the first nine months of 2014 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 9-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 \$46.2 billion as of October 1, 2014, 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 78% of such amount; therefore, our net income allocated to Class A Shareholders would only be impacted by 22% of any valuation allowance recorded against the deferred income tax assets.

Actual taxable income may differ from the estimate described above, which was prepared solely for 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 September 30, 2014, we had \$71.4 million of net operating losses available to offset future taxable income for federal income tax purposes that will expire between 2029 and 2032, and \$100.4 million of net operating losses available to offset future taxable income for state income tax purposes and \$79.5 million for local income tax purposes that will expire between 2028 and 2032. Based on the analysis set forth above, as of September 30, 2014, 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 \$12.7 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 nine months of 2014 is expected to have an impact on our future trends.

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

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605—Revenue Recognition and most industry-specific guidance throughout the Codification. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities are permitted to apply the guidance in ASU 2014-09 using one of the following methods: (1) full retrospective application to each prior period presented, or (2) modified retrospective application with a cumulative effect adjustment to opening retained earnings in the annual reporting period that includes that date of initial application. The requirements of ASU 2014-09 are effective for us beginning in the first quarter of 2017. We are currently evaluating the impact, if any, that these updates will have on our future trends.

In August 2014, the FASB issued ASU 2014-13, Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. ASU 2014-13 amends ASC 810—Consolidation to address the measurement difference that may occur between the fair value, as determined under GAAP, of the financial assets and financial liabilities of a consolidated collateralized financing entity, such as a CLO. The new guidance provides a measurement alternative which allows entities to measure both the financial assets and financial liabilities of the consolidated collateralized financing entity using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. The requirements of ASU 2014-13 are effective for us beginning in the first quarter of 2016, with early adoption permitted in the first quarter of 2015. We are currently evaluating the impact, if any, that this update will have on our future trends.

None of the other changes to GAAP that have been issued but that have not yet been adopted is expected to have an impact on our future trends.

### Economic Income Reconciliations

#### Economic Income

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

	Three Months Ended September 30, 2014		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net income allocated to Class A Shareholders—GAAP	\$18,781	\$4,421	\$23,202
Net income allocated to the Och-Ziff Operating Group A Units	57,946	—	57,946
Equity-based compensation	27,987	741	28,728
Income taxes	36,111	(1	) 36,110
Adjustment for incentive income allocations from consolidated funds subject to clawback	(2,175	) 23,910	21,735
Allocations to Och-Ziff Operating Group D Units	4,944	—	4,944
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	3,909	(5,820	) (1,911
Reorganization expenses	4,023	—	4,023
Changes in tax receivable agreement liability	(20,653	) —	(20,653
Depreciation and amortization	1,420	187	1,607
Other adjustments	(76	) (63	) (139
Economic Income—Non-GAAP	\$132,217	\$23,375	\$155,592



Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

	Three Months Ended September 30, 2013 (Restated)		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net income allocated to Class A Shareholders—GAAP	\$27,045	\$1,807	\$28,852
Net income allocated to the Och-Ziff Operating Group A Units	71,600	—	71,600
Equity-based compensation	36,389	—	36,389
Income taxes	11,996	—	11,996
Adjustment for incentive income allocations from consolidated funds subject to clawback	(2,501	) (1,580	) (4,081
Allocations to Och-Ziff Operating Group D Units	—	—	—
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	4,324	—	4,324
Reorganization expenses	4,022	—	4,022
Changes in tax receivable agreement liability	(1,064	) —	(1,064
Depreciation and amortization	1,833	189	2,022
Other adjustments	(109	) 270	161
Economic Income—Non-GAAP	\$153,535	\$686	\$154,221
	Nine Months Ended September 30, 2014		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net income allocated to Class A Shareholders—GAAP	\$56,218	\$1,552	\$57,770
Net income allocated to the Och-Ziff Operating Group A Units	180,508	—	180,508
Equity-based compensation	83,539	1,058	84,597
Income taxes	90,919	110	91,029
Adjustment for incentive income allocations from consolidated funds subject to clawback	(20,394	) 24,006	3,612
Allocations to Och-Ziff Operating Group D Units	14,418	—	14,418
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	7,202	(884	) 6,318
Reorganization expenses	12,065	—	12,065
Changes in tax receivable agreement liability	(24,472	) —	(24,472
Depreciation and amortization	4,680	558	5,238
Other adjustments	(1,059	) (241	) (1,300
Economic Income—Non-GAAP	\$403,624	\$26,159	\$429,783

	Nine Months Ended September 30, 2013 (Restated)		
	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)		
Net income allocated to Class A Shareholders—GAAP	\$49,355	\$13,350	\$62,705
Net income allocated to the Och-Ziff Operating Group A Units	207,172	—	207,172
Equity-based compensation	99,426	—	99,426
Income taxes	50,394	—	50,394
Adjustment for incentive income allocations from consolidated funds subject to clawback	(11,619	) (14,180	) (25,799
Allocations to Och-Ziff Operating Group D Units	5,590	—	5,590
Adjustment for expenses related to compensation and profit-sharing arrangements based on fund investment performance	7,603	—	7,603
Reorganization expenses	12,064	—	12,064
Changes in tax receivable agreement liability	(1,047	) —	(1,047
Depreciation and amortization	5,784	560	6,344
Other adjustments	(261	) 2,757	2,496
Economic Income—Non-GAAP	\$424,461	\$2,487	\$426,948

## 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 September 30, 2014			Three Months Ended September 30, 2013 (Restated)		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Management fees—GAAP	\$166,837	\$5,069	\$171,906	\$137,981	\$2,685	\$140,666
Adjustment to management fees(1)	(3,569	) —	(3,569	) (2,495	) —	(2,495
Management Fees—Economic Income Basis—Non-GAAP	163,268	5,069	168,337	135,486	2,685	138,171
Incentive income—GAAP	28,011	—	28,011	72,338	—	72,338
Adjustment to incentive income(2)	3,100	29,355	32,455	—	—	—
Incentive Income—Economic Income Basis—Non-GAAP	31,111	29,355	60,466	72,338	—	72,338
Other revenues	277	7	284	197	6	203
Total Revenues—Economic Income Basis—Non-GAAP	\$194,656	\$34,431	\$229,087	\$208,021	\$2,691	\$210,712

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013 (Restated)		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Management fees—GAAP	\$484,396	\$10,311	\$494,707	\$398,604	\$8,225	\$406,829
Adjustment to management fees(1)	(12,156 )	—	(12,156 )	(7,405 )	—	(7,405 )
Management Fees—Economic Income Basis—Non-GAAP	472,240	10,311	482,551	391,199	8,225	399,424
Incentive income—GAAP	91,022	—	91,022	195,403	—	195,403
Adjustment to incentive income(2)	13,476	29,355	42,831	1,114	—	1,114
Incentive Income—Economic Income Basis—Non-GAAP	104,498	29,355	133,853	196,517	—	196,517
Other revenues	910	21	931	1,373	13	1,386
Total Revenues—Economic Income Basis—Non-GAAP	\$577,648	\$39,687	\$617,335	\$589,089	\$8,238	\$597,327

Adjustment to present management fees net of recurring placement and related service fees, as management (1) 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.

#### 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 September 30, 2014			Three Months Ended September 30, 2013 (Restated)		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Compensation and benefits—GAAP	\$69,461	\$4,654	\$74,115	\$67,133	\$1,105	\$68,238
Adjustment to compensation and benefits(1)	(36,841 )	5,080	(31,761 )	(40,713 )	—	(40,713 )
Compensation and Benefits—Economic Income Basis—Non-GAAP	\$32,620	\$9,734	\$42,354	\$26,420	\$1,105	\$27,525
Interest expense and general, administrative and other expenses—GAAP	\$23,337	\$1,511	\$24,848	\$37,447	\$776	\$38,223
Adjustment to interest expense and general, administrative and other expenses(2)	6,487	(189 )	6,298	(8,962 )	(190 )	(9,152 )
	\$29,824	\$1,322	\$31,146	\$28,485	\$586	\$29,071

Non-Compensation Expenses—Economic  
Income Basis—Non-GAAP

67

---

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013 (Restated)		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Compensation and benefits—GAAP	\$194,614	\$12,050	\$206,664	\$185,685	\$3,251	\$188,936
Adjustment to compensation and benefits(1)	(105,159 )	(174 )	(105,333 )	(112,619 )	—	(112,619 )
Compensation and Benefits—Economic Income Basis—Non-GAAP	\$89,455	\$11,876	\$101,331	\$73,066	\$3,251	\$76,317
Interest expense and general, administrative and other expenses—GAAP	\$105,138	\$2,212	\$107,350	\$119,326	\$1,957	\$121,283
Adjustment to interest expense and general, administrative and other expenses(2)	(15,689 )	(560 )	(16,249 )	(26,797 )	(560 )	(27,357 )
Non-Compensation Expenses—Economic Income Basis—Non-GAAP	\$89,449	\$1,652	\$91,101	\$92,529	\$1,397	\$93,926

- 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 and profit-sharing arrangements based on fund investment performance are recognized at the end of the relevant performance (1) measurement period, as management reviews the total compensation expense related to these arrangements in relation to any incentive income earned by the relevant fund. Distributions 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.
- Adjustment to exclude depreciation, amortization and changes in the tax receivable agreement liability, as (2) 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 September 30, 2014			Three Months Ended September 30, 2013 (Restated)		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Net gains on investments in Och-Ziff funds and joint ventures—GAAP	\$76	\$—	\$76	\$531	\$—	\$531
Adjustment to net gains on investments in Och-Ziff funds and joint ventures(1)	(76 )	—	(76 )	(111 )	—	(111 )
Net Gains on Joint Ventures—GAAP	\$—	\$—	\$—	\$420	\$—	\$420

Edgar Filing: Och-Ziff Capital Management Group LLC - Form 10-Q

Net income allocated to noncontrolling interests—GAAP	\$44,385	\$38,850	\$83,235	\$100,481	\$37,162	\$137,643
Adjustment to net income allocated to noncontrolling interests(2)	(44,390 )	(38,850 )	(83,240 )	(100,480 )	(36,848 )	(137,328 )
Net Income (Loss) Allocated to Noncontrolling Interests—Economic Income Basis—Non-GAAP	\$(5 )	\$—	\$(5 )	\$1	\$314	\$315

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013 (Restated)		
	Och-Ziff Funds Segment	Other Operations	Total Company	Och-Ziff Funds Segment	Other Operations	Total Company
	(dollars in thousands)					
Net gains on investments in Och-Ziff funds and joint ventures—GAAP	\$5,949	\$—	\$5,949	\$1,253	\$—	\$1,253
Adjustment to net gains on investments in Och-Ziff funds and joint ventures(1)	(1,075 )	—	(1,075 )	(293 )	—	(293 )
Net Gains on Joint Ventures—GAAP	\$4,874	\$—	\$4,874	\$960	\$—	\$960
Net income allocated to noncontrolling interests—GAAP	\$235,917	\$107,979	\$343,896	\$310,010	\$161,146	\$471,156
Adjustment to net income allocated to noncontrolling interests(2)	(235,923 )	(107,979 )	(343,902 )	(310,017 )	(160,043 )	(470,060 )
Net Income (Loss) Allocated to Noncontrolling Interests—Economic Income Basis—Non-GAAP	\$(6 )	\$—	\$(6 )	\$(7 )	\$1,103	\$1,096

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

(2) Adjustment to exclude amounts allocated to our executive managing directors and the Ziffs (until they exchanged their remaining interests during the 2014 second quarter) 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 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; however, substantially all of these fair value changes are absorbed by the investors of these funds (noncontrolling interests). We may also be entitled to a portion of these earnings through our incentive income allocation as general partner of these funds.

#### 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 September 30, 2014 and December 31, 2013, would have resulted in a change of approximately \$3.9 billion and \$3.6 billion, respectively, in our assets under management.

A 10% change in the fair value of the net assets held by our funds as of October 1, 2014 (the date management fees are calculated for the fourth quarter of 2014) would impact management fees charged on that day by approximately \$14.3 million. A 10% change in the fair value of the net assets held by our funds as of January 1, 2014, would have impacted management fees charged on that day by approximately \$14.0 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 September 30, 2014 and December 31, 2013, 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 allocated to Class A Shareholders or Economic Income.

### Interest Rate Risk

Our Delayed Draw Term Loan and Aircraft Loan bear interest at rates indexed to LIBOR. We estimate that as of September 30, 2014 and December 31, 2013, a 10% increase or decrease in LIBOR would not have a material effect on our annual interest expense, net income 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 September 30, 2014 and December 31, 2013, based on our funds' debt investments and obligations as of such date, we estimate that the net effect on our revenues, net income 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.

### 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 September 30, 2014, 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 as of September 30, 2014.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, that occurred in the third quarter of 2014 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.

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 sanctions and 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, financial condition or results of 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. See Note 14 to our consolidated financial statements included in this Form 10-Q for additional information.

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.

72

---

Item 6.

Exhibits

Exhibit No.	Description
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

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: November 4, 2014

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